PAYPAL HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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Address	2211 NORTH FIRST STREET
	SAN JOSE, CA 95131
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 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	**47-2989869**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
2211 North First Street San Jose, California	**95131**
(Address of Principal Executive Offices)	**(Zip Code)**

(408) 967-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] 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 [x] 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	☒		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

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

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

As of July 21, 2017 , there were 1,202,397,024 shares of the registrant's common stock, $0.0001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

PayPal Holdings, Inc.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

PayPal Holdings, Inc.
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 2017	December 31, 2016
	(In millions, except par value)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,271	$ 1,590
Short-term investments	2,820	3,385
Accounts receivable, net	176	214
Loans and interest receivable, net of allowances of $385 in 2017 and $339 in 2016	5,752	5,348
Funds receivable and customer accounts	16,178	14,363
Prepaid expenses and other current assets	838	833
Total current assets	27,035	25,733
Long-term investments	2,511	1,539
Property and equipment, net	1,479	1,482
Goodwill	4,062	4,059
Intangible assets, net	143	211
Other assets	60	79
Total assets	$ 35,290	$ 33,103
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 171	$ 192
Funds payable and amounts due to customers	16,978	15,163
Accrued expenses and other current liabilities	1,407	1,459
Income taxes payable	85	64
Total current liabilities	18,641	16,878
Deferred tax liability and other long-term liabilities	1,651	1,513
Total liabilities	20,292	18,391
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,202 and 1,207 outstanding	—	—
Treasury stock at cost, 41 and 27 shares	(1,601)	(995)
Additional paid-in-capital	13,873	13,579
Retained earnings	2,824	2,069
Accumulated other comprehensive income	(98)	59
Total equity	14,998	14,712
Total liabilities and equity	$ 35,290	$ 33,103

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share data)			
	(Unaudited)			
Net revenues	$ 3,136	$ 2,650	$ 6,111	$ 5,194
Operating expenses:				
Transaction expense	1,064	810	2,051	1,562
Transaction and loan losses	308	255	608	510
Customer support and operations	335	318	652	614
Sales and marketing	284	250	522	483
Product development	232	209	446	404
General and administrative	282	261	547	492
Depreciation and amortization	201	176	384	351
Restructuring	—	—	40	—
Total operating expenses	2,706	2,279	5,250	4,416
Operating income	430	371	861	778
Other income (expense), net	17	9	24	24
Income before income taxes	447	380	885	802
Income tax expense	36	57	90	114
Net income	$ 411	$ 323	$ 795	$ 688
Net income per share:				
Basic	$ 0.34	$ 0.27	$ 0.66	$ 0.57
Diluted	$ 0.34	$ 0.27	$ 0.65	$ 0.56
Weighted average shares:				
Basic	1,202	1,210	1,203	1,213
Diluted	1,215	1,215	1,216	1,220

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
	(Unaudited)			
Net income	$ 411	$ 323	$ 795	$ 688
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation	16	(5)	29	3
Unrealized gains (losses) on investments, net	—	9	1	21
Tax (expense) benefit on unrealized gains (losses) on investments, net	(1)	(3)	(1)	(5)
Unrealized gains (losses) on hedging activities, net	(117)	79	(189)	43
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	2	(1)	3	(1)
Other comprehensive income (loss), net of tax	(100)	79	(157)	61
Comprehensive income	$ 311	$ 402	$ 638	$ 749

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

PayPal Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 795	$ 688
Adjustments:		
Transaction and loan losses	608	510
Depreciation and amortization	384	350
Stock-based compensation	321	206
Deferred income taxes	102	88
Excess tax benefits from stock-based compensation	—	(32)
Gain on sale of principal loans receivable held for sale, net	(12)	(12)
Changes in assets and liabilities:		
Accounts receivable	38	(30)
Principal loans receivable held for sale, net	12	12
Accounts payable	4	22
Income taxes payable	21	37
Other assets and liabilities	(601)	(405)
Net cash provided by operating activities	1,672	1,434
Cash flows from investing activities:		
Purchases of property and equipment	(322)	(334)
Changes in principal loans receivable, net	(627)	(476)
Purchases of investments	(11,956)	(10,209)
Maturities and sales of investments	9,536	9,335
Acquisitions, net of cash acquired	—	(19)
Funds receivable and customer accounts	367	222
Net cash (used in) investing activities	(3,002)	(1,481)
Cash flows from financing activities:		
Proceeds from issuance of common stock	86	57
Purchases of treasury stock	(606)	(896)
Excess tax benefits from stock-based compensation	—	32
Tax withholdings related to net share settlements of equity awards	(124)	(94)
Repayments under financing arrangements, net	(6)	(21)
Funds payable and amounts due to customers	1,638	1,579
Net cash provided by financing activities	988	657
Effect of exchange rate changes on cash and cash equivalents	23	15
Net change in cash and cash equivalents	(319)	625
Cash and cash equivalents at beginning of period	1,590	1,393
Cash and cash equivalents at end of period	$ 1,271	$ 2,018
Supplemental cash flow disclosures:		
Cash paid for interest	$ 2	$ 2
Cash paid for income taxes	$ 73	$ 36

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

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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. 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. 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

The accompanying condensed 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 condensed consolidated statement of income to the extent dividends are received. Our investment balance is included in long-term investments on our condensed consolidated balance sheet.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") filed with the Securities and Exchange Commission.

In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for fair presentation of the condensed consolidated financial statements for interim periods. We have evaluated all subsequent events through the date the financial statements were issued.

Use of Estimates

The preparation of condensed 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 condensed consolidated financial statements and the reported amounts of revenues and expenses, 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.

Recent Accounting Guidance

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 expect to 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 for financial liabilities measured at fair value and it also 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. We are evaluating the impact and approach to adopting this new accounting guidance on our financial statements, which we expect will be limited to our cost method investments.

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 are required to adopt the guidance using a modified retrospective basis and can elect to apply optional practical expedients. 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 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 the standard 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 is not expected to have a material impact on our financial statements.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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.

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. The new standard is effective at the same time as the new revenue recognition standard. 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.

Recently Adopted Accounting Guidance

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 three and six months ended June 30, 2017, we recognized approximately $20 million and $24 million , respectively, 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 prepaid taxes related to the unamortized tax expense attributed to intra-entity transfers of assets previously deferred. Additionally, for the three and six months ended June 30, 2017 we did not recognize approximately $4 million and $8 million , respectively, 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.

Note 2 - 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. 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 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.

PayPal Holdings, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Numerator:				
Net income	$ 411	$ 323	$ 795	$ 688
Denominator:				
Weighted average shares of common stock - basic	1,202	1,210	1,203	1,213
Dilutive effect of equity incentive awards	13	5	13	7
Weighted average shares of common stock - diluted	1,215	1,215	1,216	1,220
Net income per share:				
Basic	$ 0.34	$ 0.27	$ 0.66	$ 0.57
Diluted	$ 0.34	$ 0.27	$ 0.65	$ 0.56
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	—	11	3	8

Note 3 - Business Combinations

There were no acquisitions or divestitures completed in the three and six months ended June 30, 2017 . There were no acquisitions or divestitures completed in 2016 .

Note 4 - Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances during the six months ended June 30, 2017 :

	December 31, 2016	Goodwill Acquired	Adjustments	June 30, 2017
	(In millions)			
Total Goodwill	$ 4,059	$ —	$ 3	$ 4,062

PayPal Holdings, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Intangible Assets

The components of identifiable intangible assets are as follows:

	June 30, 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	$ 590	$ (544)	$ 46	4	$ 605	$ (542)	$ 63	4
Marketing related	195	(192)	3	2	197	(190)	7	2
Developed technologies	222	(196)	26	3	245	(206)	39	3
All other	245	(177)	68	5	245	(143)	102	5
Intangible assets, net	$ 1,252	$ (1,109)	$ 143		$ 1,292	$ (1,081)	$ 211	

Amortization expense for intangible assets was $41 million and $39 million for the three months ended June 30, 2017 and 2016 , respectively. Amortization expense for intangible assets was $68 million and $77 million for the six months ended June 30, 2017 and 2016 , respectively.

Expected future intangible asset amortization as of June 30, 2017 was as follows (in millions):

Fiscal years:	
Remaining 2017	$ 45
2018	59
2019	22
2020	17
2021	—
	$ 143

Note 5 - Geographical Information

The following tables summarize the allocation of net revenues and long-lived assets based on geography:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net revenues:				
U.S.	$ 1,690	$ 1,407	$ 3,296	$ 2,750
U.K.	334	318	647	625
Other Countries	1,112	925	2,168	1,819
Total net revenues	$ 3,136	$ 2,650	$ 6,111	$ 5,194

PayPal Holdings, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	June 30, 2017	December 31, 2016
	(In millions)	
Long-lived assets:		
U.S.	$ 1,393	$ 1,391
Other Countries	86	91
Total long-lived assets	$ 1,479	$ 1,482

Net revenues are attributed to the 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 as of June 30, 2017 and December 31, 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.

Note 6 - Funds Receivable and Customer Accounts

The following table summarizes the assets underlying our funds receivable and customer accounts as of June 30, 2017 and December 31, 2016 .

	June 30, 2017	December 31, 2016
	(In millions)	
Cash and cash equivalents	$ 4,367	$ 4,319
Government and agency securities	7,140	5,625
Time deposits	707	522
Corporate debt securities	1,573	1,093
Funds receivable	2,391	2,804
Total funds receivable and customer accounts	$ 16,178	$ 14,363

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of June 30, 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:

	June 30, 2017			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Government and agency securities	$ 6,440	$ —	$ (5)	$ 6,435
Time deposits	707	—	—	707
Corporate debt securities	703	—	—	703
Total	$ 7,850	$ —	$ (5)	$ 7,845

	December 31, 2016			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Government and agency securities	$ 5,198	$ —	$ (2)	$ 5,196
Time deposits	522	—	—	522
Corporate debt securities	531	—	—	531
Total	$ 6,251	$ —	$ (2)	$ 6,249

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 condensed 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. As of June 30, 2017 and December 31, 2016 , the estimated fair value of our investments included within funds receivable and customer accounts under the fair value option was $1.6 billion and $1.0 billion , respectively. In the three months ended June 30, 2017 and 2016 , $90 million of net gains and $18 million of net losses from fair value changes, respectively, were recognized in other income (expense), net on the condensed consolidated statement of income. In the six months ended June 30, 2017 and 2016 , $ 105 million of net gains and $7 million of net losses from fair value changes were recognized in other income (expense), net on the condensed consolidated statement of income.

The aggregate fair value of investments in an unrealized loss position was $6.4 billion as of June 30, 2017 . The aggregate gross unrealized loss on our short-term and long-term investments was not material as of June 30, 2017 . 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 continue to monitor the performance of the investment portfolio and assess market and interest rate risk when evaluating whether other-than-temporary impairment exists.

As of June 30, 2017 , we had no material investments that have 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 six months ended June 30, 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 June 30, 2017 were as follows:

	June 30, 2017
	(In millions)
One year or less	$ 7,633
One year through two years	205
Two years through three years	7
Total	$ 7,845

Note 7 - Investments

As of June 30, 2017 and December 31, 2016 , the estimated fair value of our short-term and long-term investments classified as available-for-sale was as follows:

	June 30, 2017			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments [1]:				
Corporate debt securities	$ 2,337	$ 1	$ (1)	$ 2,337
Government and agency securities	40	—	—	40
Time deposits	59	—	—	59
Long-term investments:				
Corporate debt securities	2,289	4	(2)	2,291
Government and agency securities	63	—	—	63
Total [1]	$ 4,788	$ 5	$ (3)	$ 4,790

[1] Excludes short-term restricted cash of $76 million that we intend to use to support our global sabbatical program and a counterparty guarantee .

	December 31, 2016			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments [1]:				
Corporate debt securities	$ 2,867	$ 1	$ (1)	$ 2,867
Government and agency securities	32	—	—	32
Time deposits	122	—	—	122
Long-term investments:				
Corporate debt securities	1,473	1	(4)	1,470
Government and agency securities	10	—	—	10
Total [1]	$ 4,504	$ 2	$ (5)	$ 4,501

[1] Excludes short-term restricted cash of $17 million that we intend to use to support our global sabbatical program.

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 condensed consolidated statement of income to offset certain foreign exchange gains and losses on our foreign denominated customer liabilities. As of June 30, 2017 and December 31, 2016 , the estimated fair value of our investments included within short-term investments and long-term investments under the fair

value option was $385 million and $356 million , respectively. In the three and six months ended June 30, 2017 , $19 million and $25 million , respectively, of net gains from fair value changes were recognized in other income (expense), net on the condensed consolidated statement of income.

The aggregate fair value of investments in an unrealized loss position was $2.3 billion as of June 30, 2017 . The aggregate gross unrealized loss on our short-term and long-term investments was not material as of June 30, 2017 . 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 continue to monitor the performance of the investment portfolio and assess market and interest rate risk when evaluating whether other-than-temporary impairment exists.

As of June 30, 2017 , we had no material long-term or short-term investments that have 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 three and six months ended June 30, 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 June 30, 2017 were as follows:

	June 30, 2017
	(In millions)
One year or less	$ 2,436
One year through two years	1,179
Two years through three years	945
Three years through four years	85
Four years through five years	121
Greater than five years	24
Total [1]	$ 4,790

[1] Excludes short-term restricted cash of $76 million .

Other Investments

We have cost method investments which are reported in long-term investments on our condensed consolidated balance sheet. Our cost method investments primarily consist of minority equity interests in privately held companies and totaled $80 million and $50 million as of June 30, 2017 and December 31, 2016 , respectively. The increase in our cost method investments was due to additional investments made in the six months ended June 30, 2017 .

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Note 8 - Fair Value Measurement of Assets and Liabilities

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016 :

	Balances at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents [1]	$ 175	$ —	$ 175
Short-term investments:			
Restricted Cash	76	17	59
Corporate debt securities	2,513	—	2,513
Government and agency securities	172	—	172
Time deposits	59	—	59
Total short-term investments	$ 2,820	$ 17	$ 2,803
Funds receivable and customer accounts [2]	9,445	—	9,445
Derivatives	84	—	84
Long-term investments:			
Corporate debt securities	2,355	—	2,355
Government and agency securities	76	—	76
Total long-term investments	2,431	—	2,431
Total financial assets	$ 14,955	$ 17	$ 14,938
Liabilities:			
Derivatives	$ 150	$ —	$ 150

[1] Excludes cash of $1.1 billion not subject to fair value measurement.
[2] Excludes cash and funds receivable of $6.7 billion underlying funds receivable and customer accounts not subject to fair value measurement.

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	Balances at December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents [1]	$ 268	$ —	$ 268
Short-term investments:			
Restricted Cash	17	17	—
Corporate debt securities	2,882	—	2,882
Government and agency securities	364	—	364
Time deposits	122	—	122
Total short-term investments	3,385	17	3,368
Funds receivable and customer accounts [2]	7,420	—	7,420
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	$ 12,785	$ 17	$ 12,768
Liabilities:			
Derivatives	$ 59	$ —	$ 59

[1] Excludes cash of $1.3 billion not subject to fair value measurement.
[2] Excludes cash and funds receivable of $6.9 billion underlying funds receivable and customer accounts not subject to fair value measurement.

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 six months ended June 30, 2017 and 2016 . As of June 30, 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 6—Funds Receivable and Customer Accounts" and "Note 7—Investments."

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Note 9 - 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 as well as 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 three and six months ended June 30, 2017 and 2016 , 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 June 30, 2017 , we estimated that $49 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.

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Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments as of June 30, 2017 and December 31, 2016 was as follows:

	Balance Sheet Location	June 30, 2017	December 31, 2016
		(In millions)	
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other current assets	$ 19	$ 135
Foreign exchange contracts not designated as hedging instruments	Other current assets	65	88
Total derivative assets		$ 84	$ 223
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other current liabilities	$ 59	$ 4
Foreign exchange contracts not designated as hedging instruments	Other current liabilities	91	55
Total derivative liabilities		$ 150	$ 59
Net fair value of derivative instruments		$ (66)	$ 164

Under the master netting agreements with the 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 balance sheet. As of June 30, 2017 , the potential effect of rights of setoff associated with our foreign exchange contracts would have been an offset to both assets and liabilities by $57 million , resulting in net derivative assets of $27 million and net derivative liabilities of $93 million . We are not required to pledge, nor are we entitled to receive, cash collateral related to these derivative transactions.

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 June 30, 2017 and December 31, 2016 , and the impact of designated derivative instruments on accumulated other comprehensive income for the six months ended June 30, 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)	June 30, 2017
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ 131	$ (130)	$ 59	$ (58)

	December 31, 2015	Amount of gain recognized in other comprehensive income (effective portion)	Less: Amount of gain reclassified from accumulated other comprehensive income to net revenue (effective portion)	June 30, 2016
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ 57	$ 84	$ 41	$ 100

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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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$ 19	$ 9	$ 59	$ 41
Foreign exchange contracts not designated as cash flow hedges recognized in other income (expense), net	(15)	26	(55)	17
Total gain recognized from derivative contracts in the statement of income	$ 4	$ 35	$ 4	$ 58

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."

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:

	June 30, 2017	June 30, 2016
	(In millions)	
Foreign exchange contracts designated as cash flow hedges	$ 1,857	$ 1,861
Foreign exchange contracts not designated as hedging instruments	4,912	5,183
Total	$ 6,769	$ 7,044

Note 10 - Loans and Interest Receivable, Net

We offer credit products to consumers who choose PayPal Credit as their funding source at checkout and working capital advances to certain small and medium-sized PayPal merchants through our PayPal Working Capital product. In the U.S., we work with independent chartered financial institutions that extend credit to the consumer or merchant using our credit products. 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 advances in Australia through an Australian subsidiary. We purchase the related receivables extended by an independent chartered financial institution in the U.S. and are responsible for servicing functions related to all our credit products. During the six months ended June 30, 2017 and 2016 , we purchased approximately $4.5 billion and $3.9 billion , respectively, in credit receivables. As part of our arrangement with an independent chartered financial institution in the U.S., we sell back a participation interest in the pool of consumer receivables outstanding under PayPal Credit consumer accounts. Under this arrangement, we do not recognize gains or losses on the sale of the participation interest 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 sold to these investors a participation interest in certain consumer loans receivable that we purchased, where the consideration received exceeded the carrying amount of the participation interest sold, which resulted in a gain reflected as net revenues in our condensed consolidated financial statements. Loans, advances and interest and fees receivable are reported at their outstanding principal balances, net of any participation interest sold, including unamortized deferred origination costs and estimated collectible interest and fees.

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Consumer receivables

As of June 30, 2017 and December 31, 2016 , the total outstanding balance in our pool of consumer receivables was $5.5 billion and $5.1 billion , respectively, net of the participation interest sold to the independent chartered financial institution and other investors of $1.0 billion . 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 equally based on participation interests held amongst all participating stakeholders.

We use a consumer's FICO score, where available, among other measures, in evaluating the credit quality of our U.S. PayPal Credit consumer receivables. 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 outstanding consumer receivable owned by PayPal Credit. The weighted average U.S. consumer FICO scores related to our loans and interest receivable balance outstanding at June 30, 2017 and December 31, 2016 was 679 . 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 June 30, 2017 and December 31, 2016 , approximately 52.1% of the pool of U.S. consumer receivables and interest receivable balance 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 June 30, 2017 and December 31, 2016 , approximately 11.1% of the pool of U.S. consumer receivables and interest receivable balance was due from U.S. customers with FICO scores below 599 . As of June 30, 2017 and December 31, 2016 , approximately 90.9% and 90.0% , respectively, of the portfolio of consumer receivables and interest receivable was current.

The following table presents the principal amount of U.S. consumer loans and interest receivable segmented by a FICO score range:

	June 30, 2017	December 31, 2016
	(In millions)	
> 760	$ 689	$ 665
680 - 759	2,077	1,938
600 - 679	1,951	1,840
< 599	591	553
Total	$ 5,308	$ 4,996

The table above excludes certain outstanding consumer loans outside of the U.S., for which no FICO scores are available, with an outstanding balance of $172 million and $117 million at June 30, 2017 and December 31, 2016 , respectively.

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:

June 30, 2017
(In millions)

Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 180 Days Past Due	Total Past Due	Total
$ 4,982	$ 207	$ 87	$ 204	$ 498	$ 5,480

December 31, 2016
(In millions)

Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 180 Days Past Due	Total Past Due	Total
$ 4,601	$ 219	$ 82	$ 211	$ 512	$ 5,113

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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 60 days after receipt of notification of bankruptcy. Loans receivable past the payment due date continue to accrue interest until such time 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, net of participation interest sold for the six months ended June 30, 2017 and 2016 :

	June 30, 2017			June 30, 2016		
	Consumer Loans Receivable	Interest Receivable	Total Allowance	Consumer Loans Receivable	Interest Receivable	Total Allowance
	(In millions)					
Beginning Balance	$ 265	$ 40	$ 305	$ 179	$ 32	$ 211
Provisions	229	63	292	179	49	228
Charge-offs	(209)	(63)	(272)	(157)	(51)	(208)
Recoveries	18	—	18	18	—	18
Ending Balance	$ 303	$ 40	$ 343	$ 219	$ 30	$ 249

The table above excludes receivables from other consumer credit products of $24 million and $16 million at June 30, 2017 and December 31, 2016 , respectively, and allowances of $5 million and $3 million at June 30, 2017 and December 31, 2016 , respectively.

The provision for loan losses relating to our consumer loans receivable portfolio is recognized in transaction and loan losses and the provisions for interest receivable 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. We closely monitor credit quality for all working capital advances that we extend or purchase through that product to manage and evaluate our related exposure to credit risk. To assess a merchant who wishes to obtain a PayPal Working Capital 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 principal balance and fixed fee related to the working capital 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 advance will have PRM scores greater than 525 . We consider scores above 610 to be very good and to pose less credit risk. For all outstanding working capital advances that we own, we assess the participating merchant’s PRM score on a recurring basis. At June 30, 2017 and December 31, 2016 , the weighted average PRM score related to our PayPal Working Capital balances outstanding was 631 and 625 , respectively.

The following table presents the principal amount of PayPal Working Capital advances and fees receivable segmented by our internal PRM score range:

	June 30, 2017	December 31, 2016
	(In millions)	
> 610	$ 445	$ 378
526-609	108	108
<525	80	72
Total	$ 633	$ 558

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 advance, which targets an annual percentage rate based on the overall credit assessment of the merchant. The fee is fixed at the time the advance is extended and recognized as deferred revenues in our condensed consolidated balance sheet. Advances plus the fixed fee are repaid through a fixed percentage of the merchant's future payment

volume that PayPal processes. 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 PayPal's payment processing history with the merchant. There is no stated interest rate and there is a general requirement that at least 10% of the original amount advanced 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 advance and fixed fee is expected to generally occur within 9 to 12 months from the date of the 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.

The following tables present our estimate of the principal amount of PayPal Working Capital advances and fees receivable past their original expected repayment period.

	June 30, 2017 (In millions)						
	Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	90 - 180 Days Greater	180+ Days	Total Past Original Expected Repayment Period	Total
	$ 536	$ 33	$ 20	$ 31	$ 13	$ 97	$ 633

	December 31, 2016 (In millions)						
	Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	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 advances and fees receivable, for the six months ended June 30, 2017 and 2016 :

	June 30, 2017			June 30, 2016		
	PayPal Working Capital Advances	Fees Receivable	Total Allowance	PayPal Working Capital Advances	Fees Receivable	Total Allowance
	(In millions)					
Beginning Balance	$ 28	$ 3	$ 31	$ 19	$ 3	$ 22
Provisions	23	4	27	17	1	18
Charge-offs	(21)	(3)	(24)	(14)	(2)	(16)
Recoveries	3	—	3	2	—	2
Ending Balance	$ 33	$ 4	$ 37	$ 24	$ 2	$ 26

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 advances is recognized in transaction and loan losses and the provisions for fees receivable is recognized in deferred revenues in our condensed consolidated balance sheet as a reduction in deferred revenue.

Note 11 - Commitments and Contingencies

Commitments

As of June 30, 2017 and December 31, 2016 , approximately $28.7 billion and $28.8 billion , respectively, of unused credit was available to PayPal Credit account holders. 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.

In the third quarter of 2015, we entered into a credit agreement ("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 from time to time. Borrowings and other amounts payable under the Credit Agreement are guaranteed by our subsidiary PayPal, Inc. (the "Guarantor"). 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 Credit Agreement provided that we and the Guarantor guarantee all borrowings and other obligations of any such subsidiaries under the Credit Agreement. As of June 30, 2017 , no subsidiaries were designated as additional borrowers. Funds borrowed under the Credit Agreement may be used for working capital, capital expenditures, acquisitions and other general corporate purposes. As of June 30, 2017 , no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at June 30, 2017 , $2.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement subject to customary conditions to borrowing.

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 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 11, 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 six months ended June 30, 2017 . Except as otherwise noted for the proceedings described in this Note 11, 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 subject to 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 requests the production of documents and answers to written questions related to our Venmo service. We are cooperating with the FTC in connection with the CID. The CID could lead to an enforcement action and/or one or more consent orders, which may result in substantial costs, including legal fees, fines, penalties, and remediation expenses and actions, and could require us to change the manner in which we operate Venmo.

Legal Proceedings

On December 28, 2016, a putative securities class action captioned Cho v. PayPal Holdings, Inc., et al., Case No. 3:16-cv-07371 (the "Securities Case"), was filed in the U.S. District Court for the Northern District of California (the "Court"). The Securities Case 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 Civil Investigative Demand 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. The Securities Case purported to be brought on behalf of purchasers of eBay's stock on or after December 19, 2013 who subsequently received the Company's stock pursuant to eBay's spin-off of the Company, effective as of July 17, 2015, and/or purchasers of the Company's stock between July 20, 2015 and April 28, 2016, and asserted claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") against the Company, its Chief Executive Officer, Chief Financial Officer, and former interim Chief Financial Officer, and eBay and certain of its former officers, including the Chairman of our Board of Directors. The Securities Case alleged that defendants made materially false and misleading statements or omissions regarding our compliance with applicable laws and regulations, including the failure to disclose that we were purportedly engaging in unfair trade practices through our Venmo service and that as a result of alleged false and misleading statements or omissions, our stock traded at artificially inflated prices. The Securities Case sought unspecified compensatory damages on behalf of the putative class members. On March 23, 2017, the Court appointed a lead plaintiff and lead counsel to represent the putative class. On May 12, 2017, the lead plaintiff filed an amended complaint that, among other things, did not name eBay or the former eBay officers as defendants. On June 1, 2017, the lead plaintiff voluntarily dismissed the Securities Case without prejudice.

On January 12, 2017, a putative shareholder derivative action captioned Silverman v. Schulman, et al., Case No. 5:17-cv-00162, was filed in the U.S. District Court for the Northern District of California based on substantially similar allegations underlying the Securities Case described above (the "California Derivative Case"). 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 April 19, 2017, the Court in the Delaware Derivative Case issued an order adopting a stipulation filed by the parties transferring the Delaware Derivative Case to the U.S. District Court for the Northern District of California so that the Delaware Derivative Case can 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 U.S. District Court for the Northern District of California. 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 regulation 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, appoints co-lead plaintiffs' counsel for the consolidated case, and gives plaintiffs 30 days from the Court's order to file a consolidated amended complaint or requires plaintiffs to dismiss the case within seven days following that date.

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.

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 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 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.

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Off-Balance Sheet Arrangements

As of June 30, 2017 and December 31, 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. 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.

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 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 June 30, 2017 and December 31, 2016 :

	June 30, 2017	December 31, 2016
	(In millions)	
Maximum potential exposure	$ 139,479	$ 131,739

The following table provides the amount of allowance for transaction losses related to our protection programs as of June 30, 2017 and December 31, 2016 :

	June 30, 2017	December 31, 2016
	(In millions)	
Allowance for transaction losses	$ 223	$ 222

Note 12 - Related Party Transactions

As of June 30, 2017 and December 31, 2016 , there were no material amounts payable to or amounts receivable from related parties. All contracts with related parties are at rates and terms that we believe are comparable with those that could be entered into with independent third parties. For all periods presented, there were no material related party transactions.

Note 13 - Stock Repurchase Programs

In January 2016, our Board of Directors authorized a stock repurchase program that provides 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 will become 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 the January 2016 stock repurchase program during the six months ended June 30, 2017 is summarized as follows:

	Shares Repurchased	Average Price Paid per Share [1]	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 the three months ended March 31, 2017	12.2	$ 42.38	517	(517)
Repurchases of shares of common stock for the three months ended June 30, 2017	1.8	$ 49.41	89	(89)
Balance as of June 30, 2017	14.0		$ 606	$ 399

[1] 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.

No activity has occurred under the April 2017 stock repurchase program.

Note 14 - Stock-Based Plans

Stock Options

As of June 30, 2017 , 3.0 million options to purchase shares of common stock were outstanding. No new options were granted in the six months ended June 30, 2017 .

Restricted Stock Units (RSUs) and Performance-Based Restricted Stock Units (PBRSUs)

The following table summarizes the RSU and PBRSU activity under our equity incentive plans for the six months ended June 30, 2017 :

	Units
	(In thousands)
Outstanding at January 1, 2017	29,185
Awarded	17,996
Vested	(8,791)
Forfeited	(2,142)
Outstanding at June 30, 2017	36,248
Expected to vest	31,112

The weighted average grant-date fair value of RSUs and PBRSUs granted during the six months ended June 30, 2017 was $42.39 per share.

In the six months ended June 30, 2017, the Company granted RSUs that vest in equal annual installments over a three -year performance period, 2.8 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. Over the performance period, the number of PBRSUs that may be issued and the 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.

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 our equity incentive plans for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Customer support and operations	$ 34	$ 22	$ 64	$ 40
Sales and marketing	33	22	61	38
Product development	59	35	104	68
General and administrative	51	33	93	60
Depreciation and amortization	3	1	5	2
Total stock-based compensation expense	$ 180	$ 113	$ 327	$ 208
Capitalized as part of internal use software and website development costs	$ 7	$ 4	$ 10	$ 6

Note 15 - Income Taxes

Our effective tax rate for the three and six months ended June 30, 2017 was 8% and 10% , respectively. The difference between our effective tax rate and the U.S. federal statutory rate of 35% in both periods was primarily the result of foreign income taxed at different rates.

Note 16 - Restructuring

In the first quarter of 2017, management approved a plan to implement a strategic reduction of its existing global workforce. The total cost of this plan is expected to be approximately $40 million . The strategic reduction and timing of cash payments associated with this plan are expected to be substantially completed by the end of 2017.

The following table summarizes the restructuring costs recognized during the three and six months ended June 30, 2017:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
	(In millions)	
Employee severance and benefits	$ —	$ 40
Total	$ —	$ 40

No restructuring costs were recognized during the three and six months ended June 30, 2016.

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The following table summarizes the restructuring reserve activity during the six months ended June 30, 2017 :

	Employee Severance and Benefits
	(In millions)
Accrued liability as of January 1, 2017	$ —
Charges	40
Payments	(13)
Accrued liability as of June 30, 2017	$ 27

Note 17 - Accumulated Other Comprehensive (Loss) Income

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended June 30, 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	$ 59	$ (4)	$ (55)	$ 2	$ 2
Other comprehensive income (loss) before reclassifications	(98)	—	16	1	(81)
Less: Amount of gain reclassified from accumulated other comprehensive income	19	—	—	—	19
Net current period other comprehensive income (loss)	(117)	—	16	1	(100)
Ending balance	$ (58)	$ (4)	$ (39)	$ 3	$ (98)

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended June 30, 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	$ 21	$ (4)	$ (45)	$ 1	$ (27)
Other comprehensive income (loss) before reclassifications	88	9	(5)	(4)	88
Less: Amount of gain reclassified from accumulated other comprehensive income	9	—	—	—	9
Net current period other comprehensive income (loss)	79	9	(5)	(4)	79
Ending balance	$ 100	$ 5	$ (50)	$ (3)	$ 52

The following table summarizes the changes in accumulated balances of other comprehensive income for the six months ended June 30, 2017 :

PayPal Holdings, Inc.

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	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	(130)	—	29	2	(99)
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	59	(1)	—	—	58
Net current period other comprehensive income (loss)	(189)	1	29	2	(157)
Ending balance	$ (58)	$ (4)	$ (39)	$ 3	$ (98)

The following table summarizes the changes in accumulated balances of other comprehensive income for the six months ended June 30, 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	84	18	3	(6)	99
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	41	(3)	—	—	38
Net current period other comprehensive income (loss)	43	21	3	(6)	61
Ending balance	$ 100	$ 5	$ (50)	$ (3)	$ 52

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The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended June 30, 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
	Three Months Ended June 30,		
	2017	2016	
	(In millions)		
Gains on cash flow hedges-foreign exchange contracts	$ 19	$ 9	Net revenues
Unrealized losses on investments	—	—	Other income (expense), net
	$ 19	$ 9	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	$ 19	$ 9	Net income

The following table provides details about reclassifications out of accumulated other comprehensive income for the six months ended June 30, 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
	Six Months Ended June 30,		
	2017	2016	
	(In millions)		
Gains on cash flow hedges-foreign exchange contracts	$ 59	$ 41	Net revenues
Unrealized losses on investments	(1)	(3)	Other income (expense), net
	$ 58	$ 38	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	$ 58	$ 38	Net income

Note 18 - Subsequent Events

In July 2017, we completed our acquisition of TIO Networks Corp. for approximately $238 million , consisting of cash. This acquisition will be accounted for as a business combination. We acquired TIO Networks to expand our scale of operations, complement our product portfolio, and to help accelerate our entry into bill payments.

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

This Quarterly Report on Form 10-Q 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 Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"), as supplemented and, to the extent inconsistent, superseded by some of the information in the risk factors set forth below in Part II, Item 1A, Risk Factors, of this Form 10-Q, as well as in our unaudited condensed consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, or 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.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company" and "PayPal" refer to PayPal Holdings, Inc. and its consolidated subsidiaries.

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. 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.

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"). The outcome of this referendum caused volatility in global stock markets and foreign currency exchange rate fluctuations and uncertainty about the terms and impact of Brexit may continue to do so in the future. 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 minimize the impact from foreign currency rate movements. For the three months ended June 30, 2017 and 2016 , net revenues generated from our U.K. operations constituted 11% and 12% , respectively, of total net revenues. For the six months ended June 30, 2017 and 2016 , net revenues generated from our U.K. operations constituted 11% and 12% , respectively, of total net revenues. During each of these periods, net revenues generated from the EU (excluding the U.K.) constituted less than 20% of total net revenues. For additional information on how Brexit could affect our business, see Part II, Item 1A—Risk Factors— *"The United Kingdom's departure from the European Union could adversely affect us"* in this Form 10-Q.

Overview of Results of Operations

The following table provides a summary of our consolidated GAAP financial measures for the three and six months ended June 30, 2017 and 2016 :

	Three Months Ended June 30,		Percent	Six Months Ended June 30,		Percent
	2017	2016	Increase/(Decrease)	2017	2016	Increase/(Decrease)
	(In millions, except percentages and per share data)					
Net revenues	$ 3,136	$ 2,650	18 %	$ 6,111	$ 5,194	18 %
Operating expenses	2,706	2,279	19 %	5,250	4,416	19 %
Operating income	$ 430	$ 371	16 %	$ 861	$ 778	11 %
Operating margin	14%	14%	**	14%	15%	**
Income tax expense	$ 36	$ 57	(37)%	$ 90	$ 114	(21)%
Effective tax rate	8%	15%	**	10%	14%	**
Net income	$ 411	$ 323	27 %	$ 795	$ 688	16 %
Net income per diluted share	$ 0.34	$ 0.27	27 %	$ 0.65	$ 0.56	16 %
Net cash provided by operating activities	$ 921	$ 696	32 %	$ 1,672	$ 1,434	17 %

All amounts in tables are rounded to the nearest million, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.
** Not meaningful

Three months ended June 30, 2017 and 2016

Net revenues increased $486 million , or 18% , in the three months ended June 30, 2017 compared to the same period of the prior year driven primarily by growth in TPV (as defined below under "Net Revenues") of 23% compared to the same period of the prior year.

Total operating expenses increased $427 million , or 19% , in the three months ended June 30, 2017 compared to the same period of the prior year due primarily to increase s in transaction expense, transaction and loan losses, and sales and marketing expenses.

Operating income increased $59 million , or 16% , in the three months ended June 30, 2017 compared to the same period of the prior year due to the increase in net revenues partly offset by the growth in operating expenses. Our operating margin was 14% in both the three months ended June 30, 2017 and 2016 . Operating margin was negatively impacted by growth in transaction expense and transaction and loan losses, which increased 29% in the three months ended June 30, 2017 compared to net revenues which increased 18% in the same period. These impacts were offset by operating efficiencies in our business.

Net income increased by $88 million , or 27% , in the three months ended June 30, 2017 compared to the same period of the prior year due primarily to the increase in operating income of $59 million and a decrease in income tax expense of $21 million , which was impacted by a change in accounting guidance requiring net excess tax benefit related to stock-based compensation to be recognized in the statement of income, and an increase in other income (expense), net of $8 million . For the three months ended June 30, 2017 , our diluted net income per share was $0.34 , a $0.07 increase compared to the same period of the prior year.

Six months ended June 30, 2017 and 2016

Net revenues increased $917 million , or 18% , in the six months ended June 30, 2017 compared to the same period of the prior year driven primarily by growth in TPV of 23% compared to the same period of the prior year.

Total operating expenses increased $834 million , or 19% , in the six months ended June 30, 2017 compared to the same period of the prior year due primarily to increase s in transaction expense, transaction and loan losses, restructuring and general and administrative expenses.

Operating income increased $83 million , or 11% , in the six months ended June 30, 2017 compared to the same period of the prior year due primarily to the increase in net revenues partly offset by the growth in operating expenses. Our operating margin was 14% and 15% in the six months ended June 30, 2017 and 2016 , respectively. Operating margin decreased primarily due to growth in transaction expense and transaction and loan losses, which increased 28% in the six months ended June 30, 2017 , compared to net revenues, which increased 18% in the six months ended June 30, 2017 , and restructuring expense of $40 million recognized

in the six months ended June 30, 2017 . The decrease in operating margin was partially offset by operating efficiencies in our business.

Net income increased by $107 million , or 16% , in the six months ended June 30, 2017 compared to the same period of the prior year due to the increase in operating income of $83 million and a decrease in income tax expense of $24 million , which was impacted by the accounting guidance change mentioned previously. For the six months ended June 30, 2017 , our diluted net income per share was $0.65 , a $0.09 increase compared to the same period of the prior year.

Non-GAAP financial measures

The following table provides a summary of our consolidated non-GAAP financial measures for the three and six months ended June 30, 2017 and 2016 :

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2017	2016		2017	2016	
	(In millions, except percentages and per share data)					
Non-GAAP operating income	$ 659	$ 528	25%	$ 1,302	$ 1,065	22%
Non-GAAP operating margin	21%	20%	**	21%	21%	**
Non-GAAP income tax expense	$ 122	$ 101	21%	$ 238	$ 201	18%
Non-GAAP net income	$ 554	$ 436	27%	$ 1,088	$ 888	23%
Non-GAAP net income per diluted share	$ 0.46	$ 0.36	27%	$ 0.89	$ 0.73	23%
Free cash flow	$ 747	$ 495	51%	$ 1,350	$ 1,100	23%

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.
** Not meaningful

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 U.S. 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 the three months ended June 30, 2017 and 2016 , we generated approximately 46% and 47% of our net revenues from customers domiciled outside of the United States (U.S.), respectively. In the six months ended June 30, 2017 and 2016 , we generated approximately 46% and 47% of our net revenues from customers domiciled outside of the U.S., respectively. Other than the U.S., the U.K. was the only country where we generated more than 10% of total net revenues in the three and six months ended June 30, 2017 and 2016 . During each of these periods, net revenues generated from the EU (excluding the U.K.) constituted less than 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 foreign countries. See Part I, Item 1A, Risk Factors in our 2016 Form 10-K, as supplemented and, to the extent inconsistent, superseded below in Part II, Item 1A, Risk Factors in this Form 10-Q.

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 to help minimize the impact on earnings from foreign currency 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 three and six months ended June 30, 2017 and June 30, 2016 , the year-over-year foreign currency movements relative to the U.S. dollar had the following impact on our reported results:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
	(In millions)	
Unfavorable impact to net revenues (exclusive of hedging impact)	$ (56)	$ (112)
Hedging impact	19	59
Unfavorable impact to net revenues	(37)	(53)
Favorable impact to operating expense	18	33
Net impact to operating income	$ (19)	$ (20)

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(In millions)	
Unfavorable impact to net revenues (exclusive of hedging impact)	$ (25)	$ (72)
Hedging impact	9	41
Unfavorable impact to net revenues	(16)	(31)
Favorable impact to operating expense	11	41
Net impact to operating income	$ (5)	$ 10

While we enter into foreign currency exchange contracts to help minimize the impact on earnings from foreign currency rate movements, it is impossible to predict or eliminate the 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 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,” which are offset by the gains and losses on the foreign currency exchange contracts. These foreign exchange contracts reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities.

Financial Results

Net revenues

We earn revenue from the following types of transactions:

- *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 were in different countries).

- *Other value added services* : Net revenues derived principally from interest and fees earned on our PayPal Credit loans receivable portfolio, subscription fees, gateway fees, gain on sale of participation interests in certain consumer loans receivable, 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.

Net revenue analysis

The components of our net revenue for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2017	2016		2017	2016	
	(In millions, except percentages)					
Transaction revenues	$ 2,749	$ 2,323	18%	$ 5,348	$ 4,561	17%
Other value-added services	387	327	18%	763	633	21%
Net revenues	$ 3,136	$ 2,650	18%	$ 6,111	$ 5,194	18%

Transaction revenue grew by $426 million , or 18% , for the three months ended June 30, 2017 . Transaction revenue grew by $787 million , or 17% , for the six months ended June 30, 2017. The increase in transaction revenues in the three and six months ended June 30, 2017 was due primarily to the growth in TPV primarily from our PayPal and Braintree products.

The following table provides a summary of our active customer accounts, number of payment transactions, TPV and related metrics:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2017	2016		2017	2016	
	(In millions, except percentages)					
Active customer accounts [1]	210	188	12%	210	188	12%
Number of payment transactions [2]	1,775	1,448	23%	3,507	2,862	23%
Payment transactions per active account [3]	32.3	29.4	10%	32.3	29.4	10%
Total TPV [4]	$ 106,444	$ 86,208	23%	$ 205,771	$ 167,264	23%
Percent of cross-border TPV	21%	22%	**	21%	23%	**

All amounts in tables are rounded to the nearest million, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.

[1] Reflects active customer accounts as of the end of the applicable period. 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.

[2] 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.

[3] 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.

[4] Total Payment Volume or “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 payment transactions for the three and six months ended June 30, 2017 compared to the same periods in the prior year due to a higher portion of person-to-person ("P2P") transactions, primarily from our PayPal and Venmo products, from which we earn lower rates, and a higher portion of TPV generated by large merchants who generally pay lower rates with higher transaction volume. Changes in prices charged to our customers did not significantly impact transaction revenue growth for the three and six months ended June 30, 2017 .

For the three months ended June 30, 2017 , net revenues from other value-added services increased $60 million , or 18% , compared to the same period in the prior year. For the six months ended June 30, 2017, net revenue from other value-added services increased $130 million , or 21% , compared to the same period in the prior year. Growth in net revenues from other value-added services in the three and six months ended June 30, 2017 was due primarily to interest and fee income earned on our PayPal Credit loans receivable portfolio. The total consumer and merchant loans and interest receivable balance as of June 30, 2017 and June 30, 2016 was $6.1 billion and $4.8 billion , respectively, reflecting a year-over-year increase of 28% .

Operating Expenses

The following table summarizes our operating expenses and related metrics:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2017	2016		2017	2016	
	(In millions, except percentages)					
Transaction expense	$ 1,064	$ 810	31%	$ 2,051	$ 1,562	31%
Transaction and loan losses	308	255	21%	608	510	19%
Customer support and operations	335	318	5%	652	614	6%
Sales and marketing	284	250	14%	522	483	8%
Product development	232	209	11%	446	404	10%
General and administrative	282	261	8%	547	492	11%
Depreciation and amortization	201	176	14%	384	351	9%
Restructuring	—	—	**	40	—	**
Total operating expenses	$ 2,706	$ 2,279	19%	$ 5,250	$ 4,416	19%
Transaction expense rate [1]	1.00%	0.94%	**	1.00%	0.93%	**
Transaction and loan loss rate [2]	0.29%	0.30%	**	0.30%	0.30%	**

[1] Transaction expense rate is calculated by dividing transaction expense by TPV.
[2] Transaction and loan loss rate is calculated by dividing transaction and loan losses by TPV.
** Not meaningful

Transaction expense

Transaction expense increased by $254 million , or 31% , in the three months ended June 30, 2017 compared to the same period of the prior year. Transaction expense increased by $489 million , or 31% , in the six months ended June 30, 2017 compared to the same period of the prior year. The increase in transaction expense in the three and six months ended June 30, 2017 was primarily due to the increase in TPV of 23% in both periods compared to the same periods in the prior year and higher assessments charged by payment processors and other financial institutions. The increase in our transaction expense rate for the three and six months ended June 30, 2017 compared to the same period of the prior year was due primarily to higher assessments charged by payment processors and other financial institutions and unfavorable changes in funding mix.

Our transaction expense rate is impacted by changes in funding mix and assessments charged by payments processors and other financial institutions when we draw funds from a customer's credit or debit card, bank account or other funding sources. 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. For the three and six months ended June 30, 2017 and 2016 , approximately 2% of TPV was funded with PayPal Credit. For the three months ended June 30, 2017 and 2016 , approximately 44% and 46% of TPV was generated outside of the U.S., respectively. For the six months ended June 30, 2017 and 2016, approximately 44% and 45% of TPV was generated outside of the U.S., respectively. As we expand the availability and presentation of alternative funding sources to our customers, our funding mix may change, which could increase or decrease our transaction expense rate.

Transaction and loan losses

The components of our transaction and loan losses for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2017	2016		2017	2016	
	(In millions, except percentages)					
Transaction losses	$ 185	$ 157	18%	$ 356	$ 314	13%
Loan losses	123	98	26%	252	196	29%
Transaction and loan losses	$ 308	$ 255	21%	$ 608	$ 510	19%

Transaction losses increased by $28 million , or 18% in the three months ended June 30, 2017 compared to the same period of the prior year. Transaction losses increased by $42 million , or 13% , in the six months ended June 30, 2017 compared to the same

period of the prior year. The increase in transaction losses in the three and six months ended June 30, 2017 was due to the increase in TPV compared to the same periods of the prior year. Transaction losses as a percentage of TPV decreased by one basis point in the three months ended June 30, 2017, and two basis points in the six months ended June 30, 2017 compared to the same periods of the prior year due to strong performance of our risk management programs.

Loan losses increased by $25 million , or 26% , in the three months ended June 30, 2017 and $56 million , or 29% , in the six months ended June 30, 2017 compared to the same periods of the prior year due primarily to an increase in the loans receivable balance. The total consumer loans and interest receivable balance as of June 30, 2017 and June 30, 2016 was $5.5 billion and $4.2 billion , respectively, reflecting a year-over-year increase of 31% .

The following table provides information regarding the credit quality of our pool of consumer loans and interest receivable balance:

	June 30, 2017	June 30, 2016
Weighted average U.S. consumer FICO scores [1][2]	679	681
Percentage of loans receivable with FICO scores > 680 [1]	52.1%	53.2%
Percentage of loans receivable with FICO scores < 599 [1]	11.1%	10.5%
Percent of loans and interest receivable current	90.9%	90.3%
Percent of loans and interest receivable > 90 days outstanding	3.7%	3.7%
Net charge off rate [3]	6.9%	6.3%

[1] Excludes certain outstanding consumer loans outside of the U.S., for which no FICO scores are available, with an outstanding balance of $172 million and $84 million at June 30, 2017 and June 30, 2016 , respectively.

[2] Prior period revised to conform to the current period presentation.

[3] Net charge off rate is the annualized 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 period.

We offer credit products to certain existing small and medium-sized merchants through our PayPal Working Capital product. Total PayPal Working Capital advances and fees receivable ("merchant receivables") outstanding as of June 30, 2017 and June 30, 2016 were $633 million and $555 million , respectively, reflecting a year-over-year increase of 14% due to the increase in the availability of our credit products domestically and internationally. To assess a merchant seeking a PayPal Working Capital 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 principal balance and fixed fee related to the working capital 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 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 advances that we own, we assess a participating merchant’s PRM score on a recurring basis. At June 30, 2017 and June 30, 2016 , the weighted average PRM score related to our PayPal Working Capital balances outstanding was 631 and 637 , respectively.

The number of days our merchant receivables are outstanding is based on the current expected repayment period of the advance and fixed fee as compared to an original expected repayment period. We generally calculate the repayment rate of the merchant's 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 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.

The following table provides information regarding the credit quality of our merchant receivables:

	June 30, 2017	June 30, 2016
Percentage of Merchant Receivables with PRM scores > 610	70.3%	73.0%
Percentage of Merchant Receivables with PRM scores < 525	12.6%	10.8%
Percent of Merchant Receivables within original expected repayment period	84.7%	85.4%
Percent of Merchant Receivables > 90 days outstanding after the end of original expected repayment period	7.0%	6.5%

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, Net" in the notes to the condensed consolidated financial statement in Part I, Item 1 of this Form 10-Q.

Customer support and operations

Customer support and operations expenses increased by $17 million , or 5% , in the three months ended June 30, 2017 compared to the same period of the prior year. Customer support and operations expenses increased by $38 million , or 6% , in the six months ended June 30, 2017 compared to the same period in the prior year. The increase in the three and six months ended June 30, 2017 was due primarily to an increase in 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.

Sales and marketing

Sales and marketing expenses increased by $34 million , or 14% , in the three months ended June 30, 2017 compared to the same period of the prior year. Sales and marketing expenses increased by $39 million , or 8% , in the six months ended June 30, 2017 compared to the same period of the prior year. The increase in the three and six months ended June 30, 2017 was due primarily to higher employee related costs and higher spend on external marketing campaigns.

Product development

Product development expenses increased by $23 million , or 11% , in the three months ended June 30, 2017 compared to the same period of the prior year. Product development expenses increased by $42 million , or 10% , in the six months ended June 30, 2017 compared to the same period of the prior year. The increase in the three and six months ended June 30, 2017 was due primarily to an increase in employee and contractor related expenses.

General and administrative

General and administrative expenses increased by $21 million , or 8% , in the three months ended June 30, 2017 compared to the same period of the prior year. General and administrative expenses increased by $55 million , or 11% , in the six months ended June 30, 2017 compared to the same period of the prior year. The increase in the three and six months ended June 30, 2017 was due primarily to an increase in employee related expenses, professional expenses and continued investments in our compliance programs.

Depreciation and amortization

Depreciation and amortization expenses increased by $25 million , or 14% , in the three months ended June 30, 2017 compared to the same period of the prior year. Depreciation and amortization expenses increased by $33 million , or 9% , in the six months ended June 30, 2017 compared to the same period of the prior year. The increase in the three and six months ended June 30, 2017 was due primarily to additional depreciation expense associated with investments in our technology platforms offset by lower amortization expense related to acquired intangible assets.

Restructuring

In the first quarter of 2017, management approved a plan to implement a strategic reduction of the existing global workforce. Restructuring expenses were $40 million in the six months ended June 30, 2017 . No restructuring expenses were recognized in the three months ended June 30, 2017 or the three and six months ended June 30, 2016 . The restructuring is expected to be substantially completed by the end of 2017. The reduction in expense resulting from the workforce reduction is expected to be offset by the Company's reinvestment back into the business to drive additional growth.

Income Tax Expense

Our effective income tax rate was 8% and 15% for the three months ended June 30, 2017 and 2016 , respectively. The effective income tax rate was 10% and 14% for the six months ended June 30, 2017 and 2016, respectively. The decrease in our effective tax rate in the three and six months ended June 30, 2017 compared to the same periods of the prior year was due primarily to the adoption of new accounting guidance effective January 1, 2017 related to the accounting for tax benefits pertaining to stock-based compensation and the accounting for intra-entity transfers of assets. See "Note 1- Overview and Summary of Significant Accounting Policies" in the notes to the consolidated financial statements in Part I of this Form 10-Q for additional information on effects of this adoption.

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.
- *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 our ongoing operating results.
- *Certain other significant gains, losses, or charges that are not indicative of our core operating results.* These are significant gains, losses, 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 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 condensed consolidated non-GAAP financial measures to the most directly comparable GAAP financial measures for the three and six months ended June 30, 2017 and 2016 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except percentages)			
GAAP operating income	$ 430	$ 371	$ 861	$ 778
Stock-based compensation expense and related employer payroll taxes	192	122	341	218
Amortization of acquired intangible assets	22	35	45	69
Restructuring	—	—	40	—
Other [1]	15	—	15	—
Total non-GAAP operating income adjustments	229	157	441	287
Non-GAAP operating income	$ 659	$ 528	$ 1,302	$ 1,065
Non-GAAP operating margin	21%	20%	21%	21%

[1] Impairment of investment in intellectual property fund.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except percentages and per share data)			
GAAP income before income taxes	$ 447	$ 380	$ 885	$ 802
GAAP income tax expense	36	57	90	114
GAAP net income	411	323	795	688
Non-GAAP adjustments to net income:				
Non-GAAP operating income adjustments (see table above)	229	157	441	287
Tax effect of non-GAAP adjustments	(86)	(44)	(148)	(87)
Non-GAAP net income	$ 554	$ 436	$ 1,088	$ 888
Non-GAAP net income per diluted share	$ 0.46	$ 0.36	$ 0.89	$ 0.73
Shares used in non-GAAP diluted share calculation	1,215	1,215	1,216	1,220
GAAP income tax expense	$ 36	$ 57	$ 90	$ 114
Tax effect of non-GAAP adjustments	86	44	148	87
Non-GAAP income tax expense	$ 122	$ 101	$ 238	$ 201
GAAP effective tax rate	8%	15%	10%	14%
Tax effect of non-GAAP adjustments to net income	10%	4%	8%	4%
Non-GAAP effective tax rate	18%	19%	18%	18%

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, 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. A reconciliation of free cash flow to the most directly comparable GAAP financial measure is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net cash provided by operating activities	$ 921	$ 696	$ 1,672	$ 1,434
Less: Purchases of property and equipment	(174)	(201)	(322)	(334)
Free cash flow	$ 747	$ 495	$ 1,350	$ 1,100

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 available-for-sale investment securities as of June 30, 2017 and December 31, 2016 :

	June 30, 2017	December 31, 2016
	(In millions)	
Cash, cash equivalents and available-for-sale investment securities [1][2]	$ 6,446	$ 6,447

[1] Excludes assets related to customer accounts of $16.2 billion and $14.4 billion at June 30, 2017 and December 31, 2016 , respectively.

[2] Excludes total restricted cash of $76 million and $17 million at June 30, 2017 and December 31, 2016 , respectively, and cost method investments of $80 million and $50 million as of June 30, 2017 and December 31, 2016 , respectively.

Cash, cash equivalents and investments held by our foreign subsidiaries (i.e., any entities where earnings would be subject to U.S. tax upon repatriation) were $5.5 billion as of June 30, 2017 and $5.0 billion at December 31, 2016 , or 86% and 78% of our total cash, cash equivalents and investments as of those dates, respectively.

In July 2015, we entered into a credit agreement ("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 from time to time. Borrowings and other amounts payable under the Credit Agreement are guaranteed by our subsidiary PayPal, Inc. (the "Guarantor"). 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 Credit Agreement, provided that we and the Guarantor guarantee all borrowings and other obligations of any such subsidiaries under the Credit Agreement. As of June 30, 2017 , no subsidiaries were designated as additional borrowers. Funds borrowed under the Credit Agreement may be used for working capital, capital expenditures, acquisitions and other general corporate purposes.

As of June 30, 2017 , no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at June 30, 2017 , $2.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement subject to customary conditions to borrowings.

Loans under the Credit Agreement 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 1.625 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 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 Credit Agreement. The 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 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.

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 June 30, 2017 , we had a total of $2.8 billion in cash withdrawals offsetting our $2.8 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,

including, but not limited to, commercial banks, securitization markets, private equity firms and sovereign wealth funds. Consistent with this strategy, 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. These funds are classified as cash and cash equivalents in our condensed consolidated balance sheet and represent approximately 15% of European customer balances potentially available for corporate use by us at June 30, 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.

As of June 30, 2017 , we were 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 costs, including the interest rate on loans under our Credit Agreement.

In July 2017, we completed our acquisition of TIO Networks Corp. for approximately $238 million, consisting of cash. This acquisition will be accounted for as a business combination. We acquired TIO Networks to expand our scale of operations, complement our product portfolio, and to help accelerate our entry into bill payments.

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 the programs and modifications to the programs resulting from changes to regulatory requirements. For the periods presented in the condensed consolidated financial statements included in this report, our transaction loss rates, calculated by dividing transaction loss by TPV, ranged between 0.17% 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 provides 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 will become 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 six months ended June 30, 2017 , we repurchased approximately $606 million of our common stock under our stock repurchase program authorized in January 2016 . No activity has occurred under our stock repurchase program authorized in April 2017. As of June 30, 2017 , a total of approximately $0.4 billion remained available for future repurchases of our common stock under our stock repurchase programs.

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 Part I, Item 1A, Risk Factors in our 2016 Form 10-K, as supplemented and, to the extent inconsistent, superseded below in Part II, Item 1A, Risk Factors in this Form 10-Q, as well as “Note 11—Commitments and Contingencies” to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional discussion of these and other risks facing our business.

We believe that our existing cash, cash equivalents, available-for-sale investments, cash expected to be generated from operations, and our expected access to capital markets, together with potential external funding through third party sources, such as commercial banks, private equity firms, and sovereign wealth funds, will be sufficient to fund our operating activities, anticipated capital expenditures, and PayPal Credit products for the foreseeable future.

Cash Flows

The following table summarizes our condensed consolidated statement of cash flows:

	Six Months Ended June 30,	
	2017	2016
	(In millions)	
Net cash provided by (used in):		
Operating activities	$ 1,672	$ 1,434
Investing activities	(3,002)	(1,481)
Financing activities	988	657
Effect of exchange rates on cash and cash equivalents	23	15
Net increase/(decrease) in cash and cash equivalents	$ (319)	$ 625

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, stock-based compensation, and deferred tax expenses. 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 PayPal Credit products for which the receivable has not been charged off. Actual charge offs of receivables related to our PayPal Credit products are reflected as a reduction in changes in principal loans receivable which are reflected as investing activities and thus have no impact on cash from operating activities.

We generated cash from operating activities of $1.7 billion in the six months ended June 30, 2017 due primarily to operating income of approximately $861 million . Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation were approximately $705 million during the six months ended June 30, 2017 . Adjustments for non-cash expenses related to provision for transaction and loan losses were approximately $608 million during the six months ended June 30, 2017 . The cash generated from operating activities was negatively impacted by changes in other assets and liabilities of $601 million primarily related to actual cash transaction losses incurred during the period and timing of employee related costs, including bonus payments under our annual incentive award program.

We generated cash from operating activities of $1.4 billion in the six months ended June 30, 2016 due primarily to operating income of $778 million . Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation (including excess tax benefits from stock-based compensation) were approximately $524 million during the six months ended June 30, 2016 . Adjustments for non-cash expenses related to provision for transaction and loan losses were approximately $510 million during the six months ended June 30, 2016 . The cash generated from operating activities was negatively impacted by increases in accounts receivable of $30 million and changes in other assets and liabilities of $405 million primarily related to actual cash transaction losses incurred during the period and the timing of employee related costs, including bonus payments under our annual incentive award program, which were partially offset by a benefit from timing differences in funding deposits related to our Xoom business and other changes in our current assets and liabilities.

Cash paid for income taxes in the six months ended June 30, 2017 and 2016 was $73 million and $36 million , respectively.

Investing Activities

The net cash used in investing activities of $3.0 billion in the six months ended June 30, 2017 was due primarily to purchases of investments of $12.0 billion , changes in principal loans receivable, net of $627 million and purchases of property and equipment of $322 million . These net cash outflows were offset by maturities and sales of investments of $9.5 billion and decreases in funds receivable from customers and customer accounts of $367 million .

The net cash used in investing activities of $1.5 billion in the six months ended June 30, 2016 was due primarily to purchases of investments of $10.2 billion, changes in principal loans receivable, net of $476 million and purchases of property and equipment of $334 million. These net cash outflows were offset by maturities and sales of investments of $9.3 billion and decreases in funds receivable from customers and customer accounts of $222 million partially due to classifying $800 million of European customer balances held in our Luxembourg banking subsidiary as cash and cash equivalents.

Financing Activities

The net cash provided by financing activities of $988 million in the six months ended June 30, 2017 was due primarily to increase in funds payable and amounts due to customers of $1.6 billion , partially offset by the repurchase of $606 million of our common stock under our January 2016 stock repurchase program and tax withholdings related to net share settlement of equity awards of $124 million .

The net cash provided by financing activities of $657 million in the six months ended June 30, 2016 was due primarily to increases in funds payable and amounts due to customers of $1.6 billion, partially offset by the repurchase of $896 million of our common stock under our January 2016 stock repurchase program.

Free Cash Flow

We define free cash flow as cash flows from operating activities less purchases of property and equipment. Free cash flow was $1.4 billion in the six months ended June 30, 2017 , representing an increase of $250 million from the same period of the prior year. The increase in free cash flow during the period was primarily due to higher cash generated from operating activities of $238 million and lower purchases of property and equipment of $12 million as compared to the same period of the prior year. Free cash flow generated during the six months ended June 30, 2017 was used for repurchasing our common stock under our stock repurchase programs, funding our credit portfolio and general business purposes.

Free cash flow is a non-GAAP financial measure. See "Non-GAAP Financial Information" above 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 effect of foreign currency exchange rates on cash and cash equivalents during the six months ended June 30, 2017 and June 30, 2016 was a favorable impact of $23 million and $15 million , respectively, due to the weakening of the U.S. dollar against certain foreign currencies, primarily the Euro.

Off-Balance Sheet Arrangements

As of June 30, 2017 , 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.

Item 3: 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 condensed consolidated balance sheet as customer accounts. We seek to reduce earnings volatility that may result from changes in interest rates.

As of June 30, 2017 and December 31, 2016 , approximately 20% and 25% of our total cash and investment portfolio was held in cash and cash equivalents. The assets underlying the customer balances we hold on our condensed consolidated balance sheet as customer accounts are maintained in interest and non-interest bearing bank deposits, time deposits, and 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. On July 17, 2015, we entered into a $2 billion senior unsecured credit facility maturing in 2020. Borrowings under the revolving facility, 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 under the revolving credit facility. As of June 30, 2017 , no borrowings or letters of credit were outstanding under the Credit Agreement.

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 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 earnings.

A 100 basis point increase in interest rates would not have had a material impact on our financial assets or liabilities at June 30, 2017 and December 31, 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 as well as costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services. Our cash flow, 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 condensed 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 9—Derivative Instruments" to the condensed consolidated financial statements included in this report.

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 June 30, 2017 and December 31, 2016 , the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $374 million and $341 million lower, respectively. If the U.S. dollar strengthened by 20% at June 30, 2017 and December 31, 2016 , the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $374 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,” which are offset by the gains and losses on the foreign 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 $187 million and $160 million at June 30, 2017 and December 31, 2016 , respectively, without considering the offsetting effect of hedging. Foreign currency exchange contracts in place as of June 30, 2017 would have positively impacted income before income taxes by approximately $177 million , resulting in a net negative impact of approximately $10 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 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 June 30, 2017 and December 31, 2016 , our cost method investments totaled $ 80 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. 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 4: Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Based on the evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) required by Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) *Changes in internal controls.* There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

The information set forth under "Note 11—Commitments and Contingencies—Litigation and Regulatory Matters" to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A: Risk Factors

We are subject to various risks and uncertainties, which could materially affect our business, results of operations, financial condition, and future results and the trading price of our common stock. You should carefully read the following information together with the information appearing in Part I, Item 1A, Risk Factors in our 2016 Form 10-K. The following information supplements and, to the extent inconsistent, supersedes some of the information appearing in the Risk Factors section of our 2016 Form 10-K. These risk factors, as well as our condensed consolidated financial statements and notes thereto and the other information appearing in this report, should be reviewed carefully for important information regarding risks that affect us.

The United Kingdom's departure from the EU could adversely affect us.

The United Kingdom ("U.K.") held a referendum on June 23, 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, subject to extension by unanimous consent of the EU member states, during which the U.K. government will negotiate its withdrawal agreement with the EU. The U.K. has started negotiations with the EU to determine the future terms of the U.K.'s relationship with the EU, including, among other things, the terms of trade between the U.K. and the EU. The outcome of the referendum and the triggering of Article 50 caused volatility in global stock markets and foreign currency exchange rate fluctuations and uncertainty about the terms and impact of Brexit may continue to do so in the future. 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 potentially divergent national 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 passport into the U.K. market through the banking license 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 bank in Luxembourg, and our corresponding ability to work with Luxembourg regulators as the lead authority for various aspects of our U.K. operations;
- we could be required to obtain additional regulatory licensing 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 and licensing criteria, and any possible transitional arrangements, there is a risk that our business in the U.K. could be materially affected or disrupted); and
- we could also 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.

Any of these effects of Brexit and others 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 extensive government regulation and oversight. For a discussion of how government regulation impact key aspects of our business, please see Item 1 "Business-Government Regulation" in our 2016 Form 10-K. In addition, some of the risks relating to government regulation and oversight of our business are discussed in Item 1A "Risk Factors" in our 2016 Form 10-K under a risk factor captioned "Our business is subject to extensive government regulation and oversight, as well as extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations". The information appearing below under the captions "Consumer Protection" and "Privacy and Protection of User Data" supplements and supersedes the information appearing under the same captions in that risk factor in our 2016 Form 10-K but it does not supersede any of the other information in that risk factor. Accordingly, for additional information regarding some of the risks resulting from government regulation and oversight of our business, please also see the information under the other captions in that risk factor in our 2016 Form 10-K.

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"). Under such regulations we are required 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 loadable accounts 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 by six months, 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. On June 15, 2017, the CFPB released proposed changes to its final rule. We are evaluating the rule (including the proposed changes) 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.

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, collection, use and sharing of data is increasing on a global basis. There is uncertainty associated with the legal and regulatory environment around 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 can result in significant penalties and damage to our brand and business. In addition, compliance with inconsistent privacy laws may restrict our ability to provide products and services to our customers. A determination that there have been violations of privacy or data protection laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business and reputation.

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. Prior to October 2015, the U.S.-EU Safe Harbor framework clauses offered certain EU companies a compliance mechanism to lawfully transfer personal data of EU citizens to U.S. companies that certified their compliance with the Safe Harbor framework. Some of PayPal's vendors relied on the U.S.-EU Safe Harbor framework clauses. In October 2015, the European Court of Justice invalidated the U.S.-EU Sale Harbor framework clauses and PayPal entered into SCCs with those third parties who had previously relied on the U.S.-EU Safe Harbor framework. On July 12, 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 2018. The proposed EU data protection regime extends the scope of the EU data protection law to all foreign companies processing personal data of EU residents. It provides for a harmonization of the data protection regulations throughout the EU, thereby making it easier for non-European companies to comply with these regulations. It 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 changes to certain of our business practices, thereby increasing our costs.

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 which may even conflict with, those in Luxembourg.

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, are, 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.

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 or with any applicable regulatory

requirements or orders, or privacy, data protection, information security or consumer protection-related privacy 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. Data protection, privacy and information security have become the subject of increasing public, media and legislative concern. If our customers were to reduce their use of our products and services as a result of these concerns, our business could be materially harmed. As noted above, we are also subject to the possibility of security and privacy breaches, which themselves may result in a violation of these privacy laws.

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 a different chartered financial institution to issue the PayPal Working Capital product in the U.S. Both of these chartered financial institutions are state chartered industrial banks. In the event of a termination or interruption in the ability of the chartered financial institution that currently issues the PayPal Credit consumer product in the U.S. to lend under the PayPal Credit consumer product, the chartered financial institution that issues the PayPal Working Capital product in the U.S. has agreed to take ownership of (and originate loans with respect to) all PayPal Credit consumer accounts. Nevertheless, any termination or interruption of either bank's ability to lend could result in the inability or unwillingness to originate any new PayPal Credit or PayPal Working Capital loans. In the event of either bank's inability or unwillingness to lend, we would either need to reach a similar agreement with another chartered financial institution or obtain our own bank charter or 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 time-consuming and costly process and would subject us to additional laws and regulatory requirements, which could be burdensome and increase our costs. In addition, our commercial relationships with third parties which are federally supervised U.S. financial institutions could subject us to examination by their federal banking regulators with respect to certain services that we provide.

In 2015, the U.S. Court of Appeals for the Second Circuit, in Madden v. Midland Funding, LLC (786 F.3d 246 (2d Cir. 2015)), concluded that the buyer of a charged off credit card account could not rely on the National Bank Act's preemption of state interest rate limits for interest at rates imposed by the buyer after charge-off. A petition to the U.S. Supreme Court to review the decision was denied in June 2016, and the case has been remanded to the lower court to be determined in accordance with the ruling of the Second Circuit. On remand, the lower court determined that New York's criminal usury law constitutes a "fundamental public policy" of the state and concluded that New York law, not Delaware law (the law chosen by the parties pursuant to the lending arrangement), governs the parties' relationship. The Second Circuit decision has 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 Madden 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. Although we believe the Madden case can be distinguished from the manner in which we offer our credit products, there can be no assurances as to the outcome of any potential litigation, or that the possible impact of such litigation will not have a material adverse impact on our business. In addition, t he lower court's opinion highlights potential state law concerns both specifically (with respect to choice of law provisions) and more broadly as a result of the decisions. If these, or other, state law cases are successful, it could have a material adverse impact on our business in various states.

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, illicit sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted or trademarked goods (in particular, digital goods), money laundering, 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 additional payments-related proposals are under active consideration by government authorities. Intellectual property rights owners 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 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.

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 involving competition and antitrust law, intellectual property, privacy, data protection, information security, anti-money laundering, counter-terrorist financing, sanctions, anti-corruption, consumer protection, accessibility, securities, tax, labor and employment, commercial disputes, services, charitable fundraising, 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 Company has grown larger, our business has expanded in 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 of those laws, rules and regulations.

The scope, outcome and impact of claims, lawsuits, government investigations, and proceedings that we are subject to 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 is subject to management's 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 preventing us from offering certain products or services, requiring a change in our business practices in costly ways or development of non-infringing or otherwise altered products or technologies. Any of these consequences could materially and adversely affect our business.

Certain of our customer agreements contain arbitration provisions with class action waiver provisions that may limit our exposure to consumer class action litigation, but there can be no assurance that we will be successful in enforcing these arbitration provisions, or the class action waiver provisions in them, 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, or materially impact our ability to avoid exposure from consumer class action litigation.

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. In July 2017, we announced the completion of our acquisition of TIO Networks Corp., a multi-channel bill payments processor. 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;
- declining employee morale and retention issues affecting employees 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;
- difficulty making strategic hires of new employees;
- diversion of management time and a shift of focus from operating the business to the transaction, and in the case of an acquisition, integration and administration;
- the need to integrate the operations, systems (including accounting, management, information, compliance, 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 inefficiencies and lack of control that may result if such integration is delayed or not implemented, and unforeseen difficulties and expenditures that may arise as a result;

- the need to implement or improve controls, procedures and policies appropriate for a larger public company at companies that, prior to acquisition, may have lacked such controls, procedures and policies or whose controls, procedures and policies did not meet applicable legal, regulatory and other standards;
- potential exposure to new or increased regulatory oversight and regulatory obligations associated with new products or entry into new markets;
- risks associated with our expansion into new international markets;
- risks associated with the complexity of entering into and effective managing joint ventures, strategic investments, and other strategic partnerships
- lawsuits resulting from the transaction;
- liability for activities of the acquired company before the acquisition, including intellectual property and other litigation claims or disputes, violations of laws, rules and regulations, commercial disputes, tax liabilities and other known and unknown liabilities;
- the potential loss of key employees following the transaction;
- 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), liabilities, and amortization expenses related to intangible assets or write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders and the interests of holders of our indebtedness.

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 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 may adversely affect the value of our investment, result in litigation or regulatory action against us and otherwise damage our reputation and brand.

We may not be able to engage in desirable strategic or capital-raising transactions for a period of time following the separation from eBay Inc. In addition, we could be liable for adverse tax consequences resulting from engaging in significant strategic or capital-raising transactions.

On July 17, 2015, we became an independent publicly traded company through the pro rata distribution (the "distribution") by eBay Inc. ("eBay") of 100% of our outstanding common stock to eBay's stockholders. We sometimes refer to this transaction as the "separation." To preserve the tax-free treatment to eBay of the separation and the distribution, under the tax matters agreement that we entered into with eBay, for a period of time following the distribution, we are generally prohibited from taking certain actions that prevent the distribution and related transactions from qualifying 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 of 1986, as amended. In addition, our operating agreement with eBay defines certain obligations and limitations with respect to PayPal's provision of services to certain competitive platform operators of eBay (as specified in the operating agreement we entered into with eBay in connection with the separation). These restrictions may limit our ability to pursue certain strategic transactions or other transactions that we or our stockholders consider desirable or may prevent us from engaging in certain capital-raising transactions.

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

In January 2016, our Board of Directors authorized a stock repurchase program that provides 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 will become 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 six months ended June 30, 2017 is summarized as follows:

	Shares Repurchased	Average Price Paid per Share [1]	Value of Shares Repurchased	Remaining Amount Authorized
		(In millions, except per share amounts)		
Balance as of January 2017				$ 1,005
Period ended January 31, 2017	—	—	—	—
Period ended February 28, 2017	7.6	$ 42.11	$ 320	(320)
Period ended March 31, 2017	4.6	$ 42.82	$ 197	(197)
Authorization of additional plan in April 2017				5,000
Period ended April 30, 2017	—	$ —	$ —	—
Period ended May 31, 2017	1.8	$ 49.41	$ 89	(89)
Period ended June 30, 2017				
Balance as of June 30, 2017	14.0		$ 606	$ 5,399

[1] 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. No activity has occurred under the April 2017 stock repurchase program.

Item 3: Defaults Upon Senior Securities

Not applicable.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits

The information required by this Item is set forth in the Index of Exhibits that follows the signature page of this Quarterly Report.

SIGNATURES

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

PayPal Holdings, Inc.

Principal Executive Officer:

By: */s/ Daniel H. Schulman*

Daniel H. Schulman

President and Chief Executive Officer

Date: July 27, 2017

Principal Financial Officer:

By: */s/ John D. Rainey*

John D. Rainey

Executive Vice President, Chief Financial Officer

Date: July 27, 2017

Principal Accounting Officer:

By: */s/ Aaron A. Anderson*

Aaron A. Anderson

Vice President, Chief Accounting Officer

Date: July 27, 2017

INDEX TO EXHIBITS

Exhibit 3.01	Restated Certificate of Incorporation of Registrant, as filed with the Secretary of State of the State of Delaware on July 20, 2017.
Exhibit 3.02	Restated Certificate of Incorporation of Registrant, as filed with the Secretary of State of the State of Delaware on July 20, 2017 (marked to show new text of previously filed amendment).
Exhibit 10.01 +*	Independent Director Compensation Policy.
Exhibit 31.01	Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.02	Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.01	Certification of Registrant's Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.02	Certification of Registrant's Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ Indicates a management contract or compensatory plan or arrangement
* Filed as an exhibit to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 28, 2017 and incorporated herein by reference

Exhibit 3.01

RESTATED

CERTIFICATE OF INCORPORATION

OF

PAYPAL HOLDINGS, INC.

Pursuant to Section 245 of the

Delaware General Corporation Law

PayPal Holdings, Inc., a corporation organized and existing under the laws of the State of Delaware, does hereby certify as follows:

A. The name of the corporation is PayPal Holdings, Inc. The date of the filing of its original certificate of incorporation with the Secretary of State was January 30, 2015.

B. This restated certificate of incorporation has been duly adopted by the Board of Directors of the corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware and restates, integrates, and supersedes, but does not further amend the provisions of the amended and restated certificate of incorporation of this corporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this restated certificate of incorporation. The text of the amended and restated certificate of incorporation is hereby restated and integrated to read in its entirety as follows:

ARTICLE I

The name of the corporation is PayPal Holdings, Inc. (the " corporation ").

ARTICLE II

The address of the registered office of the corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, City of Wilmington, County of New Castle, 19801. The name of its registered agent at that address is The Corporation Trust Company.

ARTICLE III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. The total number of shares of all classes of stock which the corporation has the authority to issue is 4,100,000,000 shares, consisting of two classes: 4,000,000,000 shares of common stock, $0.0001 par value per share (the " Common Stock "), and 100,000,000 shares of preferred stock, 0.0001 par value per share (the " Preferred Stock ").

B. Except as may otherwise be provided in this certificate of incorporation, in a Certificate of Designation (as defined below) or as required by law, the holders of the outstanding shares of Common Stock shall have the right to vote on all questions to the exclusion of all other stockholders, each holder of record of Common Stock being entitled to one vote for each share of Common Stock standing in the name of the stockholder on the books of the corporation.

C. The Board of Directors is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of Preferred Stock in one or more series, for such consideration and for such corporate purposes as the Board of Directors (or a duly authorized committee thereof) may from time to time determine, and, by filing a certificate (referred to as a " Certificate of Designation ") pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof to the fullest extent now or hereafter permitted by this certificate of incorporation and the laws of the State of Delaware, including, without limitation, voting rights, dividend rights, liquidation rights, redemption rights and conversion rights, as shall be stated and expressed in a resolution or resolutions adopted by the Board of Directors (or such committee thereof) providing for the issuance of, or increase or decrease of the number of shares of, such series of Preferred Stock.

D. Except as otherwise expressly provided in any Certificate of Designation designating any series of Preferred Stock pursuant to the foregoing provisions of this Article IV, any new series of Preferred Stock may be designated, fixed and determined as provided herein by the Board of Directors without approval of the holders of Common Stock or the holders of Preferred Stock, or any series thereof, and any such new series may have powers, preferences and rights, senior to, junior to or pari passu with the rights of the Common Stock, the Preferred Stock, or any future class or series of Preferred Stock or Common Stock. Each series of Preferred Stock shall be distinctly designated. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

(i) the designation of the series, which may be by distinguishing number, letter or title;

(ii) the number of shares of the series, which number the Board of Directors may thereafter (except where otherwise provided in the Certificate of Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(iii) the amounts payable on, and the preferences, if any, of shares of the series in respect of dividends, and whether such dividends, if any, shall be cumulative or noncumulative;

(iv) dates at which dividends, if any, shall be payable;

(v) the redemption rights and price or prices, if any, for shares of the series;

(vi) the terms and amount of any sinking fund provided for the purchase or redemption of shares of the series;

(vii) the amounts payable on, and the preferences, if any, of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation;

(viii) whether the shares of the series shall be convertible into or exchangeable for shares of any other class or series, or any other security, of the corporation or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made;

(ix) restrictions on the issuance of shares of the same series or of any other class or series; and

(x) the voting rights, if any, of the holders of shares of the series.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors of the corporation shall have the power to adopt, amend or repeal by-laws of the corporation (the " Bylaws "), in whole or in part.

ARTICLE VI

A. Election of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

B. Subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the total number of directors that the corporation would have if there were no vacancies.

C. Each nominee for director, other than those who may be elected by the holders of Preferred Stock under specified circumstances, shall stand for election as a director at the next annual meeting of stockholders and shall, if elected, hold office until the next annual meeting of stockholders and until their respective successors are duly elected and qualified, subject to their earlier death, resignation, retirement or removal from service as a director.

D. Advance notice of stockholder nominations for the election of directors and of any stockholder proposals to be considered at an annual stockholder meeting shall be given in the manner provided in the Bylaws. Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons appointed by the Board of Directors, (ii) by a stockholder who (1) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the corporation) both at the time of giving the notice provided for in the Bylaws and at the time of the meeting, (2) is entitled to vote at the

meeting, and (3) has complied with the procedures set forth in the Bylaws as to such nomination or (iii) by a stockholder or group of stockholders as provided in Clause E of this Article VI. The foregoing Clauses (ii) and (iii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting (other than, if permitted by Article VII, pursuant to a Special Meeting Request).

E. Subject to the terms and conditions of this Clause E and the applicable provisions of the Bylaws, the corporation shall include in its proxy statement for an annual meeting of the stockholders of the corporation the name, together with the Required Information (defined below), of any person nominated for election (the " Stockholder Nominee ") to the Board of Directors by one or more stockholders that satisfy, the requirements of this Clause E (such person or group, the " Eligible Stockholder "), and that expressly elects at the time of providing the notice required by this Clause E to have its nominee included in the corporation's proxy materials pursuant to this Clause E. Such notice shall consist of all of the information required in a stockholder's notice required by the Bylaws with respect to any director nomination, in proper form, along with a copy of the Eligible Stockholder's Schedule 14N (the " Schedule 14N ") that has been or will be filed with the Securities and Exchange Commission (the " Commission ") in accordance with Rule 14a-18 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the " Exchange Act "), and any additional information as required to be delivered to the corporation by this Clause E (all such information collectively referred to as the " Notice "), and such Notice shall be delivered to the corporation in accordance with the procedures and at the times set forth in this Clause E. This Clause E shall be the exclusive means by which the corporation may be required (subject to the terms and conditions of this Clause E and the applicable provisions of the Bylaws) to include in its proxy statement for any meeting of the stockholders of the corporation any person nominated for election to the Board of Directors by a stockholder. Without limiting the foregoing:

(i) The Notice, to be timely, must be delivered to or mailed and received at the principal executive offices of the corporation within the time periods applicable to stockholder notices of nominations delivered pursuant to the Bylaws and further be updated and supplemented, if necessary, in accordance with the Bylaws. In addition, for the Notice to be timely, an Eligible Stockholder must file or cause to be filed its Schedule 14N with the Commission no later than the thirtieth (30th) day following the final date specified in the Bylaws for delivery of the Notice. In no event shall any adjournment or postponement of an annual meeting, the date of which has been announced by the corporation, commence a new time period for the giving of a Notice. For the avoidance of doubt, the requirement to update and supplement a Notice and to file a Schedule 14N with the Commission shall not allow an Eligible Stockholder to change or add any proposed Stockholder Nominee.

(ii) Subject to the provisions of this Clause E(ii), the maximum number of Stockholder Nominees (including Stockholder Nominees that were submitted by an Eligible Stockholder for inclusion in proxy materials of the corporation pursuant to this Clause E but either are subsequently withdrawn, or that the Board of Directors itself determines to nominate for election) appearing in the corporation's proxy materials with respect to any annual meeting of stockholders shall not exceed 20% of the number of directors in office as of the last day on which the Notice may be delivered, or if such amount is not a whole number, the closest whole number below 20% of such number of directors (the " Permitted Number "); provided , that the Permitted Number shall be reduced by (1) the number of such director candidates for which the corporation shall have received one or more valid stockholder notices nominating director candidates pursuant to Clause D(ii) of this Article VI, (2) the number of directors or director candidates that

the corporation has agreed to include in its proxy materials as a nominee pursuant to an agreement, arrangement or other understanding with a stockholder or group of stockholders and (3) the number of directors in office and whom the Board of Directors is renominating for election for whom access to the corporation's proxy materials was previously provided pursuant to this Clause E (other than any such director who has served as a director continuously for at least twenty-four (24) months), but only to the extent that the Permitted Number after such reduction with respect to this clause (3) equals or exceeds one (1); provided , further , that if one or more vacancies for any reason occurs on the Board of Directors at any time before the date of the annual meeting and the Board of Directors resolves to reduce the size of the Board of Directors in connection therewith, the Permitted Number shall be calculated based on the number of directors in office as so reduced. If the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Clause E exceeds the Permitted Number, each Eligible Stockholder will select one Stockholder Nominee for inclusion in the corporation's proxy materials until the Permitted Number is reached, going in order of the amount (largest to smallest) of shares of Common Stock each Eligible Stockholder disclosed as owned in its Notice. If the Permitted Number is not reached after each Eligible Stockholder has selected one Stockholder Nominee, this selection process will continue as many times as necessary, following the same order each time, until the Permitted Number is reached.

(iii) An Eligible Stockholder is one or more stockholders of record who own and have owned, or are acting on behalf of one or more beneficial owners who own and have owned (in each case as defined below), continuously for at least thirty-six (36) months as of both the date that the Notice is received by the corporation pursuant to this Clause E, and as of the record date for determining stockholders eligible to vote at the annual meeting, Common Stock of the corporation representing at least three percent (3%) of the corporation's issued and outstanding Common Stock (the " Required Shares "), and who continue to own the Required Shares at all times between the date such Notice is received by the corporation and the date of the applicable meeting of stockholders, provided that the aggregate number of stockholders, and, if and to the extent that a stockholder is acting on behalf of one or more beneficial owners, of such beneficial owners, whose stock ownership is counted for the purpose of satisfying the foregoing ownership requirement shall not exceed twenty (20). Two or more funds that are (1) under common management and investment control or (2) under common management and funded primarily by a single employer (such funds together under each of (1) or (2) comprising a " Qualifying Fund ") shall be treated as one stockholder for the purpose of determining the aggregate number of stockholders in this Clause E, provided that each fund comprising a Qualifying Fund otherwise meets the requirements set forth in this Clause E. No stockholder or beneficial holder may be a member of more than one group constituting an Eligible Stockholder under this Clause E. A record holder acting on behalf of a beneficial owner will be counted as a stockholder only with respect to the shares owned by beneficial owners on whose behalf such record holder has been directed in writing to act, and, with respect to the shares covered by such directions, will be deemed to be the same stockholder as the beneficial owner for purposes of determining the number of stockholders whose holdings may be considered as part of an Eligible Stockholder's holdings.

(iv) No later than the final date specified in this Clause E for delivery of the Notice, an Eligible Stockholder must provide the following information in writing to the Secretary of the corporation: (1) one or more written statements from the record holders of the shares (and from each intermediary through which the shares are or have been held during the requisite thirty-six (36)-month holding period) verifying that, as of a date within seven calendar days prior to the

date the Notice is received by the corporation, the Eligible Stockholder owns, and has owned continuously for the preceding thirty-six (36) months, the Required Shares, and the Eligible Stockholder's agreement to provide, within five (5) business days after the record date for the annual meeting, written statements from the record holder and intermediaries verifying the Eligible Stockholder's continuous ownership of the Required Shares through the record date; (2) the information required to be set forth in the Notice, together with the written consent of each Stockholder Nominee to being named in the proxy statement as a nominee and to serving as a director if elected; (3) a representation that the Eligible Stockholder (including each member of any group of stockholders that together is an Eligible Stockholder) (a) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the corporation, and does not presently have such intent, (b) presently intends to maintain qualifying ownership of the Required Shares through the date of the annual meeting, (c) has not nominated and will not nominate for election to the Board of Directors at the annual meeting any person other than its Stockholder Nominee(s) being nominated pursuant to this Clause E, (d) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors, (e) will not distribute to any stockholder any form of proxy for the annual meeting other than the form distributed by the corporation and (f) will provide facts, statements and other information in all communications with the corporation and its stockholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading and otherwise comply with all applicable laws, rules and regulations in connection with any actions taken pursuant to this Clause E; (4) in the case of a nomination by a group of stockholders that together is such an Eligible Stockholder, the designation by all group members of one group member that is authorized to act on behalf of all members of the nominating stockholder group with respect to the nomination and matters related thereto, including withdrawal of the nomination; and (5) an undertaking that the Eligible Stockholder agrees to (a) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the stockholders of the corporation or out of the information that the Eligible Stockholder provided to the corporation, (b) indemnify and hold harmless the corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers or employees arising out of any violation of law, regulation or contract (including any provisions of this certificate of incorporation or the corporation's Bylaws) in connection with any nomination submitted by the Eligible Stockholder pursuant to this Clause E, and (c) file with the Commission under Regulation 14A of the Exchange Act any solicitation or other communication with the corporation's stockholders relating to the meeting at which the Stockholder Nominee will be nominated.

(v) The Eligible Stockholder may provide to the Secretary, at the time the Notice is timely delivered to the corporation pursuant to this Clause E, a written statement for inclusion in the corporation's proxy statement for the annual meeting, not to exceed 500 words, in support of the Stockholder Nominee's candidacy (the " Statement "). Notwithstanding anything to the contrary contained in this Clause E, the corporation may omit from its proxy materials any information or Statement that it, in good faith, believes is materially false or misleading, omits to state any material fact, or would violate any applicable law or regulation. Nothing in this

certificate of incorporation shall limit the corporation's ability to solicit against and include in the proxy statement its own statement relating to any Stockholder Nominee.

(vi) At the request of the corporation, each Stockholder Nominee must (1) provide an executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, that (a) the Stockholder Nominee has read and agrees, if elected, to serve as a member of the Board of Directors, to adhere to the corporation's Corporate Governance Guidelines and Code of Conduct and any other corporation policies and guidelines applicable to directors, and (b) that the Stockholder Nominee is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity in connection with his or her nomination, service or action as a director of the corporation, or any agreement, arrangement or understanding with any person or entity as to how the Stockholder Nominee would vote or act on any issue or question as a director, in each case that has not been fully disclosed to the corporation; (2) submit completed and signed questionnaires required of the corporation's directors (forms of which shall be made available by the Secretary following written request); and (3) provide such additional information as necessary to permit the Board of Directors to determine if such Stockholder Nominee is independent under the listing standards of each principal U.S. exchange upon which the Common Stock is listed, any applicable rules of the Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing the independence of the corporation's directors. If any information or communications provided by or on behalf of the Eligible Stockholder or the Stockholder Nominee to the corporation or its stockholders ceases to be true and correct in all material respects or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary of any defect in such previously provided information and of the information that is required to correct any such defect.

(vii) Any Stockholder Nominee who is included in the corporation's proxy materials for a particular annual meeting of stockholders but either (1) withdraws from or becomes ineligible or unavailable for election at the annual meeting (other than by reason of such Stockholder Nominee's death, disability or other health reason) or (2) does not receive at least 10% of the votes cast in favor of the election of such Stockholder Nominee (as calculated pursuant to the applicable provisions of the Bylaws), will be ineligible to be a Stockholder Nominee pursuant to this Clause E for the next two (2) annual meetings of stockholders of the corporation. Any Stockholder Nominee who is included in the corporation's proxy statement for a particular annual meeting of stockholders, but subsequently is determined not to satisfy the eligibility requirements of this Clause E or any other provision of this certificate of incorporation or the corporation's Bylaws, Corporate Governance Guidelines or other applicable regulation any time before the annual meeting of Stockholders, will not be eligible for election at the relevant annual meeting of stockholders and may not be substituted by the Eligible Stockholder that nominated such Stockholder Nominee.

(viii) Notwithstanding anything to the contrary, the corporation shall not be required to include, pursuant to this Clause E, any Stockholder Nominee in its proxy materials for any annual meeting of stockholders or, if the proxy statement already has been filed, to allow the nomination of a Stockholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the Corporation: (1) if the Stockholder Nominee or the Eligible Stockholder (or any member of any group of stockholders that together is such Eligible Stockholder) who has

nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors; (2) who is not independent under the listing standards of each principal U.S. exchange upon which the Common Stock is listed, any applicable rules of the Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the corporation's directors, in each case as determined in good faith by the Board of Directors; (3) whose election as a member of the Board of Directors would cause the corporation to be in violation of this certificate of incorporation, the Bylaws, the rules and listing standards of the principal U.S. exchanges upon which the Common Stock is listed, or any applicable state or federal law, rule or regulation; (4) who is an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, as amended; (5) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten (10) years; (6) if such Stockholder Nominee or the applicable Eligible Stockholder (or any individual member of a group of Eligible Stockholders) shall have provided information to the corporation in connection with such nomination that was untrue in any material respect or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, as determined by the Board of Directors or any duly authorized committee thereof; or (7) the Eligible Stockholder (or any member of a group of Eligible Stockholders) or applicable Stockholder Nominee otherwise breaches or fails to comply with its obligations pursuant to this certificate of incorporation, including without limitation this Clause E, or the Bylaws.

(ix) Any Stockholder Nominee who is included in the corporation's proxy materials for an annual meeting pursuant to this Clause E shall tender an irrevocable resignation in advance of the annual meeting. Such resignation shall become effective upon a determination in good faith by the Board of Directors or any duly authorized committee thereof that any of the provisions of Clause E(viii) shall be applicable.

(x) For purposes of this Clause E:

(1) " Required Information " that the corporation will include in its proxy statement is (a) the information concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the corporation's proxy statement by the regulations promulgated under the Exchange Act; and (b) if the Eligible Stockholder so elects, a Statement.

(2) An Eligible Stockholder shall be deemed to "own" only those outstanding shares of Common Stock as to which the stockholder possesses both (a) the full voting and investment rights pertaining to the shares and (b) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; provided, that the number of shares calculated in accordance with the immediately foregoing Clauses (a) and (b) shall not include any shares (x) sold by such stockholder or any of its affiliates in any transaction that has not been settled or closed, including short sales, (y) borrowed by such stockholder or any of its affiliates for any purposes or purchased by such stockholder or any of its affiliates pursuant to an agreement to resell or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such stockholder or any of its affiliates, whether any such

instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of outstanding Common Stock, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (I) reducing in any manner, to any extent or at any time in the future, such stockholder's or its affiliates' full right to vote or direct the voting of any such shares, and/or (II) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such stockholder or affiliate. A stockholder shall "own" shares held in the name of a nominee or other intermediary so long as the stockholder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A stockholder's ownership of shares shall be deemed to continue during any period in which the stockholder has delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time by the stockholder. The terms "owned," "owning" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of Common Stock are "owned" for these purposes shall be determined by the Board of Directors.

F. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, removal or other cause may be filled (a) by a majority of the directors, although less than a quorum, (b) by a sole remaining director or (c) in accordance with the proviso in Article VII, Section E(2), and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VII

A. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

B. Subject to the terms of any class or series of Preferred Stock and except as required by law, special meetings of the stockholders of the corporation may be called only by: (i) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption); (ii) the Chairman of the Board; (iii) the Chief Executive Officer; and shall be held at such place, if any, and on such date, and at such time as they shall fix; or (iv) in accordance with the following sentence, subject to the provisions of this Article VII and the other applicable provisions of this certificate of incorporation, a special meeting of the stockholders shall be called by the Secretary of the corporation upon the written request (a " Stockholder Requested Special Meeting ") of one or more stockholders of record of the corporation that together have continuously held, for their own account or on behalf of others, beneficial ownership of at least a twenty percent (20%) "net long position" of the outstanding common stock of the corporation (the " Requisite Percent ") for at least thirty (30) days as of the Delivery Date.

For purposes of determining the Requisite Percent, "net long position" shall be determined with respect to each requesting holder in accordance with the definition thereof set forth in Rule 14e-4 under

the Exchange Act; provided , that (x) for purposes of such definition, (1) "the date that a tender offer is first publicly announced or otherwise made known by the bidder to the holders of the security to be acquired" shall be the date of the relevant Special Meeting Request (as defined below), (2) the "highest tender offer price or stated amount of the consideration offered for the subject security" shall refer to the closing sales price of the Common Stock on the NASDAQ Global Select Market (or such other securities exchange designated by the Board of Directors if the Common Stock is not listed for trading on the NASDAQ Global Select Market) on such date (or, if such date is not a trading day, the next succeeding trading day), (3) the "person whose securities are the subject of the offer" shall refer to the corporation, and (4) a "subject security" shall refer to the outstanding common stock of the corporation; and (y) the "net long position" of such holder shall be reduced by the number of shares of Common Stock as to which the Board of Directors determines that such holder does not, or will not, have the right to vote or direct the vote at the special meeting or as to which the Board of Directors determines that such holder has entered into any derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares.

Whether the requesting holders have complied with the requirements of this Article VII and related provisions of this certificate of incorporation shall be determined in good faith by the Board of Directors, which determination shall be conclusive and binding on the corporation and its stockholders.

C. In order for a Stockholder Requested Special Meeting to be called, one or more requests for a special meeting (each, a " Special Meeting Request ," and collectively, the " Special Meeting Requests ") must be signed by the Requisite Percent of stockholders submitting such request and by each of the beneficial owners, if any, on whose behalf the Special Meeting Request is being made and must be delivered to the Secretary of the corporation. The Special Meeting Request(s) shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation by overnight express courier or registered mail, return receipt requested. Each Special Meeting Request shall (i) set forth a statement of the specific purpose(s) of the meeting and the matters proposed to be acted on at it, (ii) bear the date of signature of each such stockholder signing the Special Meeting Request, (iii) set forth (1) the name and address, as they appear in the corporation's books, of each stockholder signing such request and the beneficial owners, if any, on whose behalf such request is made, and (2) the class, if applicable, and the number of shares of Common Stock that are owned of record and beneficially (within the meaning of Rule 13d-3 under the Exchange Act) by each such stockholder and the beneficial owners, if any, on whose behalf such request is made, (iv) include documentary evidence that the stockholders requesting the special meeting own the Requisite Percent as of the Delivery Date (as defined below); provided , that if the stockholders are not the beneficial owners of the shares constituting all or part of the Requisite Percent, then to be valid, the Special Meeting Request must also include documentary evidence (or, if not simultaneously provided with the Special Meeting Request, such documentary evidence must be delivered to the Secretary of the corporation within ten (10) days after the Delivery Date) that the beneficial owners on whose behalf the Special Meeting Request is made beneficially own such shares as of the Delivery Date, (v) an agreement by each of the stockholders requesting the special meeting and each beneficial owner, if any, on whose behalf the Special Meeting Request is being made to notify the corporation promptly in the event of any decrease in the "net long position" held by such stockholder or beneficial owner following the delivery of such Special Meeting Request and prior to the special meeting and an acknowledgement that any such decrease shall be deemed to be a revocation of such Special Meeting Request by such stockholder or beneficial owner to the extent of such reduction, and (vi) contain all of the information required by the Bylaws to be disclosed pursuant to the Bylaws, provided that all references to " Proposing Person " and to " Nominating Person " in the Bylaws shall, for purposes of Clause C of this Article VII, mean (1) the stockholders of record making the Special Meeting Request, (2) any beneficial owner or beneficial owners, if different, on whose behalf the Special Meeting Request is being

made, and (3) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner. Each stockholder making a Special Meeting Request and each beneficial owner, if any, on whose behalf the Special Meeting Request is being made is required to update the notice delivered pursuant to this Article VII in accordance with the applicable provisions of the Bylaws. Any requesting stockholder may revoke his, her or its Special Meeting Request at any time prior to the special meeting by written revocation delivered to the Secretary of the corporation at the principal executive offices of the corporation. If at any time after sixty (60) days following the earliest dated Special Meeting Request, the unrevoked (whether by specific written revocation by the stockholder or pursuant to Clause C(v) of this Article VII) valid Special Meeting Requests represent in the aggregate less than the Requisite Percent, then the requesting stockholder(s) or beneficial owner(s) shall be deemed to have withdrawn such request (in connection with which the Board of Directors may cancel the meeting).

In determining whether a special meeting of stockholders has been requested by stockholders holding in the aggregate at least the Requisite Percent, multiple Special Meeting Requests delivered to the Secretary of the corporation will be considered together only if each Special Meeting Request identifies substantially the same purpose or purposes of the special meeting and substantially the same matters proposed to be acted on at the special meeting (in each case as determined in good faith by the Board of Directors), and such Special Meeting Requests have been delivered to the Secretary of the corporation within sixty (60) days of the earliest dated Special Meeting Request.

D. Except as provided in the next sentence, a special meeting requested by stockholders shall be held at such date, time and place within or without the State of Delaware as may be fixed by the Board of Directors; provided , however , that the date of any such special meeting shall be not more than ninety (90) days after the date on which valid Special Meeting Request(s) constituting the Requisite Percent are delivered to the Secretary of the corporation (such date of delivery being the " Delivery Date "). Notwithstanding the foregoing, the Secretary of the corporation shall not be required to call a special meeting of stockholders if (i) the Board of Directors calls an annual meeting of stockholders, or a special meeting of stockholders at which a Similar Item (as defined below) is to be presented pursuant to the notice of such meeting, in either case to be held not later than sixty (60) days after the Delivery Date; (ii) the Delivery Date is during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the earlier of (1) the date of the next annual meeting and (2) thirty (30) days after the first anniversary of the date of the immediately preceding annual meeting; or (iii) the Special Meeting Request(s) (1) contain an identical or substantially similar item (as determined in good faith by the Board of Directors, a " Similar Item ") to an item that was presented at any meeting of stockholders held not more than one hundred and twenty (120) days before the Delivery Date (and for purposes of this Clause (iii), the election of directors shall be deemed a Similar Item with respect to all items of business involving the election or removal of directors); (2) relate to an item of business that is not a proper subject for action by the stockholders under applicable law and Article VII; (3) were made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law; or (4) do not comply with the provisions of this Article VII.

E. Business transacted at any Stockholder Requested Special Meeting (1) shall be limited to the purpose(s) stated in the Special Meeting Request for such special meeting; provided , that the Board of Directors shall have the authority in its discretion to submit additional matters to the stockholders and to cause other business to be transacted pursuant to the corporation's notice of meeting, and (2) shall not include the election, removal or replacement of directors unless a single person or entity, or "group" of persons or entities who have filed as a "group" as defined under Section 13(d) of the Exchange Act with respect to their ownership of the then-outstanding shares of capital stock of the corporation entitled to

vote generally in the election of directors, has a "net long position" of greater than 50% of such shares as of the Delivery Date; provided , that following such time that a single person or entity, or "group" of persons or entities who have filed as a "group" as defined under Section 13(d) of the Exchange Act with respect to such ownership, has a net "net long position" at of greater than 50% of such shares as of the Delivery Date, then, subject to the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, any director, or the entire Board of Directors, may be removed from office at any time with or without cause, and replaced, by the affirmative vote of the holders of a majority of the voting power of all of the then-outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class. If none of the stockholders who submitted a Special Meeting Request appears at or sends a duly authorized representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Special Meeting Request, the corporation need not present such matters for a vote at such meeting.

ARTICLE VIII

A. The corporation shall not be governed by or subject to Section 203 of the DGCL.

B. Notwithstanding the foregoing, the corporation shall not engage in any business combination (as defined below), at any point in time at which the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, with any interested stockholder (as defined below) for a period of three (3) years following the time that such stockholder became an interested stockholder, unless:

(i) prior to such time, the Board of Directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, or

(ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock (as defined below) of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned by (i) persons who are directors and also officers or (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or

(iii) at or subsequent to such time, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two thirds (2/3) of the outstanding voting stock of the corporation which is not owned by the interested stockholder.

C. The restrictions contained in this Article VIII shall not apply if:

(i) the corporation, by action of its stockholders, adopts an amendment to this certificate of incorporation expressly deleting or deciding not to be bound by this Article VIII; provided that, in addition to any other vote required by law, such amendment to the certificate of incorporation must be approved by the affirmative vote of a majority of the shares entitled to vote. An amendment adopted pursuant to this paragraph shall not be effective until 12 months after the adoption of such amendment and shall not apply to any business combination between

the corporation and any person who became an interested stockholder on or prior to such adoption;

(ii) a stockholder becomes an interested stockholder inadvertently and (1) as soon as practicable divests itself of ownership of sufficient shares so that the stockholder ceases to be an interested stockholder; and (2) would not, at any time within the 3-year period immediately prior to a business combination between the corporation and such stockholder, have been an interested stockholder but for the inadvertent acquisition of ownership; or

(iii) the business combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required hereunder of a proposed transaction which (1) constitutes one of the transactions described in the second sentence of this paragraph; (2) is with or by a person who either was not an interested stockholder during the previous three years or who became an interested stockholder with the approval of the Board of Directors; and (3) is approved or not opposed by a majority of the members of the Board of Directors then in office (but not less than one) who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The proposed transactions referred to in the preceding sentence are limited to (x) a merger or consolidation of the corporation (except for a merger in respect of which, pursuant to Section 251(f) of the DGCL, no vote of the stockholders of the corporation is required); (y) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of the corporation or of any direct or indirect majority-owned subsidiary of the corporation (other than to any direct or indirect wholly-owned subsidiary or to the corporation) having an aggregate market value equal to 50% or more of either that aggregate market value of all of the assets of the corporation determined on a consolidated basis or the aggregate market value of all the outstanding stock of the corporation; or (z) a proposed tender or exchange offer for 50% or more of the outstanding voting stock of the corporation. The corporation shall give not less than twenty (20) days' notice to all interested stockholders prior to the consummation of any of the transactions described in Clause (x) or (y) of the second sentence of this paragraph.

D. For purposes of this Article VIII, references to:

(i) " affiliate " means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another person.

(ii) " associate ," when used to indicate a relationship with any person, means: (i) any corporation, partnership, unincorporated association or other entity of which such person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock; (ii) any trust or other estate in which such person has at least a 20% beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of such person, or any relative of such spouse, who has the same residence as such person.

(iii) " business combination ," when used in reference to the corporation and any interested stockholder of the corporation, means:

(1) any merger or consolidation of the corporation or any direct or indirect majority-owned subsidiary of the corporation (a) with the interested stockholder, or

(b) with any other corporation, partnership, unincorporated association or other entity if the merger or consolidation is caused by the interested stockholder and as a result of such merger or consolidation, Clause B of this Article VIII is not applicable to the surviving entity;

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a stockholder of the corporation, to or with the interested stockholder, whether as part of a dissolution or otherwise, of assets of the corporation or of any direct or indirect majority-owned subsidiary of the corporation which assets have an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation determined on a consolidated basis or the aggregate market value of all the outstanding stock of the corporation;

(3) any transaction which results in the issuance or transfer by the corporation or by any direct or indirect majority-owned subsidiary of the corporation of any stock of the corporation or of such subsidiary to the interested stockholder, except: (a) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into stock of the corporation or any such subsidiary which securities were outstanding prior to the time that the interested stockholder became such; (b) pursuant to a merger under Section 251(g) of the DGCL; (c) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into stock of the corporation or any such subsidiary which security is distributed, pro rata to all holders of a class or series of stock of the corporation subsequent to the time the interested stockholder became such; (d) pursuant to an exchange offer by the corporation to purchase stock made on the same terms to all holders of said stock; or (e) any issuance or transfer of stock by the corporation; provided , however , that in no case under items (c)-(e) of this subsection (3) shall there be an increase in the interested stockholder's proportionate share of the stock of any class or series of the corporation or of the voting stock of the corporation (except as a result of immaterial changes due to fractional share adjustments);

(4) any transaction involving the corporation or any direct or indirect majority-owned subsidiary of the corporation which has the effect, directly or indirectly, of increasing the proportionate share of the stock of any class or series, or securities convertible into the stock of any class or series, of the corporation or of any such subsidiary which is owned by the interested stockholder, except as a result of immaterial changes due to fractional share adjustments or as a result of any purchase or redemption of any shares of stock not caused, directly or indirectly, by the interested stockholder; or

(5) any receipt by the interested stockholder of the benefit, directly or indirectly (except proportionately as a stockholder of the corporation), of any loans, advances, guarantees, pledges, or other financial benefits (other than those expressly permitted in subsections (1)-(4) above) provided by or through the corporation or any direct or indirect majority-owned subsidiary.

(iv) " control ," including the terms " controlling ," " controlled by " and " under common control with ," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting

stock, by contract, or otherwise. A person who is the owner of 20% or more of the outstanding voting stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary. Notwithstanding the foregoing, a presumption of control shall not apply where such person holds voting stock, in good faith and not for the purpose of circumventing this Article VIII, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity.

(v) " interested stockholder " means any person (other than the corporation or any direct or indirect majority-owned subsidiary of the corporation) that (1) is the owner of 20% or more of the outstanding voting stock of the corporation, or (2) is an affiliate or associate of the corporation and was the owner of 20% or more of the outstanding voting stock of the corporation at any time within the three year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder, and the affiliates and associates of such person; provided , that the term "interested stockholder" shall not include any person whose ownership of shares in excess of the 20% limitation set forth herein is the result of any action taken solely by the corporation; provided , that any such person shall be an interested stockholder if thereafter such person acquires additional shares of voting stock of the corporation, except as a result of further corporate action not caused, directly or indirectly, by such person. For the purpose of determining whether a person is an interested stockholder, the voting stock of the corporation deemed to be outstanding shall include stock deemed to be owned by the person through application of the definition of "owner" below, but shall not include any other unissued stock of the corporation which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(vi) " owner ," including the terms " own " and " owned ," when used with respect to any stock, means a person that individually or with or through any of its affiliates or associates:

(1) beneficially owns such stock, directly or indirectly; or

(2) has (a) the right to acquire such stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, that a person shall not be deemed the owner of stock tendered pursuant to a tender or exchange offer made by such person or any of such person's affiliates or associates until such tendered stock is accepted for purchase or exchange; or (b) the right to vote such stock pursuant to any agreement, arrangement or understanding; provided, however, that a person shall not be deemed the owner of any stock because of such person's right to vote such stock if the agreement, arrangement or understanding to vote such stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to ten (10) or more persons; or

(3) has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in item (b) of subsection (2) above), or disposing of such stock with any other person that beneficially owns, or whose affiliates or associates beneficially own, directly or indirectly, such stock.

(vii) " person " means any individual, corporation, partnership, unincorporated association or other entity.

(viii) " stock " means, with respect to any corporation, capital stock and, with respect to any other entity, any equity interest.

(ix) " voting stock " means stock of any class or series entitled to vote generally in the election of directors. Every reference to a percentage of voting stock shall refer to such percentage of the votes of such voting stock.

ARTICLE IX

A. To the fullest extent permitted by law, no director of the corporation shall be personally liable either to the corporation or to any of its stockholders for monetary damages for breach of fiduciary duty as a director. Without limiting the effect of the preceding sentence, if the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

B. To the fullest extent permitted by applicable law, this corporation is also authorized to provide indemnification of (and advancement of expenses to) agents (and any other persons to which Delaware law permits this corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the corporation, its stockholders, and others.

C. No amendment, modification or repeal of this Article IX, nor the adoption of any provision of this certificate of incorporation inconsistent with this Article IX, shall eliminate, reduce or otherwise adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to or at the time of such amendment, modification or repeal or adoption of such inconsistent provision.

ARTICLE X

Unless the corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the corporation to the corporation or the corporation's stockholders, (c) any action asserting a claim against the corporation or any director or officer or other employee of the corporation arising pursuant to any provision of the DGCL or this certificate of incorporation or the Bylaws (as either may be amended from time to time), or (d) any action asserting a claim against the corporation or any director or officer or other employee of the corporation governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware). Any person or entity purchasing or otherwise acquiring any interests in shares of capital stock of the corporation shall be deemed to have notice of and to have consented to the provisions of this Article X.

ARTICLE XI

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware as they presently exist or may hereafter be amended, the corporation may from time to time alter, amend, repeal or adopt, in whole or in part, any provisions of this certificate of incorporation.

IN WITNESS WHEREOF, the corporation has caused this restated certificate of incorporation to be signed by its duly authorized officer and the foregoing facts stated herein are true and correct.

Dated: July 20, 2017 PayPal Holdings, Inc.

/s/ Brian Y. Yamasaki

By: Brian Y. Yamasaki

Title: Vice President, Corporate Legal and Secretary

Exhibit 3.02

RESTATED

CERTIFICATE OF INCORPORATION

OF

PAYPAL HOLDINGS, INC.

Pursuant to Section 245 of the

Delaware General Corporation Law

PayPal Holdings, Inc., a corporation organized and existing under the laws of the State of Delaware, does hereby certify as follows:

A. The name of the corporation is PayPal Holdings, Inc. The date of the filing of its original certificate of incorporation with the Secretary of State was January 30, 2015.

B. This restated certificate of incorporation has been duly adopted by the Board of Directors of the corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware and restates, integrates, and supersedes, but does not further amend the provisions of the amended and restated certificate of incorporation of this corporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of this restated certificate of incorporation. The text of the amended and restated certificate of incorporation is hereby restated and integrated to read in its entirety as follows:

ARTICLE I

The name of the corporation is PayPal Holdings, Inc. (the " corporation ").

ARTICLE II

The address of the registered office of the corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, City of Wilmington, County of New Castle, 19801. The name of its registered agent at that address is The Corporation Trust Company.

ARTICLE III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. The total number of shares of all classes of stock which the corporation has the authority to issue is 4,100,000,000 shares, consisting of two classes: 4,000,000,000 shares of common stock, $0.0001 par value per share (the " Common Stock "), and 100,000,000 shares of preferred stock, 0.0001 par value per share (the " Preferred Stock ").

B. Except as may otherwise be provided in this certificate of incorporation, in a Certificate of Designation (as defined below) or as required by law, the holders of the outstanding shares of Common Stock shall have the right to vote on all questions to the exclusion of all other stockholders, each holder of record of Common Stock being entitled to one vote for each share of Common Stock standing in the name of the stockholder on the books of the corporation.

C. The Board of Directors is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of Preferred Stock in one or more series, for such consideration and for such corporate purposes as the Board of Directors (or a duly authorized committee thereof) may from time to time determine, and, by filing a certificate (referred to as a " Certificate of Designation ") pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof to the fullest extent now or hereafter permitted by this certificate of incorporation and the laws of the State of Delaware, including, without limitation, voting rights, dividend rights, liquidation rights, redemption rights and conversion rights, as shall be stated and expressed in a resolution or resolutions adopted by the Board of Directors (or such committee thereof) providing for the issuance of, or increase or decrease of the number of shares of, such series of Preferred Stock.

D. Except as otherwise expressly provided in any Certificate of Designation designating any series of Preferred Stock pursuant to the foregoing provisions of this Article IV, any new series of Preferred Stock may be designated, fixed and determined as provided herein by the Board of Directors without approval of the holders of Common Stock or the holders of Preferred Stock, or any series thereof, and any such new series may have powers, preferences and rights, senior to, junior to or pari passu with the rights of the Common Stock, the Preferred Stock, or any future class or series of Preferred Stock or Common Stock. Each series of Preferred Stock shall be distinctly designated. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

(i) the designation of the series, which may be by distinguishing number, letter or title;

(ii) the number of shares of the series, which number the Board of Directors may thereafter (except where otherwise provided in the Certificate of Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(iii) the amounts payable on, and the preferences, if any, of shares of the series in respect of dividends, and whether such dividends, if any, shall be cumulative or noncumulative;

(iv) dates at which dividends, if any, shall be payable;

(v) the redemption rights and price or prices, if any, for shares of the series;

(vi) the terms and amount of any sinking fund provided for the purchase or redemption of shares of the series;

(vii) the amounts payable on, and the preferences, if any, of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation;

(viii) whether the shares of the series shall be convertible into or exchangeable for shares of any other class or series, or any other security, of the corporation or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made;

(ix) restrictions on the issuance of shares of the same series or of any other class or series; and

(x) the voting rights, if any, of the holders of shares of the series.

ARTICLE V

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors of the corporation shall have the power to adopt, amend or repeal by-laws of the corporation (the " Bylaws "), in whole or in part.

ARTICLE VI

A. Election of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

B. Subject to the rights of the holders of any series of Preferred Stock to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the total number of directors that the corporation would have if there were no vacancies.

C. Each nominee for director, other than those who may be elected by the holders of Preferred Stock under specified circumstances, shall stand for election as a director at the next annual meeting of stockholders and shall, if elected, hold office until the next annual meeting of stockholders and until their respective successors are duly elected and qualified, subject to their earlier death, resignation, retirement or removal from service as a director.

D. Advance notice of stockholder nominations for the election of directors and of any stockholder proposals to be considered at an annual stockholder meeting shall be given in the manner provided in the Bylaws. Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, including by any committee or persons appointed by the Board of Directors, (ii) by a stockholder who (1) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the corporation) both at the time of giving the notice provided for in the Bylaws and at the time of the meeting, (2) is entitled to vote at the

meeting, and (3) has complied with the procedures set forth in the Bylaws as to such nomination or (iii) by a stockholder or group of stockholders as provided in Clause E of this Article VI. The foregoing Clauses (ii) and (iii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting or special meeting (other than, if permitted by Article VII, pursuant to a Special Meeting Request).

E. Subject to the terms and conditions of this Clause E and the applicable provisions of the Bylaws, the corporation shall include in its proxy statement for an annual meeting of the stockholders of the corporation the name, together with the Required Information (defined below), of any person nominated for election (the " Stockholder Nominee ") to the Board of Directors by one or more stockholders that satisfy, the requirements of this Clause E (such person or group, the " Eligible Stockholder "), and that expressly elects at the time of providing the notice required by this Clause E to have its nominee included in the corporation's proxy materials pursuant to this Clause E. Such notice shall consist of all of the information required in a stockholder's notice required by the Bylaws with respect to any director nomination, in proper form, along with a copy of the Eligible Stockholder's Schedule 14N (the " Schedule 14N ") that has been or will be filed with the Securities and Exchange Commission (the " Commission ") in accordance with Rule 14a-18 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the " Exchange Act "), and any additional information as required to be delivered to the corporation by this Clause E (all such information collectively referred to as the " Notice "), and such Notice shall be delivered to the corporation in accordance with the procedures and at the times set forth in this Clause E. This Clause E shall be the exclusive means by which the corporation may be required (subject to the terms and conditions of this Clause E and the applicable provisions of the Bylaws) to include in its proxy statement for any meeting of the stockholders of the corporation any person nominated for election to the Board of Directors by a stockholder. Without limiting the foregoing:

(i) The Notice, to be timely, must be delivered to or mailed and received at the principal executive offices of the corporation within the time periods applicable to stockholder notices of nominations delivered pursuant to the Bylaws and further be updated and supplemented, if necessary, in accordance with the Bylaws. In addition, for the Notice to be timely, an Eligible Stockholder must file or cause to be filed its Schedule 14N with the Commission no later than the thirtieth (30th) day following the final date specified in the Bylaws for delivery of the Notice. In no event shall any adjournment or postponement of an annual meeting, the date of which has been announced by the corporation, commence a new time period for the giving of a Notice. For the avoidance of doubt, the requirement to update and supplement a Notice and to file a Schedule 14N with the Commission shall not allow an Eligible Stockholder to change or add any proposed Stockholder Nominee.

(ii) Subject to the provisions of this Clause E(ii), the maximum number of Stockholder Nominees (including Stockholder Nominees that were submitted by an Eligible Stockholder for inclusion in proxy materials of the corporation pursuant to this Clause E but either are subsequently withdrawn, or that the Board of Directors itself determines to nominate for election) appearing in the corporation's proxy materials with respect to any annual meeting of stockholders shall not exceed 20% of the number of directors in office as of the last day on which the Notice may be delivered, or if such amount is not a whole number, the closest whole number below 20% of such number of directors (the " Permitted Number "); provided , that the Permitted Number shall be reduced by (1) the number of such director candidates for which the corporation shall have received one or more valid stockholder notices nominating director candidates pursuant to Clause D(ii) of this Article VI, (2) the number of directors or director candidates that

the corporation has agreed to include in its proxy materials as a nominee pursuant to an agreement, arrangement or other understanding with a stockholder or group of stockholders and (3) the number of directors in office and whom the Board of Directors is renominating for election for whom access to the corporation's proxy materials was previously provided pursuant to this Clause E (other than any such director who has served as a director continuously for at least twenty-four (24) months), but only to the extent that the Permitted Number after such reduction with respect to this clause (3) equals or exceeds one (1); provided , further , that if one or more vacancies for any reason occurs on the Board of Directors at any time before the date of the annual meeting and the Board of Directors resolves to reduce the size of the Board of Directors in connection therewith, the Permitted Number shall be calculated based on the number of directors in office as so reduced. If the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Clause E exceeds the Permitted Number, each Eligible Stockholder will select one Stockholder Nominee for inclusion in the corporation's proxy materials until the Permitted Number is reached, going in order of the amount (largest to smallest) of shares of Common Stock each Eligible Stockholder disclosed as owned in its Notice. If the Permitted Number is not reached after each Eligible Stockholder has selected one Stockholder Nominee, this selection process will continue as many times as necessary, following the same order each time, until the Permitted Number is reached.

(iii) An Eligible Stockholder is one or more stockholders of record who own and have owned, or are acting on behalf of one or more beneficial owners who own and have owned (in each case as defined below), continuously for at least thirty-six (36) months as of both the date that the Notice is received by the corporation pursuant to this Clause E, and as of the record date for determining stockholders eligible to vote at the annual meeting, Common Stock of the corporation representing at least three percent (3%) of the corporation's issued and outstanding Common Stock (the " Required Shares "), and who continue to own the Required Shares at all times between the date such Notice is received by the corporation and the date of the applicable meeting of stockholders, provided that the aggregate number of stockholders, and, if and to the extent that a stockholder is acting on behalf of one or more beneficial owners, of such beneficial owners, whose stock ownership is counted for the purpose of satisfying the foregoing ownership requirement shall not exceed **twenty (20)** . Two or more funds that are (1) under common management and investment control or (2) under common management and funded primarily by a single employer (such funds together under each of (1) or (2) comprising a " Qualifying Fund ") shall be treated as one stockholder for the purpose of determining the aggregate number of stockholders in this Clause E, provided that each fund comprising a Qualifying Fund otherwise meets the requirements set forth in this Clause E. No stockholder or beneficial holder may be a member of more than one group constituting an Eligible Stockholder under this Clause E. A record holder acting on behalf of a beneficial owner will be counted as a stockholder only with respect to the shares owned by beneficial owners on whose behalf such record holder has been directed in writing to act, and, with respect to the shares covered by such directions, will be deemed to be the same stockholder as the beneficial owner for purposes of determining the number of stockholders whose holdings may be considered as part of an Eligible Stockholder's holdings.

(iv) No later than the final date specified in this Clause E for delivery of the Notice, an Eligible Stockholder must provide the following information in writing to the Secretary of the corporation: (1) one or more written statements from the record holders of the shares (and from each intermediary through which the shares are or have been held during the requisite thirty-six (36)-month holding period) verifying that, as of a date within seven calendar days prior to the

date the Notice is received by the corporation, the Eligible Stockholder owns, and has owned continuously for the preceding thirty-six (36) months, the Required Shares, and the Eligible Stockholder's agreement to provide, within five (5) business days after the record date for the annual meeting, written statements from the record holder and intermediaries verifying the Eligible Stockholder's continuous ownership of the Required Shares through the record date; (2) the information required to be set forth in the Notice, together with the written consent of each Stockholder Nominee to being named in the proxy statement as a nominee and to serving as a director if elected; (3) a representation that the Eligible Stockholder (including each member of any group of stockholders that together is an Eligible Stockholder) (a) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the corporation, and does not presently have such intent, (b) presently intends to maintain qualifying ownership of the Required Shares through the date of the annual meeting, (c) has not nominated and will not nominate for election to the Board of Directors at the annual meeting any person other than its Stockholder Nominee(s) being nominated pursuant to this Clause E, (d) has not engaged and will not engage in, and has not and will not be a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors, (e) will not distribute to any stockholder any form of proxy for the annual meeting other than the form distributed by the corporation and (f) will provide facts, statements and other information in all communications with the corporation and its stockholders that are or will be true and correct in all material respects and do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading and otherwise comply with all applicable laws, rules and regulations in connection with any actions taken pursuant to this Clause E; (4) in the case of a nomination by a group of stockholders that together is such an Eligible Stockholder, the designation by all group members of one group member that is authorized to act on behalf of all members of the nominating stockholder group with respect to the nomination and matters related thereto, including withdrawal of the nomination; and (5) an undertaking that the Eligible Stockholder agrees to (a) assume all liability stemming from any legal or regulatory violation arising out of the Eligible Stockholder's communications with the stockholders of the corporation or out of the information that the Eligible Stockholder provided to the corporation, (b) indemnify and hold harmless the corporation and each of its directors, officers and employees individually against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers or employees arising out of any violation of law, regulation or contract (including any provisions of this certificate of incorporation or the corporation's Bylaws) in connection with any nomination submitted by the Eligible Stockholder pursuant to this Clause E, and (c) file with the Commission under Regulation 14A of the Exchange Act any solicitation or other communication with the corporation's stockholders relating to the meeting at which the Stockholder Nominee will be nominated.

(v) The Eligible Stockholder may provide to the Secretary, at the time the Notice is timely delivered to the corporation pursuant to this Clause E, a written statement for inclusion in the corporation's proxy statement for the annual meeting, not to exceed 500 words, in support of the Stockholder Nominee's candidacy (the " Statement "). Notwithstanding anything to the contrary contained in this Clause E, the corporation may omit from its proxy materials any information or Statement that it, in good faith, believes is materially false or misleading, omits to state any material fact, or would violate any applicable law or regulation. Nothing in this

certificate of incorporation shall limit the corporation's ability to solicit against and include in the proxy statement its own statement relating to any Stockholder Nominee.

(vi) At the request of the corporation, each Stockholder Nominee must (1) provide an executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, that (a) the Stockholder Nominee has read and agrees, if elected, to serve as a member of the Board of Directors, to adhere to the corporation's Corporate Governance Guidelines and Code of Conduct and any other corporation policies and guidelines applicable to directors, and (b) that the Stockholder Nominee is not and will not become a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity in connection with his or her nomination, service or action as a director of the corporation, or any agreement, arrangement or understanding with any person or entity as to how the Stockholder Nominee would vote or act on any issue or question as a director, in each case that has not been fully disclosed to the corporation; (2) submit completed and signed questionnaires required of the corporation's directors (forms of which shall be made available by the Secretary following written request); and (3) provide such additional information as necessary to permit the Board of Directors to determine if such Stockholder Nominee is independent under the listing standards of each principal U.S. exchange upon which the Common Stock is listed, any applicable rules of the Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing the independence of the corporation's directors. If any information or communications provided by or on behalf of the Eligible Stockholder or the Stockholder Nominee to the corporation or its stockholders ceases to be true and correct in all material respects or omits a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, each Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary of any defect in such previously provided information and of the information that is required to correct any such defect.

(vii) Any Stockholder Nominee who is included in the corporation's proxy materials for a particular annual meeting of stockholders but either (1) withdraws from or becomes ineligible or unavailable for election at the annual meeting (other than by reason of such Stockholder Nominee's death, disability or other health reason) or (2) does not receive at least 10% of the votes cast in favor of the election of such Stockholder Nominee (as calculated pursuant to the applicable provisions of the Bylaws), will be ineligible to be a Stockholder Nominee pursuant to this Clause E for the next two (2) annual meetings of stockholders of the corporation. Any Stockholder Nominee who is included in the corporation's proxy statement for a particular annual meeting of stockholders, but subsequently is determined not to satisfy the eligibility requirements of this Clause E or any other provision of this certificate of incorporation or the corporation's Bylaws, Corporate Governance Guidelines or other applicable regulation any time before the annual meeting of Stockholders, will not be eligible for election at the relevant annual meeting of stockholders and may not be substituted by the Eligible Stockholder that nominated such Stockholder Nominee.

(viii) Notwithstanding anything to the contrary, the corporation shall not be required to include, pursuant to this Clause E, any Stockholder Nominee in its proxy materials for any annual meeting of stockholders or, if the proxy statement already has been filed, to allow the nomination of a Stockholder Nominee, notwithstanding that proxies in respect of such vote may have been received by the Corporation: (1) if the Stockholder Nominee or the Eligible Stockholder (or any member of any group of stockholders that together is such Eligible Stockholder) who has

nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a "participant" in another person's, "solicitation" within the meaning of Rule 14a-1(l) under the Exchange Act in support of the election of any individual as a director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors; (2) who is not independent under the listing standards of each principal U.S. exchange upon which the Common Stock is listed, any applicable rules of the Commission and any publicly disclosed standards used by the Board of Directors in determining and disclosing independence of the corporation's directors, in each case as determined in good faith by the Board of Directors; (3) whose election as a member of the Board of Directors would cause the corporation to be in violation of this certificate of incorporation, the Bylaws, the rules and listing standards of the principal U.S. exchanges upon which the Common Stock is listed, or any applicable state or federal law, rule or regulation; (4) who is an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, as amended; (5) who is a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted in such a criminal proceeding within the past ten (10) years; (6) if such Stockholder Nominee or the applicable Eligible Stockholder (or any individual member of a group of Eligible Stockholders) shall have provided information to the corporation in connection with such nomination that was untrue in any material respect or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, as determined by the Board of Directors or any duly authorized committee thereof; or (7) the Eligible Stockholder (or any member of a group of Eligible Stockholders) or applicable Stockholder Nominee otherwise breaches or fails to comply with its obligations pursuant to this certificate of incorporation, including without limitation this Clause E, or the Bylaws.

(ix) Any Stockholder Nominee who is included in the corporation's proxy materials for an annual meeting pursuant to this Clause E shall tender an irrevocable resignation in advance of the annual meeting. Such resignation shall become effective upon a determination in good faith by the Board of Directors or any duly authorized committee thereof that any of the provisions of Clause E(viii) shall be applicable.

(x) For purposes of this Clause E:

(1) " Required Information " that the corporation will include in its proxy statement is (a) the information concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the corporation's proxy statement by the regulations promulgated under the Exchange Act; and (b) if the Eligible Stockholder so elects, a Statement.

(2) An Eligible Stockholder shall be deemed to "own" only those outstanding shares of Common Stock as to which the stockholder possesses both (a) the full voting and investment rights pertaining to the shares and (b) the full economic interest in (including the opportunity for profit and risk of loss on) such shares; provided, that the number of shares calculated in accordance with the immediately foregoing Clauses (a) and (b) shall not include any shares (x) sold by such stockholder or any of its affiliates in any transaction that has not been settled or closed, including short sales, (y) borrowed by such stockholder or any of its affiliates for any purposes or purchased by such stockholder or any of its affiliates pursuant to an agreement to resell or (z) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar agreement entered into by such stockholder or any of its affiliates, whether any such

instrument or agreement is to be settled with shares or with cash based on the notional amount or value of shares of outstanding Common Stock, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (I) reducing in any manner, to any extent or at any time in the future, such stockholder's or its affiliates' full right to vote or direct the voting of any such shares, and/or (II) hedging, offsetting or altering to any degree gain or loss arising from the full economic ownership of such shares by such stockholder or affiliate. A stockholder shall "own" shares held in the name of a nominee or other intermediary so long as the stockholder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. A stockholder's ownership of shares shall be deemed to continue during any period in which the stockholder has delegated any voting power by means of a proxy, power of attorney or other instrument or arrangement which is revocable at any time by the stockholder. The terms "owned," "owning" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of Common Stock are "owned" for these purposes shall be determined by the Board of Directors.

F. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, removal or other cause may be filled (a) by a majority of the directors, although less than a quorum, (b) by a sole remaining director or (c) in accordance with the proviso in Article VII, Section E(2), and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders at which the term of office of the class to which they have been elected expires, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VII

A. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

B. Subject to the terms of any class or series of Preferred Stock and except as required by law, special meetings of the stockholders of the corporation may be called only by: (i) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption); (ii) the Chairman of the Board; (iii) the Chief Executive Officer; and shall be held at such place, if any, and on such date, and at such time as they shall fix; or (iv) in accordance with the following sentence, subject to the provisions of this Article VII and the other applicable provisions of this certificate of incorporation, a special meeting of the stockholders shall be called by the Secretary of the corporation upon the written request (a " Stockholder Requested Special Meeting ") of one or more stockholders of record of the corporation that together have continuously held, for their own account or on behalf of others, beneficial ownership of at least a twenty percent (20%) "net long position" of the outstanding common stock of the corporation (the " Requisite Percent ") for at least thirty (30) days as of the Delivery Date.

For purposes of determining the Requisite Percent, "net long position" shall be determined with respect to each requesting holder in accordance with the definition thereof set forth in Rule 14e-4 under

the Exchange Act; provided , that (x) for purposes of such definition, (1) "the date that a tender offer is first publicly announced or otherwise made known by the bidder to the holders of the security to be acquired" shall be the date of the relevant Special Meeting Request (as defined below), (2) the "highest tender offer price or stated amount of the consideration offered for the subject security" shall refer to the closing sales price of the Common Stock on the NASDAQ Global Select Market (or such other securities exchange designated by the Board of Directors if the Common Stock is not listed for trading on the NASDAQ Global Select Market) on such date (or, if such date is not a trading day, the next succeeding trading day), (3) the "person whose securities are the subject of the offer" shall refer to the corporation, and (4) a "subject security" shall refer to the outstanding common stock of the corporation; and (y) the "net long position" of such holder shall be reduced by the number of shares of Common Stock as to which the Board of Directors determines that such holder does not, or will not, have the right to vote or direct the vote at the special meeting or as to which the Board of Directors determines that such holder has entered into any derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares.

Whether the requesting holders have complied with the requirements of this Article VII and related provisions of this certificate of incorporation shall be determined in good faith by the Board of Directors, which determination shall be conclusive and binding on the corporation and its stockholders.

C. In order for a Stockholder Requested Special Meeting to be called, one or more requests for a special meeting (each, a " Special Meeting Request ," and collectively, the " Special Meeting Requests ") must be signed by the Requisite Percent of stockholders submitting such request and by each of the beneficial owners, if any, on whose behalf the Special Meeting Request is being made and must be delivered to the Secretary of the corporation. The Special Meeting Request(s) shall be delivered to the Secretary of the corporation at the principal executive offices of the corporation by overnight express courier or registered mail, return receipt requested. Each Special Meeting Request shall (i) set forth a statement of the specific purpose(s) of the meeting and the matters proposed to be acted on at it, (ii) bear the date of signature of each such stockholder signing the Special Meeting Request, (iii) set forth (1) the name and address, as they appear in the corporation's books, of each stockholder signing such request and the beneficial owners, if any, on whose behalf such request is made, and (2) the class, if applicable, and the number of shares of Common Stock that are owned of record and beneficially (within the meaning of Rule 13d-3 under the Exchange Act) by each such stockholder and the beneficial owners, if any, on whose behalf such request is made, (iv) include documentary evidence that the stockholders requesting the special meeting own the Requisite Percent as of the Delivery Date (as defined below); provided , that if the stockholders are not the beneficial owners of the shares constituting all or part of the Requisite Percent, then to be valid, the Special Meeting Request must also include documentary evidence (or, if not simultaneously provided with the Special Meeting Request, such documentary evidence must be delivered to the Secretary of the corporation within ten (10) days after the Delivery Date) that the beneficial owners on whose behalf the Special Meeting Request is made beneficially own such shares as of the Delivery Date, (v) an agreement by each of the stockholders requesting the special meeting and each beneficial owner, if any, on whose behalf the Special Meeting Request is being made to notify the corporation promptly in the event of any decrease in the "net long position" held by such stockholder or beneficial owner following the delivery of such Special Meeting Request and prior to the special meeting and an acknowledgement that any such decrease shall be deemed to be a revocation of such Special Meeting Request by such stockholder or beneficial owner to the extent of such reduction, and (vi) contain all of the information required by the Bylaws to be disclosed pursuant to the Bylaws, provided that all references to " Proposing Person " and to " Nominating Person " in the Bylaws shall, for purposes of Clause C of this Article VII, mean (1) the stockholders of record making the Special Meeting Request, (2) any beneficial owner or beneficial owners, if different, on whose behalf the Special Meeting Request is being

made, and (3) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner. Each stockholder making a Special Meeting Request and each beneficial owner, if any, on whose behalf the Special Meeting Request is being made is required to update the notice delivered pursuant to this Article VII in accordance with the applicable provisions of the Bylaws. Any requesting stockholder may revoke his, her or its Special Meeting Request at any time prior to the special meeting by written revocation delivered to the Secretary of the corporation at the principal executive offices of the corporation. If at any time after sixty (60) days following the earliest dated Special Meeting Request, the unrevoked (whether by specific written revocation by the stockholder or pursuant to Clause C(v) of this Article VII) valid Special Meeting Requests represent in the aggregate less than the Requisite Percent, then the requesting stockholder(s) or beneficial owner(s) shall be deemed to have withdrawn such request (in connection with which the Board of Directors may cancel the meeting).

In determining whether a special meeting of stockholders has been requested by stockholders holding in the aggregate at least the Requisite Percent, multiple Special Meeting Requests delivered to the Secretary of the corporation will be considered together only if each Special Meeting Request identifies substantially the same purpose or purposes of the special meeting and substantially the same matters proposed to be acted on at the special meeting (in each case as determined in good faith by the Board of Directors), and such Special Meeting Requests have been delivered to the Secretary of the corporation within sixty (60) days of the earliest dated Special Meeting Request.

D. Except as provided in the next sentence, a special meeting requested by stockholders shall be held at such date, time and place within or without the State of Delaware as may be fixed by the Board of Directors; provided , however , that the date of any such special meeting shall be not more than ninety (90) days after the date on which valid Special Meeting Request(s) constituting the Requisite Percent are delivered to the Secretary of the corporation (such date of delivery being the " Delivery Date "). Notwithstanding the foregoing, the Secretary of the corporation shall not be required to call a special meeting of stockholders if (i) the Board of Directors calls an annual meeting of stockholders, or a special meeting of stockholders at which a Similar Item (as defined below) is to be presented pursuant to the notice of such meeting, in either case to be held not later than sixty (60) days after the Delivery Date; (ii) the Delivery Date is during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the earlier of (1) the date of the next annual meeting and (2) thirty (30) days after the first anniversary of the date of the immediately preceding annual meeting; or (iii) the Special Meeting Request(s) (1) contain an identical or substantially similar item (as determined in good faith by the Board of Directors, a " Similar Item ") to an item that was presented at any meeting of stockholders held not more than one hundred and twenty (120) days before the Delivery Date (and for purposes of this Clause (iii), the election of directors shall be deemed a Similar Item with respect to all items of business involving the election or removal of directors); (2) relate to an item of business that is not a proper subject for action by the stockholders under applicable law and Article VII; (3) were made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law; or (4) do not comply with the provisions of this Article VII.

E. Business transacted at any Stockholder Requested Special Meeting (1) shall be limited to the purpose(s) stated in the Special Meeting Request for such special meeting; provided , that the Board of Directors shall have the authority in its discretion to submit additional matters to the stockholders and to cause other business to be transacted pursuant to the corporation's notice of meeting, and (2) shall not include the election, removal or replacement of directors unless a single person or entity, or "group" of persons or entities who have filed as a "group" as defined under Section 13(d) of the Exchange Act with respect to their ownership of the then-outstanding shares of capital stock of the corporation entitled to

vote generally in the election of directors, has a "net long position" of greater than 50% of such shares as of the Delivery Date; provided , that following such time that a single person or entity, or "group" of persons or entities who have filed as a "group" as defined under Section 13(d) of the Exchange Act with respect to such ownership, has a net "net long position" at of greater than 50% of such shares as of the Delivery Date, then, subject to the rights of the holders of any series of Preferred Stock with respect to such series of Preferred Stock, any director, or the entire Board of Directors, may be removed from office at any time with or without cause, and replaced, by the affirmative vote of the holders of a majority of the voting power of all of the then-outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class. If none of the stockholders who submitted a Special Meeting Request appears at or sends a duly authorized representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Special Meeting Request, the corporation need not present such matters for a vote at such meeting.

ARTICLE VIII

A. The corporation shall not be governed by or subject to Section 203 of the DGCL.

B. Notwithstanding the foregoing, the corporation shall not engage in any business combination (as defined below), at any point in time at which the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, with any interested stockholder (as defined below) for a period of three (3) years following the time that such stockholder became an interested stockholder, unless:

(i) prior to such time, the Board of Directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, or

(ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock (as defined below) of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned by (i) persons who are directors and also officers or (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer, or

(iii) at or subsequent to such time, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two thirds (2/3) of the outstanding voting stock of the corporation which is not owned by the interested stockholder.

C. The restrictions contained in this Article VIII shall not apply if:

(i) the corporation, by action of its stockholders, adopts an amendment to this certificate of incorporation expressly deleting or deciding not to be bound by this Article VIII; provided that, in addition to any other vote required by law, such amendment to the certificate of incorporation must be approved by the affirmative vote of a majority of the shares entitled to vote. An amendment adopted pursuant to this paragraph shall not be effective until 12 months after the adoption of such amendment and shall not apply to any business combination between

the corporation and any person who became an interested stockholder on or prior to such adoption;

(ii) a stockholder becomes an interested stockholder inadvertently and (1) as soon as practicable divests itself of ownership of sufficient shares so that the stockholder ceases to be an interested stockholder; and (2) would not, at any time within the 3-year period immediately prior to a business combination between the corporation and such stockholder, have been an interested stockholder but for the inadvertent acquisition of ownership; or

(iii) the business combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required hereunder of a proposed transaction which (1) constitutes one of the transactions described in the second sentence of this paragraph; (2) is with or by a person who either was not an interested stockholder during the previous three years or who became an interested stockholder with the approval of the Board of Directors; and (3) is approved or not opposed by a majority of the members of the Board of Directors then in office (but not less than one) who were directors prior to any person becoming an interested stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The proposed transactions referred to in the preceding sentence are limited to (x) a merger or consolidation of the corporation (except for a merger in respect of which, pursuant to Section 251(f) of the DGCL, no vote of the stockholders of the corporation is required); (y) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of the corporation or of any direct or indirect majority-owned subsidiary of the corporation (other than to any direct or indirect wholly-owned subsidiary or to the corporation) having an aggregate market value equal to 50% or more of either that aggregate market value of all of the assets of the corporation determined on a consolidated basis or the aggregate market value of all the outstanding stock of the corporation; or (z) a proposed tender or exchange offer for 50% or more of the outstanding voting stock of the corporation. The corporation shall give not less than twenty (20) days' notice to all interested stockholders prior to the consummation of any of the transactions described in Clause (x) or (y) of the second sentence of this paragraph.

D. For purposes of this Article VIII, references to:

(i) " affiliate " means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another person.

(ii) " associate ," when used to indicate a relationship with any person, means: (i) any corporation, partnership, unincorporated association or other entity of which such person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock; (ii) any trust or other estate in which such person has at least a 20% beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of such person, or any relative of such spouse, who has the same residence as such person.

(iii) " business combination ," when used in reference to the corporation and any interested stockholder of the corporation, means:

(1) any merger or consolidation of the corporation or any direct or indirect majority-owned subsidiary of the corporation (a) with the interested stockholder, or

(b) with any other corporation, partnership, unincorporated association or other entity if the merger or consolidation is caused by the interested stockholder and as a result of such merger or consolidation, Clause B of this Article VIII is not applicable to the surviving entity;

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a stockholder of the corporation, to or with the interested stockholder, whether as part of a dissolution or otherwise, of assets of the corporation or of any direct or indirect majority-owned subsidiary of the corporation which assets have an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation determined on a consolidated basis or the aggregate market value of all the outstanding stock of the corporation;

(3) any transaction which results in the issuance or transfer by the corporation or by any direct or indirect majority-owned subsidiary of the corporation of any stock of the corporation or of such subsidiary to the interested stockholder, except: (a) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into stock of the corporation or any such subsidiary which securities were outstanding prior to the time that the interested stockholder became such; (b) pursuant to a merger under Section 251(g) of the DGCL; (c) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into stock of the corporation or any such subsidiary which security is distributed, pro rata to all holders of a class or series of stock of the corporation subsequent to the time the interested stockholder became such; (d) pursuant to an exchange offer by the corporation to purchase stock made on the same terms to all holders of said stock; or (e) any issuance or transfer of stock by the corporation; provided , however , that in no case under items (c)-(e) of this subsection (3) shall there be an increase in the interested stockholder's proportionate share of the stock of any class or series of the corporation or of the voting stock of the corporation (except as a result of immaterial changes due to fractional share adjustments);

(4) any transaction involving the corporation or any direct or indirect majority-owned subsidiary of the corporation which has the effect, directly or indirectly, of increasing the proportionate share of the stock of any class or series, or securities convertible into the stock of any class or series, of the corporation or of any such subsidiary which is owned by the interested stockholder, except as a result of immaterial changes due to fractional share adjustments or as a result of any purchase or redemption of any shares of stock not caused, directly or indirectly, by the interested stockholder; or

(5) any receipt by the interested stockholder of the benefit, directly or indirectly (except proportionately as a stockholder of the corporation), of any loans, advances, guarantees, pledges, or other financial benefits (other than those expressly permitted in subsections (1)-(4) above) provided by or through the corporation or any direct or indirect majority-owned subsidiary.

(iv) " control ," including the terms " controlling ," " controlled by " and " under common control with ," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting

stock, by contract, or otherwise. A person who is the owner of 20% or more of the outstanding voting stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary. Notwithstanding the foregoing, a presumption of control shall not apply where such person holds voting stock, in good faith and not for the purpose of circumventing this Article VIII, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity.

(v) " interested stockholder " means any person (other than the corporation or any direct or indirect majority-owned subsidiary of the corporation) that (1) is the owner of 20% or more of the outstanding voting stock of the corporation, or (2) is an affiliate or associate of the corporation and was the owner of 20% or more of the outstanding voting stock of the corporation at any time within the three year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder, and the affiliates and associates of such person; provided , that the term "interested stockholder" shall not include any person whose ownership of shares in excess of the 20% limitation set forth herein is the result of any action taken solely by the corporation; provided , that any such person shall be an interested stockholder if thereafter such person acquires additional shares of voting stock of the corporation, except as a result of further corporate action not caused, directly or indirectly, by such person. For the purpose of determining whether a person is an interested stockholder, the voting stock of the corporation deemed to be outstanding shall include stock deemed to be owned by the person through application of the definition of "owner" below, but shall not include any other unissued stock of the corporation which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(vi) " owner ," including the terms " own " and " owned ," when used with respect to any stock, means a person that individually or with or through any of its affiliates or associates:

(1) beneficially owns such stock, directly or indirectly; or

(2) has (a) the right to acquire such stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, that a person shall not be deemed the owner of stock tendered pursuant to a tender or exchange offer made by such person or any of such person's affiliates or associates until such tendered stock is accepted for purchase or exchange; or (b) the right to vote such stock pursuant to any agreement, arrangement or understanding; provided, however, that a person shall not be deemed the owner of any stock because of such person's right to vote such stock if the agreement, arrangement or understanding to vote such stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to ten (10) or more persons; or

(3) has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in item (b) of subsection (2) above), or disposing of such stock with any other person that beneficially owns, or whose affiliates or associates beneficially own, directly or indirectly, such stock.

(vii) " person " means any individual, corporation, partnership, unincorporated association or other entity.

(viii) " stock " means, with respect to any corporation, capital stock and, with respect to any other entity, any equity interest.

(ix) " voting stock " means stock of any class or series entitled to vote generally in the election of directors. Every reference to a percentage of voting stock shall refer to such percentage of the votes of such voting stock.

ARTICLE IX

A. To the fullest extent permitted by law, no director of the corporation shall be personally liable either to the corporation or to any of its stockholders for monetary damages for breach of fiduciary duty as a director. Without limiting the effect of the preceding sentence, if the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

B. To the fullest extent permitted by applicable law, this corporation is also authorized to provide indemnification of (and advancement of expenses to) agents (and any other persons to which Delaware law permits this corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the Delaware General Corporation Law, subject only to limits created by applicable Delaware law (statutory or non-statutory), with respect to actions for breach of duty to the corporation, its stockholders, and others.

C. No amendment, modification or repeal of this Article IX, nor the adoption of any provision of this certificate of incorporation inconsistent with this Article IX, shall eliminate, reduce or otherwise adversely affect any right or protection of a director of the corporation hereunder in respect of any act or omission occurring prior to or at the time of such amendment, modification or repeal or adoption of such inconsistent provision.

ARTICLE X

Unless the corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the corporation to the corporation or the corporation's stockholders, (c) any action asserting a claim against the corporation or any director or officer or other employee of the corporation arising pursuant to any provision of the DGCL or this certificate of incorporation or the Bylaws (as either may be amended from time to time), or (d) any action asserting a claim against the corporation or any director or officer or other employee of the corporation governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware). Any person or entity purchasing or otherwise acquiring any interests in shares of capital stock of the corporation shall be deemed to have notice of and to have consented to the provisions of this Article X.

ARTICLE XI

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware as they presently exist or may hereafter be amended, the corporation may from time to time alter, amend, repeal or adopt, in whole or in part, any provisions of this certificate of incorporation.

IN WITNESS WHEREOF, the corporation has caused this restated certificate of incorporation to be signed by its duly authorized officer and the foregoing facts stated herein are true and correct.

Dated: July 20, 2017 **PayPal Holdings, Inc.**

/s/ Brian Y. Yamasaki
By: Brian Y. Yamasaki
Title: Vice President, Corporate Legal and Secretary

Exhibit 31.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER,
AS REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Daniel H. Schulman, certify that:

1. I have reviewed this report on Form 10-Q of PayPal Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

/s/ Daniel H. Schulman

Daniel H. Schulman
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: July 27, 2017

Exhibit 31.02

CERTIFICATION OF CHIEF FINANCIAL OFFICER,
AS REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, John D. Rainey, certify that:

1. I have reviewed this report on Form 10-Q of PayPal Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

/s/ *John D. Rainey*

John D. Rainey
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

Date: July 27, 2017

Exhibit 32.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER,
AS REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

I, Daniel H. Schulman, hereby certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) The accompanying quarterly report on Form 10-Q for the quarter ended June 30, 2017 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of PayPal Holdings, Inc.

/s/ Daniel H. Schulman

Daniel H. Schulman
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: July 27, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this report.

Exhibit 32.02

CERTIFICATION OF CHIEF FINANCIAL OFFICER,
AS REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

I, John D. Rainey, hereby certify pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(i) The accompanying quarterly report on Form 10-Q for the quarter ended June 30, 2017 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of PayPal Holdings, Inc.

/s/ John D. Rainey

John D. Rainey
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

Date: July 27, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of this report.