PAYPAL HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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Telephone	(408) 967-7400
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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 March 31, 2017 .

OR

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

For the Transition Period from to .

Commission file number 001-36859

PayPal Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**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 April 21, 2017 , there were 1,201,258,479 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.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

	March 31, 2017	December 31, 2016
	(In millions, except par value)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,240	$ 1,590
Short-term investments	2,815	3,385
Accounts receivable, net	178	214
Loans and interest receivable, net of allowances of $364 in 2017 and $339 in 2016	5,354	5,348
Funds receivable and customer accounts	14,941	14,363
Prepaid expenses and other current assets	897	833
Total current assets	25,425	25,733
Long-term investments	2,325	1,539
Property and equipment, net	1,448	1,482
Goodwill	4,060	4,059
Intangible assets, net	184	211
Other assets	51	79
Total assets	$ 33,493	$ 33,103
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 164	$ 192
Funds payable and amounts due to customers	15,741	15,163
Accrued expenses and other current liabilities	1,300	1,459
Income taxes payable	81	64
Total current liabilities	17,286	16,878
Deferred tax liability and other long-term liabilities	1,581	1,513
Total liabilities	18,867	18,391
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,196 and 1,207 outstanding	—	—
Treasury stock at cost, 39 and 27 shares	(1,512)	(995)
Additional paid-in-capital	13,724	13,579
Retained earnings	2,412	2,069
Accumulated other comprehensive income	2	59
Total equity	14,626	14,712
Total liabilities and equity	$ 33,493	$ 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 March 31,	
	2017	**2016**
	(In millions, except per share data)	
	(Unaudited)	
Net revenues	$ 2,975	$ 2,544
Operating expenses:		
Transaction expense	987	752
Transaction and loan losses	300	255
Customer support and operations	317	296
Sales and marketing	238	233
Product development	214	195
General and administrative	265	231
Depreciation and amortization	183	175
Restructuring	40	—
Total operating expenses	2,544	2,137
Operating income	431	407
Other income (expense), net	7	15
Income before income taxes	438	422
Income tax expense	54	57
Net income	$ 384	$ 365
Net income per share:		
Basic	$ 0.32	$ 0.30
Diluted	$ 0.32	$ 0.30
Weighted average shares:		
Basic	1,203	1,216
Diluted	1,216	1,225

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 March 31,	
	2017	2016
	(In millions) (Unaudited)	
Net income	$ 384	$ 365
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation	13	8
Unrealized gains (losses) on investments, net	1	12
Tax (expense) benefit on unrealized gains (losses) on investments, net	—	(2)
Unrealized gains (losses) on hedging activities, net	(72)	(36)
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	1	—
Other comprehensive income (loss), net of tax	(57)	(18)
Comprehensive income	$ 327	$ 347

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended March 31,	
	2017	2016
	(In millions) (Unaudited)	
Cash flows from operating activities:		
Net income	$ 384	$ 365
Adjustments:		
Transaction and loan losses	300	255
Depreciation and amortization	183	174
Stock-based compensation	145	95
Deferred income taxes	53	22
Excess tax benefits from stock-based compensation	—	(1)
Gain on sale of principal loans receivable held for sale, net	(6)	(6)
Changes in assets and liabilities:		
Accounts receivable	36	(22)
Principal loans receivable held for sale, net	6	6
Accounts payable	(1)	13
Income taxes payable	17	(5)
Other assets and liabilities	(366)	(158)
Net cash provided by operating activities	751	738
Cash flows from investing activities:		
Purchases of property and equipment	(148)	(133)
Changes in principal loans receivable, net	(136)	(120)
Purchases of investments	(7,109)	(4,091)
Maturities and sales of investments	5,581	4,196
Acquisitions, net of cash acquired	—	(19)
Funds receivable and customer accounts	754	492
Net cash (used in) and provided by investing activities	(1,058)	325
Cash flows from financing activities:		
Proceeds from issuance of common stock	12	6
Purchases of treasury stock	(517)	(596)
Excess tax benefits from stock-based compensation	—	1
Tax withholdings related to net share settlements of equity awards	(101)	(15)
Repayments under financing arrangements, net	—	(21)
Funds payable and amounts due to customers	552	738
Net cash (used in) and provided by financing activities	(54)	113
Effect of exchange rate changes on cash and cash equivalents	11	14
Net change in cash and cash equivalents	(350)	1,190
Cash and cash equivalents at beginning of period	1,590	1,393
Cash and cash equivalents at end of period	$ 1,240	$ 2,583
Supplemental cash flow disclosures:		
Cash paid for interest	$ 1	$ 1
Cash paid for income taxes	$ 48	$ 24

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 and digital payments platform 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. 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.

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 twelve 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.

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 via 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.

Recently Adopted Accounting Guidance

In 2016, the FASB issued new accounting guidance to simplify the analysis for embedded derivatives. The new guidance clarifies that when assessing whether a contingent put or call option qualifies as a separate derivative from the host contract (e.g., the debt instrument), the nature of the exercise contingency would be excluded from the assessment. We adopted the new guidance effective January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2016, the FASB issued new accounting guidance on investments that qualify for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The new guidance eliminates the requirement for retrospective adjustment of the investment, results of operations and retained earnings as if the equity method had been in effect during all the previous periods that the investment had been held. Instead, under the new guidance, the cost of acquiring the additional interest in the investee would be added to the current basis of the previously held interest and equity method accounting would be adopted as of the date the investment becomes qualified for equity method accounting. We adopted the new guidance effective January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2016, the FASB issued new guidance on the accounting for share-based payment compensation. The new guidance makes amendments to the following areas: accounting for income taxes upon vesting or settlement of awards, presentation of excess tax benefits or tax deficiencies on the statement of cash flows, accounting for forfeitures, minimum statutory withholding requirements and presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet minimum statutory withholding requirements. We adopted the new guidance effective January 1, 2017. As a result of the adoption, starting in the first quarter of 2017, stock-based compensation ("SBC") excess tax benefits or tax deficiencies are reflected in the consolidated statement of income within the provision for income taxes rather than in the consolidated balance sheet within additional paid-in capital. For the three months ended March 31, 2017, we recognized approximately $4 million of SBC net excess tax benefits within the provision for income taxes. Additionally, starting in the first quarter of 2017, we presented the cash flows related to the applicable SBC net excess tax benefits in operating activities along with other income tax cash flows rather than in financing activities. The remaining amendments did not have a material impact on our financial statements.

In 2016, the FASB issued new guidance on the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The new guidance requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. Adoption of the new guidance must be made on a modified retrospective basis. We elected to early adopt the new guidance effective January 1, 2017. As a result of the adoption, we recorded a decrease of approximately $41 million in retained earnings as of the beginning of the first quarter of 2017, with a corresponding decrease in prepaid taxes related to the unamortized tax expense attributed to intra-entity transfers of assets previously deferred. Additionally, we did not recognize $4 million of amortization of prepaid taxes for the first quarter of 2017 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.

In 2017, the FASB issued new guidance to clarify the definition of a business to assist companies with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The new guidance requires a company to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in the guidance for revenue from contracts with customers. The guidance should be applied prospectively to any transactions occurring within the period of adoption. We elected to early adopt the new guidance effective January 1, 2017. The adoption of this standard did not have an impact on our financial statements.

In 2017, the FASB issued new guidance to simplify the accounting for goodwill impairment. T he guidance simplifies the measurement of goodwill impairment by removing step 2 of the goodwill impairment test, which requires the determination of the fair value of individual assets and liabilities of a reporting unit. The new guidance requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments should be applied on a prospective basis. We have elected to early adopt the new guidance for our annual goodwill impairment test to be performed after January 1, 2017. The adoption of this standard did not have a material impact on our financial statements.

In 2017, the FASB issued guidance that requires a company to evaluate the appropriate financial statement disclosures about the potential material effects that the new accounting guidance related to revenue recognition, measurement of credit losses on financial instruments and accounting for leases will have on its financial statements when adopted. If a company does not know or cannot reasonably estimate the impact that adoption of these new standards is expected to have on the financial statements, then in addition to making a statement to that effect, the company should consider additional qualitative disclosures to assist the reader in assessing the significance of the impact that these new guidance standards will have on the financial statements when adopted. We have considered the guidance and, where possible, have added additional qualitative disclosures on the potential impact to our financial statements.

Note 2 - Net Income Per Share

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.

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

	Three Months Ended March 31,	
	2017	2016
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 384	$ 365
Denominator:		
Weighted average shares of common stock - basic	1,203	1,216
Dilutive effect of equity incentive awards	13	9
Weighted average shares of common stock - diluted	1,216	1,225
Net income per share:		
Basic	$ 0.32	$ 0.30
Diluted	$ 0.32	$ 0.30
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	6	5

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 3 - Business Combinations

There were no acquisitions or divestitures completed in the three months ended March 31, 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 three months ended March 31, 2017 :

	December 31, 2016	Goodwill Acquired	Adjustments	March 31, 2017
	(In millions)			
Total Goodwill	$ 4,059	$ —	$ 1	$ 4,060

Intangible Assets

The components of identifiable intangible assets are as follows:

	March 31, 2017				December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
	(In millions, except years)							
Intangible assets:								
Customer lists and user base	$ 590	$ (536)	$ 54	4	$ 605	$ (542)	$ 63	4
Marketing related	195	(189)	6	2	197	(190)	7	2
Developed technologies	221	(189)	32	3	245	(206)	39	3
All other	245	(153)	92	5	245	(143)	102	5
Intangible assets, net	$ 1,251	$ (1,067)	$ 184		$ 1,292	$ (1,081)	$ 211	

Amortization expense for intangible assets was $27 million and $38 million for the three months ended March 31, 2017 and 2016 , respectively.

Expected future intangible asset amortization as of March 31, 2017 was as follows (in millions):

Fiscal years:	
Remaining 2017	$ 76
2018	68
2019	23
2020	17
2021	—
	$ 184

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 - Geographical Information

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
	(In millions)	
Net revenues:		
U.S.	$ 1,606	$ 1,343
U.K.	313	307
Other Countries	1,056	894
Total net revenues	$ 2,975	$ 2,544

	March 31, 2017	December 31, 2016
	(In millions)	
Long-lived assets:		
U.S.	$ 1,359	$ 1,391
Other Countries	89	91
Total long-lived assets	$ 1,448	$ 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 March 31, 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 March 31, 2017 and December 31, 2016 .

	March 31, 2017	December 31, 2016
	(In millions)	
Cash and cash equivalents	$ 4,175	$ 4,319
Government and agency securities	6,873	5,625
Time deposits	698	522
Corporate debt securities	1,003	1,093
Funds receivable	2,192	2,804
Total funds receivable and customer accounts	$ 14,941	$ 14,363

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of March 31, 2017 and December 31, 2016 , the estimated fair value of our investments classified as available-for-sale included within funds receivable and customer accounts was as follows:

	March 31, 2017			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Government and agency securities	$ 6,344	$ —	$ (4)	$ 6,340
Time deposits	698	—	—	698
Corporate debt securities	458	—	—	458
Total	$ 7,500	$ —	$ (4)	$ 7,496

	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 March 31, 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 $1.1 billion and $1.0 billion , respectively. In the three months ended March 31, 2017 and 2016 , $15 million and $11 million of net gain from fair value changes, respectively, 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 $5.9 billion as of March 31, 2017 . The aggregate gross unrealized loss on our short-term and long-term investments was not material as of March 31, 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 March 31, 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 three months ended March 31, 2017 and 2016 .

The estimated fair values of our investments classified as available-for-sale included within funds receivable and customer accounts by date of contractual maturity at March 31, 2017 were as follows:

	March 31, 2017
	(In millions)
One year or less	$ 7,344
One year through two years	145
Two years through three years	7
Total	$ 7,496

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Investments

As of March 31, 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:

	March 31, 2017			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments [1] :				
Corporate debt securities	$ 2,304	$ 1	$ (1)	$ 2,304
Government and agency securities	39	—	—	39
Time deposits	57	—	—	57
Long-term investments:				
Corporate debt securities	2,140	3	(3)	2,140
Government and agency securities	49	—	—	49
Total [1]	$ 4,589	$ 4	$ (4)	$ 4,589

[1] Excludes short-term restricted cash of $19 million that we intend to use to support our global sabbatical program.

	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 March 31, 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 $472 million and $356 million , respectively. In the three months ended March 31, 2017 , $6 million of net gains from fair value changes were recognized in other income (expense), net on the condensed consolidated statement of income.

As of March 31, 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 months ended March 31, 2017 and 2016 .

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The estimated fair values of our short-term and long-term investments classified as available-for-sale by date of contractual maturity at March 31, 2017 were as follows:

	March 31, 2017
	(In millions)
One year or less	$ 2,400
One year through two years	1,153
Two years through three years	795
Three years through four years	124
Four years through five years	97
Greater than five years	20
Total [1]	$ 4,589

[1] Excludes short-term restricted cash of $19 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 totaled $60 million and $50 million as of March 31, 2017 and December 31, 2016 , respectively. The increase in our cost method investments was due to an additional investment made in the three months ended March 31, 2017 .

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 March 31, 2017 and December 31, 2016 :

Description	Balances at March 31, 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]	$ 509	$ —	$ 509
Short-term investments:			
Restricted Cash	19	19	—
Corporate debt securities	2,528		2,528
Government and agency securities	211		211
Time deposits	57		57
Total short-term investments	$ 2,815	$ 19	$ 2,796
Funds receivable and customer accounts [2]	8,654	—	8,654
Derivatives	138	—	138
Long-term investments:			
Corporate debt securities	2,204		2,204
Government and agency securities	61		61
Total long-term investments	2,265	—	2,265
Total financial assets	$ 14,381	$ 19	$ 14,362
Liabilities:			
Derivatives	$ 85	$ —	$ 85

[1] Excludes cash of $731 million .
[2] Excludes cash of $4.1 billion underlying funds receivable and customer accounts.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Description	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 .
[2] Excludes cash of $4.1 billion underlying funds receivable and customer accounts.

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 three months ended March 31, 2017 and 2016 . As of March 31, 2017 , we did not have any assets or liabilities requiring measurement at fair value without observable market values that would require a high level of judgment to determine fair value (Level 3).

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less when purchased and are comprised primarily of bank deposits, government and agency securities and commercial paper.

We elect to account for foreign currency denominated available-for-sale investments underlying funds receivable and customer accounts, short term investments and long term investments under the fair value option as further discussed in "Note 6—Funds Receivable and Customer Accounts" and "Note 7—Investments."

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 months ended March 31, 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 March 31, 2017 , we estimated that $63 million of net derivative gains 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.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Fair Value of Derivative Contracts

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

	Balance Sheet Location	March 31, 2017	December 31, 2016
		(In millions)	
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	$ 79	$ 135
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	59	88
Total derivative assets		$ 138	$ 223
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	$ 20	$ 4
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	65	55
Total derivative liabilities		$ 85	$ 59
Net fair value of derivative instruments		$ 53	$ 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 March 31, 2017 , the potential effect of rights of setoff associated with our foreign exchange contracts would be an offset to both assets and liabilities by $69 million , resulting in net derivative assets of $69 million and net derivative liabilities of $16 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 March 31, 2017 and December 31, 2016 , and the impact of designated derivative instruments on accumulated other comprehensive income for the three months ended March 31, 2017 and 2016 :

	December 31, 2016	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)	March 31, 2017
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ 131	$ (32)	$ 40	$ 59

	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)	March 31, 2016
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ 57	$ (4)	$ 32	$ 21

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 March 31,	
	2017	2016
	(In millions)	
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	$ 40	$ 32
Foreign exchange contracts not designated as cash flow hedges recognized in other income (expense), net	(40)	(9)
Total gain recognized from derivative contracts in the statement of income	$ —	$ 23

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:

	March 31, 2017	March 31, 2016
	(In millions)	
Foreign exchange contracts designated as cash flow hedges	$ 2,352	$ 1,900
Foreign exchange contracts not designated as hedging instruments	7,875	3,833
Total	$ 10,227	$ 5,733

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 three months ended March 31, 2017 and 2016 , we purchased approximately $2.1 billion and $1.9 billion , respectively, in credit receivables. As part of the 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.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Consumer receivables

As of March 31, 2017 and December 31, 2016 , the total outstanding balance in our pool of consumer receivables was $5.1 billion , 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 March 31, 2017 and December 31, 2016 was 678 and 682 , respectively.

As of March 31, 2017 and December 31, 2016 , approximately 50.5% and 52.1% , respectively, of the pool of U.S. consumer receivables and interest receivable balance was due from U.S. consumers with FICO scores greater than 680 , which is generally considered "prime" by the consumer credit industry. As of March 31, 2017 and December 31, 2016 , approximately 12.7% and 11.1% , respectively, 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 March 31, 2017 and December 31, 2016 , approximately 91.3% 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:

	March 31, 2017	December 31, 2016
	(In millions)	
> 760	$ 625	$ 665
680 - 759	1,897	1,938
600 - 679	1,842	1,840
< 599	635	553
Total	$ 4,999	$ 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 $135 million and $117 million at March 31, 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:

March 31, 2017
(In millions)

Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 180 Days Past Due	Total Past Due	Total
$ 4,685	$ 173	$ 75	$ 201	$ 449	$ 5,134

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

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 three months ended March 31, 2017 and 2016 :

	March 31, 2017			March 31, 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	120	29	149	90	24	114
Charge-offs	(104)	(32)	(136)	(75)	(29)	(104)
Recoveries	10	—	10	7	—	7
Ending Balance	$ 291	$ 37	$ 328	$ 201	$ 27	$ 228

The table above excludes receivables from other consumer credit products of $18 million and $16 million at March 31, 2017 and December 31, 2016 , respectively, and allowances of $4 million and $3 million at March 31, 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 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 the participating merchant’s PRM score on a recurring basis. At March 31, 2017 and December 31, 2016 , the weighted average PRM score related to our PayPal Working Capital balances outstanding was 633 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:

	March 31, 2017	December 31, 2016
	(In millions)	
> 610	$ 409	$ 378
526-609	88	108
<525	69	72
Total	$ 566	$ 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 generally calculate the repayment rate of the merchant's future payment volume so 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 tables present our estimate of the principal amount of PayPal Working Capital advances and fees receivable past their original expected repayment period. In the second quarter of 2016, we refined our estimate of the original expected repayment period to take into account the variability in repayment patterns. Prior period amounts have been updated to reflect this change.

March 31, 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
$ 471	$ 31	$ 20	$ 31	$ 13	$ 95	$ 566

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 three months ended March 31, 2017 and 2016 :

	March 31, 2017			March 31, 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	9	2	11	8	—	8
Charge-offs	(10)	(2)	(12)	(5)	(1)	(6)
Recoveries	2	—	2	1	—	1
Ending Balance	$ 29	$ 3	$ 32	$ 23	$ 2	$ 25

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 March 31, 2017 and December 31, 2016 , approximately $28.2 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 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 March 31, 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 March 31, 2017 , no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at March 31, 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 three months ended March 31, 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.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 asserts 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 purports 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 asserts 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 alleges 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 seeks 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. Pursuant to the Court's scheduling order, lead plaintiff will have until May 12, 2017 to file an amended complaint. We believe the claims and allegations in the Securities Case are without merit and intend to defend the action vigorously.

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," and together with the California Derivative Case, the "Derivative Cases"). 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. 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 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.

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 our Company has 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.

Off-Balance Sheet Arrangements

As of March 31, 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 March 31, 2017 and December 31, 2016 :

	March 31, 2017	December 31, 2016
	(In millions)	
Maximum potential exposure	$ 137,998	$ 131,739

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

	March 31, 2017	December 31, 2016
	(In millions)	
Allowance for transaction losses	$ 213	$ 222

Note 12 - Related Party Transactions

As of March 31, 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 Program

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. This stock repurchase program has no expiration from the date of authorization. This stock repurchase program is 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 program 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 program at any time without notice.

The stock repurchase activity under our stock repurchase program during the three months ended March 31, 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	12.2	$ 42.38	517	(517)
Balance as of March 31, 2017				$ 488

[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.

Note 14 - Stock-Based Plans

Stock Options

As of March 31, 2017 , 3.8 million options to purchase shares of common stock were outstanding with no new options granted in the quarter ended March 31, 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 three months ended March 31, 2017 :

	Units
	(In thousands)
Outstanding at January 1, 2017	29,185
Awarded	17,230
Vested	(934)
Forfeited	(444)
Outstanding at March 31, 2017	45,037
Expected to vest	39,145

The weighted average grant-date fair value of RSUs and PBRSUs granted during the three months ended March 31, 2017 was $42.28 per share.

In the first quarter of 2017, the Company granted RSUs that vest in equal annual installments over a three -year performance period, 2.7 million PBRSUs with a one -year performance period with cliff vesting following the completion of the performance period in February 2018 (one year from the annual incentive award cycle grant date) and 1.2 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.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 months ended March 31, 2017 and 2016 was as follows:

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Customer support and operations	$ 30	$ 18
Sales and marketing	28	16
Product development	45	33
General and administrative	42	27
Depreciation and amortization	2	1
Total stock-based compensation expense	$ 147	$ 95
Capitalized as part of internal use software and website development costs	$ 3	$ 2

Note 15 - Income Taxes

Our effective tax rate for the three months ended March 31, 2017 and March 31, 2016 was 12% and 14% , 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 reserve activity during the three months ended March 31, 2017 :

	Employee Severance and Benefits
	(In millions)
Accrued liability as of January 1, 2017	$ —
Charges	40
Payments	(1)
Accrued liability as of March 31, 2017	$ 39

No restructuring expenses were recognized during the three months ended March 31, 2016 .

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 March 31, 2017 :

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In millions)				
Beginning balance	$ 131	$ (5)	$ (68)	$ 1	$ 59
Other comprehensive income (loss) before reclassifications	(32)	—	13	1	(18)
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	40	(1)	—	—	39
Net current period other comprehensive income (loss)	(72)	1	13	1	(57)
Ending balance	$ 59	$ (4)	$ (55)	$ 2	$ 2

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2016 :

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In millions)				
Beginning balance	$ 57	$ (16)	$ (53)	$ 3	$ (9)
Other comprehensive income (loss) before reclassifications	(4)	9	8	(2)	11
Less: Amount of gain reclassified from accumulated other comprehensive income	32	(3)	—	—	29
Net current period other comprehensive income (loss)	(36)	12	8	(2)	(18)
Ending balance	$ 21	$ (4)	$ (45)	$ 1	$ (27)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2017 and 2016 :

Details about Accumulated Other Comprehensive Income Components	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement of Income
	Three Months Ended March 31,		
	2017	2016	
	(In millions)		
Gains on cash flow hedges-foreign exchange contracts	$ 40	$ 32	Net revenues
Unrealized losses on investments	(1)	(3)	Other income (expense), net
	$ 39	$ 29	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	$ 39	$ 29	Net income

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 18 - Subsequent Events

In April 2017, our Board of Directors authorized a 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. This stock repurchase program is intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, to be used to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under this stock repurchase program 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 this stock repurchase program at any time without notice.

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 on June 23, 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. On March 29, 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 March 31, 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 months ended March 31, 2017 and 2016 :

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2017	2016	
	(In millions, except percentages and per share data)		
Net revenues	$ 2,975	$ 2,544	17 %
Operating expenses	2,544	2,137	19 %
Operating income	431	407	6 %
Operating margin	14%	16%	**
Income tax expense	54	57	(5)%
Effective tax rate	12%	14%	**
Net income	$ 384	$ 365	5 %
Net income per diluted share	$ 0.32	$ 0.30	6 %
Net cash provided by operating activities	$ 751	$ 738	2 %

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

Net revenues increased $431 million , or 17% , in the three months ended March 31, 2017 compared to the same period of the prior year primarily driven 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 $407 million , or 19% , in the three months ended March 31, 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 $24 million , or 6% , in the three months ended March 31, 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% and 16% in the three months ended March 31, 2017 and 2016 , respectively. Operating margin decreased primarily due to growth in transaction expense and transaction and loan losses, which increased 28% in the three months ended March 31, 2017 compared to net revenues which increased 17% in the three months ended March 31, 2017 and restructuring expense of $40 million recognized in the three months ended March 31, 2017 . The decrease in operating margin was partially offset by operating efficiencies in our business, which resulted in other expenses, including customer support and operations, sales and marketing, product development, general and administrative, depreciation and amortization and restructuring expenses, increasing 11% , or lower than the growth in net revenues in the three months ended March 31, 2017 .

Net income increased by $19 million , or 5% , in the three months ended March 31, 2017 compared to the same period of the prior year due to the increase in operating income of $24 million and a decrease in income tax expense of $3 million partially offset by a decrease in other income (expense), net of $8 million . For the three months ended March 31, 2017 , our diluted net income per share was $0.32 , a $0.02 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 months ended March 31, 2017 and 2016 :

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2017	2016	
	(In millions, except percentages and per share data)		
Non-GAAP operating income	$ 643	$ 537	20 %
Non-GAAP operating margin	22%	21%	**
Non-GAAP income tax expense	$ 116	$ 100	16 %
Non-GAAP net income	$ 534	$ 452	18 %
Non-GAAP net income per diluted share	$ 0.44	$ 0.37	19 %
Free cash flow	$ 603	$ 605	0 %

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 March 31, 2017 and 2016 , we generated approximately 46% and 47% of our net revenues from customers domiciled outside of the United States (U.S.), respectively. Other than the U.S., the United Kingdom (U.K.) was the only country where we generated more than 10% of total net revenues in the three months ended March 31, 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 months ended March 31, 2017 and March 31, 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 March 31, 2017
	(In millions)
Unfavorable impact to net revenues (exclusive of hedging impact)	$ (56)
Hedging impact	40
Unfavorable impact to net revenues	(16)
Favorable impact to operating expense	15
Net impact to operating income	$ (1)

	Three Months Ended March 31, 2016
	(In millions)
Unfavorable impact to net revenues (exclusive of hedging impact)	$ (47)
Hedging impact	32
Unfavorable impact to net revenues	(15)
Favorable impact to operating expense	30
Net impact to operating income	$ 15

While we enter into foreign currency exchange contracts to 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 months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,		Percent
	2017	2016	Increase/(Decrease)
	(In millions, except percentages)		
Transaction revenues	$ 2,599	$ 2,238	16%
Other value-added services	376	306	23%
Net revenues	$ 2,975	$ 2,544	17%

Transaction revenue grew by $361 million , or 16% , for the three months ended March 31, 2017 . The increase in transaction revenues in the three months ended March 31, 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 March 31,		Percent
	2017	2016	Increase/(Decrease)
	(In millions, except percentages)		
Active customer accounts [1]	203	184	11%
Number of payment transactions [2]	1,732	1,414	23%
Payment transactions per active account [3]	31.7	28.4	12%
Total TPV [4]	$ 99,327	$ 81,056	23%
Percent of cross-border TPV	21%	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.

[1] 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 months ended March 31, 2017 due to a higher portion of person-to-person ("P2P") transactions, primarily from our PayPal P2P and Venmo products for which we earn lower rates, and a higher portion of TPV generated by large merchants who generally pay lower rates with higher transaction volume. Changes in prices charged to our customers did not significantly impact revenue growth for the three months ended March 31, 2017 .

For the three months ended March 31, 2017 , net revenues from other value-added services increased $70 million , or 23% , compared to the same period in the prior year due primarily to interest and fee income earned on our PayPal Credit loans receivable portfolio. The total consumer and merchant loans receivable balance as of March 31, 2017 and March 31, 2016 was $5.7 billion and $4.5 billion , respectively, reflecting a year-over-year increase of 27% .

Operating Expenses

The following table summarizes our operating expenses and related metrics we use to assess the trend in each:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Percent Increase/(Decrease)
	(In millions, except percentages)		
Transaction expense	$ 987	$ 752	31%
Transaction and loan losses	300	255	18%
Customer support and operations	317	296	7%
Sales and marketing	238	233	2%
Product development	214	195	10%
General and administrative	265	231	15%
Depreciation and amortization	183	175	5%
Restructuring	40	—	**
Total operating expenses	$ 2,544	$ 2,137	19%
Transaction expense rate [1]	0.99%	0.93%	**
Transaction and loan loss rate [2]	0.30%	0.31%	**

[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 loss by TPV.
** Not meaningful

Transaction expense

Transaction expense increased by $235 million , or 31% , in the three months ended March 31, 2017 compared to the same period of the prior year primarily due to the increase in TPV of 23% in the three months ended March 31, 2017 , and higher assessments charged by payment processors and other financial institutions. The increase in our transaction expense rate for the three months ended March 31, 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 months ended March 31, 2017 and 2016 , approximately 2% of TPV was funded with PayPal Credit. For the three months ended March 31, 2017 and 2016 , approximately 43% and 45% of TPV was generated outside of the U.S, respectively. As we expand the availability or presentation of alternative funding sources to our customers, our funding mix may change which could increase or decrease our transaction expense rate. For example, in connection with our customer choice initiatives, we expect that our transaction expense rate will increase.

Transaction and loan losses

The components of our transaction and loan losses for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Percent Increase/(Decrease)
	(In millions, except percentages)		
Transaction losses	$ 171	$ 157	9%
Loan losses	129	98	32%
Transaction and loan losses	$ 300	$ 255	18%

Transaction losses increased by $14 million , or 9% , in the three months ended March 31, 2017 compared to the same period of the prior year due to the increase in TPV. Transaction losses as a percentage of TPV, decreased by two basis points in the three months ended March 31, 2017 compared to the same period of the prior year due to improvements in our risk management capabilities.

Loan losses increased by $31 million or 32% , in the three months ended March 31, 2017 compared to the same period of the prior year due primarily to an increase in the loans receivable balance and additional reserves recorded in the current period due to increases to forecasted principal balance delinquency rates. The total consumer loans receivable balance as of March 31, 2017 and March 31, 2016 was $5.1 billion and $4.0 billion , respectively, reflecting a year-over-year increase of 28% .

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

	March 31, 2017	March 31, 2016
Weighted average U.S. consumer FICO scores [1]	678	683
Percentage of loans receivable with FICO scores > 680 [1]	50.5%	52.3%
Percentage of loans receivable with FICO scores < 599 [1]	12.7%	10.8%
Percent of loans and interest receivable current	91.3%	91.0%
Percent of loans and interest receivable > 90 days outstanding	3.9%	3.7%
Net charge off rate [2]	6.9%	6.1%

[1] Excludes certain outstanding consumer loans outside of the U.S., for which no FICO scores are available, with an outstanding balance of $135 million and $79 million at March 31, 2017 and March 31, 2016 , respectively.

[2] 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 March 31, 2017 and March 31, 2016 was $566 million and $488 million , respectively, reflecting a year-over-year increase of 16% 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. We assess a participating merchant’s PRM score on a recurring basis. At March 31, 2017 and March 31, 2016 , the weighted average PRM score related to our PayPal Working Capital balances outstanding was 633 and 638 , 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. In the second quarter of 2016, we refined our estimate of the original expected repayment period to take into account the variability in repayment patterns. Prior period amounts have been updated to reflect this change.

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

	March 31, 2017	March 31, 2016
Percentage of Merchant Receivable with PRM scores > 610	72.3%	74.0%
Percentage of Merchant Receivable with PRM scores < 525	12.2%	10.2%
Percent of Merchant Receivable within original expected repayment period [1]	83.2%	86.0%
Percent of Merchant Receivable > 90 days outstanding [1]	7.8%	5.7%

[1] Amounts in the prior periods were updated to reflect changes in our estimate of the original expected repayment period.

The changes in percentage of merchant receivables within original expected repayment period at March 31, 2017 over March 31, 2016 was due primarily to the increase in loan duration compared to the prior year, which increased the seasonality of repayments trends. Modifications to the acceptable risk parameters of our PayPal Credit products for the periods presented did not have a material impact on our loans.

Customer support and operations

Customer support and operations expenses increased by $21 million , or 7% , in the three months ended March 31, 2017 compared to the same period of the prior year 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 $5 million , or 2% , in the three months ended March 31, 2017 compared to the same period of the prior year due primarily to higher employee related costs offset by lower marketing spend.

Product development

Product development expenses increased by $19 million , or 10% , in the three months ended March 31, 2017 compared to the same period of the prior year due primarily to an increase in employee and contractor related expenses.

General and administrative

General and administrative expenses increased by $34 million , or 15% , in the three months ended March 31, 2017 compared to the same period of the prior year due primarily to an increase in employee related expenses, legal expenses and continued investments in our compliance programs.

Depreciation and amortization

Depreciation and amortization expenses increased by $8 million , or 5% , in the three months ended March 31, 2017 compared to the same period of the prior year 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 three months ended March 31, 2017 . No restructuring expenses were recognized in the three months ended March 31, 2016 . The reduction is expected to be substantially completed by the end of 2017 and to generate annual savings of approximately $75 million across the Company. The savings are 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 12% and 14% for the three months ended March 31, 2017 and 2016 , respectively. The decrease in our effective tax rate in the three months ended March 31, 2017 compared to the same period of the prior year was due primarily to the adoption of new accounting guidance effective January 1, 2017, see “Note 1—Overview and Summary of Significant Accounting Policies" in the notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information on the effects of the 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 ongoing operating results.
- *Other certain 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 months ended March 31, 2017 and 2016 :

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
GAAP operating income	$ 431	$ 407
Stock-based compensation expense and related employer payroll taxes	149	96
Amortization of acquired intangible assets	23	34
Restructuring	40	—
Total non-GAAP operating income adjustments	212	130
Non-GAAP operating income	$ 643	$ 537
Non-GAAP operating margin	22%	21%

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
GAAP income before income taxes	$ 438	$ 422
GAAP income tax expense	54	57
GAAP net income	384	365
Non-GAAP adjustments to net income:		
Non-GAAP operating income adjustments (see table above)	212	130
Tax effect of non-GAAP adjustments	(62)	(43)
Non-GAAP net income	$ 534	$ 452
Non-GAAP net income per diluted share	$ 0.44	$ 0.37
Shares used in non-GAAP diluted share calculation	1,216	1,225
GAAP income tax expense	$ 54	$ 57
Tax effect of non-GAAP adjustments	62	43
Non-GAAP income tax expense	$ 116	$ 100
GAAP effective tax rate	12%	14%
Tax effect of non-GAAP adjustments to net income	6%	4%
Non-GAAP effective tax rate	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 March 31,	
	2017	2016
	(In millions)	
Net cash provided by operating activities	$ 751	$ 738
Less: Purchases of property and equipment	(148)	(133)
Free cash flow	$ 603	$ 605

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 investment balances available as of March 31, 2017 and December 31, 2016 :

	March 31, 2017	December 31, 2016
	(In millions)	
Cash, cash equivalents and available-for-sale investment securities [1][2]	$ 6,301	$ 6,447

[1] Excludes assets related to customer accounts of $14.9 billion and $14.4 billion at March 31, 2017 and December 31, 2016 , respectively.

[2] Excludes total restricted cash of $19 million and $17 million at March 31, 2017 and December 31, 2016 , respectively, and cost method investments of $60 million and $50 million as of March 31, 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 United States tax upon repatriation) were $5.6 billion as of March 31, 2017 and $5.0 billion at December 31, 2016 , or 89% 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 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 March 31, 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 March 31, 2017 , no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at March 31, 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 March 31, 2017 , we had a total of $2.9 billion in cash withdrawals offsetting our $2.9 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 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 20% of European customer balances potentially available for corporate use by us at March 31, 2017 as determined by applying financial regulations maintained by the CSSF. We may periodically seek to designate additional amounts of customer balances, if necessary, based on utilization of the approved funds and anticipated credit funding requirements. Our objective is to expand the availability of our credit products with capital from external sources, although there can be no assurance that we will be successful in achieving that goal.

As of March 31, 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 February 2017, we announced an agreement to acquire TIO Networks Corp. for approximately $233 million in cash. This acquisition is expected to close in the second half of 2017, subject to certain closing conditions, including receipt of certain consents relating to TIO's money transmitter licenses.

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 these 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. These 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 three months ended March 31, 2017 , we repurchased approximately $517 million of our common stock under our stock repurchase program authorized in January 2016. As of March 31, 2017 , a total of approximately $488 million remained available for future repurchases of our common stock under our stock repurchase program authorized in January 2016.

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 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:

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Net cash provided by (used in):		
Operating activities	$ 751	$ 738
Investing activities	(1,058)	325
Financing activities	(54)	113
Effect of exchange rates on cash and cash equivalents	11	14
Net increase/(decrease) in cash and cash equivalents	$ (350)	$ 1,190

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 $751 million in the three months ended March 31, 2017 due primarily to operating income of approximately $431 million . Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation were approximately $328 million during the three months ended March 31, 2017 . Adjustments for non-cash expenses related to provision for transaction and loan losses were approximately $300 million during the three months ended March 31, 2017 . The cash generated from operating activities was negatively impacted by changes in other assets and liabilities of $366 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 $738 million in the three months ended March 31, 2016 due primarily to operating income of $407 million . Adjustments for non-cash expenses of depreciation and amortization and stock-based compensation (including excess tax benefits from stock-based compensation) were approximately $268 million during the three months ended March 31, 2016 . Adjustments for non-cash expenses related to provision for transaction and loan losses were approximately $255 million during the three months ended March 31, 2016 . The cash generated from operating activities was negatively impacted by increases in accounts receivable of $22 million and changes in other assets and liabilities of $158 million primarily related to actual cash transaction losses incurred during the period, timing of employee related costs, including bonus payments under our annual incentive award program, 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 three months ended March 31, 2017 and 2016 was $48 million and $24 million , respectively.

Investing Activities

The net cash used in investing activities of $1.1 billion in the three months ended March 31, 2017 was due primarily to purchases of investments of $7.1 billion , changes in principal loans receivable, net of $136 million and purchases of property and equipment of $148 million . These net cash outflows were offset by maturities and sales of investments of $5.6 billion and decreases in funds receivable from customers and customer accounts of $754 million .

The net cash provided by investing activities of $325 million in the three months ended March 31, 2016 was due primarily to maturities and sales of investments of $4.2 billion and decreases in funds receivable from customers and customer accounts of $492 million primarily due to classifying $800 million of European customer balances held in our Luxembourg banking subsidiary as cash and cash equivalents. These net cash inflows were offset by purchases of investments of $4.1 billion and purchases of property and equipment of $133 million.

Financing Activities

The net cash used in financing activities of $54 million in the three months ended March 31, 2017 was due primarily to the repurchase of $517 million of our common stock under our stock repurchase program and tax withholdings related to net share settlement of equity awards of $101 million offset by increases in funds payable and amounts due to customers of $552 million .

The net cash provided by financing activities of $113 million in the three months ended March 31, 2016 was due primarily to increases in funds payable and amounts due to customers of $738 million offset by the repurchase of $596 million of our common stock under our 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 $603 million in the three months ended March 31, 2017 , representing a decrease of $2 million from the same period of the prior year. The decrease in free cash flow during the period was primarily due to higher purchases of property and equipment of $15 million offset by higher cash generated from operating activities of $13 million . Free cash flow generated during the three months ended March 31, 2017 was used for repurchasing our common stock under our stock repurchase program, 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 three months ended March 31, 2017 and March 31, 2016 was a favorable impact of $11 million and $14 million , respectively, due to the weakening of the U.S. dollar against certain foreign currencies, primarily the Euro.

Off-Balance Sheet Arrangements

As of March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 2017 and December 31, 2016 , the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $451 million and $341 million lower, respectively. If the U.S. dollar strengthened by 20% at March 31, 2017 and December 31, 2016 , the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $451 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 $125 million and $160 million at March 31, 2017 and December 31, 2016 , respectively, without considering the offsetting effect of hedging. Foreign currency exchange contracts in place as of March 31, 2017 would have positively impacted income before income taxes by approximately $115 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 March 31, 2017 and December 31, 2016 , our cost method investments totaled $ 60 million and $50 million , respectively, which represented less than 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. is seeking to determine the future terms of its relationship with the EU, including, among other things, the terms of trade between the U.K. and the EU, while the other EU member states wish to determine these terms only after the terms of the withdrawal have been agreed. The effects of Brexit will depend on any agreements the U.K. reaches to retain access to EU markets either during a transitional period or more permanently. 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 caption “Consumer Protection” supplements and supersedes the information appearing under the caption “Consumer Protection” of that risk factor in our 2016 Form 10-K but it does not supplement or 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 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. We are evaluating the rule and its requirements. Implementation of the rule could require us to make substantial changes to our business practices and the design of certain products, allocate additional resources, and increase our costs, which could negatively affect our business.

In May 2015, we entered into a Stipulated Final Judgment and Consent Order (“Consent Order”) with the CFPB in which we settled regulatory claims arising from PayPal Credit practices between 2011 and 2015. The Consent Order included obligations on PayPal to pay $15 million in redress to consumers and a $10 million civil monetary penalty, and required PayPal to make various changes to PayPal Credit disclosures and related business practices. We continue to cooperate and engage with the CFPB and work to ensure compliance with the Consent Order, which may result in us incurring additional costs.

PayPal (Europe) 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 Directives, and has completed the “passport” notification process in all EU member countries. The 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 activities in the local country 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.

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 industrial banks chartered by the State of Utah. 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. Second Circuit Court of Appeals, 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.

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 February 2017, we announced that we have agreed to acquire TIO Networks Corp., a multi-channel bill payments processor. This acquisition is subject to certain closing conditions, including regulatory approvals, and is expected to close in the second half of 2017; however, if these conditions are not satisfied or waived, the transaction could be delayed or not take place. 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, an additional stock repurchase program was authorized 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. These 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 program during the three months ended March 31, 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)
	12.2		$ 517	$ 488

[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.

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.

Table of Contents

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: April 27, 2017

Principal Financial Officer:

By: */s/ John D. Rainey*

John D. Rainey

Executive Vice President, Chief Financial Officer

Date: April 27, 2017

Principal Accounting Officer:

By: */s/ Aaron A. Anderson*

Aaron A. Anderson

Vice President, Chief Accounting Officer

Date: April 27, 2017

INDEX TO EXHIBITS

Exhibit 10.01+	Form of Global Performance Based Restricted Stock Unit Grant Notice and Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan, as amended and restated.
Exhibit 10.02+	Letter Agreement dated April 17, 2016 between Aaron Karczmer and PayPal Holdings, Inc.
Exhibit 10.03+*	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 January 17, 2017 and incorporated herein by reference.

EXHIBIT 10.01

PayPal Holdings, Inc.
2211 North First Street
San Jose, California 95131
Company Tax ID: 47-2989869

Performance Based Restricted Stock Unit Award Grant Notice ("Grant Notice") and Performance Based Restricted Stock Unit Award Agreement

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%%FIRST_NAME%-% %%LAST_NAME%-%	**Grant Number: %%GRANT_NUMBER%-%**
%%ADDRESS_LINE_1%-%	**Target Number:%%TOTAL_SHARES_GRANTED%%**
%%ADDRESS_LINE_2%-%	**Plan: 2015**
%%ADDRESS_LINE_3%-%	**Type: %%TYPE%%**
%%CITY%-%, %%STATE%-% %ZIPCODE%-%	
%%COUNTRY%-%	

Effective as of **%%GRANT_DATE%-%** (the ***"Grant Date"***), PayPal Holdings, Inc., a Delaware corporation (the " ***Company*** "), pursuant to its 2015 Equity Incentive Award Plan, as amended from time to time (the " ***Plan*** "), hereby grants to the individual named above (" ***Participant*** ") an award of Performance Based Restricted Stock Units (" ***PBRSUs*** ") with respect to **%%TARGET-NUMBER%-%** shares of Stock, at the Target level of performance specified in Appendix A hereto (the " ***Target Shares*** "). This Performance Based Restricted Stock Unit Award (the " ***Award*** ") is subject to all of the terms and conditions set forth in this Grant Notice, the Performance Based Restricted Stock Unit Award Agreement attached hereto as Exhibit A (the " ***Agreement*** ") (including without limitation the performance-based vesting conditions set forth in Appendix A of this Grant Notice), the special provisions for Participant's country, if any, attached hereto as Exhibit B and the Plan, all of which are incorporated herein by reference. The number of shares of Stock (" ***Shares*** ") Participant will actually receive pursuant to the Award, if any, may increase or decrease from the Target Shares based on the Company's actual performance, as set forth in Appendix A hereto. Any capitalized terms used in this Grant Notice without definition shall have the meanings ascribed to such terms in the Plan.

Subject to Participant's continuous employment with the Company or a Subsidiary through the Vesting Date [(except as set forth in Section 8(j)(ii) of the Agreement)] (defined below) and further subject to Section 17 of the Agreement, Participant will vest in a number of PBRSUs on **%%VESTING-DATE%-%** (the " ***Vesting Date*** "), if any, determined based on the extent to which the performance goals set forth in Appendix A of this Grant Notice (the " ***Performance Goals*** ") are achieved during the performance period beginning and ending on the dates set forth in Appendix A of this Grant Notice (the " ***Performance Period*** "). Any portion of the Shares subject to the Award that do not vest based on the terms and conditions of this Grant Notice and the Agreement (including without limitation the performance-based vesting conditions set forth in Appendix A of this Grant Notice) shall be forfeited by Participant and cancelled by the Company. Attainment of the Performance Goals shall be determined and certified by the Compensation Committee of the Board of Directors of the Company (the " ***Committee*** ") in writing prior to the settlement of the Award.

[Except as set forth in Section 8(j)(ii) of the Agreement,] All vesting is subject to Participant's continued service with the Company or a Subsidiary through the Vesting Date.

By Participant's signature and the Company's signature below, Participant agrees to be bound by the terms and conditions of the Plan and this Grant Notice which includes Exhibit A (the Agreement) and Exhibit B (the special provisions for Participant's country, if any). Participant has reviewed and fully understands all provisions of the Plan and this Grant Notice in their entirety, including Exhibits A and B , and has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Company upon any questions arising under the Plan and this Grant Notice, including Exhibits A and B .

%%GRANT_DATE%-%

PayPal Holdings, Inc. Date

%%FIRST_NAME%-% %%LAST_NAME%-% Date

EXHIBIT A
TO PERFORMANCE BASED RESTRICTED STOCK UNIT AWARD GRANT NOTICE

PAYPAL HOLDINGS, INC. PERFORMANCE BASED RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Based Restricted Stock Unit Award Grant Notice (the " ***Grant Notice*** ") to which this Performance Based Restricted Stock Unit Award Agreement (the " ***Agreement*** ") is attached, PayPal Holdings, Inc., a Delaware corporation (the " ***Company*** ") has granted to Participant an award of Performance Based Restricted Stock Units (" ***PBRSUs*** ") with respect to the number of Shares under the Company's 2015 Equity Incentive Award Plan, as it may be amended and/or restated from time to time (the " ***Plan*** "), as set forth in the Grant Notice. [The PBRSUs shall be subject to the terms of the [%%Plans%%], the Agreement (including Appendix A of the Agreement) and the Plan.]

GENERAL

Definitions . Any capitalized terms used in this Agreement without definition shall have the meanings ascribed to such terms in the Plan or the Grant Notice, as applicable.

Incorporation of Terms of Plan . The Award is subject to the terms and conditions of the Plan, [%%Plans%%,] which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

AGREEMENT

1. Grant of the PBRSUs . As set forth in the Grant Notice, as of Grant Date (as defined in the Grant Notice), the Company hereby grants to Participant the number of PBRSUs based on the shares of Stock set forth in the Grant Notice, subject to all the terms and conditions in the Grant Notice (including Appendix A, this Exhibit A and Exhibit B), [and] the Plan[, %%Plans%%]. The number of PBRSUs specified in the Notice reflects the target number of shares of Stock (the " ***Target Shares*** ") that may be earned by Participant. The number of shares of Stock (" ***Shares*** ") Participant will actually receive pursuant to the Award, if any, may increase or decrease from the Target Shares based on the Company's actual performance. No Shares shall be issued to Participant until the time set forth in Section 2. Prior to actual issuance of any Shares, such PBRSUs will represent an unsecured obligation of the Company, payable only from the general assets of the Company.

2. Issuance of Stock . Shares shall be issued to Participant on or as soon as administratively practicable following the vesting date as set forth in the Grant Notice (the " ***Vesting Date*** ") (and in no event later than March 15 following the calendar year of the Vesting Date), subject to Section 3 hereof; provided, that Participant has not experienced a Termination of Service on or prior to such Vesting Date[, except, as set forth in Section 8(j)(ii) herein]. After such Vesting Date, the Company shall promptly cause to be issued (either in book-entry form or otherwise) to Participant or Participant's beneficiaries, as the case may be, Shares with respect to PBRSUs that become vested on such Vesting Date. Any portion of the Shares subject to the Award that do not vest based on the achievement of the Performance Goals and terms and conditions of the Grant Notice and this Agreement (including without limitation Appendix A) shall be forfeited by Participant and cancelled by the Company. No fractional Shares shall be issued under this Agreement. [Except as set forth in Section 8(j)(ii) herein,] The vesting of the PBRSUs shall cease immediately upon a Termination of Service, as further described in Section 8(j) below, and the unvested PBRSUs awarded by this Agreement and the Grant Notice shall be forfeited upon such Termination of Service.

3. Responsibility for Taxes . Participant acknowledges that, regardless of any action taken by the Company and/or Participant's employer (the ***"Employer"***), the ultimate liability for all income tax, social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan and legally applicable to Participant as a result of participation in the Plan (" ***Tax-Related Items*** "), is and remains Participant's responsibility and may exceed the amount (if any) withheld by the Company or the Employer.

Participant further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including, but not limited to, the grant, vesting, settlement, release or cancellation of the PBRSUs, the issuance of Shares upon settlement of the PBRSUs, the subsequent sale of Shares acquired pursuant to such issuance and the receipt of any dividends, and (b) do not commit to and are under no obligation to structure the terms of the Award or any aspect of the PBRSUs to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if Participant has become subject to Tax-Related Items in more than one jurisdiction, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy the Tax-Related Items. In this regard, Participant authorizes the Company and/or the Employer (or their respective agents), at their discretion and pursuant to such procedures as they may specify from time to time, to satisfy the obligations with regard to the Tax-Related Items by one or a combination of the following:

(i) withholding a net number of otherwise issuable vested Shares having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and/or the Employer pursuant to the terms and conditions of the Plan or other applicable withholding rates; and/or

(ii) arranging for the Company-designated broker to sell on the market a portion of the otherwise issuable vested Shares that have an aggregate market value sufficient to pay the Tax-Related Items (a " ***Sell to Cover*** "), on Participant's behalf and at Participant's direction pursuant to this authorization; and/or

(iii) withholding from Participant's wages or other cash compensation paid to Participant by the Company and/or the Employer; and/or

(iv) requiring Participant to make a payment in cash (or cash equivalent) to the Company or the Employer;

provided, however, that if Participant is an executive officer, within the meaning of Section 16 of the Exchange Act, then the obligations with regard to the Tax-Related Items shall be satisfied by withholding a net number of otherwise issuable vested Shares upon the relevant taxable or tax withholding event, as applicable, as described in clause (i) above, unless the use of such withholding method would result in adverse consequences under applicable tax or securities law or accounting principles, in which case the obligations with regard to the Tax-Related Items shall be satisfied by the method described in clause (ii) above.

No fractional Shares will be sold to cover or withheld to cover Tax-Related Items. The Company may withhold or account for Tax-Related Items by considering applicable withholding rates, including maximum applicable rates in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent amount in Shares. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described in (ii) above, for tax purposes Participant will be deemed to have been issued the full number of Shares subject to the vested PBRSUs, notwithstanding that a number of Shares are held back solely for the purpose of paying the Tax-Related Items. The Company may refuse to issue or deliver the Shares or refuse to deliver the proceeds of the sale of Shares if Participant fails to comply with Participant's obligations in connection with the Tax-Related Items.

4. Rights as Stockholder . Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued and recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, Participant will

have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

5. Conditions to Issuance of Certificates . Notwithstanding any other provision of this Agreement, the Company shall not be required to issue or deliver any certificate or certificates for any Shares (or make any book entries representing Shares) prior to the fulfillment of all of the following conditions: (a) the admission of the Shares to listing on all stock exchanges on which such Shares are then listed, (b) the completion of any registration or other qualification of the Shares under any U.S. state or federal or non-U.S. law or under rulings or regulations of the U.S. Securities and Exchange Commission or other governmental regulatory body (including any applicable non-U.S. governmental regulatory body), which the Company shall, in its sole and absolute discretion, deem necessary and advisable, (c) the obtaining of any approval or other clearance from any U.S. state or federal or non-U.S. governmental agency that the Company shall, in its absolute discretion, determine to be necessary or advisable and (d) the lapse of any such reasonable period of time following the date the PBRSUs vest as the Company may from time to time establish for reasons of administrative convenience.

6. Plan Governs . This Agreement is subject to all terms and provisions of the Plan[, %%Plans%%]. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

7. Award Not Transferable . This Award and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void.

8. Nature of Grant . In accepting the Award, Participant acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended or terminated by the Company at any time, to the extent permitted by the Plan;

(b) the grant of the PBRSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of PBRSUs, or benefits in lieu of PBRSUs, even if PBRSUs have been granted in the past;

(c) all decisions with respect to future grants of PBRSUs, if any, will be at the sole discretion of the Company;

(d) Participant is voluntarily participating in the Plan;

(e) the grant of the PBRSUs and Participant's participation in the Plan shall not create a right to employment or service or be interpreted as forming an employment or service contract with the Company, the Employer or any Subsidiary and shall not interfere with the ability of the Company, the Employer or any Subsidiary to terminate Participant's employment or service relationship (if any);

(f) the PBRSUs and any Shares subject to the PBRSUs are not intended to replace any pension rights or compensation;

(g) the PBRSUs and any Shares subject to the PBRSUs, and the income and value of the same, are not part of normal or expected compensation or salary for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, pension or retirement or welfare benefits or similar payments;

(h) the future value of the Shares subject to the PBRSUs is unknown, indeterminable and cannot be predicted with certainty;

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the PBRSUs resulting from Participant ceasing to provide services to the Company, the Employer or any Subsidiary (for any reason whatsoever and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or providing services or the terms of Participant's employment agreement or service contract, if any) and in consideration of the grant of the PBRSUs to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company, the Employer or any Subsidiary, waives his or her ability, if any, to bring any such claim, and releases the Company, the Employer and any Subsidiary from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claims;

(j) Termination of Service. [(i)] In the event of Participant's Termination of Service (whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or providing services or the terms of Participant's employment agreement or service contract, if any), unless otherwise determined by the Company, Participant's right to vest in the PBRSUs, if any, will terminate effective as of the date that Participant is no longer actively providing services and will not be extended by any notice period (*e.g.* , active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or providing services or the terms of Participant's employment agreement or service contract, if any); the Committee shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the PBRSUs; [(ii) notwithstanding anything to the contrary in Section 8(j)(i) above, and subject to Section 17 hereof, in the event that Participant's Termination of Service is as a result of Participant's Retirement, the unvested PBRSUs awarded by this Agreement and the Grant Notice shall not be forfeited upon such Termination of Service; following the end of the Performance Period, the number of PBRSUs earned shall be determined as follows: first, the Committee shall determine the number of PBRSUs earned based on actual achievement of the Performance Goals following the end of the Performance Period; and second, the number of PBRSUs so obtained shall be multiplied by a fraction, the numerator of which is the total number of full months elapsed from the first day of the Performance Period to the date of the Participant's Termination of Service and the denominator of which is the total number of months in the Performance Period. Such number of PBRSUs shall then be settled in accordance with Section 2 hereof. For purposes of this paragraph, Retirement shall be defined as the voluntary Termination of Service by the Participant, other than as a result of the Participant's death or Disability, at a time when the Participant has (i) attained at least 60 years of age and (ii) completed at least five Years of Service. Years of Service is defined as continuous years working for the Company, inclusive of those meeting the requirements of the Company's Bridging of Service Policy as well as the years worked by Participant for eBay Inc. ("eBay") prior to the separation of eBay and the Company. Years of Service begins when the Participant is hired or acquired by the Company. Notwithstanding the foregoing, the Committee may establish such other criteria governing the occurrence of a Retirement for purposes of the Plan and this Agreement, in its sole discretion;] and

(k) neither the Company, the Employer nor any Subsidiary will be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States dollar that may affect the value of the PBRSUs or any amounts due to Participant pursuant to the vesting of the PBRSUs or the subsequent sale of any Shares acquired under the Plan.

9. No Advice Regarding Grant . The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding participation in the Plan, or Participant's acquisition or sale of Shares. Participant understands and agrees that Participant should consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

10. Insider Trading Restrictions/Market Abuse Laws . Participant acknowledges that he or she is subject to any applicable Company insider trading policy. In addition, Participant may be subject to additional insider trading restrictions and/or market abuse laws in applicable jurisdictions, which may affect his or her ability to acquire, sell,

or attempt to sell Shares or rights to Shares (*e.g.* , PBRSUs) under the Plan during such times as Participant is considered to have "inside information" regarding the Company (as defined by the laws in the applicable jurisdictions or Participant's country). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. Participant acknowledges that it is Participant's responsibility to comply with any applicable Company insider trading policy and any additional restrictions that may apply due to local insider trading restrictions or market abuse laws. Participant should speak to his or her personal legal advisor regarding any applicable local insider trading restrictions or market abuse laws.

11. Foreign Asset/Account Reporting; Exchange Controls . Participant's country may have certain foreign asset and/or account reporting requirements and/or exchange controls that may affect Participant's ability to acquire or hold Shares or cash received from participating in the Plan (including from any dividends received or sale proceeds arising from the sale of Shares) in a brokerage or bank account outside Participant's country. Participant may be required to report such accounts, assets, or transactions to the tax or other authorities in Participant's country. Participant may also be required to repatriate sale proceeds or other funds received as a result of Participant's participation in the Plan to Participant's country through a designated broker or bank and/or within a certain time after receipt. Participant acknowledges that it is Participant's responsibility to be compliant with such regulations and Participant understands and agrees that Participant should consult his or her personal legal advisor for any details.

12. ***Data Privacy . Participant hereby voluntarily consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other PBRSU grant materials by and among, as applicable, the Employer, the Company and any Subsidiary for the purpose of implementing, administering and managing Participant's participation in the Plan.***

Participant understands that the Company, the Employer and any Subsidiary may hold certain personal information about Participant, including, but not limited to, Participant's name, home address, email address and telephone number, date of birth, social insurance, passport number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all PBRSUs or any other entitlement to Shares or equivalent benefits awarded, purchased, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Personal Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Personal Data will be transferred to E*Trade Corporate Financial Services, Inc. and/or its affiliates or such other stock plan service provider as may be selected by the Company in the future (the "Plan Service Provider"), which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of Personal Data may be located in the United States or elsewhere, and that the recipient's country may have different data privacy laws and protections than Participant's country. Participant authorizes the Company, the Plan Service Provider and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer Personal Data, in electronic or other form, for the purpose of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Personal Data as may be required to a broker or other third party with whom Participant may elect to deposit any Shares received upon vesting of the PBRSUs. Participant understands that he or she may request a list with the names and addresses of any potential recipients of Personal Data by contacting Participant's regional human resources ("MyHR") representative. Participant understands that Personal Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that he or she may, at any time, request access to Personal Data, request additional information about the storage and processing of Personal Data, require any necessary amendments to Personal Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her MyHR representative. Further, Participant understands that Participant is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, Participant's employment status or service with the Employer will not be adversely affected; the only consequence of refusing or withdrawing consent is that the Company would not be able to grant PBRSUs or other equity awards to Participant or administer or maintain such awards. Therefore, Participant understands that refusal or withdrawal of consent may affect Participant's

ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her MyHR representative.

13. Electronic Delivery and Participation. The Company may, in its sole discretion, decide to deliver any documents related to the PBRSUs or any future PBRSUs granted under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

14. Language. If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

15. Governing Law and Choice of Venue. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of the Grant Notice (including this Agreement and the special provisions for Participants outside the U.S. attached to the Grant Notice as Exhibit B), regardless of the law that might be applied under such state's conflict of laws principles.

For purposes of litigating any dispute that arises directly or indirectly in respect of this Award, the parties hereby submit to and consent to the jurisdiction of the State of California and agree that such litigation shall be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

16. Conformity to U.S. Securities Laws. Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all regulations and rules promulgated thereunder by the U.S. Securities and Exchange Commission, including without limitation Rule 16b-3 under the Exchange Act. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Award is granted, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

17. Award Subject to Clawback. The Award and any cash payment or Shares delivered pursuant to the Award are subject to forfeiture, recovery by the Company or other action pursuant to any clawback or recoupment policy which the Company may adopt from time to time, including without limitation any such policy which the Company may be required to adopt under the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder, or as otherwise required by law.

18. Amendment, Modification and Termination. To the extent permitted by the Plan, the Grant Notice (including this Agreement and Exhibit B) may be wholly or partially amended or otherwise modified or terminated at any time or from time to time by the Committee or the Board, provided, that, except as may otherwise be provided by the Plan, no amendment, modification or termination of this Agreement shall adversely effect the Award in any material way without the prior written consent of Participant.

19. Notices. Notices required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the post by certified mail, or its non-U.S. equivalent, with postage and fees prepaid, addressed to Participant at his or her address shown in the Company records, and to the Company at its principal executive office.

20. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, and to the extent permissible under local law, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

21. Compliance in Form and Operation . This Agreement and the PBRSUs are intended to comply with Section 409A of the Code and the Treasury Regulations thereunder (“ ***Section 409A*** ”) and shall be interpreted in a manner consistent with that intention, to the extent Participant is or becomes subject to U.S. federal income taxation. Notwithstanding any other provisions of this Agreement or the Grant Notice, the Company reserves the right, to the extent the Company deems necessary or advisable, if Participant is or becomes subject to U.S. federal income taxation, and without any obligation to do so or to indemnify Participant for any failure to do so, to unilaterally amend the Plan and/or this Agreement to ensure that all PBRSUs are awarded in a manner that qualifies for exemption from or complies with Section 409A, provided, however, that the Company makes no representation that the PBRSUs will comply with or be exempt from Section 409A and makes no undertaking to preclude Section 409A from applying to the PBRSUs.

22. Exhibit B. The Award shall be subject to any special provisions set forth in Exhibit B of the Grant Notice for Participant’s country, if any. If Participant relocates to one of the countries included in Exhibit B of the Grant Notice prior to the Vesting Date or while holding Shares issued upon vesting of the PBRSUs, the special provisions for such country shall apply to Participant, to the extent the Company determines that the application of such provisions is advisable or necessary for legal or administrative reasons. Exhibit B of the Grant Notice constitutes part of this Agreement.

23. Imposition of Other Requirements . The Company reserves the right to impose other requirements on the PBRSUs and on any Shares issued upon vesting of the PBRSUs, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

24. Entire Agreement: Severability . The Plan[, %%Plans%%] and the Grant Notice (including Exhibit B) are incorporated herein by reference. The Plan[, %%Plans%%] and the Grant Notice (including this Agreement and Exhibit B) constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof. If any provision of the Plan[, %%Plans%%,] or the Grant Notice (including this Agreement and Exhibit B) is determined to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

25. Waiver . Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other participant.

* * * * *

Exhibit 10.02

[PayPal Holdings, Inc. Letterhead]

April 17, 2016

Aaron Karczmer

Dear Aaron:

PayPal Holding, Inc. (“PayPal” or the “Company”) is pleased to offer you the exempt position of Senior Vice President, Chief Compliance Officer at a bi-weekly salary of $19,230.77, which is equivalent to an annualized salary of $500,000.

You will be eligible to participate in the Annual Incentive Plan (AIP) with an annual bonus based on individual achievement as well as company performance. The annual bonus period is from January 1 through December 31. Your target bonus for the AIP is 75% of your annual base salary, pro-rated based on the eligible earnings paid while you are employed in an AIP-eligible position during the annual bonus period. There is no guarantee any AIP bonus will be paid and any actual bonus will be determined after the end of the annual bonus period based on your eligible earnings as defined in the AIP. To be eligible to receive any AIP bonus, you must be employed on or before the first business day of the fourth quarter and you must be employed on the date the bonus is paid. The payment of any bonus is at PayPal’s sole and absolute discretion and subject to the terms and conditions of the AIP. PayPal reserves the right, in its sole discretion, to amend, change or cancel the AIP at any time.

To the extent you are liable to Amex for “claw-backs”, PayPal will compensate you for the equivalent amount, grossed up for taxes so the net impact is cost neutral to you.

You will be eligible to receive a one-time bonus make-good payment of $150,000 (less deductions and applicable taxes). This payment will be made in February 2017, subject to your continued employment on the date of payment.

You will receive a one-time cash payment of $250,000 (less deductions and applicable taxes). This payment will be made within two pay periods of your start date.

It will be recommended to the Board of Directors of PayPal Holdings, Inc. or its delegates that you be granted (a) awards of restricted stock units (“RSUs”) and (b) a target award of performance-based restricted stock units (“PBRSUs”), as described in the following paragraphs, all to be granted under the Company’s 2015 Equity Incentive Award Plan (the “Plan”). The grants will be made on the 15th of the month following the month you start work. The grants are described as a U.S. dollar value. The number of shares to be granted will be determined by dividing the U.S. dollar value of each award by the Average PayPal Closing Price (as described in this paragraph) and rounding up to the nearest whole number of shares of PayPal common stock. The “Average PayPal Closing Price” shall be calculated based on the average of the closing prices of PayPal common stock in U.S. dollars for the period of 10 consecutive trading days ending on (and including) the last trading day prior to the date of grant.

It will be recommended to the Board of Directors of PayPal Holdings, Inc. or its delegates that you be granted an award of Restricted Stock Units (“RSUs”) valued at $1,000,000.00 to be granted under the Plan as well as the terms and conditions of the RSU agreement (which will be provided to you as soon as practicable after the grant date). The RSUs will vest and become non-forfeitable (assuming your continued employment with a PayPal company on each vesting date) over three years at the rate of 33 1/3 rd % per year on each anniversary of the date of grant, subject to applicable taxes and withholdings.

It will also be recommended to the Board of Directors of PayPal Holdings, Inc. or its delegates that you be granted a target award of Performance-Based Restricted Stock Units (“PBRSUs”) valued at $1,000,000.00 to be granted under the Plan as well as the terms and conditions of the PBRSU agreement (which will be provided to you as soon as practicable after the grant date and shall be consistent with the publicly-disclosed form of PBRSU agreement under the Plan). The PRBRSUs will cover performance over the period January 1, 2016 through December 31, 2018 and will vest and become non-forfeitable on December 31, 2018, assuming your continued employment with a PayPal company on the vesting date, subject to applicable taxes and withholdings. The target award will be applied only to this performance period. The actual amount of the award will be determined based on Company performance and will be subject to the terms and conditions of the performance plan approved by the Compensation Committee. PBRSUs earned based on Company performance for such three-year period will be granted in early 2019 (on or about March 1, 2019).

Subject to the terms of the Plan, you will be eligible to receive annual equity compensation grants under PayPal’s Focal review process at the same time as grants are made to other senior executives beginning in 2017. Subject to the foregoing commitment, the aggregate target grant value and form of award will be determined by

PayPal and approved by the Board of Directors of PayPal Holdings, Inc. or its delegates. You will have a target value of $2,000,000 in total equity compensation; however, the Board of Directors of PayPal Holdings, Inc. or its delegates shall retain sole and absolute discretion as to the amount and form of any equity awards.

All employees are subject to PayPal's Insider Trading Agreement, which outlines the procedures and guidelines governing securities trades by company personnel. You will be provided with a copy of PayPal's Insider Trading Agreement. Please review the Agreement carefully, execute the certification and submit it to PayPal's human resources department.

You will be also entitled to the benefits that PayPal customarily makes available to employees in positions comparable to yours. Please refer to the benefit plan documents for more details, including eligibility. PayPal reserves the right, in its sole discretion, to amend, change or cancel the benefits at any time.

Under federal immigration laws, the Company is required to verify each new employee's identity and legal authority to work in the United States. Accordingly, please be prepared to furnish appropriate documents satisfying those requirements; this offer of employment is conditioned on submission of satisfactory documentation. You will be provided with a list of the required documents.

Your employment at the Company is "at-will" and either you or the Company may terminate your employment at any time, with or without cause or advance notice. The at-will nature of the employment relationship can only be changed by written agreement signed by PayPal's SVP of Human Resources. You will be eligible for severance and change in control protections based on our stated policy, the details of which will be provided separately. Other terms, conditions, job responsibilities, compensation and benefits may be adjusted by the Company from time to time in its sole discretion.

All of us at PayPal are very excited about you joining our team and look forward to a beneficial and fruitful relationship. However, should any dispute arise with respect to your employment or the termination of that employment, we both agree that such dispute shall be conclusively resolved by final, binding and confidential arbitration rather than by a jury court or administrative agency. The Company will bear those expenses unique to arbitration. Please review the enclosed Mutual Arbitration Agreement carefully.

As a condition of your employment, you must complete both the Mutual Arbitration Agreement and the enclosed Employee Proprietary Information and Inventions Agreement prior to commencing employment. These agreements address important obligations to the Company, both during and after your employment; therefore, please read both agreements carefully before signing them and submitting them to PayPal's human resources department. If you should have any questions about either agreement, please contact me.

This offer letter, the Mutual Arbitration Agreement, the Employee Proprietary Information and Inventions Agreement as well as all other enclosed required documents, contain the entire agreement with respect to your employment. Should you have any questions with regard to any of the items indicated above, please call me. Kindly indicate your consent to this offer letter by signing a copy of this letter and returning it to me. All other documents requiring your signature must be submitted either in hard copy or electronically prior to your start date, including but not limited to the Mutual Arbitration Agreement, the Employee Proprietary Information and Inventions Agreement, and the Insider Trading Agreement certification.

This offer is contingent upon the results of your background verification and reference checks. Upon your signature below, this will become our binding agreement with respect to your employment and its terms merging and superseding in their entirety all other or prior offers, agreements and communications, whether written or oral, by you and the Company as to the specific subjects of this letter.

We are excited at the prospect of you joining our team. We look forward to having you on board!

Very truly yours,

/s/ Marcia Morales-Jaffe

Marcia Morales-Jaffe
SVP, Chief People Officer

ACCEPTED:

/s/ Aaron Karczmer

Aaron Karczmer

Date: 4/17/2016______ Anticipated Start Date: May 2, 2016

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: April 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: April 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 March 31, 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: April 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 March 31, 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: April 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.