

# ***Historical Quarterly Financials (Q1-14 through Q2-15)***

July 1, 2015 (updated August 27, 2015)

The following presentation has been updated to include financial information related to Q2'15 and weighted average shares for Q1'14 through Q2'15. The related financial information for Q1'14 through Q1'15 was included in the presentation entitled "Historical Quarterly Financials (Q1-14 through Q1-15)" which was furnished in the 8-K dated July 1, 2015.



# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

June 30, 2015

	June 30, 2015				
	Reported	Non-GAAP Entries	Non-GAAP	Pro-Forma Adjustments	Non-GAAP Pro-Forma
	(in millions, except percentages)				
Net revenues	\$ 2,297	\$ —	\$ 2,297	\$ (4) (g)	\$ 2,293
Operating expenses:					
Transaction expense	634	—	634	—	634
Transaction and loan losses	185	—	185	12 (h)	197
Customer support and operations	308	(15) (a)	291	4 (h)	296
		(2) (f)		1 (i)(j)	
Sales and marketing	245	(11) (a)	234	(12) (l)	222
Product development	241	(35) (a)	206	—	206
General and administrative	135	(21) (a)	99	2 (h)	101
		(5) (b)			
		(7) (f)			
		(3) (m)			
Depreciation and amortization	150	(2) (a)	128	4 (k)	132
		(20) (c)			
Restructuring	1	(1) (e)	—	—	—
Total operating expense	<u>1,899</u>	<u>(122)</u>	<u>1,777</u>	<u>11</u>	<u>1,788</u>
Operating income	398	122	520	(15)	505
Other income (expense), net	1	—	1	—	1
Income before income taxes	<u>399</u>	<u>122</u>	<u>521</u>	<u>(15)</u>	<u>506</u>
Income tax expense	94	19 (d)	113	(2) (n)	111
Net income (loss)	<u>\$ 305</u>	<u>\$ 103</u>	<u>\$ 408</u>	<u>(13)</u>	<u>\$ 395</u>
Weighted average shares:					
Basic	<u>1,218</u> (o)		<u>1,218</u> (o)		<u>1,218</u> (o)
Diluted	<u>1,224</u> (o)		<u>1,224</u> (o)		<u>1,224</u> (o)
Operating margin	<u>17 %</u>	<u>6 %</u>	<u>23 %</u>	<u>(1)%</u>	<u>22 %</u>
Effective tax rate	<u>24 %</u>	<u>(2)%</u>	<u>22 %</u>	<u>0 %</u>	<u>22 %</u>

## Notes:

(a) Stock-based compensation expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization of acquired intangible assets

(d) Income taxes associated with certain non-GAAP entries

(e) Restructuring charges

(f) Separation related

(g) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(h) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs.

Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs

has been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(i) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(j) Reflect the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(k) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(l) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(m) Acquisition related transaction expense

(n) Reflects the tax effect of pro forma adjustments using the respective statutory tax rate for the quarter ended June 30, 2015.

(o) The weighted average number of common shares outstanding for basic and diluted earnings per share for the period is based on the number of shares of PayPal common stock outstanding as of July 17, 2015, the distribution date from eBay.



# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

March 31, 2015					
	Reported	Non-GAAP Entries	Non-GAAP	Pro-Forma Adjustments	Non-GAAP Pro-Forma
	(in millions, except percentages)				
Net revenues	\$ 2,137	\$ —	\$ 2,137	\$ (3) (g)	\$ 2,134
Operating expenses:					
Transaction expense	575	—	575	—	575
Transaction and loan losses	178	—	178	10 (h)	188
Customer support and operations	275	(13) (a)	261	3 (h)(i)(j)	264
		(1) (f)			
Sales and marketing	236	(13) (a)	223	(13) (l)	210
Product development	224	(29) (a)	195	—	195
General and administrative	138	(22) (a)	109	1 (h)	110
		(3) (b)			
		(4) (f)			
Depreciation and amortization	141	(2) (a)	123	4 (k)	127
		(16) (c)			
Restructuring	48	(48) (e)	—	—	—
Total operating expense	1,815	(151)	1,664	5	1,669
Operating income	322	151	473	(8)	465
Other income (expense), net	(1)	—	(1)	—	(1)
Income before income taxes	321	151	472	(8)	464
Income tax expense	66	46 (d)	112	(1) (m)	111
Net income (loss)	\$ 255	\$ 105	\$ 360	\$ (7)	\$ 353
Weighted average shares:					
Basic	1,218 (n)		1,218 (n)		1,218 (n)
Diluted	1,224 (n)		1,224 (n)		1,224 (n)
Operating margin	15 %	7 %	22 %	—%	22 %
Effective tax rate	21 %	3 %	24 %	—%	24 %

## Notes:

(a) Stock-based compensation expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization of acquired intangible assets

(d) Income taxes associated with certain non-GAAP entries

(e) Restructuring charges

(f) Separation related

(g) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(h) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs.

Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs has been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(i) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(j) Reflect the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(k) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(l) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(m) Reflects the tax effect of pro forma adjustments using the respective statutory tax rate for the quarter ended March 31, 2015.

(n) The weighted average number of common shares outstanding for basic and diluted earnings per share for the period is based on the number of shares of PayPal common stock outstanding as of July 17, 2015, the distribution date from eBay.

# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

December 31, 2014

	Reported	Non-GAAP	Pro-Forma		Non-GAAP -
		Entries	Non-GAAP	Adjustments	Pro-Forma
	(in millions, except percentages)				
Net revenues	\$ 2,193	\$ —	\$ 2,193	\$ (4) (f)	\$ 2,189
Operating expenses:					
Transaction expense	594	—	594	—	594
Transaction and loan losses	193	—	193	11 (g)	204
Customer support and operations	280	(13) (a)	267	5 (g)(h)(i)	272
Sales and marketing	263	(19) (a)	244	(15) (k)	229
Product development	239	(28) (a)	211	—	211
General and administrative	144	(19) (a)	123	2 (g)	125
		(1) (b)			
		(1) (e)			
Depreciation and amortization	132	(1) (a)	114	4 (j)	118
		(17) (c)			
Restructuring	—	—	—	—	—
Total operating expense	1,845	(99)	1,746	7	1,753
Operating income	348	99	447	(11)	436
Other income (expense), net	(1)	—	(1)	—	(1)
Income before income taxes	347	99	446	(11)	435
Income tax expense	61	27 (d)	88	(1) (l)	87
Net income (loss)	\$ 286	\$ 72	\$ 358	\$ (10)	\$ 348
Weighted average shares:					
Basic	1,218 (m)		1,218 (m)		1,218 (m)
Diluted	1,224 (m)		1,224 (m)		1,224 (m)
Operating margin	16 %	4 %	20 %	—%	20 %
Effective tax rate	18 %	2 %	20 %	—%	20 %

## Notes:

(a) Stock-based compensation expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization of acquired intangible assets

(d) Income taxes associated with certain non-GAAP entries

(e) Restructuring charges

(f) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(g) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs has been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

(h) Reflects the impact of additional costs for shared data centers and information technology facilities, except for the facilities in Phoenix, Arizona, and Denver, Colorado, that will continue to be managed by eBay after the separation pursuant to the colocation services agreements.

(i) Reflect the reversal of historically allocated amounts from eBay to PayPal related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(j) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(k) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(l) Reflects the tax effect of pro forma adjustments using the statutory tax rate for the year ended December 31, 2014

(m) The weighted average number of common shares outstanding for basic and diluted earnings per share for the period is based on the number of shares of PayPal common stock outstanding as of July 17, 2015, the distribution date from eBay.



# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

September 30, 2014

	<u>Reported</u>	<u>Non-GAAP Entries</u>	<u>Non-GAAP</u>	<u>Pro-Forma Adjustments</u>	<u>Non-GAAP - Pro-Forma</u>
	(in millions, except percentages)				
Net revenues	\$ 1,975	\$ —	\$ 1,975	\$ (4) (g)	\$ 1,971
Operating expenses:					
Transaction expense	537	—	537	—	537
Transaction and loan losses	180	—	180	10 (h)	190
Customer support and operations	257	(12) (a)	245	4 (h)(i)(j)	249
Sales and marketing	267	(14) (a)	253	(13) (l)	240
Product development	232	(28) (a)	204	—	204
General and administrative	101	(20) (a)	80	2 (h)	82
		(1) (b)			
Depreciation and amortization	129	(1) (a)	112	4 (k)	116
		(16) (c)			
Restructuring	—	—	—	—	—
Total operating expense	<u>1,703</u>	<u>(92)</u>	<u>1,611</u>	<u>7</u>	<u>1,618</u>
Operating income	272	92	364	(11)	353
Other income (expense), net	4	1 (e)	1	—	1
		(4) (f)			
Income before income taxes	<u>276</u>	<u>89</u>	<u>365</u>	<u>(11)</u>	<u>354</u>
Income tax expense	42	25 (d)	67	(1) (m)	66
Net income (loss)	<u>\$ 234</u>	<u>\$ 64</u>	<u>\$ 298</u>	<u>\$ (10)</u>	<u>\$ 288</u>
Weighted average shares:					
Basic	<u>1,218</u> (n)		<u>1,218</u> (n)		<u>1,218</u> (n)
Diluted	<u>1,224</u> (n)		<u>1,224</u> (n)		<u>1,224</u> (n)
Operating margin	<u>14 %</u>	<u>4 %</u>	<u>18 %</u>	<u>—%</u>	<u>18 %</u>
Effective tax rate	<u>15 %</u>	<u>3 %</u>	<u>18 %</u>	<u>1 %</u>	<u>19 %</u>

- Notes:
- (a) Stock-based compensation expense
- (b) Employer payroll taxes on stock-based compensation
- (c) Amortization of acquired intangible assets
- (d) Income taxes associated with certain non-GAAP entries
- (e) Intangible amortization
- (f) Other certain gains and losses on investments
- (g) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.
- (h) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs has been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.
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# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

June 30, 2014

	Reported	Non-GAAP Entries	Non-GAAP (in millions, except percentages)	Pro-Forma Adjustments	Non-GAAP Pro-Forma
Net revenues	\$ 1,983	\$ —	\$ 1,983	\$ (2) (f)	\$ 1,981
Operating expenses:					
Transaction expense	525	—	525	—	525
Transaction and loan losses	144	—	144	10 (g)	154
Customer support and operations	263	(12) (a)	251	2 (g)(h)(i)	253
Sales and marketing	253	(14) (a)	239	(15) (k)	224
Product development	221	(28) (a)	193	—	193
General and administrative	122	(20) (a)	98	1 (g)	99
		(4) (b)			—
Depreciation and amortization	125	(1) (a)	108	4 (j)	112
		(16) (c)			—
Restructuring	—	—	—	—	—
Total operating expense	1,653	(95)	1,558	2	1,560
Operating income	330	95	425	(4)	421
Other income (expense), net	(4)	1 (e)	(3)	—	(3)
Income before income taxes	326	96	422	(4)	418
Income tax expense	45	27 (d)	72	— (l)	72
Net income (loss)	\$ 281	\$ 69	\$ 350	\$ (4)	\$ 346
Weighted average shares:					
Basic	1,218 (m)		1,218 (m)		1,218 (m)
Diluted	1,224 (m)		1,224 (m)		1,224 (m)
Operating margin	17 %	4 %	21 %	—%	21 %
Effective tax rate	14 %	3 %	17 %	—%	17 %

## Notes:

(a) Stock-based compensation expense

(b) Employer payroll taxes on stock-based compensation

(c) Amortization of acquired intangible assets

(d) Income taxes associated with certain non-GAAP entries

(e) Intangible amortization

(f) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.

(g) Reflects the effect of the Protection program losses and service costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs. Following the distribution, this program is no longer being administered by PayPal, and therefore these costs will not be reimbursed by eBay. PayPal's customer protection programs has been extended to its customers' purchases on eBay, and therefore PayPal expects to incur incremental costs associated with its customer protection programs.

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(j) Reflects depreciation expense related to data center facilities in Phoenix, Arizona, and Denver, Colorado, pursuant to the colocation services agreements.

(k) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.

(l) Reflects the tax effect of pro forma adjustments using the statutory tax rate for the year ended December 31, 2014

(m) The weighted average number of common shares outstanding for basic and diluted earnings per share for the period is based on the number of shares of PayPal common stock outstanding as of July 17, 2015, the distribution date from eBay.

# Unaudited Reconciliation of Quarterly GAAP to Non-GAAP Pro-Forma Statement of Income

March 31, 2014

	Reported	Non-GAAP Entries	Non-GAAP	Pro-Forma Adjustments	Non-GAAP Pro-Forma
	(in millions, except percentages)				
Net revenues	\$ 1,874	\$ —	\$ 1,874	\$ (3) (f)	\$ 1,871
Operating expenses:					
Transaction expense	514	—	514	—	514
Transaction and loan losses	129	—	129	12 (g)	141
Customer support and operations	255	(15) (a)	240	2 (g)(h)(i)	242
Sales and marketing	215	(12) (a)	203	(17) (k)	186
Product development	198	(24) (a)	174	—	174
General and administrative	115	(16) (a)	94	1 (g)	95
		(5) (b)			
Depreciation and amortization	130	(1) (a)	108	4 (j)	112
		(21) (c)			
Restructuring	—	—	—	—	—
Total operating expense	1,556	(94)	1,462	2	1,464
Operating income	318	94	412	(5)	407
Other income (expense), net	(6)	2 (e)	(4)	—	(4)
Income before income taxes	312	96	408	(5)	403
Income tax expense	694	(623) (d)	71	(1) (l)	70
Net income (loss)	\$ (382)	\$ 719	\$ 337	\$ (4)	\$ 333
Weighted average shares:					
Basic	1,218 (m)		1,218 (m)		1,218 (m)
Diluted	1,224 (m)		1,224 (m)		1,224 (m)
Operating margin	17 %	5 %	22 %	—%	22 %
Effective tax rate	222 %	(205)%	17 %	—%	17 %

Notes:

- (a) Stock-based compensation expense  
(b) Employer payroll taxes on stock-based compensation  
(c) Amortization of acquired intangible assets  
(d) Income taxes associated with certain non-GAAP entries  
(e) Intangible amortization  
(f) Reflects the impact of lower transaction revenues from payment services provided by PayPal to eBay as the result of the terms of certain commercial agreements negotiated between the parties that stipulate lower transaction fees than those historically charged to eBay.  
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(k) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration.  
(l) Reflects the tax effect of pro forma adjustments using the statutory tax rate for the year ended December 31, 2014  
(m) The weighted average number of common shares outstanding for basic and diluted earnings per share for the period is based on the number of shares of PayPal common stock outstanding as of July 17, 2015, the distribution date from eBay.



## Historical Quarterly TPV (Aligns with TPV as Presented in Form 10)

<i>(in millions)</i>	<b>Q1'14</b>	<b>Q2'14</b>	<b>Q3'14</b>	<b>Q4'14</b>	<b>Q1'15</b>	<b>Q2'15</b>
Total TPV*	\$ 53,676	\$ 56,736	\$ 58,184	\$ 66,039	\$ 63,021	\$ 67,482

\*TPV is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products. Includes volume related to eBay Marketplaces owned PayPal accounts that was traditionally excluded from PayPal segment results



# GAAP to Non-GAAP Reconciliations – Q2 2015

	<b>Three Months Ended</b>
	<b>June 30, 2015</b>
GAAP operating income	\$ 398
Stock-based compensation expense and related employer payroll taxes	89
Amortization of acquired intangible assets	20
Separation	9
Restructuring	1
Acquisition related transaction expense	3
Total non-GAAP operating income adjustments	<u>122</u>
Non-GAAP operating income	<u>520</u>
Non-GAAP operating margin	<u>23 %</u>

	<b>Three Months Ended</b>
	<b>June 30, 2015</b>
GAAP income before income taxes	\$ 399
GAAP provision for income taxes	<u>94</u>
GAAP net income	\$ 305
Non-GAAP adjustments to net income:	
Non-GAAP operating income adjustments (see table above)	122
Amortization of investments	—
Other certain significant gains, losses, or charges	—
Tax effect of non-GAAP adjustments	<u>(19)</u>
Non-GAAP net income	<u>\$ 408</u>

# Calculation of Free Cash Flow – Q2 2015

	<b>Three Months Ended</b>
	<b>June 30, 2015</b>
	(In millions)
Net cash provided by operating activities	\$ 622
Less: Purchases of property and equipment	(231)
Free cash flow	<u>\$ 391</u>

# GAAP to Non-GAAP Reconciliations - 2014

	<u>Year Ended</u> <u>December 31,</u> <u>2014</u>
GAAP operating income	\$ 1,268
Stock-based compensation expense and related employer payroll taxes	309
Amortization of acquired intangible assets	70
Restructuring	1
Total non-GAAP operating income adjustments	<u>380</u>
Non-GAAP operating income	<u>\$ 1,648</u>
Non-GAAP operating margin	<u>21 %</u>

	<u>Year Ended</u> <u>December 31,</u> <u>2014</u>
GAAP income before income taxes	\$ 1,261
GAAP provision for income taxes	842
GAAP net income	<u>\$ 419</u>
Non-GAAP adjustments to net income:	
Non-GAAP operating income adjustments (see table above)	380
Amortization of intangibles of investments	4
Certain gains and losses on investments	(4)
Other certain significant gains, losses, or charges	650
Tax effect of non-GAAP adjustments	<u>(106)</u>
Non-GAAP net income	<u>\$ 1,343</u>

# Calculation of Free Cash Flow - 2014

	<u>Year Ended</u> <u>December 31,</u> <u>2014</u>
	(In millions)
Net cash provided by operating activities	\$ 2,220
Less: Purchases of property and equipment	(492)
Free cash flow	<u>\$ 1,728</u>