



## PayPal Achieves Profitability

### Strong Payment Volume Growth Drives First Quarter Revenues of \$48.8 million

### GAAP earnings of \$0.02 per share; pro forma earnings of \$0.07 per share

**PALO ALTO, Calif. -- April 17, 2002** - PayPal, Inc. (Nasdaq: PYPL; [www.paypal.com](http://www.paypal.com)), a leading Internet payment service, today reported financial results for the fiscal first quarter ended March 31, 2002.

Revenues for the first quarter of 2002 totaled \$48.8 million, an increase of 248% over the \$14.0 million in revenues in the first quarter of 2001. PayPal reported \$1.2 million of net income for the quarter, or \$0.02 per diluted share on a Generally Accepted Accounting Principles (GAAP) basis, compared to a net loss of \$29.3 million, or \$5.39 per share, for the same period last year. For the quarter, PayPal's pro forma after-tax net income, which excludes non-cash expenses related to stock-based compensation and the amortization of intangibles, amounted to \$4.3 million, or \$0.07 per diluted share, compared with a pro forma net loss of \$10.7 million, or \$1.97 per share, for the first quarter of 2001.

"The continued strong growth of PayPal's global network led to record payment volume, increased revenues and GAAP profitability in the first quarter," said Peter Thiel, co-founder and CEO of PayPal. "We continue to expand our email-based payment service, which powerfully leverages the substantial gross margin inherent in our business."

### Business Outlook

PayPal estimates second quarter 2002 revenues could range from \$52 million to \$53 million, resulting in pro forma after-tax earnings of approximately \$0.07 to \$0.08 per share, with between 63.5 and 64.5 million fully diluted shares. PayPal also estimates 2002 revenues could range from \$220 million to \$230 million, with pro forma after-tax earnings of approximately \$0.34 to \$0.36 per share, with between 63.0 and 64.0 million fully diluted shares.

PayPal's business outlook can be obtained on the company's website throughout the current quarter. PayPal disclaims any duty to update its business outlook to reflect future developments and currently expects not to update its outlook until the release of the company's next earnings announcement; however, PayPal may update or remove any portion of its business outlook at any time for any reason. The business outlook should not be relied on as having continued accuracy beyond the date of this release.

### Key Operating Metrics

First quarter revenues represent a 21% sequential increase from PayPal's \$40.1 million in revenues during the fourth quarter of 2001. These increased revenues resulted from 21% growth in PayPal's total payment volume, from \$1.21 billion in the fourth quarter of 2001 to \$1.46 billion in the first quarter of 2002. First quarter 2002 total payment volume represented 127% growth from the \$643 million in the comparable quarter in 2001.

For the first quarter of 2002, the payment volume sent to business and premier accounts, which we refer to as Gross Merchant Sales or GMS, amounted to 90% of total payment volume. GMS increased to \$1.31 billion in the first quarter of 2002, representing 23% growth from \$1.07 billion in the fourth quarter of 2001 and 140% growth from \$547 million in the first quarter of 2001.

In turn, account growth drove increased total payment volume. In the first quarter of 2002, our registered accounts grew to 15.4 million - an average of 28,000 new accounts per day. The 2.6 million accounts added in the first quarter of 2002 represent a 20% increase from the 12.8 million total on December 31, 2001, and a 114% increase from the 7.2 million total at the end of the first quarter 2001. Business accounts grew by 547,000 to a total of 3.18 million, and international accounts grew by 370,000 to a total of 1.37 million.

### Business Overview and Strategy

PayPal continues to diversify the range of products and services offered to its small business customers. Beyond its core auction business, PayPal achieved robust growth for payments involving fixed-price sale of goods, the sale of services, and other cash transfers. The 21% overall sequential payment volume growth was driven by 31% growth in our non-auction-related payment volume and by 16% growth in our auction-related payment volume over the same period. As a result, the non-auction-related share of our total payment volume increased to 39% for the first quarter of 2002 from 36% for the fourth quarter of 2001, while the auction-related share of our total payment volume decreased to 61% from 64% over the same period.

PayPal increased its support for the ecommerce market by launching the PayPal Developer Network (PDN), which encourages the creation of ecommerce applications and their adoption by small businesses and merchants. To date, over 22,000 web

developers and designers have joined the PDN; these developers have created PayPal-based applications for Microsoft Frontpage and ASP.NET as well as for Macromedia's popular Dreamweaver and Ultradev software. PayPal also formed a merchant services team to target sales and marketing efforts at the small business market.

At the same time, PayPal achieved further penetration of the online auction market; an estimated 72% of the auctions on eBay™ listed PayPal as a payment option in the first quarter of 2002. We also created an Auction Seller Advisory Board, which includes the top seller by dollar volume on eBay™, to advise PayPal on practices and features desired by the auction community.

### **International**

PayPal saw continued strong adoption in the 38 countries we serve outside the United States. In the first quarter of 2002, 20% of our total payment volume involved at least one party outside the United States, compared to 8% for the same period last year, and 17% for the fourth quarter of 2001.

### **Financial Metrics**

For the first quarter of 2002, PayPal earned an average transaction revenue rate of 3.31% of total payment volume. PayPal incurred an average transaction processing expense rate of 1.16% of total payment volume; the percentage of payment volume funded by credit cards declined to 48% in the first quarter of 2002, from 49% in the first quarter of 2001 and 52% in the fourth quarter of 2001. Transaction revenues less transaction processing expenses and less the provision for transaction losses, which amounted to 0.47% of total payment volume, resulted in a gross margin of 51% for the first quarter of 2002.

In February 2002, the company completed its initial public offering, netting approximately \$69.9 million. At March 31, 2002, the company had corporate cash, cash equivalents, and investment securities totaling \$140.0 million, which included \$40.3 million in restricted cash and restricted investment securities.

### **Facilities Expansion and Move**

Earlier this month, PayPal announced that it would be leasing a second building in Omaha, Nebraska, to support the additional 150 customer service and operations personnel we plan to hire in 2002.

The company plans to move its California headquarters from Palo Alto to Mountain View in the second quarter. Upon exiting the Palo Alto facility, the company will seek to sublease the property. Any non-recurring charge for this lease, which extends through 2007 with total lease commitments of approximately \$8.0 million, will be recorded upon exiting the facility and determining any such loss.

### **Regulatory Status**

PayPal has received money services business licenses, also known as money transmitter licenses, in seven states, has applied in 16 other states, and is preparing applications for a further four. As previously disclosed, the company received an advisory opinion from the Federal Deposit Insurance Corporation (FDIC) in February 2002 stating that when PayPal acts as an agent for its customers and deposits customer funds on their behalf in FDIC-insured institutions, these funds qualify for FDIC insurance on a pass-through basis, in the event of a failure of the bank in which such funds are placed. Acting as an agent for its customers in this way has two key implications for PayPal: First, the company's balance sheet reflects reduced customer funds and their associated liabilities, as these funds are now held at FDIC-insured institutions and are not assets of the company. Second, the company's income statement reflects reduced income from interest on funds held for others. Although PayPal no longer will benefit from interest on customer funds, the company expects reduced expenses as a result of compensating balance arrangements.

### **Quarterly Conference Call**

PayPal will host a conference call today to discuss first quarter results at 5:00 p.m. EDT. A live Webcast of the conference call can be accessed at [http://www.paypal.com/cgi-bin/webscr?cmd=\\_ir-calendar-outside](http://www.paypal.com/cgi-bin/webscr?cmd=_ir-calendar-outside), and will be available via that URL until at least June 30. In addition, the conference call will be available for replay until April 23 by calling 800-967-7184, reference code: 395435.

### **About PayPal**

PayPal enables any business or consumer with email to send and receive Internet payments securely, conveniently and cost-effectively. PayPal's account-based network builds on the existing financial infrastructure of bank accounts and credit cards to create a global payment system. PayPal has more than 15 million member accounts, including more than 3 million business accounts. More than \$6 billion has been sent through the PayPal network through March 31, 2002. Based in Palo Alto, California, PayPal is available to users in 39 countries including the United States. Further information about the company can be found at [www.paypal.com](http://www.paypal.com). Forward Looking Statements

This press release contains forward-looking statements, including statements about PayPal's expected revenue and earnings for the current quarter and fiscal year. Forward-looking statements involve risks and uncertainties that could cause actual results to differ significantly from those projected. Factors that might cause or contribute to such differences include, but are not limited to, our ability to compete with other payment systems, the risk of loss due to fraud and disputes between senders and recipients, and the fact that our status under state, federal and international financial services regulation is unclear. You

are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this release. Our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2001, include more information about factors that could affect our financial results. PayPal's results of operations for the quarter ended March 31, 2002 are not necessarily indicative of PayPal's expected quarterly results for the full fiscal year or any future periods.

**PAYPAL, INC.**  
**CONSOLIDATED SUMMARY BALANCE SHEET DATA**  
**(in thousands; unaudited)**

	<b>December 31, 2001</b>	<b>March 31, 2002</b>
<b>ASSETS</b>		
Cash, cash equivalents and investment securities—corporate (1).....	\$ 62,525	\$ 139,987
Cash, cash equivalents and investment securities—customer accounts .....	144,235	28,286
Funds receivable .....	32,074	48,504
Fixed assets, net.....	15,857	16,936
Goodwill and other intangibles, net .....	16,415	15,552
Other assets.....	7,471	6,103
Total assets .....	\$ 278,577	\$ 255,368
<b>LIABILITIES, MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Due to customers.....	\$ 174,763	\$ 53,256
Funds payable .....	4,459	26,319
Reserve for transaction losses.....	7,233	6,129
Accounts payable and accrued liabilities .....	6,975	9,071
Other liabilities.....	5,235	4,753
Total liabilities .....	198,665	99,528
Mandatorily redeemable convertible preferred stock .....	279,224	—
Total stockholders' equity (deficit).....	(199,312)	155,840
Total liabilities, mandatorily redeemable convertible preferred stock and stockholders' equity (deficit) .....	\$ 278,577	\$ 255,368

(1) Includes restricted cash and restricted investment securities of \$31,172 and \$40,269 at December 31, 2001 and March 31, 2002, respectively.

**PAYPAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(in thousands, except per share amounts; unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2001</b>	<b>2002</b>
Transaction and other fees (1).....	\$ 12,885	\$ 48,333
Interest on funds held for others .....	1,143	428
Total revenues .....	14,028	48,761
Transaction processing expenses.....	8,754	16,952
Provision for transaction losses .....	3,103	6,908
Customer service and operations.....	7,064	10,044
Product development.....	2,018	3,036
Selling, general and administrative (1) .....	5,172	5,482
Stock-based compensation.....	2,157	4,884
Amortization of goodwill and other intangibles.....	16,415	864
Total operating expenses .....	44,683	48,170
Income (loss) from operations.....	(30,655)	591

Interest and other income (expense), net .....	1,397	690
Income (loss) before income taxes .....	(29,258)	1,281
Provision for income taxes .....	—	(50)
Net income (loss).....	<u>\$ (29,258)</u>	<u>1,231</u>
Net income (loss) per share:		
Basic.....	<u>\$ (5.39)</u>	<u>\$ 0.04</u>
Diluted .....	<u>\$ (5.39)</u>	<u>\$ 0.02</u>
Shares used in calculating net income (loss) per share:		
Basic.....	<u>5,426</u>	<u>32,319</u>
Diluted .....	<u>5,426</u>	<u>59,343</u>

(1) Transaction and other fee revenues and selling, general and administrative expenses for the three months ended March 31, 2001 each have been reduced by \$271 from balances previously reported due to our adoption of EITF 01-09 as of January 1, 2002.

**PAYPAL, INC.**  
**PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS DATA**  
**(in thousands, except per share amounts; unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2001</b>	<b>2002</b>
Net income (loss).....	\$ (29,258)	\$ 1,231
Amortization of goodwill and other intangibles.....	16,415	864
Stock-based compensation.....	2,157	4,884
Income tax effect.....	—	(2,652)
Pro forma after tax net income (loss)	<u>\$ (10,686)</u>	<u>\$ 4,327</u>
Pro forma after tax net income (loss) per share--diluted	<u>\$ (1.97)</u>	<u>\$ 0.07</u>

PayPal provides pro forma net income (loss) and pro forma net income (loss) per share data as an alternative for understanding its operating results. These measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from pro forma measures used by other companies.

We have used an income tax rate of 38% for these pro forma calculations.

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