

PAYPAL HOLDINGS, INC.

FORM 10-12B/A (Amended Registration Statement)

Filed 06/26/15

Address	2211 NORTH FIRST STREET SAN JOSE, CA 95131
Telephone	(408) 967-7400
CIK	0001633917
SIC Code	7389 - Business Services, Not Elsewhere Classified
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 5 to
FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

PayPal Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

47-2989869
(I.R.S. Employer
Identification No.)

2211 North First Street
San Jose, California
(Address of Principal Executive Offices)

95131
(Zip Code)

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

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class
to be so registered
Common Stock

Name of each exchange on which
each class is to be registered
The Nasdaq Global Select Market

Securities to be registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

**INFORMATION REQUIRED IN REGISTRATION STATEMENT
CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT
AND ITEMS OF FORM 10**

Certain information required to be included herein is incorporated by reference to specifically identified portions of the body of the information statement filed herewith as Exhibit 99.1. None of the information contained in the information statement shall be incorporated by reference herein or deemed to be a part hereof unless such information is specifically incorporated by reference.

Item 1. *Business .*

The information required by this item is contained under the sections of the information statement entitled “Information Statement Summary,” “Risk Factors,” “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Certain Relationships and Related Party Transactions,” and “Where You Can Find More Information.” Those sections are incorporated herein by reference.

Item 1A. *Risk Factors .*

The information required by this item is contained under the section of the information statement entitled “Risk Factors.” That section is incorporated herein by reference.

Item 2. *Financial Information .*

The information required by this item is contained under the sections of the information statement entitled “Unaudited Pro Forma Condensed Combined Financial Statements,” “Selected Historical Combined Financial Data,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Those sections are incorporated herein by reference.

Item 3. *Properties .*

The information required by this item is contained under the section of the information statement entitled “Business.” That section is incorporated herein by reference.

Item 4. *Security Ownership of Certain Beneficial Owners and Management .*

The information required by this item is contained under the section of the information statement entitled “Security Ownership of Certain Beneficial Owners and Management.” That section is incorporated herein by reference.

Item 5. *Directors and Executive Officers .*

The information required by this item is contained under the sections of the information statement entitled “Directors” and “Management.” Those sections are incorporated herein by reference.

Item 6. *Executive Compensation .*

The information required by this item is contained under the sections of the information statement entitled “Compensation Discussion and Analysis” and “Executive Compensation.” Those sections are incorporated herein by reference.

Item 7. *Certain Relationships and Related Transactions .*

The information required by this item is contained under the sections of the information statement entitled “Management” and “Certain Relationships and Related Party Transactions.” Those sections are incorporated herein by reference.

Item 8. *Legal Proceedings .*

The information required by this item is contained under the section of the information statement entitled “Business—Legal and Regulatory Proceedings.” That section is incorporated herein by reference.

Item 9. *Market Price of, and Dividends on, the Registrant’s Common Equity and Related Stockholder Matters .*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “Capitalization,” “The Separation and Distribution,” and “Description of PayPal’s Capital Stock.” Those sections are incorporated herein by reference.

Item 10. *Recent Sales of Unregistered Securities .*

The information required by this item is contained under the sections of the information statement entitled “Description of Material Indebtedness” and “Description of PayPal’s Capital Stock—Sale of Unregistered Securities.” Those sections are incorporated herein by reference.

Item 11. *Description of Registrant’s Securities to be Registered .*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “The Separation and Distribution,” and “Description of PayPal’s Capital Stock.” Those sections are incorporated herein by reference.

Item 12. *Indemnification of Directors and Officers .*

The information required by this item is contained under the section of the information statement entitled “Description of PayPal’s Capital Stock—Limitations on Liability, Indemnification of Officers and Directors and Insurance.” That section is incorporated herein by reference.

Item 13. *Financial Statements and Supplementary Data .*

The information required by this item is contained under the section of the information statement entitled “Index to Financial Statements” and the financial statements referenced therein. That section is incorporated herein by reference.

Item 14. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .*

None.

Item 15. *Financial Statements and Exhibits .*

(a) *Financial Statements*

The information required by this item is contained under the section of the information statement entitled “Index to Financial Statements” and the financial statements referenced therein. That section is incorporated herein by reference.

(b) Exhibits

The following documents are filed as exhibits hereto:

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Separation and Distribution Agreement by and between eBay Inc. and PayPal Holdings, Inc., dated June 26, 2015**
3.1	Form of Amended and Restated Certificate of Incorporation of PayPal Holdings, Inc.†
3.2	Form of Amended and Restated Bylaws of PayPal Holdings, Inc.†
10.1	Form of Operating Agreement by and between eBay Inc. and PayPal Holdings, Inc.†
10.2	Form of Transition Services Agreement by and between eBay Inc. and PayPal Holdings, Inc.†
10.3	Form of Tax Matters Agreement by and between eBay Inc. and PayPal Holdings, Inc.†
10.4	Form of Employee Matters Agreement by and between eBay Inc. and PayPal Holdings, Inc.†
10.5	Form of Intellectual Property Matters Agreement between eBay Inc. and PayPal Holdings, Inc.†
10.6	Form of Colocation Services Agreement between eBay Inc. and PayPal Holdings, Inc.†
10.7	Form of Indemnity Agreement between PayPal Holdings, Inc. and individual directors and officers†
10.8	Form of PayPal Employee Incentive Plan†
10.9	Form of PayPal Holdings, Inc. 2015 Equity Incentive Award Plan†
10.10	Form of Global Restricted Stock Unit Award Agreement (and Performance-Based Restricted Stock Unit Agreement) under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan†
10.11	Form of Global Stock Option Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan†
10.12	Form of Director Annual Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan†
10.13	Form of Electing Director Quarterly Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan†
10.14	Form of PayPal Holdings, Inc. Employee Stock Purchase Plan†
10.15	Form of PayPal Holdings, Inc. Deferred Compensation Plan†
10.16	Offer Letter dated September 29, 2014 between eBay Inc. and Daniel Schulman†
10.17	Amendment dated December 31, 2014 to Offer Letter between eBay Inc. and Daniel Schulman†
10.18	Letter dated May 19, 2015 from eBay Inc. to William Ready†
10.19	Letter dated May 22, 2015 from eBay Inc. to James Barrese†
10.20	Letter dated December 31, 2014 from eBay Inc. to Patrick Dupuis†
10.21	Form of Braintree, Inc. Restricted Stock Unit Agreement between Braintree, Inc. and William J. Ready dated September 25, 2013†
10.22	PayPal Holdings, Inc. Change in Control Severance Plan for Key Employees, dated June 16, 2015†
10.23	PayPal Holdings, Inc. SVP and Above Standard Severance Plan, dated June 16, 2015†
21.1	List of subsidiaries†
99.1	Information Statement of PayPal Holdings, Inc., preliminary and subject to completion, dated June 26, 2015**

** Filed herewith.

† Previously filed.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

PayPal Holdings, Inc.

By: /s/ Daniel H. Schulman

Name: Daniel H. Schulman

Title: President and CEO-Designee

Date: June 26, 2015

SEPARATION AND DISTRIBUTION AGREEMENT

BY AND BETWEEN

EBAY INC.

AND

PAYPAL HOLDINGS, INC.

DATED AS OF JUNE 26, 2015

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS	2
ARTICLE II THE SEPARATION	16
2.1 Transfer of Assets and Assumption of Liabilities	16
2.2 PayPal Assets; eBay Assets	18
2.3 PayPal Liabilities; eBay Liabilities	21
2.4 Approvals and Notifications	23
2.5 Novation of Liabilities	26
2.6 Release of Guarantees	27
2.7 Termination of Agreements	28
2.8 Treatment of Shared Contracts	29
2.9 Bank Accounts; Cash Balances	30
2.10 Ancillary Agreements	31
2.11 Disclaimer of Representations and Warranties	31
2.12 Cash Transfer	32
2.13 Financial Information Certifications	32
2.14 Transition Committee	32
ARTICLE III THE DISTRIBUTION	33
3.1 Sole and Absolute Discretion; Cooperation	33
3.2 Actions Prior to the Distribution	33
3.3 Conditions to the Distribution	34
3.4 The Distribution	36
ARTICLE IV MUTUAL RELEASES; INDEMNIFICATION	37
4.1 Release of Pre-Distribution Claims	37
4.2 Indemnification by PayPal	39
4.3 Indemnification by eBay	40
4.4 Indemnification Obligations Net of Insurance Proceeds and Other Amounts	41
4.5 Procedures for Indemnification of Third-Party Claims	42
4.6 Additional Matters	45
4.7 Right of Contribution	46
4.8 Covenant Not to Sue	47
4.9 Remedies Cumulative	47
4.10 Survival of Indemnities	47
4.11 Coordination with Ancillary Agreements	47
ARTICLE V CERTAIN OTHER MATTERS	48
5.1 Insurance Matters	48
5.2 Directors and Officers Insurance	51
5.3 Late Payments	51
5.4 Inducement	52

5.5	Post-Effective Time Conduct	52
5.6	Conduct of Certain Intellectual Property Matters	52
ARTICLE VI EXCHANGE OF INFORMATION; CONFIDENTIALITY		52
6.1	Agreement for Exchange of Information	52
6.2	Ownership of Information	53
6.3	Compensation for Providing Information	54
6.4	Record Retention	54
6.5	Limitations of Liability	54
6.6	Other Agreements Providing for Exchange of Information	54
6.7	Production of Witnesses; Records; Cooperation	55
6.8	Privileged Matters	55
6.9	Confidentiality	58
6.10	Protective Arrangements	60
ARTICLE VII DISPUTE RESOLUTION		60
7.1	Good-Faith Negotiation	60
7.2	Escalation Committee	60
7.3	Non-Binding Mediation	61
7.4	Arbitration; Litigation	61
7.5	Litigation and Unilateral Commencement of Arbitration	63
7.6	Conduct During Dispute Resolution Process	63
ARTICLE VIII FURTHER ASSURANCES AND ADDITIONAL COVENANTS		63
8.1	Further Assurances	63
ARTICLE IX TERMINATION		64
9.1	Termination	64
9.2	Effect of Termination	64
ARTICLE X MISCELLANEOUS		64
10.1	Counterparts; Entire Agreement; Corporate Power	64
10.2	Governing Law	65
10.3	Assignability	65
10.4	Third-Party Beneficiaries	66
10.5	Notices	66
10.6	Severability	66
10.7	Force Majeure	67
10.8	No Set-Off	67
10.9	Publicity	67
10.10	Expenses	67
10.11	Headings	67
10.12	Survival of Covenants	67
10.13	Waivers of Default	68
10.14	Specific Performance	68
10.15	Amendments	68
10.16	Interpretation	68
10.17	Limitations of Liability	69
10.18	Performance	69
10.19	Mutual Drafting	69

SCHEDULES

Schedule 1.1	Commercial Agreements
Schedule 1.2(b)	eBay Discontinued or Divested Businesses
Schedule 1.3	eBay GPI Software
Schedule 1.4	eBay Patents
Schedule 1.5	eBay Proceedings
Schedule 1.6	eBay Specified Actions
Schedule 1.7	eBay Specified Persons
Schedule 1.8	Joint Proceedings
Schedule 1.9(a)	Licensed eBay Software
Schedule 1.10(a)	Licensed PayPal Software
Schedule 1.11(b)	PayPal Discontinued or Divested Businesses
Schedule 1.12(k)	PayPal Contracts (Other)
Schedule 1.13	PayPal GPI Software
Schedule 1.14(a)	PayPal Information Technology
Schedule 1.15(c)	PayPal Registered IP
Schedule 1.15(d)	PayPal Other IP
Schedule 1.16	PayPal Patents
Schedule 1.17	PayPal Proceedings
Schedule 1.18(a)	PayPal Real Property (Owned)
Schedule 1.18(b)	PayPal Real Property Leases
Schedule 1.19	PayPal Specified Actions
Schedule 1.20	PayPal Specified Persons
Schedule 1.21(d)	Shared Contingent Liabilities (Other)
Schedule 1.22	Specified eBay Patents
Schedule 1.23	Specified PayPal Patents
Schedule 1.24	Transferred Entities
Schedule 2.1(a)	Plan of Reorganization
Schedule 2.2(a)(xv)	PayPal Assets (Other)
Schedule 2.2(b)(iii)	eBay Intellectual Property
Schedule 2.2(b)(vii)	eBay Assets (Other)
Schedule 2.3(a)(vii)	PayPal Liabilities (Other)
Schedule 2.3(b)(vi)	eBay Liabilities (Other)
Schedule 2.7(b)(ii)	Intercompany Agreements
Schedule 2.8(a)	Three-Party Contracts
Schedule 4.2(d)	Certain Ancillary Agreements
Schedule 4.3(f)	Specified eBay Information
Schedule 5.6	Conduct of Certain Intellectual Property Matters

EXHIBITS

Exhibit A	Amended and Restated Certificate of Incorporation of PayPal Holdings, Inc.
Exhibit B	Amended and Restated Bylaws of PayPal Holdings, Inc.

SEPARATION AND DISTRIBUTION AGREEMENT

This SEPARATION AND DISTRIBUTION AGREEMENT, dated as of June 26, 2015 (this “Agreement”), is by and between eBay Inc., a Delaware corporation (“eBay”), and PayPal Holdings, Inc., a Delaware corporation (“PayPal”). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I.

R E C I T A L S

WHEREAS, the board of directors of eBay (the “eBay Board”) has determined that it is in the best interests of eBay and its stockholders to create a new publicly traded company that shall operate the PayPal Business;

WHEREAS, in furtherance of the foregoing, the eBay Board has determined that it is appropriate and desirable to separate the PayPal Business from the eBay Business (the “Separation”) and, following the Separation, make a distribution, on a pro rata basis, to holders of eBay Shares on the Record Date of all of the outstanding PayPal Shares owned by eBay (the “Distribution”);

WHEREAS, PayPal has been incorporated solely for these purposes and has not engaged in activities except in preparation for the Separation and the Distribution;

WHEREAS, the transfer by eBay of the PayPal Assets and the PayPal Liabilities to PayPal (the “Contribution”) and the Distribution, taken together, are intended to qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Section 355 and 368(a)(1)(D) of the Code, and this Agreement is intended to be, and is hereby adopted as, a “plan of reorganization” within the meaning of Treasury Regulation Section 1.368-2(g);

WHEREAS, eBay expects to receive an opinion of outside legal counsel regarding the qualification of the Contribution and the Distribution, taken together, as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code (the “Tax Opinion”);

WHEREAS, PayPal and eBay have prepared, and PayPal has filed with the SEC, the Form 10, which includes the Information Statement, and which sets forth disclosure concerning PayPal, the Separation and the Distribution; and

WHEREAS, each of eBay and PayPal has determined that it is appropriate and desirable to set forth the principal corporate transactions required to effect the Separation and the Distribution and certain other agreements that will govern certain matters relating to the Separation and the Distribution and the relationship of eBay, PayPal and the members of their respective Groups following the Distribution.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

For the purpose of this Agreement, the following terms shall have the following meanings:

“Action” shall mean any demand, action, claim, counterclaim, dispute, suit, countersuit, arbitration, hearing, inquiry, subpoena, proceeding, examination or investigation of any nature (whether criminal, civil, legislative, administrative, regulatory, prosecutorial, appellate or otherwise) by or before any federal, state, local, foreign or international Governmental Authority or any arbitration or mediation tribunal.

“Affiliate” shall mean, when used with respect to a specified Person, a Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified Person. For the purpose of this definition, “control” (including with correlative meanings, “controlled by” and “under common control with”), when used with respect to any specified Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other interests, by contract or otherwise. It is expressly agreed that, prior to, at and after the Effective Time, for purposes of this Agreement and the Ancillary Agreements, (a) no member of the PayPal Group shall be deemed to be an Affiliate of any member of the eBay Group and (b) no member of the eBay Group shall be deemed to be an Affiliate of any member of the PayPal Group.

“Agent” shall mean the trust company or bank duly appointed by eBay to act as distribution agent, transfer agent and registrar for the PayPal Shares in connection with the Distribution.

“Agreement” shall have the meaning set forth in the Preamble.

“Ancillary Agreement” shall mean any agreements (other than this Agreement) entered into by the Parties or the members of their respective Groups (but as to which no Third Party is a party) in connection with the Separation, the Distribution, and the other transactions contemplated by this Agreement, including the Operating Agreement, the Transition Services Agreement, the Tax Matters Agreement, the Employee Matters Agreement, the Intellectual Property Matters Agreement, the Colocation Services Agreements, the Product Development Agreement, the Data Sharing Addendum and the Transfer Documents; provided, that no Commercial Agreement shall be an Ancillary Agreement.

“Approvals or Notifications” shall mean any consents, waivers, approvals, permits or authorizations to be obtained from, notices, registrations or reports to be submitted to, or other filings to be made with, any third Person, including any Governmental Authority.

“Arbitration Request” shall have the meaning set forth in Section 7.4(a).

“Arbitration Rules” shall have the meaning set forth in Section 7.4(a).

“Assets” shall mean, with respect to any Person, the assets, properties, claims and rights (including goodwill) of such Person, wherever located (including in the possession of vendors or other third Persons or elsewhere), of every kind, character and description, whether real, personal or mixed, tangible, intangible or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of such Person, including rights and benefits pursuant to any contract, license, permit, indenture, note, bond, mortgage, agreement, concession, franchise, instrument, undertaking, commitment, understanding or other arrangement.

“Cash Amounts” shall have the meaning set forth in Section 2.12.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Colocation Services Agreements” shall mean the Colocation Services Agreements to be entered into by and between eBay and PayPal or the members of their respective Groups in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Commercial Agreements” shall mean the agreements entered into by the Parties or the members of their respective Groups (but as to which no Third Party is a party) set forth on Schedule 1.1.

“Contribution” shall have the meaning set forth in the Recitals.

“Data Sharing Addendum” shall mean the Data Sharing Addendum to be entered into by and between eBay and PayPal or the members of their respective Groups pursuant to the Operating Agreement and in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Delayed eBay Asset” shall have the meaning set forth in Section 2.4(h).

“Delayed eBay Liability” shall have the meaning set forth in Section 2.4(h).

“Delayed PayPal Asset” shall have the meaning set forth in Section 2.4(c).

“Delayed PayPal Liability” shall have the meaning set forth in Section 2.4(c).

“Disclosure Document” shall mean any registration statement (including the Form 10) filed with the SEC by or on behalf of any Party or any member of its Group, and also includes any information statement (including the Information Statement), prospectus, offering memorandum, offering circular, periodic report or similar disclosure document, whether or not filed with the SEC or any other Governmental Authority, in each case which describes the Separation or the Distribution or the PayPal Group or primarily relates to the transactions contemplated hereby.

“Dispute” shall have the meaning set forth in Section 7.1.

“Distribution” shall have the meaning set forth in the Recitals.

“Distribution Date” shall mean the date of the consummation of the Distribution, which shall be determined by the eBay Board in its sole and absolute discretion.

“Distribution Ratio” shall mean a number equal to one.

“eBay” shall have the meaning set forth in the Preamble.

“eBay Accounts” shall have the meaning set forth in Section 2.9(a).

“eBay Assets” shall have the meaning set forth in Section 2.2(b).

“eBay Board” shall have the meaning set forth in the Recitals.

“eBay Business” shall mean (a) the business, operations, products, platforms, services and activities of the Marketplaces segment of eBay conducted at any time prior to the Effective Time by either Party or any member of its Group, (b) any terminated, divested or discontinued businesses, operations and activities that, at the time of termination, divestiture or discontinuation, primarily related to the business, operations or activities described in clause (a) as then conducted, including those set forth on Schedule 1.2(b), and (c) the Enterprise Business.

“eBay Data Center Infrastructure” shall mean all: (a) eBay GPI Software; and (b) Information Technology that is (i) located as of the Effective Time at the data centers operated by eBay or any of its Subsidiaries located in: Las Vegas, Nevada; Reno, Nevada; and Salt Lake City, Utah and (ii) necessary to operate such data centers (which shall not, for clarity, be deemed to include any proprietary Technology of PayPal or any PayPal Group member).

“eBay GPI Software” shall mean the Software set forth on Schedule 1.3.

“eBay Group” shall mean eBay and each Person that is a Subsidiary of eBay (other than PayPal and any other member of the PayPal Group).

“eBay Indemnified Parties” shall have the meaning set forth in Section 4.2.

“eBay Liabilities” shall have the meaning set forth in Section 2.3(b).

“eBay Name and eBay Marks” shall mean the names, marks, trade dress, logos, monograms, domain names and other source or business identifiers of either Party or any member of its Group using or containing “eBay”, either alone or in combination with other words or elements, and all names, marks, trade dress, logos, domain names and other source or business identifiers confusingly similar to or embodying any of the foregoing either alone or in combination with other words or elements, together with the goodwill associated with any of the foregoing.

“eBay Patents” shall mean: (a) the issued patents set forth on Schedule 1.4; (b) any patent issuing on any patent application set forth on Schedule 1.4; (c) any patent claims issuing on any patent application that claims priority from, and that cover exclusively subject matter that is entitled to priority to, any patent or patent application set forth on Schedule 1.4 (including any divisional, continuation, continuation-in-part, reissue, reexamination, or extension) with a priority date that is on or before the Distribution Date; and (d) any foreign counterpart of any of the foregoing patents and patent applications with a priority date that is on or before the Distribution Date.

“eBay Proceedings” shall mean the proceedings set forth in Schedule 1.5.

“eBay Shares” shall mean the shares of common stock, par value \$0.001 per share, of eBay.

“eBay Specified Actions” shall mean those Actions set forth on Schedule 1.6.

“eBay Specified Persons” shall mean the Persons set forth on Schedule 1.7.

“eBay Stock Exchange” shall mean The NASDAQ Stock Market.

“Effective Time” shall mean 11:59:59 p.m., New York City time, on the Distribution Date.

“Employee Matters Agreement” shall mean the Employee Matters Agreement to be entered into by and between eBay and PayPal or the members of their respective Groups in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Enterprise Business” shall mean all businesses, operations, products, platforms, services and activities (whether or not such businesses, operations or activities are or have been terminated, divested or discontinued) of the Enterprise segment of eBay conducted at any time prior to the Effective Time by either Party or any member of its Group.

“Escalation Committee” shall have the meaning as set forth in Section 7.2.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder.

“Executable Code” shall mean the fully compiled version of a computer program that can be executed by a computer and used by an end user without further compilation.

“Force Majeure” shall mean, with respect to a Party, an event beyond the control of such Party (or any Person acting on its behalf), which event (a) does not arise or result from the fault or negligence of such Party (or any Person acting on its behalf) and (b) by its nature would not reasonably have been foreseen by such Party (or such Person), or, if it would reasonably have been foreseen, was unavoidable, and includes acts of God, acts of civil or military authority, embargoes, epidemics, pandemics, war, riots, insurrections, fires, explosions, earthquakes, floods, unusually severe weather conditions, labor problems or unavailability of parts. Notwithstanding the foregoing, the receipt by a Party of an unsolicited takeover offer or other acquisition proposal, even if unforeseen or unavoidable, and such Party’s response thereto shall not be deemed an event of Force Majeure .

“Form 10” shall mean the registration statement on Form 10 filed by PayPal with the SEC to effect the registration of PayPal Shares pursuant to the Exchange Act in connection with the Distribution, as such registration statement may be amended or supplemented from time to time prior to the Distribution.

“Governmental Approvals” shall mean any Approvals or Notifications to be made to, or obtained from, any Governmental Authority.

“Governmental Authority” shall mean any nation or government, any state, municipality or other political subdivision thereof, and any entity, body, agency, commission, department, board, bureau, court, tribunal or other instrumentality, whether federal, state, provincial, local, domestic, foreign, supranational or multinational, exercising executive, legislative, judicial, regulatory, administrative or other similar functions of, or pertaining to, government and any executive official thereof, including The NASDAQ Stock Market and any similar self-regulatory body under applicable securities Laws.

“Group” shall mean either the PayPal Group or the eBay Group, as the context requires.

“Indemnifying Party” shall have the meaning set forth in Section 4.4(a).

“Indemnified Party” shall have the meaning set forth in Section 4.4(a).

“Indemnity Payment” shall have the meaning set forth in Section 4.4(a).

“Information” shall mean information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names and records, supplier names and records, customer and supplier lists, customer and vendor data or correspondence, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data, files, papers, tapes, keys, correspondence, plans, invoices, forms, product data and literature, promotional and advertising materials, technical data, operating manuals, instructional documents, quality records and regulatory and compliance records; provided, that “Information” shall not include Registered IP.

“Information Statement” shall mean the information statement to be made available to the holders of eBay Shares in connection with the Distribution, as such information statement may be amended or supplemented from time to time prior to the Distribution.

“Information Technology” shall mean all technology, hardware, computers, servers, workstations, routers, hubs, switches, data communication lines, network and telecommunications equipment, Internet-related information technology infrastructure and other information technology equipment, in each case, other than Software.

“Initial Notice” shall have the meaning set forth in Section 7.1.

“Insurance Administration” shall mean, with respect to each insurance policy maintained by eBay or any member of the eBay Group, the accounting for premiums, retrospectively-rated premiums, defense costs, indemnity payments, deductibles and retentions, as appropriate, under the terms and conditions of each such policy; discussions or negotiations with insurers and the control of any Actions relating to any such policy; the reporting to excess insurance carriers of any losses or claims which may cause the per-occurrence, per claim or aggregate limits of any such policy to be exceeded; and the distribution of Insurance Proceeds as contemplated by this Agreement.

“Insurance Proceeds” shall mean those monies:

- (a) received by an insured from an insurance carrier; or
- (b) paid by an insurance carrier on behalf of the insured;

in any such case net of any costs or expenses incurred in the collection thereof to the extent such adjustment is demonstrably related to such proceeds and net of any applicable premium adjustments, including reserves and retrospectively rated premium adjustments (it being understood that Insurance Proceeds shall include amounts received under a captive insurance arrangement).

“Intellectual Property Matters Agreement” shall mean the Intellectual Property Matters Agreement to be entered into by and between eBay and PayPal or any members of their respective Groups in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Intellectual Property Rights” shall have the meaning set forth in the Intellectual Property Matters Agreement.

“Joint Proceedings” shall mean the proceedings set forth in Schedule 1.8.

“Law” shall mean any national, supranational, international, federal, state, provincial, local or similar law (including common law), statute, code, order, ordinance, rule, regulation, treaty (including any Tax treaty), license, permit, authorization, approval, consent, decree, injunction, binding judicial or administrative interpretation or other requirement, in each case, enacted, promulgated, issued or entered by a Governmental Authority.

“LHO” shall have the meaning as set forth in Section 4.5(f).

“Liabilities” shall mean all debts, guarantees, assurances, commitments, liabilities, responsibilities, Losses, remediation, deficiencies, damages, fines, penalties, settlements, sanctions, costs, expenses, interest and obligations of any nature or kind, whether accrued or fixed, absolute or contingent, matured or unmatured, accrued or not accrued, asserted or unasserted, liquidated or unliquidated, foreseen or unforeseen, known or unknown, reserved or unreserved, or determined or determinable, including those arising under any Law, claim (including any Third-Party Claim), demand, Action, or order, writ, judgment, injunction, decree,

stipulation, determination or award entered by or with any Governmental Authority or arbitration tribunal, and those arising under any contract, agreement, obligation, indenture, instrument, lease, promise, arrangement, release, warranty, commitment undertaking or terms of employment, whether imposed or sought to be imposed by a Governmental Authority, another third Person, or a Party, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, or otherwise, in each case including all costs, expenses, interest, attorneys' fees, disbursements and expenses of counsel, expert and consulting fees and costs related thereto or to the investigation or defense thereof and any equitable relief that is imposed in connection therewith.

“Licensed eBay Software” shall mean: (a) solely those software programs listed in Schedule 1.9(a), in both Executable Code and Source Code form, in the form such software programs exist as of the Effective Time; and (b) all documentation relating thereto, if any, provided by eBay to PayPal.

“Licensed PayPal Software” shall mean: (a) solely those software programs listed in Schedule 1.10(a), in both Executable Code and Source Code form, in the form such software programs exist as of the Effective Time; and (b) and all documentation relating thereto, if any, provided by PayPal to eBay.

“Linked” shall have the meaning set forth in Section 2.9(a).

“Losses” shall mean actual losses, costs, damages, penalties and expenses (including legal and accounting fees and expenses and costs of investigation and litigation), whether or not involving a Third-Party Claim.

“Mediation Request” shall have the meaning set forth in Section 7.3.

“Mediation Rules” shall have the meaning set forth in Section 7.3.

“Operating Agreement” shall mean the Operating Agreement to be entered into by and between eBay and PayPal or the members of their respective Groups in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Other Board Members” shall have the meaning as set forth in Section 7.2.

“Other IP” shall mean all Technology, other than Registered IP, that is owned by either Party or any member of its Group as of the Effective Time.

“Parties” shall mean the parties to this Agreement.

“PayPal” shall have the meaning set forth in the Preamble.

“PayPal, Inc. Contract” shall mean any contract or agreement to which PayPal, Inc. or any of its Subsidiaries entered into prior to the Effective Time and to which eBay and the other members of the eBay Group are not parties.

“PayPal Accounts” shall have the meaning set forth in Section 2.9(a).

“PayPal Assets” shall have the meaning set forth in Section 2.2(a).

“PayPal Balance Sheet” shall mean the pro forma combined balance sheet of the PayPal Business, including any notes and subledgers thereto, as of March 31, 2015, as presented in the Information Statement made available to the Record Holders.

“PayPal Business” shall mean (a) the business, operations, products, platforms, services and activities of the Payments segment of eBay conducted at any time prior to the Effective Time by either Party or any of their current or former Subsidiaries and (b) any terminated, divested or discontinued businesses, operations and activities that, at the time of termination, divestiture or discontinuation, primarily related to the business, operations or activities described in clause (a) as then conducted, including those set forth on Schedule 1.11(b).

“PayPal Bylaws” shall mean the Amended and Restated Bylaws of PayPal, substantially in the form of Exhibit B.

“PayPal Certificate of Incorporation” shall mean the Amended and Restated Certificate of Incorporation of PayPal, substantially in the form of Exhibit A.

“PayPal Contracts” shall mean the following contracts and agreements to which either Party or any member of its Group is a party or by which it or any member of its Group or any of their respective Assets is bound, whether or not in writing; provided, that PayPal Contracts shall not include any contract or agreement that is contemplated to be retained by eBay or any member of the eBay Group from and after the Effective Time pursuant to any provision of this Agreement or any Ancillary Agreement:

(a) (i) any marketing, merchant, reseller, distributor, development, supply or vendor contract or agreement entered into prior to the Effective Time exclusively related to the PayPal Business and (ii) with respect to any marketing, merchant, supply or vendor contract or agreement entered into prior to the Effective Time that relates to the PayPal Business but is not exclusively related to the PayPal Business, that portion of any such customer, distribution, supply or vendor contract or agreement that relates to the PayPal Business;

(b) (i) any license agreement or other agreement conferring Intellectual Property Rights entered into prior to the Effective Time exclusively related to the PayPal Business and (ii) with respect to any license agreement entered into prior to the Effective Time that relates to the PayPal Business but is not exclusively related to the PayPal Business, that portion of any such license agreement that relates to the PayPal Business;

(c) (i) any contract or agreement with a Third Party pursuant to which such Third Party provides colocation or disaster recovery services entered into prior to the Effective Time exclusively related to the PayPal Information Technology and (ii) with respect to any contract or agreement with a Third Party pursuant to which such Third Party provides colocation or disaster recovery services entered into prior to the Effective Time that relates to the PayPal Information Technology but is not exclusively related to the PayPal Information Technology, that portion of any such contract or agreement that relates to the PayPal Information Technology;

(d) any customer or user contract or agreement primarily used or held primarily for use in the PayPal Business as of the Effective Time;

(e) any joint venture or partnership contract or agreement that relates primarily to the PayPal Business as of the Effective Time;

(f) any guarantee, indemnity, representation, covenant, warranty or other Liability of either Party or any member of its Group in respect of any other PayPal Contract, any PayPal Liability or the PayPal Business;

(g) (i) any employment, change of control, retention, consulting, indemnification, termination, severance or other similar agreement with any current or former PayPal Group employee or current or former consultant of the PayPal Group entered into prior to the Effective Time and (ii) any proprietary information and inventions agreement or similar Intellectual Property Rights assignment or license agreement with any current or former PayPal Group employee, eBay Group employee, consultant of the PayPal Group or consultant of the eBay Group, in each case entered into prior to the Effective Time, to the extent such agreement relates to the PayPal Business;

(h) any contract or agreement that is otherwise expressly contemplated pursuant to this Agreement or any of the Ancillary Agreements to be assigned to PayPal or any member of the PayPal Group;

(i) any interest rate, currency, commodity or other swap, collar, cap or other hedging or similar agreements or arrangements related exclusively to the PayPal Business or entered into by or on behalf of any division, business unit or member of the PayPal Group;

(j) (i) any PayPal, Inc. Contract that is exclusively related to the PayPal Business and (ii) with respect to any PayPal, Inc. Contract that relates to the PayPal Business but is not exclusively related to the PayPal Business, that portion of any such PayPal, Inc. Contract that relates to the PayPal Business; and

(k) any contracts, agreements or settlements listed on Schedule 1.12(k), including the right to recover any amounts under such contracts, agreements or settlements.

“PayPal Designees” shall mean the entities (including corporations, general or limited partnerships, trusts, joint ventures, unincorporated organizations, limited liability entities or other entities) that will be members of the PayPal Group as of immediately prior to the Effective Time designated by PayPal to accept PayPal Assets and assume PayPal Liabilities.

“PayPal GPI Software” shall mean the Software set forth on Schedule 1.13.

“PayPal Group” shall mean (a) prior to the Effective Time, PayPal and each Person that will be a Subsidiary of PayPal as of immediately after the Effective Time, including the Transferred Entities, even if, prior to the Effective Time, such Person is not a Subsidiary of PayPal; and (b) on and after the Effective Time, PayPal and each Person that is a Subsidiary of PayPal.

“PayPal Indemnified Parties” shall have the meaning set forth in Section 4.3.

“PayPal Information Technology” shall mean: (a) all Software and all Information Technology owned or licensed by either Party or any member of its Group primarily used or primarily held for use in the PayPal Business as of the Effective Time, other than any eBay Data Center Infrastructure, including the Licensed PayPal Software and any other Software and Information Technology set forth on Schedule 1.14(a); and (b) all Intellectual Property Rights of either Party or any member of its Group in any of the foregoing.

“PayPal Intellectual Property” shall mean: (a) the PayPal Patents; (b) the Specified PayPal Patents; (c) the other Registered IP set forth on Schedule 1.15(c); (d) all Other IP owned by, licensed by or to, or sublicensed by or to either Party or any member of its Group as of the Effective Time primarily used or primarily held for use in the PayPal Business, including any Other IP set forth on Schedule 1.15(d); and (e) all Intellectual Property Rights of either Party or any member of its Group in any of the foregoing.

“PayPal Liabilities” shall have the meaning set forth in Section 2.3(a).

“PayPal Patents” shall mean: (a) the issued patents set forth on Schedule 1.16; (b) any patent issuing on any patent application set forth on Schedule 1.16; (c) any patent claims issuing on any patent application that claims priority from, and that cover exclusively subject matter that is entitled to priority to, any patent or patent application set forth on Schedule 1.16 (including, but not limited to, any divisional, continuation, continuation-in-part, reissue, reexamination, or extension) with a priority date that is on or before the Distribution Date; and (d) any foreign counterpart of any of the foregoing patents and patent applications with a priority date that is on or before the Distribution Date.

“PayPal Permits” shall mean all Permits owned or licensed by either Party or member of its Group primarily used or primarily held for use in the PayPal Business as of the Effective Time.

“PayPal Proceedings” shall mean the proceedings set forth in Schedule 1.17.

“PayPal Real Property” shall mean (a) all of the Real Property owned by either Party or member of its Group as of the Effective Time listed or described on Schedule 1.18(a), and (b) all the Real Property Leases to which either Party or member of its Group is party as of the Effective Time set forth on Schedule 1.18(b).

“PayPal Shares” shall mean the shares of common stock, par value \$0.0001 per share, of PayPal.

“PayPal Specified Actions” shall mean those Actions set forth on Schedule 1.19.

“PayPal Specified Persons” shall mean the Persons set forth on Schedule 1.20.

“PayPal Stock Exchange” shall mean The NASDAQ Stock Market.

“Permits” shall mean permits, approvals, authorizations, consents, licenses or certificates issued by any Governmental Authority.

“Person” shall mean an individual, a general or limited partnership, a corporation, a trust, a joint venture, an unincorporated organization, a limited liability entity, any other entity and any Governmental Authority.

“Plan of Reorganization” shall have the meaning set forth in Section 2.1(a).

“Prime Rate” shall mean the rate that Bloomberg displays as “Prime Rate by Country United States” at www.bloomberg.com/markets/rates-bonds/key-rates/ or on a Bloomberg terminal at PRIMBB Index.

“Privileged Information” shall mean any information, in written, oral, electronic or other tangible or intangible forms, including any communications by or to attorneys (including attorney-client privileged communications), memoranda and other materials prepared by attorneys or under their direction (including attorney work product), as to which a Party or any member of its Group would be entitled to assert or have asserted a privilege, including the attorney-client and attorney work product privileges.

“Product Development Agreement” shall mean the Product Development Agreement to be entered into by and between eBay and PayPal or the members of their respective Groups pursuant to the Operating Agreement and in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Real Property” shall mean land together with all easements, rights and interests arising out of the ownership thereof or appurtenant thereto and all buildings, structures, improvements and fixtures located thereon.

“Real Property Leases” shall mean all leases to Real Property and, to the extent covered by such leases, any and all buildings, structures, improvements and fixtures located thereon.

“Record Date” shall mean the close of business on the date to be determined by the eBay Board as the record date for determining holders of eBay Shares entitled to receive PayPal Shares pursuant to the Distribution.

“Record Holders” shall mean the holders of record of eBay Shares as of the Record Date.

“Registered IP” shall mean all Intellectual Property Rights that are registered, filed, issued or granted under the authority of, with or by, any Governmental Authority, including all patents, invention registrations, registered copyrights, registered trademarks, registered service marks, registered trade secrets, registered Internet domain names, and all applications for any of the foregoing.

“Representatives” shall mean, with respect to any Person, any of such Person’s directors, officers, employees, agents, consultants, advisors, accountants, attorneys or other representatives.

“Residual Information” shall mean information in non-tangible form that may be retained in the unaided memory of Representatives of a Party or members of such Party’s Group who have had access to confidential and proprietary information concerning the other Party or any member of the other Party’s Group.

“SEC” shall mean the U.S. Securities and Exchange Commission.

“Security Interest” shall mean any mortgage, security interest, pledge, lien, charge, claim, option, right to acquire, voting or other restriction, right-of-way, covenant, condition, easement, encroachment, restriction on transfer, or other encumbrance of any nature whatsoever.

“Separation” shall have the meaning set forth in the Recitals.

“Shared Contingent Liabilities” shall mean the following Liabilities of either Party or any member of its Group:

(a) any Liabilities relating to, arising out of or resulting from a general corporate matter of eBay occurring or existing at or prior to the Effective Time, including any such Liabilities (including any Liabilities relating to, arising out of or resulting from stockholder litigation or controversies arising out of or relating to actions or omissions occurring prior to the Effective Time, to the extent unresolved prior to the Effective Time and any amount paid or payable after the Effective Time by either Party or any member of its Group in respect of such Liabilities, and any Liabilities under federal and state securities laws) relating to, arising out of or resulting from claims made by or on behalf of holders of any of eBay’s securities (including debt securities), in their capacities as such, in respect of such general corporate matter;

(b) any Liabilities relating to, arising out of or resulting from any Action with respect to the Separation or the Distribution (other than any Action related to any Disclosure Document) made or brought by any Third Party against either Party or any member of its Group (but excluding any Action by a Party or a member of such Party’s Group, on the one hand, against another Party or member of either Party’s Group, on the other hand);

(c) any Liabilities relating to, arising out of or resulting from any (i) claims for indemnification by any current or former directors, officers or employees of eBay or any of its current or former Subsidiaries, in their capacities as such, or (ii) claims for breach of fiduciary duties brought against current or former directors, officers or employees of eBay or any of its current or former Subsidiaries, in their capacities as such, in each case, relating to any acts, omissions or events at or prior to the Effective Time; and

(d) any Liabilities relating to, arising out of or resulting from the Actions set forth on Schedule 1.21(d);

except, in each case, (i) any Liability that is otherwise specified to be a PayPal Liability or an eBay Liability, (ii) any Liability for Taxes, which shall be governed by the Tax Matters Agreement, (iii) any Liability that is otherwise specifically allocated under this Agreement or any other Ancillary Agreement or (iv) any Liability relating to, arising out of or resulting from any eBay Proceedings, Joint Proceedings or PayPal Proceedings.

“Shared Contract” shall have the meaning set forth in Section 2.8(a).

“Software” shall mean any and all (a) computer programs, including any and all software implementation of algorithms, models and methodologies, whether in source code, object code, human readable form or other form, (b) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (c) descriptions, flow charts and other work products used to design, plan, organize and develop any of the foregoing, (d) screens, user interfaces, report formats, firmware, development tools, templates, menus, buttons and icons and (e) documentation, including user manuals and other training documentation, relating to any of the foregoing.

“Source Code” shall mean the human-readable version of a computer program that can be compiled into Executable Code.

“Specified eBay Patents” shall mean: (a) the issued patents set forth on Schedule 1.22; (b) any patent issuing on any patent application set forth on Schedule 1.22; (c) any patent claims issuing on any patent application that claims priority from, and that cover exclusively subject matter that is entitled to priority to, any patent or patent application set forth on Schedule 1.22 (including any divisional, continuation, continuation-in-part, reissue, reexamination, or extension) with a priority date that is on or before the Distribution Date; and (d) any foreign counterpart of any of the foregoing patents and patent applications with a priority date that is on or before the Distribution Date.

“Specified PayPal Patents” shall mean: (a) the issued patents set forth on Schedule 1.23; (b) any patent issuing on any patent application set forth on Schedule 1.23; (c) any patent claims issuing on any patent application that claims priority from, and that cover exclusively subject matter that is entitled to priority to, any patent or patent application set forth on Schedule 1.23 (including any divisional, continuation, continuation-in-part, reissue, reexamination, or extension) with a priority date that is on or before the Distribution Date; and (d) any foreign counterpart of any of the foregoing patents and patent applications with a priority date that is on or before the Distribution Date.

“Subsidiary” shall mean, with respect to any Person, any corporation, limited liability company, joint venture or partnership of which such Person (a) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (i) the total combined voting power of all classes of voting securities, (ii) the total combined equity interests or (iii) the capital or profit interests, in the case of a partnership, or (b) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body.

“Tangible Information” shall mean Information that is contained in written, electronic or other tangible forms.

“Tax” shall have the meaning set forth in the Tax Matters Agreement.

“Tax Matters Agreement” shall mean the Tax Matters Agreement to be entered into by and between eBay and PayPal in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Tax Opinion” shall have the meaning set forth in the Recitals.

“Tax Return” shall have the meaning set forth in the Tax Matters Agreement.

“Technical Information” shall have the meaning set forth in the Intellectual Property Matters Agreement.

“Technology” shall have the meaning set forth in the Intellectual Property Matters Agreement, in each case, other than Software.

“Third Party” shall mean any Person other than the Parties or any members of their respective Groups.

“Third-Party Claim” shall have the meaning set forth in Section 4.5(a).

“Transfer Documents” shall have the meaning set forth in Section 2.1(b).

“Transferred Cash Amount” shall have the meaning set forth in Section 2.12.

“Transferred Entities” shall mean the entities set forth on Schedule 1.24.

“Transition Committee” shall have the meaning set forth in Section 2.14.

“Transition Services Agreement” shall mean the Transition Services Agreement to be entered into by and between eBay and PayPal or any members of their respective Groups in connection with the Separation, the Distribution and the other transactions contemplated by this Agreement.

“Unreleased eBay Liabilities” shall have the meaning set forth in Section 2.5(b)(ii).

“Unreleased PayPal Liabilities” shall have the meaning set forth in Section 2.5(a)(ii).

ARTICLE II
THE SEPARATION

2.1 Transfer of Assets and Assumption of Liabilities .

(a) On or prior to the Effective Time, but in any case, prior to the Distribution, in accordance with the plan and structure set forth on Schedule 2.1(a) (the “ Plan of Reorganization ”):

(i) *Transfer and Assignment of PayPal Assets* . eBay shall, and shall cause the applicable members of its Group to, contribute, assign, transfer, convey and deliver to PayPal, or the applicable PayPal Designees, and PayPal or such PayPal Designees shall accept from eBay and the applicable members of the eBay Group, all of eBay’s and such eBay Group members’ respective direct or indirect right, title and interest in and to all of the PayPal Assets (it being understood that if any PayPal Asset is held by a Transferred Entity or a wholly owned Subsidiary of a Transferred Entity, such PayPal Asset may be assigned, transferred, conveyed and delivered to PayPal as a result of the transfer of all of the equity interests in such Transferred Entity from eBay or the applicable members of the eBay Group to PayPal or the applicable PayPal Designee);

(ii) *Acceptance and Assumption of PayPal Liabilities* . PayPal and the applicable PayPal Designees shall accept, assume and agree faithfully to perform, discharge and fulfill all the PayPal Liabilities in accordance with their respective terms (it being understood that if any PayPal Liability is a liability of a Transferred Entity or a wholly owned Subsidiary of a Transferred Entity, such PayPal Liability may be assumed by PayPal as a result of the transfer of all of the equity interests in such Transferred Entity from eBay or the applicable members of the eBay Group to PayPal or the applicable PayPal Designee); provided, that PayPal shall cause such Transferred Entity and such PayPal Designee to perform, discharge and fulfill all such PayPal Liabilities. PayPal and such PayPal Designees shall be responsible for all PayPal Liabilities, regardless of when or where such PayPal Liabilities arose or arise, or whether the facts on which they are based occurred prior to or subsequent to the Effective Time, regardless of where or against whom such PayPal Liabilities are asserted or determined (including any PayPal Liabilities arising out of claims made by eBay’s or PayPal’s respective Subsidiaries, Affiliates or Representatives, or by the respective Representatives of their Subsidiaries or Affiliates, against any member of the eBay Group or the PayPal Group) or whether asserted or determined prior to the date hereof, and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by any member of the eBay Group or the PayPal Group, or any of their respective Subsidiaries, Affiliates or Representatives;

(iii) *Transfer and Assignment of eBay Assets* . eBay and PayPal shall cause PayPal and the PayPal Designees to contribute, assign, transfer, convey and deliver to eBay or certain members of the eBay Group designated by eBay, and eBay or such members of the eBay Group shall accept from PayPal and the PayPal Designees, all of PayPal’s and such PayPal Designees’ respective direct or indirect right, title and interest in and to all eBay Assets held by PayPal or a PayPal Designee; and

(iv) *Acceptance and Assumption of eBay Liabilities* . eBay and the applicable members of the eBay Group designated by eBay shall accept and assume and agree faithfully to perform, discharge and fulfill all of the eBay Liabilities in accordance with their respective terms. eBay and the applicable members of the eBay Group shall be responsible for all eBay Liabilities in accordance with their respective terms, regardless of when or where such eBay Liabilities arose or arise, whether the facts on which they are based occurred prior to or subsequent to the Effective Time, where or against whom such eBay Liabilities are asserted or determined (including any such eBay Liabilities arising out of claims made by eBay's or PayPal's respective Subsidiaries, Affiliates or Representatives, or by the respective Representatives of their Subsidiaries or Affiliates, against any member of the eBay Group or the PayPal Group) or whether asserted or determined prior to the date hereof, and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by any member of the eBay Group or the PayPal Group, or any of their respective Subsidiaries, Affiliates or Representatives.

(b) *Transfer Documents* . In furtherance of the contribution, assignment, transfer, conveyance and delivery of the Assets and the acceptance and assumption of the Liabilities in accordance with Section 2.1(a), (i) each Party shall execute and deliver, and shall cause the applicable members of its Group to execute and deliver, such bills of sale, quitclaim deeds, stock powers, certificates of title, assignments of contracts and other instruments of transfer, conveyance and assignment as and to the extent necessary to evidence the transfer, conveyance and assignment of all of such Party's and the applicable members of its Group's right, title and interest in and to such Assets to the other Party and the applicable members of its Group in accordance with Section 2.1(a), and (ii) each Party shall execute and deliver, and shall cause the applicable members of its Group to execute and deliver, to the other Party such assumptions of contracts and other instruments of assumption as and to the extent necessary to evidence the valid and effective assumption of the Liabilities by such Party or the applicable members of its Group in accordance with Section 2.1(a). All of the foregoing documents contemplated by this Section 2.1(b) shall be referred to collectively herein as the "Transfer Documents."

(c) *Misallocations* . In the event that at any time or from time to time (whether prior to, at or after the Effective Time), one Party (or any member of such Party's respective Group) shall receive or otherwise possess any Asset that is allocated to the other Party (or any member of such Party's Group) pursuant to this Agreement or any Ancillary Agreement, such Party shall promptly transfer, or cause to be transferred, such Asset to the Party so entitled thereto (or to any member of such Party's Group), and such Party (or member of such Party's Group) shall accept such Asset. Prior to any such transfer, the Person receiving or possessing such Asset shall hold such Asset in trust for any such other Person. In the event that at any time or from time to time (whether prior to, at or after the Effective Time), one Party hereto (or any member of such Party's respective Group) shall receive or otherwise assume any Liability that is allocated to the other Party (or any member of such Party's Group) pursuant to this Agreement or any Ancillary Agreement, such Party shall promptly transfer, or cause to be transferred, such Liability to the Party responsible therefor (or to the applicable member of such Party's Group), and such Party (or member of such Party's Group) shall accept, assume and agree to faithfully perform such Liability. The Parties shall, and shall cause the applicable members of their respective Group to, execute such Transfer Documents and take such further actions as may be required to effectuate the Transfers denoted in this Section 2.1 .

(d) *Waiver of Bulk-Sale and Bulk-Transfer Laws* . PayPal hereby waives compliance by each and every member of the eBay Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the PayPal Assets to any member of the PayPal Group. eBay hereby waives compliance by each and every member of the PayPal Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the eBay Assets to any member of the eBay Group.

(e) *Intellectual Property Rights* .

(i) If and to the extent that, as a matter of Law in any jurisdiction, eBay or the applicable members of its Group cannot assign, transfer or convey any of eBay’s or such eBay Group members’ respective direct or indirect right, title and interest in and to any Registered IP, Other IP, Software or Intellectual Property Rights included in the PayPal Assets, then, to the extent possible, eBay shall, and shall cause the applicable members of its Group to, irrevocably grant to PayPal, or the applicable PayPal Designees, an exclusive, irrevocable, assignable, transferable, sublicenseable, worldwide, perpetual, royalty-free license to use, exploit and commercialize in any manner now known or in the future discovered and for whatever purpose, any such right, title or interest.

(ii) If and to the extent that, as a matter of Law in any jurisdiction, PayPal or the applicable members of its Group cannot assign, transfer or convey any of PayPal’s or such PayPal Group members’ respective direct or indirect right, title and interest in and to any Registered IP, Other IP, Software or Intellectual Property Rights included in the eBay Assets, then, to the extent possible, PayPal shall, and shall cause the applicable members of its Group to, irrevocably grant to eBay, or the applicable eBay Designees, an exclusive, irrevocable, assignable, transferable, sublicenseable, worldwide, perpetual, royalty-free license to use, exploit and commercialize in any manner now known or in the future discovered and for whatever purpose, any such right, title or interest.

2.2 PayPal Assets; eBay Assets .

(a) *PayPal Assets* . For purposes of this Agreement, “PayPal Assets” shall mean:

(i) all issued and outstanding capital stock or other equity interests of the Transferred Entities that are owned by either Party or any members of its Group as of the Effective Time;

(ii) all Assets (including cash and cash equivalents) of either Party or any of the members of its Group included or reflected as assets of the PayPal Group on the PayPal Balance Sheet, subject to any dispositions of such Assets subsequent to the date of the PayPal Balance Sheet; provided, that the amounts set forth on the PayPal Balance Sheet with respect to any Assets shall not be treated as minimum amounts or limitations on the amount of such Assets that are included in the definition of PayPal Assets pursuant to this subclause (ii);

(iii) all Assets of either Party or any of the members of its Group as of the Effective Time that are of a nature or type that would have resulted in such Assets being included as Assets of PayPal or members of the PayPal Group on a pro forma combined balance sheet of the PayPal Group or any notes or subledgers thereto as of the Effective Time (were such balance sheet, notes and subledgers to be prepared on a basis consistent with the determination of the Assets included on the PayPal Balance Sheet), it being understood that (x) the PayPal Balance Sheet shall be used to determine the types of, and methodologies used to determine, those Assets that are included in the definition of PayPal Assets pursuant to this subclause (iii); and (y) the amounts set forth on the PayPal Balance Sheet with respect to any Assets shall not be treated as minimum amounts or limitations on the amount of such Assets that are included in the definition of PayPal Assets pursuant to this subclause (iii);

(iv) all Assets of either Party or any of the members of its Group as of the Effective Time that are expressly provided by this Agreement or any Ancillary Agreement as Assets to be transferred to or owned by PayPal or any other member of the PayPal Group;

(v) all PayPal Contracts as of the Effective Time and all rights, interests or claims of either Party or any of the members of its Group thereunder as of the Effective Time;

(vi) all PayPal Intellectual Property and all rights, interests or claims of either Party or any of the members of its Group thereunder as of the Effective Time;

(vii) all PayPal Information Technology and all rights, interests or claims of either Party or any of the members of its Group thereunder as of the Effective Time;

(viii) all rights of PayPal and any member of the PayPal Group under any license of Technology, Software or Intellectual Property Rights granted by eBay or any member of the eBay Group pursuant to the terms of the Intellectual Property Matters Agreement;

(ix) all rights of PayPal and any member of the PayPal Group under any covenant not to sue granted by eBay or any member of the eBay Group pursuant to the terms of the Intellectual Property Matters Agreement;

(x) any lease, sublease, license or right to use the eBay Data Center Infrastructure granted by eBay or any member of the eBay Group to PayPal or any member of the PayPal Group pursuant to the terms of the Colocation Services Agreements;

(xi) all PayPal Permits as of the Effective Time and all rights or interests of either Party or any of the members of its Group thereunder as of the Effective Time;

(xii) all PayPal Real Property as of the Effective Time;

(xiii) to the extent not already identified in clauses (i) through (xii) of this Section 2.2(a), all Assets of either Party or any of the members of its Group as of the Effective Time that are exclusively used or exclusively held for use in the PayPal Business;

(xiv) subject to applicable Law and the provisions of the applicable Ancillary Agreements, to the extent not already identified in clauses (i) through (xii) of this Section 2.2(a), all rights, interests and claims of either Party or any of the members of its Group as of the Effective Time with respect to Information that is exclusively related to the PayPal Assets, the PayPal Liabilities, the PayPal Business or the Transferred Entities, and a non-exclusive right to all Information that is related to, but not exclusively related to, the PayPal Assets, the PayPal Liabilities, the PayPal Business or the Transferred Entities (it being understood that no member of the eBay Group or the PayPal Group shall be required to delete any Information from its systems); and

(xv) any and all Assets set forth on Schedule 2.2(a)(xv).

Notwithstanding the foregoing, the PayPal Assets shall not in any event include any Asset referred to in clauses (i), (ii) or (iv) through (vii) of Section 2.2(b).

(b) *eBay Assets*. For the purposes of this Agreement, “eBay Assets” shall mean all Assets of either Party or the members of its Group as of the Effective Time, other than the PayPal Assets, it being understood that the eBay Assets shall include:

(i) all Assets that are expressly contemplated by this Agreement or any Ancillary Agreement (or the Schedules hereto or thereto) as Assets to be retained by eBay or any other member of the eBay Group;

(ii) all Contracts of either Party or any of the members of its Group as of the Effective Time (other than the PayPal Contracts);

(iii) all Registered IP, Other IP, and Software of either Party or any of the members of its Group as of the Effective Time (other than the PayPal Intellectual Property and PayPal Information Technology, all rights of PayPal and any member of the PayPal Group under any license of technology, Software or Intellectual Property Rights granted by eBay or any member of the eBay Group pursuant to the terms of the Intellectual Property Matters Agreement, all rights of PayPal and any member of the PayPal Group under any covenant not to sue granted by eBay or any member of the eBay Group pursuant to the terms of the Intellectual Property Matters Agreement and any lease, sublease, license or right to use the eBay Data Center Infrastructure granted by eBay or any member of the eBay Group to PayPal or any member of the PayPal Group pursuant to the terms of the Information Technology Services Agreement), including the eBay Name and eBay Marks, the eBay Patents, the Licensed eBay Software, the Specified eBay Patents, and the Registered IP, Software and Technology set forth on Schedule 2.2(b)(iii);

- (iv) all Permits of either Party or any of the members of its Group as of the Effective Time (other than the PayPal Permits);
- (v) all Real Property of either Party or any of the members of its Group as of the Effective Time (other than the PayPal Real Property);
- (vi) any and all cash proceeds, securities or property received by either Party or any of the members of its Group as a result of the sale, spin-off, initial public offering or other disposition or divestiture of all or a portion of the Enterprise Business; and
- (vii) any and all Assets set forth on Schedule 2.2(b)(vii).

2.3 PayPal Liabilities; eBay Liabilities.

(a) *PayPal Liabilities*. For the purposes of this Agreement, “PayPal Liabilities” shall mean the following Liabilities of either Party or any of the members of its Group:

- (i) all Liabilities included or reflected as liabilities or obligations of PayPal or the members of the PayPal Group on the PayPal Balance Sheet, subject to any discharge of such Liabilities subsequent to the date of the PayPal Balance Sheet; provided, that the amounts set forth on the PayPal Balance Sheet with respect to any Liabilities shall not be treated as minimum amounts or limitations on the amount of such Liabilities that are included in the definition of PayPal Liabilities pursuant to this subclause (i);
- (ii) all Liabilities as of the Effective Time that are of a nature or type that would have resulted in such Liabilities being included or reflected as liabilities or obligations of PayPal or the members of the PayPal Group on a pro forma combined balance sheet of the PayPal Group or any notes or subledgers thereto as of the Effective Time (were such balance sheet, notes and subledgers to be prepared on a basis consistent with the determination of the Liabilities included on the PayPal Balance Sheet), it being understood that (x) the PayPal Balance Sheet shall be used to determine the types of, and methodologies used to determine, those Liabilities that are included in the definition of PayPal Liabilities pursuant to this subclause (ii); and (y) the amounts set forth on the PayPal Balance Sheet with respect to any Liabilities shall not be treated as minimum amounts or limitations on the amount of such Liabilities that are included in the definition of PayPal Liabilities pursuant to this subclause (ii);
- (iii) all Liabilities relating to, arising out of or resulting from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time), in each case, to the extent that such Liabilities relate to, arise out of or result from the PayPal Business or a PayPal Asset;

(iv) fifty percent (50%) of the Shared Contingent Liabilities;

(v) all Liabilities that are expressly provided by this Agreement or any Ancillary Agreement (or the Schedules hereto or thereto) as Liabilities to be assumed by PayPal or any other member of the PayPal Group, and all agreements, obligations and Liabilities of any member of the PayPal Group under this Agreement or any of the Ancillary Agreements;

(vi) all Liabilities relating to, arising out of or resulting from the PayPal Contracts, the PayPal Intellectual Property, the PayPal Information Technology, the PayPal Permits or the PayPal Real Property;

(vii) all Liabilities (A) relating to, arising out of or resulting from the PayPal Specified Actions or (B) set forth on Schedule 2.3(a)(vii);

(viii) all Liabilities arising out of claims made by any Third Party (including eBay's or PayPal's respective directors, officers, stockholders, current and former employees and agents) against any member of the eBay Group or the PayPal Group to the extent relating to, arising out of or resulting from the PayPal Business or the PayPal Assets or the other business, operations, activities or Liabilities referred to in clauses (i) through (vii) above;

provided that, notwithstanding the foregoing, the Parties agree that (A) the Liabilities set forth in Section 2.3(b) shall not be PayPal Liabilities but instead shall be eBay Liabilities and (B) the Liabilities of each Party relating to, arising out of or resulting from any eBay Proceedings, Joint Proceedings or PayPal Proceedings shall be governed exclusively by Schedule 5.6.

(b) *eBay Liabilities*. For the purposes of this Agreement, “eBay Liabilities” shall mean the following Liabilities of either Party or any of the members of its Group:

(i) all Liabilities relating to, arising out of or resulting from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time) of any member of the eBay Group and, prior to the Effective Time, any member of the PayPal Group in each case, to the extent that such Liabilities are not PayPal Liabilities or Shared Contingent Liabilities;

(ii) fifty percent (50%) of the Shared Contingent Liabilities;

(iii) all Liabilities that are expressly provided by this Agreement or any Ancillary Agreement (or the Schedules hereto or thereto) as Liabilities to be assumed or retained by eBay or any other member of the eBay Group, and all agreements, obligations and Liabilities of any member of the eBay Group under this Agreement or any of the Ancillary Agreements;

(iv) all Liabilities relating to, arising out of or resulting from the sale, spin-off, initial public offering or other disposition or divestiture of all or a portion of the Enterprise Business, and all fees and expenses of brokers, finders, counsel, financial advisors, accountants, consultants and other professional advisors incurred by either Party or any member of its Group in connection with such sale, spin-off, initial public offering or other disposition or divestiture;

(v) all Liabilities arising out of claims made by any Third Party (including eBay's or PayPal's respective directors, officers, stockholders, current and former employees and agents) against any member of the eBay Group or the PayPal Group to the extent relating to, arising out of or resulting from the eBay Business or the eBay Assets; and

(vi) all Liabilities all Liabilities (A) relating to, arising out of or resulting from the eBay Specified Actions or (B) set forth on Schedule 2.3(b)(vi).

2.4 Approvals and Notifications.

(a) *Approvals and Notifications for PayPal Assets* . To the extent that the transfer or assignment of any PayPal Asset, the assumption of any PayPal Liability, the Separation, or the Distribution requires any Approvals or Notifications, the Parties shall use their commercially reasonable efforts to obtain or make such Approvals or Notifications as soon as reasonably practicable; provided, that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed between eBay and PayPal, neither eBay nor PayPal shall be obligated to contribute capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to obtain or make such Approvals or Notifications.

(b) *Delayed PayPal Transfers* . If and to the extent that the valid, complete and perfected transfer or assignment to the PayPal Group of any PayPal Asset or assumption by the PayPal Group of any PayPal Liability would be a violation of applicable Law or require any Approvals or Notifications in connection with the Separation or the Distribution that have not been obtained or made by the Effective Time then, unless the Parties mutually shall otherwise determine, the transfer or assignment to the PayPal Group of such PayPal Assets or the assumption by the PayPal Group of such PayPal Liabilities, as the case may be, shall be automatically deemed deferred and any such purported transfer, assignment or assumption shall be null and void until such time as all legal impediments are removed or such Approvals or Notifications have been obtained or made. Notwithstanding the foregoing, any such PayPal Assets or PayPal Liabilities shall continue to constitute PayPal Assets and PayPal Liabilities, as the case may be, for all other purposes of this Agreement.

(c) *Treatment of Delayed PayPal Assets and Delayed PayPal Liabilities* . If any transfer or assignment of any PayPal Asset or any assumption of any PayPal Liability intended to be transferred, assigned or assumed hereunder, as the case may be, is not consummated on or prior to the Effective Time, whether as a result of the provisions of Section 2.4(b) or for any other reason (any such PayPal Asset, a “ Delayed PayPal Asset ” and any such PayPal Liability, a “ Delayed PayPal Liability ”), then, insofar as reasonably possible and

subject to applicable Law, the member of the eBay Group retaining such Delayed PayPal Asset or such Delayed PayPal Liability, as the case may be, shall thereafter hold such Delayed PayPal Asset or Delayed PayPal Liability, as the case may be, for the use and benefit (or the performance and obligation, in the case of a Liability) of the member of the PayPal Group entitled thereto (at the expense of the member of the PayPal Group entitled thereto). In addition, the member of the eBay Group retaining such Delayed PayPal Asset or such Delayed PayPal Liability shall, insofar as reasonably possible and to the extent permitted by applicable Law, treat such Delayed PayPal Asset or Delayed PayPal Liability in the ordinary course of business in accordance with past practice and take such other actions as may be reasonably requested by the member of the PayPal Group to whom such Delayed PayPal Asset is to be transferred or assigned, or which will assume such Delayed PayPal Liability, as the case may be, in order to place such member of the PayPal Group in a substantially similar position as if such Delayed PayPal Asset or Delayed PayPal Liability had been transferred, assigned or assumed as contemplated hereby and so that all the benefits and burdens relating to such Delayed PayPal Asset or Delayed PayPal Liability, as the case may be, including use, risk of loss, potential for gain, and dominion, control and command over such Delayed PayPal Asset or Delayed PayPal Liability, as the case may be, and all costs and expenses related thereto, shall inure from and after the Effective Time to the PayPal Group.

(d) *Transfer of Delayed PayPal Assets and Delayed PayPal Liabilities* . If and when the Approvals or Notifications, the absence of which caused the deferral of transfer or assignment of any Delayed PayPal Asset or the deferral of assumption of any Delayed PayPal Liability pursuant to Section 2.4(b), are obtained or made, and, if and when any other legal impediments for the transfer or assignment of any Delayed PayPal Asset or the assumption of any Delayed PayPal Liability have been removed, the transfer or assignment of the applicable Delayed PayPal Asset or the assumption of the applicable Delayed PayPal Liability, as the case may be, shall be effected in accordance with the terms of this Agreement and/or the applicable Ancillary Agreement.

(e) *Costs for Delayed PayPal Assets and Delayed PayPal Liabilities* . Any member of the eBay Group retaining a Delayed PayPal Asset or Delayed PayPal Liability due to the deferral of the transfer or assignment of such Delayed PayPal Asset or the deferral of the assumption of such Delayed PayPal Liability, as the case may be, shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced (or otherwise made available) by PayPal or the member of the PayPal Group entitled to the Delayed PayPal Asset or Delayed PayPal Liability, other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be promptly reimbursed by PayPal or the member of the PayPal Group entitled to such Delayed PayPal Asset or Delayed PayPal Liability.

(f) *Approvals and Notifications for eBay Assets* . To the extent that the transfer or assignment of any eBay Asset or the assumption of any eBay Liability requires any Approvals or Notifications, the Parties shall use their commercially reasonable efforts to obtain or make such Approvals or Notifications as soon as reasonably practicable; provided, that, except to the extent expressly provided in this Agreement or any of the Ancillary Agreements or as otherwise agreed between eBay and PayPal, neither eBay nor PayPal shall be obligated to contribute capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to obtain or make such Approvals or Notifications.

(g) *Delayed eBay Transfers* . If and to the extent that the valid, complete and perfected transfer or assignment to the eBay Group of any eBay Asset or assumption by the eBay Group of any eBay Liability would be a violation of applicable Law or require any Approval or Notification that has not been obtained or made by the Effective Time then, unless the Parties mutually shall otherwise determine, the transfer or assignment to the eBay Group of such eBay Assets or the assumption by the eBay Group of such eBay Liabilities, as the case may be, shall be automatically deemed deferred and any such purported transfer, assignment or assumption shall be null and void until such time as all legal impediments are removed or such Approval or Notification has been obtained or made. Notwithstanding the foregoing, any such eBay Assets or eBay Liabilities shall continue to constitute eBay Assets and eBay Liabilities, as the case may be, for all other purposes of this Agreement.

(h) *Treatment of Delayed eBay Assets and Delayed eBay Liabilities* . If any transfer or assignment of any eBay Asset or any assumption of any eBay Liability intended to be transferred, assigned or assumed hereunder, as the case may be, is not consummated on or prior to the Effective Time whether as a result of the provisions of this Section 2.4(h) or for any other reason (any such eBay Asset, a “ Delayed eBay Asset ” and any such eBay Liability, a “ Delayed eBay Liability ”), then, insofar as reasonably possible, the member of the PayPal Group retaining such Delayed eBay Asset or such Delayed eBay Liability, as the case may be, shall thereafter hold such Delayed eBay Asset or Delayed eBay Liability, as the case may be, for the use and benefit (or the performance or obligation, in the case of a Liability) of the member of the eBay Group entitled thereto (at the expense of the member of the eBay Group entitled thereto). In addition, the member of the PayPal Group retaining such Delayed eBay Asset or such Delayed eBay Liability shall, insofar as reasonably possible and to the extent permitted by applicable Law, treat such Delayed eBay Asset or Delayed eBay Liability in the ordinary course of business in accordance with past practice. Such member of the PayPal Group shall also take such other actions as may be reasonably requested by the member of the eBay Group to which such Delayed eBay Asset is to be transferred or assigned, or which will assume such Delayed eBay Liability, as the case may be, in order to place such member of the eBay Group in a substantially similar position as if such Delayed eBay Asset or Delayed eBay Liability had been transferred, assigned or assumed and so that all the benefits and burdens relating to such Delayed eBay Asset or Delayed eBay Liability, and all costs and expenses related thereto, shall inure from and after the Effective Time to the eBay Group.

(i) *Transfer of Delayed eBay Assets and Delayed eBay Liabilities* . If and when the Approvals or Notifications, the absence of which caused the deferral of transfer or assignment of any Delayed eBay Asset or the deferral of assumption of any Delayed eBay Liability, are obtained or made, and, if and when any other legal impediments for the transfer or assignment of any Delayed eBay Asset or the assumption of any Delayed eBay Liability have been removed, the transfer or assignment of the applicable Delayed eBay Asset or the assumption of the applicable Delayed eBay Liability, as the case may be, shall be effected in accordance with the terms of this Agreement and/or the applicable Ancillary Agreement.

(j) *Costs for Delayed eBay Assets and Delayed eBay Liabilities* . Any member of the PayPal Group retaining a Delayed eBay Asset or Delayed eBay Liability due to the deferral of the transfer or assignment of such Delayed eBay Asset or the deferral of the assumption of such Delayed eBay Liability, as the case may be, shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced (or otherwise made available) by eBay or the member of the eBay Group entitled to the Delayed eBay Asset or Delayed eBay Liability, other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be promptly reimbursed by eBay or the member of the eBay Group entitled to such Delayed eBay Asset or Delayed eBay Liability.

2.5 Novation of Liabilities .

(a) Novation of PayPal Liabilities.

(i) Each of eBay and PayPal, at the request of the other, shall use its commercially reasonable efforts to obtain, or to cause to be obtained, as soon as reasonably practicable, any consent, substitution, approval or amendment required to novate or assign all PayPal Liabilities and obtain in writing the unconditional release of each member of the eBay Group that is a party to or otherwise bound by any such arrangements, so that, in any such case, the members of the PayPal Group shall be solely responsible for such PayPal Liabilities; provided, that, except as otherwise expressly provided in this Agreement or any of the Ancillary Agreements, neither eBay nor PayPal shall be obligated to contribute any capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any third Person from whom any such consent, substitution, approval, amendment or release is requested.

(ii) If eBay or PayPal is unable to obtain, or to cause to be obtained, any such required consent, substitution, approval, amendment or release and the applicable member of the eBay Group continues to be bound by such agreement, lease, license or other obligation or Liability (each, an “ Unreleased PayPal Liability ”), PayPal shall, to the extent not prohibited by Law, as indemnitor, guarantor, agent or subcontractor for such member of the eBay Group, as the case may be, (A) pay, perform and discharge fully all the obligations or other Liabilities of such member of the eBay Group that constitute Unreleased PayPal Liabilities from and after the Effective Time and (B) use its commercially reasonable efforts to effect such payment, performance or discharge prior to the time any demand for such payment, performance or discharge is permitted to be made by the obligee thereunder on any member of the eBay Group. If and when any such consent, substitution, approval, amendment or release shall be obtained or the Unreleased PayPal Liabilities shall otherwise become assignable or able to be novated, eBay shall promptly assign, or cause to be assigned, and PayPal or the applicable PayPal Group member shall assume, such Unreleased PayPal Liabilities without exchange of further consideration.

(b) *Novation of eBay Liabilities.*

(i) Each of eBay and PayPal, at the request of the other, shall use its commercially reasonable efforts to obtain, or to cause to be obtained, as soon as reasonably practicable, any consent, substitution, approval or amendment required to novate or assign all eBay Liabilities and obtain in writing the unconditional release of each member of the PayPal Group that is a party to or otherwise bound by any such arrangements, so that, in any such case, the members of the eBay Group shall be solely responsible for such eBay Liabilities; provided, that, except as otherwise expressly provided in this Agreement or any of the Ancillary Agreements, neither eBay nor PayPal shall be obligated to contribute any capital or pay any consideration in any form (including providing any letter of credit, guaranty or other financial accommodation) to any third Person from whom any such consent, substitution, approval, amendment or release is requested.

(ii) If eBay or PayPal is unable to obtain, or to cause to be obtained, any such required consent, substitution, approval, amendment or release and the applicable member of the PayPal Group continues to be bound by such agreement, lease, license or other obligation or Liability (each, an “Unreleased eBay Liability”), eBay shall, to the extent not prohibited by Law, as indemnitor, guarantor, agent or subcontractor for such member of the PayPal Group, as the case may be, (A) pay, perform and discharge fully all the obligations or other Liabilities of such member of the PayPal Group that constitute Unreleased eBay Liabilities from and after the Effective Time and (B) use its commercially reasonable efforts to effect such payment, performance or discharge prior to the time any demand for such payment, performance or discharge is permitted to be made by the obligee thereunder on any member of the PayPal Group. If and when any such consent, substitution, approval, amendment or release shall be obtained or the Unreleased eBay Liabilities shall otherwise become assignable or able to be novated, PayPal shall promptly assign, or cause to be assigned, and eBay or the applicable eBay Group member shall assume, such Unreleased eBay Liabilities without exchange of further consideration.

2.6 Release of Guarantees. . In furtherance of, and not in limitation of, the obligations set forth in Section 2.5 :

(a) On or prior to the Effective Time or as soon as practicable thereafter, each of eBay and PayPal shall, at the request of the other Party and with the reasonable cooperation of such other Party and the applicable member(s) of such Party’s Group, use commercially reasonable efforts to (i) have any member(s) of the eBay Group removed as guarantor of or obligor for any PayPal Liability to the extent that they relate to PayPal Liabilities, including the removal of any Security Interest on or in any eBay Asset that may serve as collateral or security for any such PayPal Liability; and (ii) have any member(s) of the PayPal Group removed as guarantor of or obligor for any eBay Liability to the extent that they relate to eBay Liabilities, including the removal of any Security Interest on or in any PayPal Asset that may serve as collateral or security for any such eBay Liability.

(b) To the extent required to obtain a release from a guarantee of:

(i) any member of the eBay Group, PayPal shall execute a guarantee agreement in the form of the existing guarantee or such other form as is agreed to by the relevant parties to such guarantee agreement, which agreement shall include the removal of any Security Interest on or in any eBay Asset that may serve as collateral or security for any such eBay Liability, except to the extent that such existing guarantee contains representations, covenants or other terms or provisions either (A) with which PayPal would be reasonably unable to comply or (B) which PayPal would not reasonably be able to avoid breaching; and

(ii) any member of the PayPal Group, eBay shall execute a guarantee agreement in the form of the existing guarantee or such other form as is agreed to by the relevant parties to such guarantee agreement, which agreement shall include the removal of any Security Interest on or in any PayPal Asset that may serve as collateral or security for any such PayPal Liability, except to the extent that such existing guarantee contains representations, covenants or other terms or provisions either (A) with which eBay would be reasonably unable to comply or (B) which eBay would not reasonably be able to avoid breaching.

(c) If eBay or PayPal is unable to obtain, or to cause to be obtained, any such required removal or release as set forth in clauses (a) and (b) of this Section 2.6, (i) the Party or the relevant member of its Group that has assumed the Liability with respect to such guarantee shall indemnify, defend and hold harmless the guarantor or obligor against or from any Liability arising from or relating thereto in accordance with the provisions of Article IV and shall, as agent or subcontractor for such guarantor or obligor, pay, perform and discharge fully all the obligations or other Liabilities of such guarantor or obligor thereunder; and (ii) each of eBay and PayPal, on behalf of itself and the other members of their respective Group, agree not to renew or extend the term of, increase any obligations under, or transfer to a Third Party, any loan, guarantee, lease, contract or other obligation for which the other Party or a member of its Group is or may be liable unless all obligations of such other Party and the members of such other Party's Group with respect thereto are thereupon terminated by documentation satisfactory in form and substance to such other Party.

2.7 Termination of Agreements.

(a) Except as set forth in Section 2.7(b), in furtherance of the releases and other provisions of Section 4.1, PayPal and each member of the PayPal Group, on the one hand, and eBay and each member of the eBay Group, on the other hand, hereby terminate any and all agreements, arrangements, commitments or understandings, whether or not in writing, between or among PayPal and/or any member of the PayPal Group, on the one hand, and eBay and/or any member of the eBay Group, on the other hand, effective as of the Effective Time. No such terminated agreement, arrangement, commitment or understanding (including any provision thereof which purports to survive termination) shall be of any further force or effect after the Effective Time. Each Party shall, at the reasonable request of the other Party, take, or cause to be taken, such other actions as may be necessary to effect the foregoing.

(b) The provisions of Section 2.7(a) shall not apply to any of the following agreements, arrangements, commitments or understandings (or to any of the provisions thereof): (i) this Agreement, the Ancillary Agreements and the Commercial Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement or Commercial Agreement to be entered into by any of the Parties or any of the members of their respective Groups or to be continued from and after the Effective Time); (ii) any agreements, arrangements, commitments or understandings listed or described on Schedule 2.7(b)(ii); (iii) any agreements, arrangements, commitments or understandings to which any Third Party is a party; (iv) any intercompany accounts payable or accounts receivable accrued as of the Effective Time that are reflected in the books and records of the Parties or otherwise documented in writing in accordance with past practices, which shall be settled in the manner contemplated by Section 2.7(c); (v) any agreements, arrangements, commitments or understandings to which any non-wholly owned Subsidiary of eBay or PayPal, as the case may be, is a party (it being understood that directors' qualifying shares or similar interests will be disregarded for purposes of determining whether a Subsidiary is wholly owned); and (vi) any Shared Contracts.

(c) All of the intercompany accounts receivable and accounts payable between any member of the eBay Group, on the one hand, and any member of the PayPal Group, on the other hand, outstanding as of the Effective Time and arising out of the contracts or agreements described in Section 2.7(b) or out of the provision, prior to the Effective Time, of the services to be provided following the Effective Time pursuant to the Ancillary Agreements or the Commercial Agreements shall be repaid or settled following the Effective Time in the ordinary course of business or, if otherwise mutually agreed prior to the Effective Time by duly authorized representatives of PayPal and eBay, cancelled, assigned or assumed by PayPal or one or more PayPal Subsidiaries. All other intercompany accounts receivable and accounts payable between any member of the eBay Group, on the one hand, and any member of the PayPal Group, on the other hand, outstanding as of the Effective Time shall be repaid or settled as promptly as practicable after the Effective Time.

2.8 Treatment of Shared Contracts.

(a) Subject to applicable Law and without limiting the generality of the obligations set forth in Section 2.1, unless the Parties otherwise agree or the benefits of any contract, agreement, arrangement, commitment or understanding described in this Section 2.8 are expressly conveyed to the applicable Party pursuant to this Agreement or an Ancillary Agreement, any (i) contract or agreement, a portion of which is a PayPal Contract, and the remainder of which is an eBay Asset or (ii) any contract or agreement entered into prior to the Effective Time that relates to the PayPal Business but is not exclusively related to the PayPal Business and with respect to which the portion that relates to the PayPal Business cannot be divided (any such contract or agreement, a "Shared Contract"), shall be assigned in relevant part to the applicable member(s) of the applicable Group, if so assignable, or appropriately amended prior to, on or after the Effective Time, so that each Party or applicable member of its Group shall, as of the Effective Time, be entitled to the rights and benefits, and shall assume the related portion of any Liabilities, inuring to its respective businesses; provided, that (A) in no event shall any member of any Group be required to assign (or amend) any Shared Contract in its entirety or to assign a portion of any Shared Contract which is not assignable (or cannot be amended) by its terms (including any terms imposing consents or conditions on an assignment where such

consents or conditions have not been obtained or fulfilled) and (B) if any Shared Contract cannot be so partially assigned by its terms or otherwise or cannot be amended, if such assignment or amendment would impair the benefit the parties thereto derive from such Shared Contract or if such Shared Contract is listed or described on Schedule 2.8(a), then the Parties shall, and shall cause each of the members of their respective Groups to, take such other reasonable and permissible actions (including by providing prompt written notice to the other Party with respect to any relevant claim of Liability or other relevant matters arising in connection with a Shared Contract so as to allow such other Party the ability to exercise any applicable rights under such Shared Contract) to cause a member of the PayPal Group or the eBay Group, as the case may be, to receive the rights and benefits of that portion of each Shared Contract that relates to the PayPal Business or the eBay Business, respectively (in each case, to the extent so related), as if such Shared Contract had been assigned to (or amended to admit) a member of the applicable Group pursuant to this Section 2.8, and to bear the burden of the corresponding Liabilities (including any Liabilities that may arise by reason of such arrangement), as if such Liabilities had been assumed by a member of the applicable Group pursuant to this Section 2.8.

(b) Each of eBay and PayPal shall, and shall cause the members of its Group to, (i) treat for all Tax purposes the portion of each Shared Contract inuring to its respective businesses as Assets owned by, and/or Liabilities of, as applicable, such Party, or the members of its Group, as applicable, not later than the Effective Time, and (ii) neither report nor take any Tax position (on a Tax Return or otherwise) inconsistent with such treatment (unless required by applicable Law).

(c) Nothing in this Section 2.8 shall require any member of any Group to make any non- *de minimis* payment (except to the extent advanced, assumed or agreed in advance to be reimbursed by any member of the other Group), incur any non- *de minimis* obligation or grant any non- *de minimis* concession for the benefit of any member of the other Group in order to effect any transaction contemplated by this Section 2.8.

2.9 Bank Accounts; Cash Balances .

(a) Each Party agrees to take, or cause the members of its Group to take, at the Effective Time (or such earlier time as the Parties may agree), all actions necessary to amend all contracts or agreements governing each bank and brokerage account owned by PayPal or any other member of the PayPal Group (collectively, the “PayPal Accounts”) and all contracts or agreements governing each bank or brokerage account owned by eBay or any other member of the eBay Group (collectively, the “eBay Accounts”) so that each such PayPal Account and eBay Account, if currently Linked (whether by automatic withdrawal, automatic deposit or any other authorization to transfer funds from or to, hereinafter “Linked”) to any eBay Account or PayPal Account, respectively, is de-Linked from such eBay Account or PayPal Account, respectively.

(b) It is intended that, following consummation of the actions contemplated by Section 2.9(a), there will be in place a cash management process pursuant to which the PayPal Accounts will be managed and funds collected will be transferred into one (1) or more accounts maintained by PayPal or a member of the PayPal Group.

(c) It is intended that, following consummation of the actions contemplated by Section 2.9(a), there will continue to be in place a cash management process pursuant to which the eBay Accounts will be managed and funds collected will be transferred into one (1) or more accounts maintained by eBay or a member of the eBay Group.

(d) With respect to any outstanding checks issued or payments initiated by eBay, PayPal, or any of the members of their respective Groups prior to the Effective Time, such outstanding checks and payments shall be honored following the Effective Time by the Person or Group owning the account on which the check is drawn or from which the payment was initiated, respectively.

(e) As between eBay and PayPal (and the members of their respective Groups), all payments made and reimbursements or other payments received after the Effective Time by either Party (or member of its Group) that relate to a business, Asset or Liability of the other Party (or member of its Group), shall be held by such Party in trust for the use and benefit of the Party entitled thereto and, promptly following receipt by such Party of any such payment or reimbursement, such Party shall pay over, or shall cause the applicable member of its Group to pay over, to the other Party the amount of such payment or reimbursement without right of set-off.

2.10 Ancillary Agreements. Effective on or prior to the Effective Time, each of eBay and PayPal will, or will cause the applicable members of their Groups to, execute and deliver all Ancillary Agreements to which it is a party.

2.11 Disclaimer of Representations and Warranties. EACH OF EBAY (ON BEHALF OF ITSELF AND EACH MEMBER OF THE EBAY GROUP) AND PAYPAL (ON BEHALF OF ITSELF AND EACH MEMBER OF THE PAYPAL GROUP) UNDERSTANDS AND AGREES THAT, EXCEPT AS EXPRESSLY SET FORTH HEREIN OR IN ANY ANCILLARY AGREEMENT OR COMMERCIAL AGREEMENT, NO PARTY TO THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR COMMERCIAL AGREEMENT, ANY OTHER AGREEMENT OR DOCUMENT CONTEMPLATED BY THIS AGREEMENT, ANY ANCILLARY AGREEMENT, ANY COMMERCIAL AGREEMENT OR OTHERWISE, IS REPRESENTING OR WARRANTING IN ANY WAY AS TO THE ASSETS, BUSINESSES OR LIABILITIES TRANSFERRED OR ASSUMED AS CONTEMPLATED HEREBY OR THEREBY, AS TO ANY CONSENTS OR APPROVALS REQUIRED IN CONNECTION THEREWITH, AS TO THE VALUE OR FREEDOM FROM ANY SECURITY INTERESTS OF, OR ANY OTHER MATTER CONCERNING, ANY ASSETS OF SUCH PARTY, OR AS TO THE ABSENCE OF ANY DEFENSES OR RIGHT OF SETOFF OR FREEDOM FROM COUNTERCLAIM WITH RESPECT TO ANY CLAIM OR OTHER ASSET, INCLUDING ANY ACCOUNTS RECEIVABLE, OF ANY PARTY, OR AS TO THE LEGAL SUFFICIENCY OF ANY ASSIGNMENT, DOCUMENT OR INSTRUMENT DELIVERED HEREUNDER TO CONVEY TITLE TO ANY ASSET OR THING OF VALUE UPON THE EXECUTION, DELIVERY AND FILING HEREOF OR THEREOF. EXCEPT AS MAY EXPRESSLY BE SET FORTH HEREIN OR IN ANY ANCILLARY AGREEMENT OR ANY COMMERCIAL AGREEMENT, ALL SUCH ASSETS ARE BEING TRANSFERRED ON AN "AS IS," "WHERE IS" BASIS (AND, IN THE CASE OF ANY REAL PROPERTY, BY MEANS OF A QUITCLAIM OR SIMILAR FORM OF DEED OR CONVEYANCE) AND

THE RESPECTIVE TRANSFEREES SHALL BEAR THE ECONOMIC AND LEGAL RISKS THAT (I) ANY CONVEYANCE WILL PROVE TO BE INSUFFICIENT TO VEST IN THE TRANSFEREE GOOD AND MARKETABLE TITLE, FREE AND CLEAR OF ANY SECURITY INTEREST, AND (II) ANY NECESSARY APPROVALS OR NOTIFICATIONS ARE NOT OBTAINED OR MADE OR THAT ANY REQUIREMENTS OF LAWS OR JUDGMENTS ARE NOT COMPLIED WITH.

2.12 Cash Transfer. Prior to the Effective Time and pursuant to the Plan of Reorganization, eBay shall transfer, or cause its Subsidiaries to transfer (including by one (1) or more transfers or capital contributions), to PayPal and/or the applicable PayPal Designees an aggregate amount of cash and cash equivalents (“Cash Amounts”) equal to \$3,800,000,000 (such Cash Amounts, the “Transferred Cash Amount”). All Cash Amounts held by PayPal or any member of the PayPal Group as of the Effective Time shall be a PayPal Asset, and all Cash Amounts held by eBay or any member of the eBay Group as of the Effective Time shall be an eBay Asset.

2.13 Financial Information Certifications. eBay’s disclosure controls and procedures and internal control over financial reporting (as each is contemplated by the Exchange Act) are currently applicable to PayPal as its Subsidiary. In order to enable the principal executive officer and principal financial officer of PayPal to make the certifications required of them under Section 302 of the Sarbanes-Oxley Act of 2002, eBay, within thirty-five (35) days of the end of any fiscal quarter during which PayPal remains eBay’s Subsidiary, shall provide PayPal with one (1) or more certifications (in a format to be agreed by eBay and PayPal in good faith) with respect to such disclosure controls and procedures, its internal control over financial reporting and the effectiveness thereof. Such certification(s) shall be provided by eBay (and not by any officer or employee in their individual capacity).

2.14 Transition Committee. Prior to the Effective Time, the Parties shall establish a transition committee (the “Transition Committee”) that shall consist of an equal number of members from eBay and PayPal. The Transition Committee shall be responsible for monitoring and managing all matters related to any of the transactions contemplated by this Agreement or any Ancillary Agreements. The Transition Committee shall have the authority to (a) establish one (1) or more subcommittees from time to time as it deems appropriate or as may be described in any Ancillary Agreements, with each such subcommittee comprised of one (1) or more members of the Transition Committee or one (1) or more employees of either Party or any member of its respective Group, and each such subcommittee having such scope of responsibility as may be determined by the Transition Committee from time to time; (b) delegate to any such committee any of the powers of the Transition Committee; (c) combine, modify the scope of responsibility of, and disband any such subcommittees; and (d) modify or reverse any such delegations. The Transition Committee shall establish general procedures for managing the responsibilities delegated to it under this Section 2.14, and may modify such procedures from time to time. All decisions by the Transition Committee or any subcommittee thereof shall be effective only if mutually agreed by both Parties. The Parties shall utilize the procedures set forth in Article VII to resolve any matters as to which the Transition Committee is not able to reach a decision.

ARTICLE III
THE DISTRIBUTION

3.1 Sole and Absolute Discretion; Cooperation.

(a) eBay shall, in its sole and absolute discretion, determine the terms of the Distribution, including the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing and conditions to the consummation of the Distribution. In addition, eBay may, at any time and from time to time until the consummation of the Distribution, modify or change the terms of the Distribution, including by accelerating or delaying the timing of the consummation of all or part of the Distribution. Nothing shall in any way limit eBay's right to terminate this Agreement or the Distribution as set forth in Article IX or alter the consequences of any such termination from those specified in Article IX.

(b) PayPal shall cooperate with eBay to accomplish the Distribution and shall, at eBay's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including in respect of the registration under the Exchange Act of PayPal Shares on the Form 10. eBay shall select any investment bank or manager in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and financial, legal, accounting and other advisors for eBay. PayPal and eBay will provide to the Agent any information required in order to complete the Distribution.

3.2 Actions Prior to the Distribution. Prior to the Effective Time and subject to the terms and conditions set forth herein, the Parties shall take, or cause to be taken, the following actions in connection with the Distribution:

(a) *Notice to eBay Stock Exchange*. eBay shall, to the extent possible, give the eBay Stock Exchange not less than ten (10) days' advance notice of the Record Date in compliance with Rule 10b-17 under the Exchange Act.

(b) *PayPal Certificate of Incorporation and PayPal Bylaws*. On or prior to the Distribution Date, eBay and PayPal shall take all necessary actions so that, as of the Effective Time, the PayPal Certificate of Incorporation and the PayPal Bylaws shall become the certificate of incorporation and bylaws of PayPal, respectively.

(c) *PayPal Directors and Officers*. On or prior to the Distribution Date, eBay and PayPal shall take all necessary actions so that as of the Effective Time: (i) the directors and executive officers of PayPal shall be those set forth in the Information Statement made available to the Record Holders prior to the Distribution Date, unless otherwise agreed by the Parties; and (ii) PayPal shall have such other officers as the board of directors of PayPal shall appoint.

(d) *PayPal Stock Exchange Listing*. PayPal shall prepare and file, and shall use its reasonable best efforts to have approved, an application for the listing of the PayPal Shares to be distributed in the Distribution on the PayPal Stock Exchange, subject to official notice of distribution.

(e) *Securities Law Matters* . PayPal shall file any amendments or supplements to the Form 10 as may be necessary or advisable in order to cause the Form 10 to become and remain effective as required by the SEC or federal, state or other applicable securities Laws. eBay and PayPal shall cooperate in preparing, filing with the SEC and causing to become effective registration statements or amendments thereof that are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or advisable in connection with the transactions contemplated by this Agreement and the Ancillary Agreements. eBay and PayPal will prepare, and PayPal will, to the extent required under applicable Law, file with the SEC any such documentation and any requisite no-action letters that eBay determines are necessary or desirable to effectuate the Distribution, and eBay and PayPal shall each use its reasonable best efforts to obtain all necessary approvals from the SEC with respect thereto as soon as practicable. eBay and PayPal shall take all such action as may be necessary or appropriate under the securities or blue sky Laws of the United States (and any comparable Laws under any foreign jurisdiction) in connection with the Distribution.

(f) *Availability of Information Statement* . eBay shall, as soon as is reasonably practicable after the Form 10 is declared effective under the Exchange Act and the eBay Board has approved the Distribution, cause the Information Statement to be mailed to the Record Holders or, in connection with the delivery of a notice of Internet availability of the Information Statement to such holders, posted on the Internet.

(g) *The Distribution Agent* . eBay shall enter into a distribution agent agreement with the Agent or otherwise provide instructions to the Agent regarding the Distribution.

(h) *Stock-Based Employee Benefit Plans* . eBay and PayPal shall take all actions as may be necessary to approve the grants of adjusted equity awards by eBay (in respect of eBay shares) and PayPal (in respect of PayPal shares) in connection with the Distribution in order to satisfy the requirements of Rule 16b-3 under the Exchange Act.

3.3 Conditions to the Distribution .

(a) The consummation of the Distribution will be subject to the satisfaction, or waiver by eBay in its sole and absolute discretion, of the following conditions:

(i) The SEC shall have declared effective the Form 10; no order suspending the effectiveness of the Form 10 shall be in effect; and no proceedings for such purposes shall have been instituted or threatened by the SEC.

(ii) The Information Statement shall have been mailed to the Record Holders or, in connection with the delivery of a notice of Internet availability of the Information Statement to such holders, posted on the Internet.

(iii) eBay shall have received the Tax Opinion regarding the qualification of the Contribution and the Distribution, taken together, as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) of the Code.

(iv) The transfer of the PayPal Assets (other than any Delayed PayPal Asset) and PayPal Liabilities (other than any Delayed PayPal Liability) contemplated to be transferred from eBay to PayPal on or prior to the Distribution shall have occurred as contemplated by Section 2.1, and the transfer of the eBay Assets (other than any Delayed eBay Asset) and eBay Liabilities (other than any Delayed eBay Liability) contemplated to be transferred from PayPal to eBay on or prior to the Distribution Date shall have occurred as contemplated by Section 2.1, in each case pursuant to the Plan of Reorganization.

(v) The actions and filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities Laws or blue sky Laws and the rules and regulations thereunder shall have been taken or made, and, where applicable, have become effective or been accepted.

(vi) Any Approvals or Notifications of any Governmental Authorities required for the consummation of the Separation and Distribution, including any required Approvals or Notifications of the Commission de Surveillance du Secteur Financier, the Bank Centrale du Luxembourg or the European Central Bank, have been obtained.

(vii) Each of the Ancillary Agreements shall have been duly executed and delivered by the applicable parties thereto.

(viii) No order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Separation, the Distribution or any of the transactions related thereto shall be in effect.

(ix) The PayPal Shares to be distributed to the eBay stockholders in the Distribution shall have been accepted for listing on the PayPal Stock Exchange, subject to official notice of distribution.

(x) PayPal and/or the applicable PayPal Designees shall have received the Transferred Cash Amount.

(xi) No other events or developments shall exist or shall have occurred that, in the judgment of the eBay Board, in its sole and absolute discretion, make it inadvisable to effect the Separation, the Distribution or the transactions contemplated by this Agreement or any Ancillary Agreement.

(b) The foregoing conditions are for the sole benefit of eBay and shall not give rise to or create any duty on the part of eBay or the eBay Board to waive or not waive any such condition or in any way limit eBay's right to terminate this Agreement as set forth in Article IX or alter the consequences of any such termination from those specified in Article IX. Any determination made by the eBay Board prior to the Distribution concerning the satisfaction or waiver of any or all of the conditions set forth in Section 3.3(a) shall be conclusive and binding on the Parties. If eBay waives any material condition, it shall promptly issue a press release disclosing such fact and file a Current Report on Form 8-K with the SEC describing such waiver.

3.4 The Distribution.

(a) Subject to Section 3.3, on or prior to the Effective Time, PayPal will deliver to the Agent, for the benefit of the Record Holders, book-entry transfer authorizations for such number of the outstanding PayPal Shares as is necessary to effect the Distribution, and shall cause the transfer agent for the eBay Shares to instruct the Agent to distribute at the Effective Time the appropriate number of PayPal Shares to each such holder or designated transferee or transferees of such holder by way of direct registration in book-entry form. PayPal will not issue paper stock certificates in respect of the PayPal Shares. The Distribution shall be effective at the Effective Time.

(b) Subject to Sections 3.3 and 3.4(c), each Record Holder will be entitled to receive in the Distribution a number of whole PayPal Shares equal to the number of eBay Shares held by such Record Holder on the Record Date multiplied by the Distribution Ratio, rounded down to the nearest whole number.

(c) No fractional shares will be distributed or credited to book-entry accounts in connection with the Distribution, and any such fractional shares interests to which a Record Holder would otherwise be entitled shall not entitle such Record Holder to vote or to any other rights as a stockholder of PayPal. In lieu of any such fractional shares, each Record Holder who, but for the provisions of this Section 3.4(c), would be entitled to receive a fractional share interest of a PayPal Share pursuant to the Distribution, shall be paid cash, without any interest thereon, as hereinafter provided. As soon as practicable after the Effective Time, eBay shall direct the Agent to determine the number of whole and fractional PayPal Shares allocable to each Record Holder, to aggregate all such fractional shares into whole shares, and to sell the whole shares obtained thereby in the open market at the then-prevailing prices on behalf of each Record Holder who otherwise would be entitled to receive fractional share interests (with the Agent, in its sole and absolute discretion, determining when, how and through which broker-dealer and at what price to make such sales), and to cause to be distributed to each such Record Holder, in lieu of any fractional share, such Record Holder's or owner's ratable share of the total proceeds of such sale, after deducting any Taxes required to be withheld and applicable transfer Taxes, and after deducting the costs and expenses of such sale and distribution, including brokers fees and commissions. None of eBay, PayPal or the Agent will be required to guarantee any minimum sale price for the fractional PayPal Shares sold in accordance with this Section 3.4(c). Neither eBay nor PayPal will be required to pay any interest on the proceeds from the sale of fractional shares. Neither the Agent nor the broker-dealers through which the aggregated fractional shares are sold shall be Affiliates of eBay or PayPal. Solely for purposes of computing fractional share interests pursuant to this Section 3.4(c) and Section 3.4(e), the beneficial owner of eBay Shares held of record in the name of a nominee in any nominee account shall be treated as the Record Holder with respect to such shares.

(d) Notwithstanding anything herein to the contrary, if the distribution of PayPal Shares pursuant to the Distribution is not permitted under the applicable Law of any jurisdiction (each such jurisdiction, a "Prohibited Jurisdiction"), each Record Holder in such Prohibited Jurisdiction who, but for such applicable Law, would have received a PayPal Share pursuant to the Distribution, shall receive a distribution of cash, without any interest thereon, in lieu of such PayPal Share to the extent permitted by the applicable Law of such Prohibited

Jurisdiction. The procedures set forth in Section 3.4(c) with respect to fractional shares shall apply to the distribution of PayPal Shares to Record Holders in Prohibited Jurisdictions, *mutatis mutandis*, with each reference to a “fractional share” in such sentences being deemed a reference to a PayPal Share that, but for this Section 3.4(d) and for applicable Law, would have been distributed pursuant to the Distribution to a Record Holder in a Prohibited Jurisdiction.

(e) Any PayPal Shares or cash in lieu of PayPal Shares (or fractions thereof) that remain unclaimed by any Record Holder one hundred and eighty (180) days after the Distribution Date shall be delivered to PayPal, and PayPal shall hold such PayPal Shares for the account of such Record Holder, and the Parties agree that all obligations to provide such PayPal Shares and cash, if any, in lieu of PayPal Shares (or fractions thereof) shall be obligations of PayPal, subject in each case to applicable escheat or other abandoned property Laws, and eBay shall have no Liability with respect thereto.

(f) Until the PayPal Shares are duly transferred in accordance with this Section 3.4 and applicable Law and subject to Section 3.4(d), from and after the Effective Time, PayPal will regard the Persons entitled to receive such PayPal Shares as record holders of PayPal Shares in accordance with the terms of the Distribution without requiring any action on the part of such Persons. PayPal agrees that, subject to any transfers of such shares, from and after the Effective Time (i) each such holder will be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, the PayPal Shares then held by such holder, and (ii) each such holder will be entitled, without any action on the part of such holder, to receive evidence of ownership of the PayPal Shares then held by such holder.

ARTICLE IV MUTUAL RELEASES; INDEMNIFICATION

4.1 Release of Pre-Distribution Claims.

(a) *PayPal Release of eBay*. Except as provided in Sections 4.1(c) and 4.3, effective as of the Effective Time, PayPal does hereby, for itself and each other member of the PayPal Group, and their respective successors and assigns, and, to the extent permitted by Law, all Persons who at any time prior to the Effective Time have been stockholders, directors, officers, agents or employees of any member of the PayPal Group (in each case, in their respective capacities as such), surrender, relinquish, release and forever discharge (i) eBay and the members of the eBay Group, and their respective successors and assigns, and (ii) all Persons who at any time prior to the Effective Time have been stockholders, directors, officers, agents or employees of any member of the eBay Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, and (iii) all Persons who at any time prior to the Effective Time are or have been stockholders, directors, officers, agents or employees of a Transferred Entity and who are not, as of immediately following the Effective Time, directors, officers or employees of PayPal or a member of the PayPal Group, in each case from: (A) all PayPal Liabilities, (B) all Liabilities arising from or in connection with the transactions and all other activities to implement the Separation and the Distribution and (C) all Liabilities arising from or in connection with actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time), in each case to the extent relating to, arising out of or resulting from the PayPal Business, the PayPal Assets or the PayPal Liabilities.

(b) *eBay Release of PayPal*. Except as provided in Sections 4.1(c) and 4.2, effective as of the Effective Time, eBay does hereby, for itself and each other member of the eBay Group and their respective successors and assigns, and, to the extent permitted by Law, all Persons who at any time prior to the Effective Time have been stockholders, directors, officers, agents or employees of any member of the eBay Group (in each case, in their respective capacities as such), surrender, relinquish, release and forever discharge (i) PayPal and the members of the PayPal Group and their respective successors and assigns, and (ii) all Persons who at any time prior to the Effective Time have been stockholders, directors, officers, agents or employees of any member of the PayPal Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from (A) all eBay Liabilities, (B) all Liabilities arising from or in connection with the transactions and all other activities to implement the Separation and the Distribution and (C) all Liabilities arising from or in connection with actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to the Effective Time (whether or not such Liabilities cease being contingent, mature, become known, are asserted or foreseen, or accrue, in each case before, at or after the Effective Time), in each case to the extent relating to, arising out of or resulting from the eBay Business, the eBay Assets or the eBay Liabilities.

(c) *Obligations Not Affected*. Nothing contained in Sections 4.1(a) or 4.1(b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in Section 2.7(b) or the applicable Schedules thereto as not to terminate as of the Effective Time, in each case in accordance with its terms. Nothing contained in Sections 4.1(a) or 4.1(b) shall release any Person from:

(i) any Liability provided in or resulting from any agreement among any members of the eBay Group or the PayPal Group that is specified in Section 2.7(b) or the applicable Schedules thereto as not to terminate as of the Effective Time, or any other Liability specified in Section 2.7(b) as not to terminate as of the Effective Time;

(ii) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;

(iii) any Liability for the sale, lease, construction or receipt of goods, property or services purchased, obtained or used in the ordinary course of business by a member of one Group from a member of the other Group prior to the Effective Time;

(iv) any Liability for unpaid amounts for products or services or refunds owing on products or services due on a value-received basis for work done by a member of one Group at the request or on behalf of a member of the other Group;

(v) any Liability provided in or resulting from any Contract or understanding that is entered into after the Effective Time between any Party (and/or a member of such Party's Group), on the one hand, and any other Party (and/or a member of the other Party's Group), on the other hand;

(vi) any Liability that the Parties may have with respect to indemnification or contribution pursuant to this Agreement, any Ancillary Agreement or otherwise for claims brought against the Parties by third Persons, which Liability shall be governed by the provisions of this Article IV and Article V and, if applicable, the appropriate provisions of the Ancillary Agreements; or

(vii) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 4.1.

In addition, nothing contained in Section 4.1(a) shall release any member of the eBay Group from honoring its existing obligations to indemnify any director, officer or employee of PayPal who was a director, officer or employee of any member of the eBay Group on or prior to the Effective Time, to the extent such director, officer or employee becomes a named defendant in any Action with respect to which such director, officer or employee was entitled to such indemnification pursuant to such existing obligations, it being understood that, if the underlying obligation giving rise to such Action is a PayPal Liability, PayPal shall indemnify eBay for such Liability (including eBay's costs to indemnify the director, officer or employee) in accordance with the provisions set forth in this Article IV.

(d) *No Claims*. PayPal shall not make, and shall not permit any member of the PayPal Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against eBay or any other member of the eBay Group, or any other Person released pursuant to Section 4.1(a), with respect to any Liabilities released pursuant to Section 4.1(a). eBay shall not make, and shall not permit any other member of the eBay Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification against PayPal or any other member of the PayPal Group, or any other Person released pursuant to Section 4.1(b), with respect to any Liabilities released pursuant to Section 4.1(b).

(e) *Execution of Further Releases*. At any time at or after the Effective Time, at the request of either Party, the other Party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions of this Section 4.1.

4.2 Indemnification by PayPal. Except as otherwise specifically set forth in this Agreement or in any Ancillary Agreement, to the fullest extent permitted by Law, PayPal shall, and shall cause the other members of the PayPal Group to, indemnify, defend and hold harmless eBay, each member of the eBay Group and each of their respective past, present and future directors, officers, employees and agents, in each case in their respective capacities as such, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "eBay Indemnified Parties"), from and against any and all Liabilities of the eBay Indemnified Parties relating to, arising out of or resulting from, directly or indirectly, any of the following items (without duplication):

(a) any PayPal Liability;

(b) any failure of PayPal, any other member of the PayPal Group or any other Person to pay, perform or otherwise promptly discharge any PayPal Liabilities in accordance with their terms, whether prior to, on or after the Effective Time;

(c) the PayPal Specified Actions and fifty percent (50%) of the Shared Contingent Liabilities;

(d) any breach by PayPal or any other member of the PayPal Group of this Agreement or any of the Ancillary Agreements (other than the Ancillary Agreements set forth on Schedule 4.2(d), which shall be subject to the indemnification provisions contained therein);

(e) except to the extent it relates to an eBay Liability, any guarantee, indemnification or contribution obligation, surety bond or other credit support agreement, arrangement, commitment or understanding for the benefit of any member of the PayPal Group by any member of the eBay Group that survives following the Distribution; and

(f) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the Form 10, the Information Statement (as amended or supplemented if PayPal shall have furnished any amendments or supplements thereto) or any other Disclosure Document, other than the matters described in clause (f) of Section 4.3.

4.3 Indemnification by eBay. Except as otherwise specifically set forth in this Agreement or in any Ancillary Agreement, to the fullest extent permitted by Law, eBay shall, and shall cause the other members of the eBay Group to, indemnify, defend and hold harmless PayPal, each member of the PayPal Group and each of their respective past, present and future directors, officers, employees or agents, in each case in their respective capacities as such, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “PayPal Indemnified Parties”), from and against any and all Liabilities of the PayPal Indemnified Parties relating to, arising out of or resulting from, directly or indirectly, any of the following items (without duplication):

(a) any eBay Liability;

(b) any failure of eBay, any other member of the eBay Group or any other Person to pay, perform or otherwise promptly discharge any eBay Liabilities in accordance with their terms, whether prior to, on or after the Effective Time;

(c) the eBay Specified Actions and fifty percent (50%) of the Shared Contingent Liabilities;

(d) any breach by eBay or any other member of the eBay Group of this Agreement or any of the Ancillary Agreements (other than the Ancillary Agreements set forth on Schedule 4.2(d), which shall be subject to the indemnification provisions contained therein);

(e) except to the extent it relates to a PayPal Liability, any guarantee, indemnification or contribution obligation, surety bond or other credit support agreement, arrangement, commitment or understanding for the benefit of any member of the eBay Group by any member of the PayPal Group that survives following the Distribution; and

(f) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to statements made explicitly in eBay's name in the Form 10, the Information Statement (as amended or supplemented if PayPal shall have furnished any amendments or supplements thereto) or any other Disclosure Document; it being agreed that the statements set forth on Schedule 4.3(f) shall be the only statements made explicitly in eBay's name in the Form 10, the Information Statement or any other Disclosure Document, and all other information contained in the Form 10, the Information Statement or any other Disclosure Document shall be deemed to be information supplied by PayPal.

4.4 Indemnification Obligations Net of Insurance Proceeds and Other Amounts .

(a) The Parties intend that any Liability subject to indemnification, contribution or reimbursement pursuant to this Article IV or Article V will be net of Insurance Proceeds or other amounts actually recovered (net of any out-of-pocket costs or expenses incurred in the collection thereof) from any Person by or on behalf of the Indemnified Party in respect of such indemnifiable Liability. Accordingly, the amount that either Party (an "Indemnifying Party") is required to pay to any Person entitled to indemnification or contribution hereunder (an "Indemnified Party") will be reduced by any Insurance Proceeds or other amounts actually recovered (net of any out-of-pocket costs or expenses incurred in the collection thereof) from any Person by or on behalf of the Indemnified Party in respect of the related Liability. If an Indemnified Party receives a payment (an "Indemnity Payment") under this Agreement from an Indemnifying Party in respect of any Liability and subsequently receives Insurance Proceeds or any other amounts in respect of the same Liability, then the Indemnified Party will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds or such other amounts (net of any out-of-pocket costs or expenses incurred in the collection thereof) had been received, realized or recovered before the Indemnity Payment was made.

(b) The Parties agree that an insurer that would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of any provision contained in this Agreement or any Ancillary Agreement, have any subrogation rights with respect thereto, it being understood that no insurer or any other Third Party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of the liability allocation, indemnification and contribution provisions hereof. Accordingly, any provision herein that could have the result of giving any insurer or other Third Party such a "windfall" shall be suspended or amended to the extent necessary to not provide such "windfall." Each Party shall, and shall cause the members of its Group to, use commercially reasonable efforts (taking into account the probability of success on the merits and the cost of expending such efforts, including attorneys' fees and expenses) to

collect or recover any Insurance Proceeds that may be collectible or recoverable respecting the Liabilities for which indemnification or contribution may be available under this Article IV. Notwithstanding the foregoing, an Indemnifying Party may not delay making any indemnification payment required under the terms of this Agreement, or otherwise satisfying any indemnification obligation, pending the outcome of any Action to collect or recover Insurance Proceeds, and an Indemnified Party need not attempt to collect any Insurance Proceeds prior to making a claim for indemnification or contribution or receiving any Indemnity Payment otherwise owed to it under this Agreement or any Ancillary Agreement.

4.5 Procedures for Indemnification of Third-Party Claims.

(a) *Notice of Claims.* If, at or following the date of this Agreement, an Indemnified Party shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) who is not a member of the eBay Group or the PayPal Group of any claim or of the commencement by any such Person of any Action (collectively, a “Third-Party Claim”) with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnified Party pursuant to Sections 4.2 or 4.3, or any other Section of this Agreement or any Ancillary Agreement, such Indemnified Party shall give such Indemnifying Party written notice within thirty (30) days of becoming aware of such Third-Party Claim (or sooner if the nature of the Third-Party Claim so requires). Any such notice shall describe the Third-Party Claim in reasonable detail, including, to the extent set forth in or readily apparent from the notices and documents received by the Indemnified Party, the facts and circumstances giving rise to such claim for indemnification, and include copies of all notices and documents (including court papers) received by the Indemnified Party relating to the Third-Party Claim. Notwithstanding the foregoing, the failure of an Indemnified Party to provide notice in accordance with this Section 4.5(a) shall not relieve an Indemnifying Party of its indemnification obligations under this Agreement, except to the extent to which the Indemnifying Party is prejudiced by the Indemnified Party’s failure to provide notice in accordance with this Section 4.5(a).

(b) *Control of Defense.* An Indemnifying Party may elect to control the defense of (and unless the Indemnifying Party has specified any reservations or exceptions, seek to settle or compromise), at its own expense and with its own counsel, any Third-Party Claim; provided, that, prior to the Indemnifying Party assuming and controlling defense of such Third-Party Claim, it shall first confirm to the Indemnatee in writing that, assuming the facts presented to the Indemnifying Party by the Indemnatee being true, the Indemnifying Party shall indemnify the Indemnatee for any such Damages to the extent resulting from, or arising out of, such Third-Party-Claim. Notwithstanding the foregoing, if the Indemnifying Party assumes such defense and, in the course of defending such Third-Party Claim, (i) the Indemnifying Party discovers that the facts presented at the time the Indemnifying Party acknowledged its indemnification obligation in respect of such Third-Party Claim were not true in all material respects or that such facts, while true in all material respects, do not form the basis upon which such Third-Party Claim is predicated (*e.g.* , as a result of the allegations made in such Third-Party Claim changing over time) and (ii) such untruth or change provides a reasonable basis for asserting that the Indemnifying Party does not have an indemnification obligation in respect of such Third-Party Claim, then (A) the Indemnifying Party shall not be bound by such acknowledgment, (B) the Indemnifying Party shall promptly thereafter provide the Indemnatee written notice of its

assertion that it does not have an indemnification obligation in respect of such Third-Party Claim (giving the reasons therefor) and (C) the Indemnified Party shall have the right to assume the defense of such Third-Party Claim. Within thirty (30) days after the receipt of a notice from an Indemnified Party in accordance with Section 4.5(a) (or sooner, if the nature of the Third-Party Claim so requires), the Indemnifying Party shall provide written notice to the Indemnified Party indicating whether the Indemnifying Party shall assume responsibility for defending the Third-Party Claim, which written notice shall specify any reservations or exceptions by the Indemnifying Party. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnified Party of its election within thirty (30) days after receipt of the notice from an Indemnified Party as provided in Section 4.5(a), then the Indemnified Party that is the subject of such Third-Party Claim shall be entitled to continue to conduct and control the defense of such Third-Party Claim. Notwithstanding an election by an Indemnifying Party to defend a Third-Party Claim pursuant to this Section 4.5(b), the Indemnified Party may, upon written notice to the Indemnifying Party, elect to take over the defense of such Third-Party Claim (although the Indemnifying Party may continue to participate but not control such defense) if (I) in its exercise of reasonable business judgment, the Indemnified Party determines that the Indemnifying Party is not defending such Third-Party Claim competently or in good faith, (II) the Indemnified Party determines in good faith that such Indemnified Party and the Indemnifying Party have actual or potential differing defenses or conflicts of interest between them that make joint representation inappropriate, (III) the Indemnifying Party makes a general assignment for the benefit of creditors, has filed against it or files a petition in bankruptcy or insolvency or is declared bankrupt or insolvent or declares that it is bankrupt or insolvent, or (IV) there occurs a change of control of the Indemnifying Party.

(c) *Allocation of Defense Costs* . If an Indemnifying Party has elected to assume the defense of a Third-Party Claim, then such Indemnifying Party shall be solely liable for all fees and expenses incurred by it in connection with the defense of such Third-Party Claim and shall not be entitled to seek any indemnification or reimbursement from the Indemnified Party for any such fees or expenses incurred by the Indemnifying Party during the course of the defense of such Third-Party Claim by such Indemnifying Party, regardless of any subsequent decision by the Indemnifying Party to reject or otherwise abandon its assumption of such defense. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnified Party of its election within thirty (30) days after receipt of a notice from an Indemnified Party as provided in Section 4.5(a) or the Indemnified Party takes over the defense of any Third Party-Claim pursuant to Section 4.5(b), and the Indemnified Party conducts and controls the defense of such Third-Party Claim and the Indemnifying Party has an indemnification obligation with respect to such Third-Party Claim, then the Indemnifying Party shall be liable for all reasonable fees and expenses incurred by the Indemnified Party in connection with the defense of such Third-Party Claim.

(d) *Right to Monitor and Participate*. An Indemnified Party that does not conduct and control the defense of any Third-Party Claim, or an Indemnifying Party that has failed to elect to defend any Third-Party Claim as contemplated hereby or from whom the Indemnified Party has taken over control of defense of the claim pursuant to Section 4.5(b), nevertheless shall have the right to employ separate counsel (including local counsel as necessary) of its own choosing to monitor and participate in (but not control) the defense of any Third-Party Claim for which it is a potential Indemnified Party or Indemnifying Party, but the

fees and expenses of such counsel shall be borne by such Indemnified Party or non-controlling Indemnifying Party, as the case may be, and the provisions of Section 4.5(c) shall not apply to such fees and expenses; provided, that if the Indemnifying Party has elected to defend the Third-Party Claim but has specified, and continues to assert, any reservations or exceptions, then the Indemnifying Party shall reimburse the reasonable fees and expenses of such counsel for the potential Indemnified Party. Notwithstanding the foregoing, but subject to Sections 6.7 and 6.8, and whether or not participating in the defense of a claim, such Party shall use commercially reasonable efforts to cooperate with the Party entitled to conduct and control the defense of such Third-Party Claim in such defense and make available to the controlling Party, all witnesses, information and materials in such Party's possession or under such Party's control relating thereto as are reasonably required by the controlling Party (with the reasonable out-of-pocket costs associated with such cooperation being at the expense of the Indemnifying Party). In addition to the foregoing, if any Indemnified Party shall in good faith determine that such Indemnified Party and the Indemnifying Party have actual or potential differing defenses or conflicts of interest between them that make joint representation inappropriate, then the Indemnified Party shall have the right to employ separate counsel (including local counsel as necessary) and to participate in (but not control) the defense, compromise, or settlement thereof, and the Indemnifying Party shall bear the reasonable fees and expenses of one such counsel and local counsel (as appropriate) for all Indemnified Parties.

(e) *No Settlement*. The Indemnifying Party may not settle or compromise any Third-Party Claim without the consent of the Indemnified Party, which consent may not be unreasonably withheld, unless such settlement or compromise is solely for monetary damages, does not involve any finding or determination of wrongdoing or violation of Law by the other Party and provides for a full, unconditional and irrevocable release of the other Party from all Liability in connection with the Third-Party Claim. If an Indemnifying Party elects not to assume responsibility for defending any Third-Party Claim or fails to notify an Indemnified Party of its election within thirty (30) days after receipt of a notice from an Indemnified Party as provided in Section 4.5(a), and the Indemnified Party conducts and controls the defense of such Third-Party Claim, the Indemnified Party may enter into a reasonable settlement or compromise of such Third-Party Claim without the consent of the Indemnifying Party. If the Indemnified Party takes over the defense of any Third Party-Claim pursuant to Section 4.5(b), the Indemnified Party may not settle or compromise any Third-Party Claim without the consent of the Indemnifying Party, which consent may not be unreasonably withheld or delayed. The Parties hereby agree that if a Party presents the other Party with a written notice containing a proposal to settle or compromise a Third-Party Claim for which either Party is seeking to be indemnified hereunder and the Party receiving such proposal does not respond in any manner to the Party presenting such proposal within thirty (30) days (or within any such shorter time period that may be required by applicable Law or court order) of receipt of such proposal, then the Party receiving such proposal shall be deemed to have consented to the terms of such proposal.

(f) *Legal Hold Orders*. PayPal shall prepare and circulate a legal hold order ("LHO") covering relevant categories of documents as promptly as practical following receipt of any notice pursuant to Section 4.5(a) with respect to any Action that PayPal determines in good faith is meritorious and shall promptly notify eBay after such LHO has been circulated. eBay shall prepare and circulate a LHO covering documents in the possession, custody or control of the eBay Group with respect to any Action so notified to PayPal. eBay shall prepare and

circulate an LHO covering relevant categories of documents as promptly as practical following receipt of any notice pursuant to Section 4.5(a) with respect to any Action that eBay determines in good faith is meritorious and shall promptly notify PayPal after such LHO has been circulated. PayPal shall prepare and circulate a LHO covering documents in the possession, custody or control of the PayPal Group with respect to any Action so notified to eBay.

(g) *Reporting*. An Indemnifying Party shall provide the Indemnified Party with a monthly written report identifying any Third-Party Claims that such Indemnifying Party has elected to defend pursuant to Section 4.5(b), the Actions relating to the Shared Contingent Liabilities and the eBay Specified Actions or the PayPal Specified Actions, as applicable. In addition, the Indemnifying Party shall establish a procedure reasonably acceptable to the Indemnified Party to automatically send electronic notice from the Indemnifying Party to the Indemnified Party through the litigation management system or any successor system when any such Third-Party Claim is closed, regardless of whether such Third-Party Claim was decided by settlement, verdict, dismissal or was otherwise disposed of.

4.6 Additional Matters.

(a) *Timing of Payments*. Indemnification or contribution payments in respect of any Liabilities for which an Indemnified Party is entitled to indemnification or contribution under this Article IV shall be paid reasonably promptly (but in any event within thirty (30) days of the final determination of the amount that the Indemnified Party is entitled to indemnification or contribution under this Article IV) by the Indemnifying Party to the Indemnified Party as such Liabilities are incurred upon demand by the Indemnified Party, including reasonably satisfactory documentation setting forth the basis for the amount of such indemnification or contribution payment, including documentation with respect to calculations made and consideration of any Insurance Proceeds that actually reduce the amount of such Liabilities. The indemnity and contribution provisions contained in this Article IV shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Indemnified Party, and (ii) the knowledge by the Indemnified Party of Liabilities for which it might be entitled to indemnification hereunder.

(b) *Notice of Direct Claims*. Any claim for indemnification or contribution under this Agreement or any Ancillary Agreement that does not result from a Third-Party Claim shall be asserted by written notice given by the Indemnified Party to the applicable Indemnifying Party; provided, that the failure by an Indemnified Party to so assert any such claim shall not prejudice the ability of the Indemnified Party to do so at a later time except to the extent (if any) that the Indemnifying Party is prejudiced thereby. Such Indemnifying Party shall have a period of thirty (30) days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such thirty (30)-day period, such specified claim shall be conclusively deemed a Liability of the Indemnifying Party under this Section 4.6(b) or, in the case of any written notice in which the amount of the claim (or any portion thereof) is estimated, on such later date when the amount of the claim (or such portion thereof) becomes finally determined. If such Indemnifying Party does not respond within such thirty (30)-day period or rejects such claim in whole or in part, such Indemnified Party shall, subject to the provisions of Article VII, be free to pursue such remedies as may be available to such party as contemplated by this Agreement and the Ancillary Agreements, as applicable, without prejudice to its continuing rights to pursue indemnification or contribution hereunder.

(c) *Pursuit of Claims Against Third Parties.* If (i) a Party incurs any Liability arising out of this Agreement or any Ancillary Agreement; (ii) an adequate legal or equitable remedy is not available for any reason against the other Party to satisfy the Liability incurred by the incurring Party; and (iii) a legal or equitable remedy may be available to the other Party against a Third Party for such Liability, then the other Party shall use its commercially reasonable efforts to cooperate with the incurring Party, at the incurring Party's expense, to permit the incurring Party to obtain the benefits of such legal or equitable remedy against the Third Party.

(d) *Subrogation.* In the event of payment by or on behalf of any Indemnifying Party to any Indemnified Party in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnified Party as to any events or circumstances in respect of which such Indemnified Party may have any right, defense or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim or against any other Person. Such Indemnified Party shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(e) *Substitution.* In the event of an Action for which a Party is entitled to indemnification hereunder in which the Indemnifying Party is not a named defendant, if either the Indemnified Party or Indemnifying Party shall so request, the Parties shall endeavor to substitute the Indemnifying Party for the named defendant. If such substitution or addition cannot be achieved for any reason or is not requested, the named defendant shall allow the Indemnifying Party to manage the Action as set forth in Section 4.5 and this Section 4.6, and the Indemnifying Party shall fully indemnify the named defendant against all costs of defending the Action (including court costs, sanctions imposed by a court, attorneys' fees, experts fees and all other external expenses), the costs of any judgment or settlement and the cost of any interest or penalties relating to any judgment or settlement.

4.7 Right of Contribution.

(a) *Contribution.* If any right of indemnification contained in Sections 4.2 or 4.3 is held unenforceable or is unavailable for any reason, or is insufficient to hold harmless an Indemnified Party in respect of any Liability for which such Indemnified Party is entitled to indemnification hereunder, then the Indemnifying Party shall contribute to the amounts paid or payable by the Indemnified Parties as a result of such Liability (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the members of its Group, on the one hand, and the Indemnified Parties entitled to contribution, on the other hand, as well as any other relevant equitable considerations.

(b) *Allocation of Relative Fault.* Solely for purposes of determining relative fault pursuant to this Section 4.7: (i) any fault associated with the business conducted with the Delayed PayPal Assets or Delayed PayPal Liabilities (except for the gross negligence or intentional misconduct of a member of the eBay Group) or with the ownership, operation or

activities of the PayPal Business prior to the Effective Time shall be deemed to be the fault of PayPal and the other members of the PayPal Group, and no such fault shall be deemed to be the fault of eBay or any other member of the eBay Group; (ii) any fault associated with the business conducted with Delayed eBay Assets or Delayed eBay Liabilities (except for the gross negligence or intentional misconduct of a member of the PayPal Group) shall be deemed to be the fault of eBay and the other members of the eBay Group, and no such fault shall be deemed to be the fault of PayPal or any other member of the PayPal Group; (iii) any fault associated with the ownership, operation or activities of the eBay Business prior to the Effective Time shall be deemed to be the fault of eBay and the other members of the eBay Group, and no such fault shall be deemed to be the fault of PayPal or any other member of the PayPal Group; and (iv) (iii) any fault associated with the ownership, operation or activities of the PayPal Business prior to the Effective Time shall be deemed to be the fault of PayPal and the other members of the PayPal Group, and no such fault shall be deemed to be the fault of eBay or any other member of the eBay Group.

4.8 Covenant Not to Sue. Each Party hereby covenants and agrees that none of it, the members of such Party's Group or any Person claiming through it shall bring suit or otherwise assert any claim against any Indemnified Party, or assert a defense against any claim asserted by any Indemnified Party, before any court, arbitrator, mediator or administrative agency anywhere in the world, alleging that: (a) the assumption of any PayPal Liabilities by PayPal or a member of the PayPal Group on the terms and conditions set forth in this Agreement and the Ancillary Agreements is void or unenforceable for any reason; (b) the retention of any eBay Liabilities by eBay or a member of the eBay Group on the terms and conditions set forth in this Agreement and the Ancillary Agreements is void or unenforceable for any reason; or (c) the provisions of this Article IV are void or unenforceable for any reason.

4.9 Remedies Cumulative. The remedies provided in this Article IV shall be cumulative and, subject to the provisions of Article VIII, shall not preclude assertion by any Indemnified Party of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

4.10 Survival of Indemnities. The rights and obligations of each of eBay and PayPal and their respective Indemnified Parties under this Article IV shall survive (a) the sale or other transfer by either Party or any member of its Group of any assets or businesses or the assignment by it of any liabilities; or (b) any merger, consolidation, business combination, sale of all or substantially all of its Assets, restructuring, recapitalization, reorganization or similar transaction involving either Party or any of the members of its Group.

4.11 Coordination with Ancillary Agreements.

(a) The provisions of Sections 4.2 through 4.10 hereof shall not apply with respect to Taxes or Tax matters (including the control of Tax related proceedings), which shall be governed by the Tax Matters Agreement. In the case of any conflict between this Agreement and the Tax Matters Agreement in relation to any matters addressed by the Tax Matters Agreement, the Tax Matters Agreement shall control.

(b) The provisions of Sections 4.2 through 4.10 hereof shall not apply (except as expressly set forth in the applicable Ancillary Agreement) with respect to the representations, warranties, covenants and agreements set forth in the Operating Agreement, the Transition Services Agreement, the Colocation Services Agreements, the Data Sharing Addendum and the Product Development Agreement, which shall be governed by the Operating Agreement, the Transition Services Agreement, the Colocation Services Agreements, the Data Sharing Addendum and the Product Development Agreement, respectively.

(c) In the case of any conflict between this Agreement and the Operating Agreement in relation to any matters addressed by the Operating Agreement, the Operating Agreement shall control. In the case of any conflict between this Agreement and the Transition Services Agreement in relation to any matters addressed by the Transition Services Agreement, the Transition Services Agreement shall control. In the case of any conflict between this Agreement and the Intellectual Property Matters Agreement in relation to any matters addressed by the Intellectual Property Matters Agreement, the Intellectual Property Matters Agreement shall control. In the case of any conflict between this Agreement and a Colocation Services Agreement in relation to any matters addressed by the Colocation Services Agreement, the Colocation Services Agreement shall control. In the case of any conflict between this Agreement and the Data Sharing Addendum in relation to any matters addressed by the Data Sharing Addendum, the Data Sharing Addendum shall control. In the case of any conflict between this Agreement and the Product Development Agreement in relation to any matters addressed by the Product Development Agreement, the Product Development Agreement shall control.

ARTICLE V CERTAIN OTHER MATTERS

5.1 Insurance Matters.

(a) eBay and PayPal agree to cooperate in good faith to provide for an orderly transition of insurance coverage from the date hereof through the Effective Time. In no event shall eBay, any other member of the eBay Group or any eBay Indemnified Party have Liability or obligation whatsoever to any member of the PayPal Group in the event that any insurance policy or other contract or policy of insurance shall be terminated or otherwise cease to be in effect for any reason, shall be unavailable or inadequate to cover any Liability of any member of the PayPal Group for any reason whatsoever, or shall not be renewed or extended beyond the current expiration date.

(b) From and after the Effective Time, with respect to any losses, damages and Liability incurred by any member of the PayPal Group prior to the Effective Time, eBay will provide PayPal with access to, and PayPal may, upon prior written notice to eBay in accordance with procedures to be mutually agreed upon and documented by the Parties from time to time (which documented procedures shall be binding upon the Parties), make claims under, eBay's policies or contracts of insurance in place immediately prior to the Effective Time and eBay's historical policies of insurance, but solely to the extent that such policies provided coverage for members of the PayPal Group prior to the Effective Time; provided, that such access to, and the right to make claims under, such insurance policies, shall be subject to the terms and conditions of such insurance policies, including any limits on coverage or scope, any deductibles and other fees and expenses, and shall be subject to the following additional conditions:

(i) PayPal shall report any claim to eBay, as promptly as practicable, and in any event in sufficient time so that such claim may be made in accordance with eBay's claim reporting procedures in effect immediately prior to the Effective Time (or in accordance with any modifications to such procedures after the Effective Time communicated by eBay to PayPal in writing);

(ii) PayPal and the members of the PayPal Group shall indemnify, hold harmless and reimburse eBay and the members of the eBay Group for any deductibles, self-insured retention (other than any such retention under an eBay Group captive insurance arrangement), fees and expenses incurred by eBay or any members of the eBay Group to the extent resulting from any access to, any claims made by PayPal or any other members of the PayPal Group under, any insurance provided pursuant to this Section 5.1(b), including any indemnity payments, settlements, judgments, legal fees and allocated claims expenses and claim handling fees, whether such claims are made by PayPal, its employees or third Persons (it being understood that amounts recovered under an eBay Group captive insurance arrangement shall not be deemed to be fees and expenses incurred by eBay or any member of the eBay Group); and

(iii) PayPal shall exclusively bear (and neither eBay nor any members of the eBay Group shall have any obligation to repay or reimburse PayPal or any member of the PayPal Group for) and shall be liable for all uninsured, uncovered, unavailable or uncollectible amounts of all such claims made by PayPal or any member of the PayPal Group under the policies as provided for in this Section 5.1(b). In the event an insurance policy aggregate is exhausted, or believed likely to be exhausted, due to noticed claims, the PayPal Group, on the one hand, and the eBay Group, on the other hand, shall be responsible for their pro rata portion of the reinstatement premium, if any, based upon the losses of such Group submitted to eBay's insurance carrier(s) (including any submissions prior to the Effective Time). To the extent that the eBay Group or the PayPal Group is allocated more than its pro rata portion of such premium due to the timing of losses submitted to eBay's insurance carrier(s), the other party shall promptly pay the first party an amount so that each Group shall be properly allocated its pro rata portion of the reinstatement premium. Subject to the following sentence, eBay may elect not to reinstate the policy aggregate. In the event that eBay elects not to reinstate the policy aggregate, it shall provide prompt written notice to PayPal, and PayPal may direct eBay in writing to, and eBay shall, in such case, reinstate the policy aggregate; provided, that PayPal shall then be responsible for all reinstatement premiums and other costs associated with such reinstatement.

In the event that any member of the eBay Group incurs any losses, damages or Liability prior to or in respect of the period prior to the Effective Time for which such member of the eBay Group is entitled to coverage under PayPal's insurance policies, the same process pursuant to this Section 5.1(b) shall apply, substituting "eBay" for "PayPal" and "PayPal" for "eBay."

(c) Except as provided in Section 5.1(b), from and after the Effective Time, neither PayPal nor any member of the PayPal Group shall have any rights to or under any of the insurance policies of eBay or any other member of the eBay Group. At the Effective Time, PayPal shall have in effect all insurance programs required to comply with PayPal's contractual obligations and such other insurance policies required by Law or as reasonably necessary or appropriate for companies operating a business similar to PayPal's. Such insurance programs may include general liability, commercial auto liability, workers' compensation, employer's liability, product liability, professional services liability, property, cargo, employment practices liability, employee dishonesty/crime, directors' and officers' liability and fiduciary liability.

(d) Neither PayPal nor any member of the PayPal Group, in connection with making a claim under any insurance policy of eBay or any member of the eBay Group pursuant to this Section 5.1, shall take any action (other than the act of making the claim) that would be reasonably likely to (i) have an adverse impact on the then-current relationship between eBay or any member of the eBay Group, on the one hand, and the applicable insurance company, on the other hand; (ii) result in the applicable insurance company terminating or reducing coverage, or increasing the amount of any premium owed by eBay or any member of the eBay Group under the applicable insurance policy; or (iii) otherwise compromise, jeopardize or interfere with the rights of eBay or any member of the eBay Group under the applicable insurance policy. eBay and the other members of the eBay Group, in connection with reporting, administering or handling a claim on behalf of PayPal or any member of the PayPal Group under any insurance policy of eBay or any member of the eBay Group pursuant to this Section 5.1, will use commercially reasonable efforts to avoid taking any action (other than the act of making the claim) that would be reasonably likely to have an adverse impact on the then-current relationship between PayPal or any member of the PayPal Group, on the one hand, and the applicable insurance company, on the other hand, if such insurance company is also an insurer of PayPal or any member of the PayPal Group. All payments and reimbursements by PayPal pursuant to this Section 5.1 will be made within thirty (30) days after PayPal's receipt of an invoice therefor from eBay. If eBay incurs costs to enforce PayPal's obligations herein, PayPal agrees to indemnify and hold harmless eBay for such enforcement costs, including reasonable attorneys' fees pursuant to Section 4.6(b).

(e) eBay shall retain responsibility for and have the exclusive right to control Insurance Administration of its insurance policies and programs and any and all other rights with respect to its insurance policies and programs, including the right to exhaust, settle, release, commute, buyback or otherwise resolve disputes with respect to any of its insurance policies and programs and to amend, modify or waive any rights under any such insurance policies and programs, notwithstanding whether any such policies or programs apply to any PayPal Liabilities and/or claims PayPal has made or could make in the future, and no member of the PayPal Group shall (without the prior written consent of eBay) erode, exhaust, settle, release, commute, buyback or otherwise resolve disputes with eBay's insurers with respect to any of eBay's insurance policies and programs, or amend, modify or waive any rights under any such insurance policies and programs. PayPal shall cooperate with eBay and share such information as is reasonably necessary to permit eBay to manage and conduct its insurance matters as it deems appropriate. Neither eBay nor any of the members of the eBay Group shall have any obligation to secure extended reporting for any claims under any Liability policies of eBay or any member of the eBay Group for any acts or omissions by any member of the PayPal Group incurred prior to the Effective Time.

(f) eBay shall, and shall cause the members of the eBay Group to, (i) use commercially reasonable efforts, at PayPal's reasonable request (and provided that PayPal complies with the requirements of Section 5.1(b)), to assist PayPal in making claims under the eBay insurance policies described in Section 5.1(b), (ii) notify PayPal within thirty (30) days of any election by eBay to control any claim under an eBay insurance policy or program to the extent such claim relates to a PayPal Asset and/or PayPal Liability and (iii) promptly (and in any event within thirty (30) days after eBay's receipt thereof) pay over to PayPal or the applicable member of the PayPal Group any Insurance Proceeds that are received by eBay or any member of the eBay Group in respect of such claims.

(g) This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of any member of the eBay Group in respect of any insurance policy or any other contract or policy of insurance.

(h) PayPal does hereby, for itself and each other member of the PayPal Group, agree that no member of the eBay Group shall have any Liability whatsoever as a result of the insurance policies and practices of eBay and the members of the eBay Group as in effect at any time, including as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise.

5.2 Directors and Officers Insurance. Prior to the Effective Time, eBay shall obtain and fully pay for a directors and officers liability run-off insurance policy for claims made after the Effective Time covering wrongful acts that have occurred prior to and through the Effective Time and arising out of or relating to PayPal, the other members of the PayPal Group or the PayPal Business (as the PayPal Business exists as of immediately after the Effective Time), with a policy period of at least six (6) years from and after the Effective Time, covering (a) any Persons who, as of or at any time prior to the Effective Time, are or have been directors or officers of eBay or any other member of the eBay Group; (b) any Persons who, as of or at any time prior to the Effective Time, are or have been directors or officers of PayPal or the other members of the PayPal Group; and (c) eBay, the other members of the eBay Group, PayPal, the other members of the PayPal Group and the PayPal Business (as the PayPal Business exists as of immediately after the Effective Time). Such directors and officers liability run-off insurance policy shall be consistent in all material respects with the directors and officers liability insurance policy maintained by eBay as of the Effective Time (except for the policy period and provisions excluding coverage for wrongful acts occurring after the Effective Time).

5.3 Late Payments. Except as expressly provided to the contrary in this Agreement or in any Ancillary Agreement, any amount not paid when due pursuant to this Agreement or any Ancillary Agreement (and any amounts billed or otherwise invoiced or demanded and properly payable that are not paid within thirty (30) days of such bill, invoice or other demand) shall accrue interest at a rate per annum equal to Prime Rate plus two percent (2%).

5.4 Inducement. PayPal acknowledges and agrees that eBay's willingness to cause, effect and consummate the Separation and the Distribution has been conditioned upon and induced by PayPal's covenants and agreements in this Agreement and the Ancillary Agreements, including PayPal's assumption of the PayPal Liabilities pursuant to the Separation and the provisions of this Agreement and PayPal's covenants and agreements contained in Article IV.

5.5 Post-Effective Time Conduct. The Parties acknowledge that, after the Effective Time, each Party shall be independent of the other Party, with responsibility for its own actions and inactions and its own Liabilities relating to, arising out of or resulting from the conduct of its business, operations and activities following the Effective Time, except as may otherwise be provided in any Ancillary Agreement, and each Party shall (except as otherwise provided in Article IV) use commercially reasonable efforts to prevent such Liabilities from being inappropriately borne by the other Party.

5.6 Conduct of Certain Intellectual Property Matters. Commencing as of the Effective Time, the Parties will cooperate and coordinate on the conduct of the defense or prosecution of the Joint Proceedings, eBay Proceedings, and PayPal Proceedings as set forth in Schedule 5.6. The provisions of Sections 4.2 through 4.10 hereof shall not apply with respect to any such Joint Proceedings, eBay Proceedings or PayPal Proceedings, which shall be governed by Schedule 5.6.

ARTICLE VI EXCHANGE OF INFORMATION; CONFIDENTIALITY

6.1 Agreement for Exchange of Information.

(a) Subject to Section 6.9, any other applicable confidentiality obligations, any Ancillary Agreement or any other agreement between the Parties, each of eBay and PayPal, on behalf of itself and each member of its respective Group, agrees to use commercially reasonable efforts to provide or make available, or cause to be provided or made available, to the other Party and the members of such other Party's Group, at any time before, on or after the Effective Time, as soon as reasonably practicable after written request therefor, any information (or a copy thereof) in the possession or under the control of such Party or its Group which the requesting Party or its Group to the extent that (i) such information relates (A) to the PayPal Business, or any PayPal Asset or PayPal Liability, if PayPal is the requesting Party, or (B) to the eBay Business, or any eBay Asset or eBay Liability, if eBay is the requesting Party; (ii) such information is required by the requesting Party to comply with its obligations under this Agreement or any Ancillary Agreement; or (iii) such information is required by the requesting Party to comply with any obligation imposed by any Governmental Authority; provided, that if the Party to whom the request has been made determines that, in the reasonable good faith judgment of such Party, any such provision of information could be detrimental to the Party providing the information, then the Parties shall use commercially reasonable efforts to permit compliance with such obligations to the extent and in a manner that avoids any such harm or consequence. Notwithstanding the foregoing, this Section 6.1 shall not require the Party to whom the request has been made to provide such information if such Party determines that doing so would, in the reasonable good faith judgment of such Party, reasonably be expected to result in any violation of any Law or agreement or waive any privilege available under applicable Law, including any attorney-client privilege; provided, that the Parties shall use commercially

reasonable efforts to cooperate in seeking to find a way to permit compliance with such obligations to the extent and in a manner that avoids such consequence. The Party providing information pursuant to this Section 6.1 shall only be obligated to provide such information in the form, condition and format in which it then exists, and in no event shall such Party be required to perform any improvement, modification, conversion, updating or reformatting of any such information, and nothing in this Section 6.1 shall expand the obligations of a Party under Section 6.4.

(b) Without limiting the generality of the foregoing, until the first PayPal fiscal year end during which the Distribution Date occurs (and for a reasonable period of time afterwards as required for each Party to prepare consolidated financial statements or complete a financial statement audit for the fiscal year during which the Distribution Date occurs), each Party shall use its commercially reasonable efforts to cooperate with the other Party's information requests to enable (i) the other Party to meet its timetable for dissemination of its earnings releases, financial statements and management's assessment of the effectiveness of its disclosure controls and procedures and its internal control over financial reporting in accordance with Items 307 and 308, respectively, of Regulation S-K promulgated under the Exchange Act; and (ii) the other Party's accountants to timely complete their review of the quarterly financial statements and audit of the annual financial statements, including, to the extent applicable to such Party, its auditor's audit of its internal control over financial reporting and management's assessment thereof in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the SEC's and Public Company Accounting Oversight Board's rules and auditing standards thereunder and any other applicable Laws.

(c) Without limiting the generality of the foregoing, each Party shall deliver to the other Party a reasonably complete draft (to the extent practicable) of (i) its first quarterly report on Form 10-Q to be filed with the Commission that includes its respective financial statements, (ii) its first annual report on Form 10-K to be filed with the Commission that includes its respective annual financial statements in the form expected to be covered by the audit report of such Party's independent auditor and (iii) the proxy materials to be filed with the Commission in respect of such Party's first annual meeting of stockholders following the Distribution Date (the documents described in clauses (i), (ii) and (iii), the "Financial Reporting and Proxy Materials") at least fifteen (15) days prior to the expected date of filing and to deliver to the other Party any supplements, amendments or significant revisions following such delivery. Each Party shall notify the other Party as soon as reasonably practicable after it becomes aware of any material accounting differences between its Financial Reporting and Proxy Materials and the other Party's Financial Reporting and Proxy Materials with respect to transactions or activities conducted prior to or at the Effective Time, and the Parties shall subsequently confer and use commercially reasonable efforts to consult with each other in good faith and resolve such differences prior to the filing of the applicable Financial Reporting and Proxy Materials.

6.2 Ownership of Information. The provision of any information pursuant to Section 6.1 or Section 6.7 shall not affect the ownership of such information (which shall be determined solely in accordance with the terms of this Agreement and the Ancillary Agreements), or constitute a grant of rights in or to any such information.

6.3 Compensation for Providing Information. Subject to any Ancillary Agreement or any other agreement between the Parties, the Party requesting information agrees to reimburse the other Party for the reasonable costs, if any, of creating, gathering, copying, transporting and otherwise complying with the request with respect to such information (including any reasonable costs and expenses incurred in any review of information for purposes of protecting the Privileged Information of the providing Party or in connection with the restoration of backup media for purposes of providing the requested information). Except as may be otherwise specifically provided elsewhere in this Agreement, any Ancillary Agreement or any other agreement between the Parties, such costs shall be computed in accordance with the providing Party's standard methodology and procedures as provided to the other Party from time to time.

6.4 Record Retention. To facilitate the possible exchange of information pursuant to this Article VI and other provisions of this Agreement after the Effective Time, the Parties agree to use their commercially reasonable efforts, which shall be no less rigorous than those used for retention of such Party's own information, to retain all information in their respective possession or control on the Effective Time (including information that is subject to an LHO) in accordance with the policies of eBay as in effect on the Effective Time or such other policies as may be adopted by eBay after the Effective Time (provided, that in the case of PayPal, eBay notifies PayPal of any such change). Except in accordance with its, or its applicable Subsidiaries', policies and ordinary course practices, no Party will destroy, or permit any of its Subsidiaries to destroy, any information that would, in accordance with such policies or ordinary course practices, be archived or otherwise filed in a centralized filing system by such party or its applicable Subsidiaries and, without limiting the foregoing, comply with the requirements of any LHO that relates to (x) any Action that is pending as of the Effective Time; or (y) any Action that arises or becomes threatened or reasonably anticipated after the Effective Time as to which such Party or its Subsidiaries has received a notice of the applicable LHO from the other Party. Notwithstanding anything in this Article VI to the contrary, (a) the Tax Matters Agreement shall govern the retention of Tax related records and the exchange of Tax related information, (b) the Employee Matters Agreement shall govern the retention of employment and benefits related records and (c) the Data Sharing Addendum will govern the retention of the records specified therein.

6.5 Limitations of Liability. Neither Party shall have any Liability to the other Party in the event that any information exchanged or provided pursuant to this Agreement is found to be inaccurate in the absence of gross negligence or willful misconduct by the Party providing such information. Neither Party shall have any Liability to any other Party if any information is destroyed after commercially reasonable efforts by such Party to comply with the provisions of Section 6.4.

6.6 Other Agreements Providing for Exchange of Information.

(a) The rights and obligations granted under this Article VI are subject to any specific limitations, qualifications or additional provisions on the sharing, exchange, retention or confidential treatment of information set forth in any Ancillary Agreement.

(b) Any party that receives, pursuant to a request for information in accordance with this Article VI, Tangible Information that is not relevant to its request shall (i) return it to the providing Party or, at the providing Party's request, destroy such Tangible Information; and (ii) deliver to the providing Party written confirmation that such Tangible Information was returned or destroyed, as the case may be, which confirmation shall be signed by an authorized representative of the requesting Party.

6.7 Production of Witnesses; Records; Cooperation.

(a) After the Effective Time, except in the case of an adversarial Action or Dispute between eBay and PayPal or as prohibited by applicable Law, or any members of their respective Groups, each Party shall use its reasonable best efforts (which shall not impose undue burden on such Party) to make available to the other Party, upon written request, the former and then-current directors, officers, employees, other personnel and agents of the members of its respective Group as witnesses and any books, records or other documents within its possession, custody or control, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any Action in which the requesting Party (or member of its Group) may from time to time be involved, regardless of whether such Action is a matter with respect to which indemnification may be sought hereunder. The requesting Party shall bear all costs and expenses in connection therewith.

(b) If an Indemnifying Party chooses to defend any Third-Party Claim, the other Party shall make available to such Indemnifying Party (without undue burden to such other Party), upon written request, the former and then-current directors, officers, employees, other personnel and agents of the members of its respective Group as witnesses and any books, records or other documents within its possession, custody or control, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with such defense, or such prosecution, evaluation or pursuit, as the case may be, and shall otherwise cooperate in such defense, or such prosecution, evaluation or pursuit, as the case may be.

(c) Without limiting the foregoing, the Parties shall cooperate and consult with each other to the extent reasonably necessary with respect to any Actions.

(d) The obligation of the Parties to provide witnesses pursuant to this Section 6.7 is intended to be interpreted in a manner so as to facilitate cooperation and shall include the obligation to provide as witnesses inventors and other officers without regard to whether the witness or the employer of the witness could assert a possible business conflict (subject to the exception set forth in the first sentence of Section 6.7(a)).

6.8 Privileged Matters.

(a) The Parties recognize that legal and other professional services that have been and will be provided prior to the Effective Time (whether by outside counsel, in-house counsel or other legal professionals) have been and will be rendered for the collective benefit of each of the members of the eBay Group and the PayPal Group, and that each of the members of

the eBay Group and the PayPal Group shall be deemed to be the client with respect to such services for the purposes of asserting all privileges which may be asserted under applicable Law in connection therewith. The Parties recognize that legal and other professional services will be provided following the Effective Time, which services will be rendered solely for the benefit of the eBay Group or the PayPal Group, as the case may be.

(b) The Parties agree as follows:

(i) eBay shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the eBay Business and not to the PayPal Business, whether or not the Privileged Information is in the possession or under the control of any member of the eBay Group or any member of the PayPal Group. eBay shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the eBay Specified Actions or to any eBay Liabilities resulting from any other Actions that are now pending or may be asserted in the future, whether or not the Privileged Information is in the possession or under the control of any member of the eBay Group or any member of the PayPal Group; and

(ii) PayPal shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the PayPal Business and not to the eBay Business, whether or not the Privileged Information is in the possession or under the control of any member of the PayPal Group or any member of the eBay Group. PayPal shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any Privileged Information that relates solely to the PayPal Specified Actions or to any PayPal Liabilities resulting from any other Actions that are now pending or may be asserted in the future, whether or not the Privileged Information is in the possession or under the control of any member of the PayPal Group or any member of the eBay Group.

(iii) If the Parties do not agree as to whether certain information is Privileged Information, then such information shall be treated as Privileged Information, and the Party that believes that such information is Privileged Information shall be entitled to control the assertion or waiver of all privileges and immunities in connection with any such information until such time as it is finally judicially determined that such information is not Privileged Information, unless the Parties otherwise agree. The Parties shall use the procedures set forth in Article VII to resolve any disputes as to whether any information relates solely to the eBay Business, solely to the PayPal Business, or to both the eBay Business and the PayPal Business.

(c) Subject to the remaining provisions of this Section 6.8, the Parties agree that they shall have a shared privilege or immunity with respect to all privileges and immunities not allocated pursuant to Section 6.8(b) and all privileges and immunities relating to any Actions or other matters that involve both Parties (or one or more members of their respective Groups) and in respect of which both Parties have Liabilities under this Agreement, and that no such shared privilege or immunity may be waived by either Party without the written consent of the

other Party. The Parties will enter into common interest or joint defense agreements as deemed necessary to preserve privilege, allow coordination of defenses, and avoid waivers of privilege in connection with any Privileged Information that relates to Shared Contingent Liabilities, whether or not the Privileged Information is in the possession or under the control of any member of the PayPal Group or any member of the eBay Group.

(d) If any Dispute arises between the Parties or any members of their respective Group regarding whether a privilege or immunity should be waived to protect or advance the interests of either Party and/or any member of their respective Groups, each Party agrees that it shall (i) negotiate with the other Party in good faith; (ii) endeavor to minimize any prejudice to the rights of the other Party; and (iii) not unreasonably withhold consent to any request for waiver by the other Party. Further, each Party specifically agrees that it shall not withhold its consent to the waiver of a privilege or immunity for any purpose except in good faith to protect its own legitimate interests.

(e) Subject to Section 6.9, in the event of any adversarial Action or Dispute between eBay and PayPal, or any members of their respective Groups, either Party may waive a privilege in which the other Party or member of such other Party's Group has a shared privilege, without obtaining consent pursuant to Section 6.8(c); provided, that such waiver of a shared privilege shall be effective only as to the use of information with respect to the Action or Dispute between the Parties and/or the applicable members of their respective Groups, and shall not operate as a waiver of the shared privilege with respect to any Third Party.

(f) Upon receipt by either Party, or by any member of its respective Group, of any subpoena, discovery or other request (or of written notice that it will or has received such subpoena, discovery or other request) that may reasonably be expected to result in the production or disclosure of Privileged Information subject to a shared privilege or immunity or as to which another Party has the sole right hereunder to assert a privilege or immunity, or if either Party obtains knowledge or becomes aware that any of its, or any member of its respective Group's, current or former directors, officers, agents or employees have received any subpoena, discovery or other requests (or have received written notice that they will or have received such subpoena, discovery or other requests) that may reasonably be expected to result in the production or disclosure of such Privileged Information, such Party shall promptly notify the other Party of the existence of the request (which notice shall be delivered to such other Party no later than five (5) business days following the receipt of (or of written notice that it will or has received) any such subpoena, discovery or other request) and shall provide the other Party a reasonable opportunity to review the Privileged Information and to assert any rights it or they may have, under this Section 6.8 or otherwise, to prevent the production or disclosure of such Privileged Information; provided, that if such Party is prohibited by applicable Law from disclosing the existence of the request, such Party shall provide written notice of such related information for which disclosure is not prohibited by applicable Law and use commercially reasonable efforts to inform the other Party of any related information such Party determines, in its discretion, is necessary or appropriate for the other Party to be informed of to enable the other Party to review the Privileged Information and to assert its rights, under this Section 6.8 or otherwise, to prevent the production or disclosure of such Privileged Information.

(g) Any furnishing of, or access or transfer of, any information pursuant to this Agreement is made in reliance on the agreement of eBay and PayPal set forth in this Section 6.8 and in Section 6.9 to maintain the confidentiality of Privileged Information and to assert and maintain all applicable privileges and immunities. The Parties agree that their respective rights to any access to information, witnesses and other Persons, the furnishing of notices and documents and other cooperative efforts between the Parties contemplated by this Agreement, and the transfer of Privileged Information between the Parties and members of their respective Groups pursuant to this Agreement, shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise. The Parties further agree that (i) the exchange by one Party to the other Party of any Privileged Information that should not have been transferred pursuant to the terms of this Article VI shall not be deemed to constitute a waiver of any privilege or immunity that has been or may be asserted under this Agreement or otherwise with respect to such Privileged Information; and (ii) the Party receiving such Privileged Information shall promptly return such Privileged Information to the Party who has the right to assert the privilege or immunity.

(h) In connection with any matter contemplated by Section 6.7 or this Section 6.8, the Parties agree to, and to cause the applicable members of their Group to, use reasonable efforts to maintain their respective separate and joint privileges and immunities, including by executing joint defense and/or common interest agreements where necessary or useful for this purpose.

6.9 Confidentiality.

(a) *Confidentiality*. Subject to Section 6.10 and any Ancillary Agreement, from and after the Effective Time until the five (5) year anniversary of the Effective Time (other than in the case of any item of Technical Information, for which the obligations in this Section 6.9 will continue until such time as any of the exceptions set forth in clauses (A) through (C) of this Section 6.9(a) have been satisfied with respect to such item of Technical Information), each of eBay and PayPal, on behalf of itself and each member of its respective Group, agrees to hold, and to cause its respective Representatives to hold, in strict confidence, with at least the same degree of care that applies to eBay's confidential and proprietary information pursuant to policies in effect as of the Effective Time, all confidential and proprietary information concerning the other Party or any member of the other Party's Group or their respective businesses that is either (i) in its possession (including confidential and proprietary information in its possession prior to the date hereof) or (ii) furnished by any such other Party or any member of such Party's Group or their respective Representatives at any time pursuant to this Agreement, any Ancillary Agreement or otherwise, and shall not use any such confidential and proprietary information other than for such purposes as shall be expressly permitted hereunder or thereunder, except, in each case, to the extent that such confidential and proprietary information is or was (A) in the public domain or generally available to the public, other than as a result of a disclosure by such Party or any member of such Party's Group or any of their respective Representatives in violation of this Agreement, (B) later lawfully acquired from other sources by such Party (or any member of such Party's Group) which sources are not themselves bound by a confidentiality obligation or other contractual, legal or fiduciary obligation of confidentiality with respect to such confidential and proprietary information, or (C) independently developed or generated without reference to or use of any proprietary or confidential information of the other Party or

any member of such Party's Group. If any confidential and proprietary information of one Party or any member of its Group is disclosed to the other Party or any member of such other Party's Group in connection with providing services to such first Party or any member of such first Party's Group under this Agreement or any Ancillary Agreement, then such disclosed confidential and proprietary information shall be used only as required to perform such services.

(b) *No Release; Return or Destruction.* Each Party agrees not to release or disclose, or permit to be released or disclosed, any information addressed in Section 6.9(a) to any other Person, except its Representatives who need to know such information in their capacities as such (who shall be advised of their obligations hereunder with respect to such information), and except in compliance with Section 6.10. Without limiting the foregoing, when any such information is no longer needed for the purposes contemplated by this Agreement or any Ancillary Agreement, each Party shall, at its option and as promptly as practicable after receiving a written request from the other Party, either (i) return to the other Party all such information in a tangible form (including all copies thereof and all notes, extracts or summaries based thereon) or (ii) certify to the other Party that it has destroyed such information (and such copies thereof and such notes, extracts or summaries based thereon); provided, that such Party's Representatives may retain one (1) copy of such information to the extent required by applicable Law or professional standards, and shall not be required to destroy any such information located in back-up, archival electronic storage).

(c) *Third-Party Information; Privacy or Data Protection Laws.* Each Party acknowledges that it and members of its Group may presently have and, following the Effective Time, may gain access to or possession of confidential or proprietary information of, or personal information relating to, Third Parties (i) that was received under confidentiality or non-disclosure agreements entered into between such Third Parties, on the one hand, and the other Party or members of such Party's Group, on the other hand, prior to the Effective Time; or (ii) that, as between the Parties, was originally collected by the other Party or members of such Party's Group and that may be subject to and protected by privacy, data protection or other applicable Laws. Subject to the Data Sharing Addendum and any other Ancillary Agreement, each Party agrees that it shall hold, protect and use, and shall cause the members of its Group and its and their respective Representatives to hold, protect and use, in strict confidence the confidential and proprietary information of, or personal information relating to, Third Parties in accordance with privacy, data protection or other applicable Laws and the terms of any agreements that were either entered into before the Effective Time or affirmative commitments or representations that were made before the Effective Time by, between or among the other Party or members of the other Party's Group, on the one hand, and such Third Parties, on the other hand.

(d) *Residual Information* . Notwithstanding anything to the contrary herein, each Party and the members of such Party's Group shall be free to use for any purpose the Residual Information resulting from access Representatives of such Party or the members of its Group have had to confidential and proprietary information concerning the other Party or any member of the other Party's Group. The Parties acknowledge and understand that the foregoing does not constitute a license under any patents or copyrights.

6.10 Protective Arrangements. In the event that a Party or any member of its Group either determines on the advice of its counsel that it is required to disclose any information pursuant to applicable Law or receives any request or demand under lawful process or from any Governmental Authority to disclose or provide information of the other Party (or any member of the other Party's Group) that is subject to the confidentiality provisions hereof, such Party shall notify the other Party (to the extent legally permitted) as promptly as practicable under the circumstances prior to disclosing or providing such information and shall cooperate, at such other Party's cost and expense, in seeking any appropriate protective order reasonably requested by the other Party. In the event that such other Party fails to receive such appropriate protective order in a timely manner and the Party receiving the request or demand reasonably determines that its failure to disclose or provide such information will actually prejudice the Party receiving the request or demand, then the Party that received such request or demand may thereafter disclose or provide information to the extent required by such Law (as so advised by its counsel) or by lawful process or such Governmental Authority, and the disclosing Party shall promptly provide the other Party with a copy of the information so disclosed, in the same form and format so disclosed, together with a list of all Persons to whom such information was disclosed, in each case to the extent legally permitted.

ARTICLE VII DISPUTE RESOLUTION

7.1 Good-Faith Negotiation. Subject to Section 7.5, either Party seeking resolution of any dispute, controversy or claim arising out of or relating to this Agreement or Ancillary Agreement (including regarding whether any Assets are PayPal Assets, any Liabilities are PayPal Liabilities or the validity, interpretation, breach or termination of this Agreement or any Ancillary Agreement) (a "Dispute") that cannot be resolved by the Transition Committee, shall provide written notice thereof to the other Party (the "Initial Notice"), and within thirty (30) days of the delivery of the Initial Notice, the Parties shall attempt in good faith to negotiate a resolution of the Dispute. The negotiations shall be conducted by executives who hold, at a minimum, the title of senior vice president or general counsel and who have authority to settle the Dispute. All such negotiations shall be confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence. If the Parties are unable for any reason to resolve a Dispute within thirty (30) days after the delivery of such notice or if a Party reasonably concludes that the other Party is not willing to negotiate as contemplated by the preceding sentences of this Section 7.1, the Dispute shall be submitted to the Escalation Committee.

7.2 Escalation Committee. As of the Effective Time, the Parties shall establish an escalation committee (the "Escalation Committee") with six (6) members, consisting of the Chief Executive Officer of each of PayPal and eBay, the Chairman of the board of each of PayPal and eBay, a member of the eBay Board who shall be appointed by eBay and a member of the board of directors of PayPal who shall be appointed by PayPal (together with the member of the eBay Board, the "Other Board Members"). Each of eBay and PayPal will use its good faith efforts to avoid replacing the initial Other Board Members for the first two (2) years after the Effective Time. Thereafter, eBay and PayPal will, to the extent practicable, honor the other Party's reasonable objections to any replacements of Other Board Members. While any person is serving as a member of the Escalation Committee, such person may not designate any substitute or proxy for purposes of attending or voting at an Escalation Committee meeting. The Escalation Committee will meet at least annually and will make a good faith effort to promptly

(and in any event within forty-five (45) days of the dispute being referred to the Escalation Committee) resolve all Disputes referred to it. Escalation Committee decisions made with the consent of at least four (4) members, including at least one (1) eBay member and at least one (1) PayPal member, will be binding on eBay, PayPal and their respective Group members. If the Escalation Committee does not agree to a resolution of a Dispute within the forty-five (45)-day period following the referral of such Dispute to the Escalation Committee, the Parties may refer the Dispute to mediation in accordance with Section 7.3.

7.3 Non-Binding Mediation. Any Dispute not resolved pursuant to Section 7.2 shall, upon the written request of a Party (a “Mediation Request”), be submitted to nonbinding mediation in accordance with the then current JAMS International Mediation Rules (the “Mediation Rules”), except as modified herein. The mediation shall be held in (i) San Jose, California or (ii) such other place as the Parties may mutually agree in writing. The Parties shall have twenty (20) days from receipt by a Party of a Mediation Request to agree on a mediator. If no mediator has been agreed upon by the Parties within twenty (20) days of receipt by a party of a Mediation Request, then a Party may request (on written notice to the other Party), that JAMS appoint a mediator in accordance with the Mediation Rules. All mediation pursuant to this clause shall be confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence, and no oral or documentary representations made by the Parties during such mediation shall be admissible for any purpose in any subsequent proceedings. No Party shall disclose or permit the disclosure of any information about the evidence adduced or the documents produced by the other Party in the mediation proceedings or about the existence, contents or results of the mediation without the prior written consent of such other Party, except in the course of a judicial or regulatory proceeding or as may be required by Law or requested by a Governmental Authority or securities exchange. Before making any disclosure permitted by the preceding sentence, the Party intending to make such disclosure shall, to the extent reasonably practicable, give the other Party reasonable written notice of the intended disclosure and afford the other party a reasonable opportunity to protect its interests. If the Dispute has not been resolved within sixty (60) days of the appointment of a mediator, or within ninety (90) days after receipt by a Party of a Mediation Request (whichever occurs sooner), or within such longer period as the Parties may agree to in writing, then the Dispute shall be submitted to binding arbitration in accordance with Section 7.4.

7.4 Arbitration; Litigation.

(a) In the event that a Dispute has not been resolved within sixty (60) days of the appointment of a mediator in accordance with Section 7.3, or within ninety (90) days after receipt by a Party of a Mediation Request (whichever occurs sooner), or within such longer period as the Parties may agree to in writing, then, unless the amount in dispute, inclusive of all claims and counterclaims, totals \$250 million or more or the Dispute involves primarily non-monetary relief (in which case such Dispute shall be addressed in accordance with Section 7.4(e)), such Dispute shall, upon the written request of a Party (an “Arbitration Request”) be submitted to be finally resolved by binding arbitration pursuant to the then current CPR Arbitration Commercial Arbitration Rules of the American Arbitration Association (the “Arbitration Rules”). The arbitration shall be held in the same location as the mediation pursuant to Section 7.3. Unless otherwise agreed by the Parties in writing, any Dispute to be decided by binding arbitration pursuant to this Section 7.4 will be decided (i) before a sole independent arbitrator if the amount in dispute, inclusive of all claims and counterclaims, totals \$50 million or less; or (ii) by a panel of three (3) arbitrators if the amount in dispute, inclusive of all claims and counterclaims, totals more than \$50 million but less than \$250 million.

(b) The panel of three (3) arbitrators will be chosen as follows: (i) within fifteen (15) days from the date of the receipt of the Arbitration Request, each Party will name an arbitrator; and (ii) the two (2) Party-appointed arbitrators will thereafter, within thirty (30) days from the date on which the second of the two (2) arbitrators was named, name a third, independent arbitrator who will act as chairperson of the arbitral tribunal. In the event that either Party fails to name an arbitrator within fifteen (15) days from the date of receipt of the Arbitration Request, then upon written application by either Party, that arbitrator shall be appointed pursuant to the Arbitration Rules. In the event that the two (2) Party-appointed arbitrators fail to appoint the third, then the third, independent arbitrator will be appointed pursuant to the Arbitration Rules. If the arbitration will be before a sole independent arbitrator, then the sole independent arbitrator will be appointed by agreement of the Parties within fifteen (15) days of the date of receipt of the Arbitration Request. If the Parties cannot agree to a sole independent arbitrator, then upon written application by either party, the sole independent arbitrator will be appointed pursuant to the Arbitration Rules.

(c) If the amount in dispute, inclusive of all claims and counterclaims, totals \$25 million or less, then each Party shall provide the arbitrator with its respective resolution of the Dispute, including the net amount to be paid or received by such Party, together with the supporting calculations and analyses prepared with respect thereto, and the arbitrator shall select either the resolution of the Dispute as proposed by eBay or by PayPal; provided, that the arbitrator may award only one or the other of the net amounts so submitted. If the amount in dispute, inclusive of all claims and counterclaims, totals more than \$25 million but less than \$250 million, the arbitrator(s) will have the right to award, on an interim basis, or include in the final award, any monetary relief which it deems proper in the circumstances, including money damages (with interest on unpaid amounts from the due date) and attorneys' fees and costs. The arbitrator(s) will decide the substance of all claims in accordance with applicable Law, including recognized principles of equity, and will honor all claims of privilege recognized by Law. In no event shall the arbitrator(s) award any relief not specifically requested by the parties or award any indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages of the other arising in connection with the transactions contemplated hereby (other than any such Liability with respect to a Third-Party Claim). Upon selection of the arbitrator(s) following any grant of interim relief by a special arbitrator or court pursuant to Section 7.5, the arbitrator(s) may affirm or disaffirm that relief, and the parties will seek modification or rescission of the order entered by the court as necessary to accord with the decision of the arbitrator(s). The award of the arbitrator(s) shall be final and binding on the Parties, and may be enforced in any court of competent jurisdiction. The Parties shall share equally the administration and arbitrator fees associated with the arbitration.

(d) The initiation of mediation or arbitration pursuant to this Article VII will toll the applicable statute of limitations for the duration of any such proceedings.

(e) If the amount in dispute, inclusive of all claims and counterclaims, totals \$250 million or more or if the Dispute involves primarily non-monetary relief, then such Dispute shall not be submitted to arbitration, and either Party may commence litigation in the Delaware Court of Chancery (or, if such court does not have subject matter jurisdiction thereof, any other federal or state court located in the State of Delaware with subject matter jurisdiction).

7.5 Litigation and Unilateral Commencement of Arbitration. Notwithstanding the foregoing provisions of this Article VII, (a) a Party may seek preliminary provisional or injunctive judicial relief with respect to a Dispute without first complying with the procedures set forth in Sections 7.1 to 7.4 if such action is reasonably necessary to avoid irreparable damage and (b) either Party may initiate arbitration before the expiration of the periods specified in Sections 7.3 and 7.4 if (i) such Party has submitted a Mediation Request or Arbitration Request, as applicable, and the other Party has failed, within the applicable periods set forth in Section 7.3, to agree upon a date for the first mediation session to take place within thirty (30) days after the appointment of such mediator or such longer period as the Parties may agree to in writing or (ii) such Party has failed to comply with Section 7.4 in good faith with respect to commencement and engagement in arbitration. In such event, the other Party may commence and prosecute such arbitration unilaterally in accordance with the Arbitration Rules. Immediately following the issuance of any preliminary provisional or injunctive relief pursuant to clause (a) of the immediately preceding sentence, the Party seeking such relief will consent to the stay of any judicial proceedings pending the resolution of the Dispute pursuant to the procedures set forth in Sections 7.1 to 7.4.

7.6 Conduct During Dispute Resolution Process. Unless otherwise agreed in writing, the Parties shall, and shall cause their respective members of their Group to, continue to honor all commitments under this Agreement and each Ancillary Agreement to the extent required by such agreements during the course of dispute resolution pursuant to the provisions of this Article VII, unless such commitments are the specific subject of the Dispute at issue.

ARTICLE VIII FURTHER ASSURANCES AND ADDITIONAL COVENANTS

8.1 Further Assurances.

(a) In addition to the actions specifically provided for elsewhere in this Agreement, each of the Parties shall use its reasonable best efforts, prior to, on and after the Effective Time, to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Laws, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements.

(b) Without limiting the foregoing, prior to, on and after the Effective Time, each Party hereto shall cooperate with the other Party, and without any further consideration, but at the expense of the requesting Party, to execute and deliver, or use its reasonable best efforts to cause to be executed and delivered, all instruments, including instruments of conveyance, assignment and transfer, and to make all filings with, and to obtain all Approvals or Notifications of, any Governmental Authority or any other Person under any permit, license, agreement, indenture or other instrument (including any Governmental Approvals) and to take all such other actions as such Party may reasonably be requested to take by the other Party from time to time,

consistent with the terms of this Agreement and the Ancillary Agreements, in order to effectuate the provisions and purposes of this Agreement and the Ancillary Agreements, the transfers of the PayPal Assets and the eBay Assets, the assignment and assumption of the PayPal Liabilities and the eBay Liabilities and the other transactions contemplated hereby and thereby. Without limiting the foregoing, each Party will, at the reasonable request, cost and expense of the other Party, take such other actions as may be reasonably necessary to vest in such other Party good and marketable title to the Assets transferred or allocated to such Party under this Agreement or any of the Ancillary Agreements, free and clear of any Security Interest, if and to the extent it is practicable to do so.

(c) On or prior to the Effective Time, eBay and PayPal in their respective capacities as direct and indirect stockholders of the members of their respective Groups, shall each ratify any actions that are reasonably necessary or desirable to be taken by eBay, PayPal or any of the members of their respective Groups, as the case may be, to effectuate the transactions contemplated by this Agreement and the Ancillary Agreements.

ARTICLE IX TERMINATION

9.1 Termination. This Agreement and all Ancillary Agreements may be terminated and the Distribution may be amended, modified or abandoned at any time prior to the Effective Time by eBay, in its sole and absolute discretion, without the approval or consent of any other Person, including PayPal. After the Effective Time, this Agreement may not be terminated except by an agreement in writing signed by a duly authorized officer of each of the Parties.

9.2 Effect of Termination. In the event of any termination of this Agreement prior to the Effective Time, no Party (nor any of its directors, officers or employees) shall have any Liability or further obligation to the other Party by reason of this Agreement.

ARTICLE X MISCELLANEOUS

10.1 Counterparts; Entire Agreement; Corporate Power.

(a) This Agreement and each Ancillary Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

(b) This Agreement, the Ancillary Agreements and the Exhibits, Schedules and appendices hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof, supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties other than those set forth or referred to herein or therein.

(c) eBay represents on behalf of itself and each other member of the eBay Group, and PayPal represents on behalf of itself and each other member of the PayPal Group, as follows:

(i) each such Person has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and each Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby; and

(ii) this Agreement and each Ancillary Agreement to which it is a party has been duly executed and delivered by it and constitutes a valid and binding agreement of it enforceable in accordance with the terms thereof.

(d) Each Party acknowledges that it and each other Party is executing certain of the Ancillary Agreements by facsimile, stamp or mechanical signature, and that delivery of an executed counterpart of a signature page to this Agreement or any Ancillary Agreement (whether executed by manual, stamp or mechanical signature) by facsimile or by email in portable document format (PDF) shall be effective as delivery of such executed counterpart of this Agreement or any Ancillary Agreement. Each Party expressly adopts and confirms each such facsimile, stamp or mechanical signature (regardless of whether delivered in person, by mail, by courier, by facsimile or by email in portable document format (PDF)) made in its respective name as if it were a manual signature delivered in person, agrees that it will not assert that any such signature or delivery is not adequate to bind such Party to the same extent as if it were signed manually and delivered in person and agrees that, at the reasonable request of the other Party at any time, it will as promptly as reasonably practicable cause each such Ancillary Agreement to be manually executed (any such execution to be as of the date of the initial date thereof) and delivered in person, by mail or by courier.

10.2 Governing Law. This Agreement and, unless expressly provided therein, each Ancillary Agreement (and any claims or disputes arising out of or related hereto or thereto or to the transactions contemplated hereby and thereby or to the inducement of any party to enter herein and therein, whether for breach of contract, tortious conduct or otherwise and whether predicated on common law, statute or otherwise) shall be governed by and construed and interpreted in accordance with the Laws of the State of Delaware irrespective of the choice of laws principles of the State of Delaware including all matters of validity, construction, effect, enforceability, performance and remedies.

10.3 Assignability. Except as set forth in any Ancillary Agreement, this Agreement and each Ancillary Agreement shall be binding upon and inure to the benefit of the Parties and the parties thereto, respectively, and their respective successors and permitted assigns; provided, that neither Party nor any such party thereto may assign its rights or delegate its obligations under this Agreement or any Ancillary Agreement without the express prior written consent of the other Party hereto or other parties thereto, as applicable. Notwithstanding the foregoing, no such consent shall be required for the assignment of a party's rights and obligations under this Agreement and the Ancillary Agreements (except as may be otherwise provided in any such Ancillary Agreement) in whole (*i.e.* , the assignment of a party's rights and obligations under this Agreement and all Ancillary Agreements all at the same time) in

connection with a change of control of a Party so long as the resulting, surviving or transferee Person assumes all the obligations of the relevant party thereto by operation of Law or pursuant to an agreement in form and substance reasonably satisfactory to the other Party. Nothing herein is intended to, or shall be construed to, prohibit either Party or any member of its Group from being party to or undertaking a change of control.

10.4 Third-Party Beneficiaries. Except for the indemnification rights under this Agreement of any eBay Indemnified Party or PayPal Indemnified Party in their respective capacities as such, (a) the provisions of this Agreement and each Ancillary Agreement are solely for the benefit of the Parties and are not intended to confer upon any Person except the Parties any rights or remedies hereunder, and (b) there are no third-party beneficiaries of this Agreement or any Ancillary Agreement and neither this Agreement nor any Ancillary Agreement shall provide any third person with any remedy, claim, Liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement or any Ancillary Agreement.

10.5 Notices. All notices, requests, claims, demands or other communications under this Agreement and, to the extent, applicable and unless otherwise provided therein, under each of the Ancillary Agreements shall be in writing, together with a copy by electronic mail (which shall not constitute notice), and shall be given or made (and shall be deemed to have been duly given or made upon acknowledgment of receipt) by delivery in person, by overnight courier service, or by registered or certified mail (postage prepaid, return receipt requested) to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 10.5):

If to eBay, to:

eBay Inc.
2065 Hamilton Avenue
San Jose, California 95125
Attention: General Counsel
Email: mhuber@ebay.com

If to PayPal, to:

PayPal Holdings, Inc.
2211 North First Street
San Jose, California 95131
Attention: General Counsel
Email: apentland@paypal.com

A Party may, by notice to the other Party, change the address to which such notices are to be given.

10.6 Severability. If any provision of this Agreement or any Ancillary Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof or thereof, or the application of such provision to Persons or circumstances or in jurisdictions other

than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby. Upon such determination, the Parties shall negotiate in good faith in an effort to agree upon such a suitable and equitable provision to effect the original intent of the Parties.

10.7 Force Majeure. No Party shall be deemed in default of this Agreement or, unless otherwise expressly provided therein, any Ancillary Agreement for any delay or failure to fulfill any obligation (other than a payment obligation) hereunder or thereunder so long as and to the extent to which any delay or failure in the fulfillment of such obligation is prevented, frustrated, hindered or delayed as a consequence of circumstances of Force Majeure. In the event of any such excused delay, the time for performance of such obligations (other than a payment obligation) shall be extended for a period equal to the time lost by reason of the delay. A Party claiming the benefit of this provision shall, as soon as reasonably practicable after the occurrence of any such event, (a) provide written notice to the other Party of the nature and extent of any such Force Majeure condition; and (b) use commercially reasonable efforts to remove any such causes and resume performance under this Agreement and the Ancillary Agreements, as applicable, as soon as reasonably practicable.

10.8 No Set-Off. Except as set forth in any Ancillary Agreement or as otherwise mutually agreed to in writing by the Parties, neither Party nor any member of such Party's Group shall have any right of set-off or other similar rights with respect to (a) any amounts received pursuant to this Agreement or any Ancillary Agreement; or (b) any other amounts claimed to be owed to the other Party or any member of its Group arising out of this Agreement or any Ancillary Agreement.

10.9 Publicity. Prior to the Effective Time, each of PayPal and eBay shall consult with each other prior to issuing any press releases or otherwise making public statements with respect to the Separation, the Distribution or any of the other transactions contemplated hereby or under any Ancillary Agreement and prior to making any filings with any Governmental Authority with respect thereto.

10.10 Expenses. Except as otherwise expressly set forth in this Agreement or any Ancillary Agreement, or as otherwise agreed to in writing by the Parties, (a) all out-of-pocket fees, costs and expenses incurred prior to the Effective Time in connection with the preparation, execution, delivery and implementation of this Agreement and any Ancillary Agreement, the Separation, the Plan of Reorganization, the Form 10, the Distribution and the consummation of the transactions contemplated hereby and thereby will be borne by eBay and (b) all out-of-pocket fees, costs and expenses incurred following the Effective Time will be borne by the Party or its applicable Subsidiary incurring such fees, costs or expenses.

10.11 Headings. The article, section and paragraph headings contained in this Agreement and in the Ancillary Agreements are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement or any Ancillary Agreement.

10.12 Survival of Covenants. Except as expressly set forth in this Agreement or any Ancillary Agreement, the covenants, representations and warranties contained in this Agreement and each Ancillary Agreement, and Liability for the breach of any obligations contained herein, shall survive the Separation and the Distribution and shall remain in full force and effect in accordance with their terms.

10.13 Waivers of Default. Waiver by a Party of any default by the other Party of any provision of this Agreement or any Ancillary Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default, nor shall it prejudice the rights of the other Party. No failure or delay by a Party in exercising any right, power or privilege under this Agreement or any Ancillary Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof prejudice any other or further exercise thereof or the exercise of any other right, power or privilege.

10.14 Specific Performance. Subject to the provisions of Article VII, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement or any Ancillary Agreement, the Party or Parties who are, or are to be, thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief in respect of its or their rights under this Agreement or such Ancillary Agreement, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that the remedies at law for any breach or threatened breach, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Any requirements for the securing or posting of any bond with such remedy are waived by each of the Parties.

10.15 Amendments. No provisions of this Agreement or any Ancillary Agreement shall be deemed waived, amended, supplemented or modified by a Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of the Party against whom it is sought to enforce such waiver, amendment, supplement or modification.

10.16 Interpretation. In this Agreement and any Ancillary Agreement, (a) words in the singular shall be deemed to include the plural and vice versa and words of one gender shall be deemed to include the other genders as the context requires; (b) the terms “hereof,” “herein,” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement (or the applicable Ancillary Agreement) as a whole (including all of the Schedules, Exhibits and Appendices hereto and thereto) and not to any particular provision of this Agreement (or such Ancillary Agreement); (c) Article, Section, Schedule, Exhibit and Appendix references are to the Articles, Sections, Schedules, Exhibits and Appendices to this Agreement (or the applicable Ancillary Agreement) unless otherwise specified; (d) unless otherwise stated, all references to any agreement shall be deemed to include the exhibits, schedules and annexes to such agreement; (e) the word “including” and words of similar import when used in this Agreement (or the applicable Ancillary Agreement) shall mean “including, without limitation,” unless otherwise specified; (f) the word “or” shall not be exclusive; (g) unless otherwise specified in a particular case, the word “days” refers to calendar days; (h) references to “business day” shall mean any day other than a Saturday, a Sunday or a day on which banking institutions are generally authorized or required by law to close in the United States or San Jose, California; (i) references herein to this Agreement or any other agreement contemplated herein shall be deemed to refer to this Agreement or such other agreement as of the

date on which it is executed and as it may be amended, modified or supplemented thereafter, unless otherwise specified; and (j) unless expressly stated to the contrary in this Agreement or in any Ancillary Agreement, all references to “the date hereof,” “the date of this Agreement,” “hereby” and “hereupon” and words of similar import shall all be references to June 26, 2015.

10.17 Limitations of Liability. Notwithstanding anything in this Agreement to the contrary, neither PayPal or any member of the PayPal Group, on the one hand, nor eBay or any member of the eBay Group, on the other hand, shall be liable under this Agreement to the other for any indirect, punitive, exemplary, remote, speculative or similar damages in excess of compensatory damages of the other arising in connection with the transactions contemplated hereby (other than any such Liability to the extent payable to a Third-Party with respect to a Third-Party Claim).

10.18 Performance. eBay will cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement or in any Ancillary Agreement to be performed by any member of the eBay Group. PayPal will cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement or in any Ancillary Agreement to be performed by any member of the PayPal Group. Each Party (including its permitted successors and assigns) further agrees that it will (a) give timely notice of the terms, conditions and continuing obligations contained in this Agreement and any applicable Ancillary Agreement to all of the other members of its Group and (b) cause all of the other members of its Group not to take any action or fail to take any such action inconsistent with such Party’s obligations under this Agreement, any Ancillary Agreement or the transactions contemplated hereby or thereby.

10.19 Mutual Drafting. This Agreement and the Ancillary Agreements shall be deemed to be the joint work product of the Parties and any rule of construction that a document shall be interpreted or construed against a drafter of such document shall not be applicable.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this Separation and Distribution Agreement to be executed by their duly authorized representatives.

EBAY INC.

By: /s/ John J. Donahoe

Name: John J. Donahoe

Title: President and Chief Executive Officer

PAYPAL HOLDINGS, INC.

By: /s/ Daniel H. Schulman

Name: Daniel H. Schulman

Title: President and CEO-Designee

[Signature Page to Separation and Distribution Agreement]



[●], 2015

Dear eBay Inc. ("eBay") Stockholder:

In September 2014, we announced plans to separate our Payments business and our Marketplaces business. The separation will occur by means of a distribution of a newly formed corporation named PayPal Holdings, Inc. ("PayPal"), which will contain the businesses that make up our Payments segment. eBay, the existing publicly traded corporation, will continue to operate our Marketplaces business. As two distinct publicly traded corporations, eBay and PayPal will be better positioned to capitalize on significant growth opportunities and focus their resources on their respective businesses and strategic priorities.

eBay and PayPal are two great businesses with leading global positions in commerce and payments, respectively. For more than a decade, eBay and PayPal have mutually benefited from being part of one company, creating substantial stockholder value. As part of its strategic planning process, the board of directors has assessed whether eBay and PayPal should remain together. Until September 2014, the combination of the two businesses and the synergies and benefits they offered to each other were so valuable that the board determined that separation was not appropriate. But the commerce and payments landscape is rapidly changing, and each business faces different competitive opportunities and challenges. Consequently, in September 2014 the board decided to separate the businesses. As independent companies, we expect eBay and PayPal will be sharper and stronger, and more focused and competitive as leading, standalone companies in their respective markets. eBay and PayPal also will benefit from additional flexibility and agility to pursue new market and partnership opportunities.

The new eBay will be a global commerce leader and, we believe, the most inspiring and engaging place to discover great value and unique selection anytime, anywhere. We have an incredibly strong position, with 155 million active buyers globally as of the end of 2014. In 2014, eBay Marketplaces handled approximately \$83 billion of gross merchandise volume, growing 9% year over year. Additionally, eBay is one of the world's top 30 global brands. Offering consumers worldwide extraordinary value and selection, eBay had more than 800 million live listings at the end of 2014, and approximately 80% of sold items are new. And the company is well-positioned as a leader in the growth areas of mobile and cross-border commerce. With over 250 million eBay app downloads since inception, eBay generated \$28 billion in mobile volume in 2014. During the same time, cross-border commerce represented approximately 17% of eBay's gross merchandise volume, and 60% of Marketplaces' revenue was international. Looking ahead, eBay will continue to focus on enhancing its unique assets and capabilities and creating new commerce experiences to ensure long-term growth and on-going commerce leadership.

The separation will provide current eBay stockholders with equity ownership in both eBay and PayPal. We expect that the distribution of PayPal common stock will be tax-free, for U.S. federal income tax purposes, to eBay stockholders.

The separation will be effected by means of a pro rata distribution of 100% of the outstanding shares of PayPal common stock to holders of eBay common stock. Each eBay stockholder will receive one share of PayPal common stock for each share of eBay common stock held as of the close of business on July 8, 2015, the record date for the distribution. No vote of eBay stockholders is required for the distribution. You do not need to take any action to receive shares of PayPal common stock to which you are entitled as an eBay stockholder, and you do not need to pay any consideration or surrender or exchange your shares of eBay common stock.

We encourage you to read the attached information statement, which is being provided to all eBay stockholders who held shares of eBay common stock on the record date for the distribution. The information statement describes the separation in detail and contains important business and financial information about PayPal.

We believe the separation provides tremendous opportunities for our businesses and our stockholders, as we work to continue building long-term stockholder value. We appreciate your continuing support of eBay, and look forward to your future support of both companies.

Sincerely,

John J. Donahoe
President and Chief Executive Officer

Pierre M. Omidyar
Chairman of the Board

Table of Contents



[●], 2015

Dear Future PayPal Stockholder:

It is my pleasure to welcome you as a future stockholder of our company, PayPal Holdings, Inc. Following the distribution of all of the outstanding shares of PayPal common stock by eBay Inc. to its stockholders, PayPal will be an independent, publicly traded company focused on making money work better for people and businesses around the world.

The access to and movement of money is an important market that affects the lives of almost everyone. Our mission is to increase our relevance for consumers, merchants, friends and family to access and move their money anywhere in the world, anytime, on any platform and through any device (e.g., mobile, tablets, personal computers or wearables).

We operate a proprietary global technology platform that connects merchants and consumers around the globe. In 2014, approximately 162 million active customer accounts processed payments on our platform. Total payment volume over the last 12 months increased by 26% to \$235 billion, as more consumers and merchants trusted PayPal to pay and get paid. We have significant global reach, processing transactions in more than 200 markets, allowing our customers to receive payments in more than 100 currencies, withdraw funds to their bank accounts in 57 currencies and hold balances in their PayPal accounts in 26 currencies. We are a leader in mobile payments and processed nearly 1 billion mobile transactions in 2014 for our customers.

Our stockholder value proposition is simple. We strive to provide superior returns to PayPal stockholders by maintaining our leadership position in the payments industry and investing in the growth of our newly standalone company.

We invite you to learn more about PayPal, our business and our strategic initiatives by reading the enclosed information statement. We urge you to read the information statement carefully and in its entirety. We are excited by the tremendous opportunity we have in front of us and look forward to your support as a holder of our common stock.

Sincerely,

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

Information contained herein is subject to completion or amendment. A Registration Statement on Form 10 relating to these securities has been filed with the U.S. Securities and Exchange Commission under the U.S. Securities Exchange Act of 1934, as amended.

PRELIMINARY AND SUBJECT TO COMPLETION, DATED JUNE 26, 2015

INFORMATION STATEMENT



PayPal Holdings, Inc.

This information statement is being furnished in connection with the distribution by eBay Inc. (“eBay”) to its stockholders of all of the outstanding shares of common stock of PayPal Holdings, Inc. (“PayPal”), a wholly owned subsidiary of eBay that will hold directly or indirectly the assets and liabilities associated with eBay’s Payments business. To implement the distribution, eBay will distribute all of the shares of PayPal common stock on a pro rata basis to eBay stockholders in a transaction that is intended to qualify as tax-free for U.S. federal income tax purposes. Please refer to the “Presentation of Information” below for how we refer to “eBay Inc.,” “eBay” and “PayPal” in this Information Statement.

You will receive one share of PayPal common stock for each share of eBay common stock held of record by you as of the close of business on July 8, 2015, the record date for the distribution. As discussed under “The Separation and Distribution—Trading Between the Record Date and Distribution Date,” if you sell your eBay common stock in the “regular-way” market after the record date and before the distribution, you also will be selling your right to receive shares of PayPal common stock in connection with the separation. The separation and distribution is subject to the satisfaction (or to the extent waivable, waiver by eBay in its sole discretion) of certain conditions set forth in more detail in this information statement. Subject to the satisfaction or waiver of these conditions, PayPal expects the shares of PayPal common stock to be distributed by eBay to you at 11:59 p.m., Eastern Time, on July 17, 2015. We refer to the date of the distribution of the shares of PayPal common stock as the “distribution date.”

No vote of eBay stockholders is required for the distribution. Therefore, you are not being asked for a proxy, and you are requested not to send eBay a proxy, in connection with the distribution. You do not need to pay any consideration, exchange or surrender your existing shares of eBay common stock or take any other action to receive your shares of PayPal common stock.

There is no current trading market for PayPal common stock, although PayPal expects that a limited market, commonly known as a “when-issued” trading market, will develop on or shortly before the record date for the distribution, and PayPal expects “regular-way” trading of PayPal common stock to begin on the first trading day following the completion of the distribution. PayPal has applied to have its common stock authorized for listing on The NASDAQ Stock Market under the symbol “PYPL.” Following the spin-off, eBay common stock will continue to trade on The NASDAQ Stock Market under the symbol “EBAY.”

In reviewing this information statement, you should carefully consider the matters described under the caption “[Risk Factors](#)” beginning on page 16.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

This information statement does not constitute an offer to sell or the solicitation of an offer to buy any securities.

The date of this information statement is [•], 2015.

This information statement was first mailed to eBay stockholders on or about [•], 2015.

Table of Contents

TABLE OF CONTENTS

	Page
Questions and Answers About the Separation and Distribution	1
Information Statement Summary	8
Risk Factors	16
Cautionary Statement Concerning Forward-Looking Statements	44
The Separation and Distribution	45
Dividend Policy	51
Capitalization	52
Selected Historical Combined Financial Data of PayPal	53
Unaudited Pro Forma Condensed Combined Financial Statements	54
Business	60
Management's Discussion and Analysis of Financial Condition and Results of Operations	72
Management	98
Directors	100
Compensation Discussion and Analysis	109
Potential Payments Upon Termination or Change in Control	145
Certain Relationships and Related Party Transactions	157
Material U.S. Federal Income Tax Consequences	170
Description of Material Indebtedness	174
Security Ownership of Certain Beneficial Owners and Management	175
Description of PayPal's Capital Stock	177
Where You Can Find More Information	182
Index to Financial Statements	F-1

Presentation of Information

On September 30, 2014, eBay Inc. ("eBay") announced its intent to separate its payments business into an independent, publicly-traded company. To accomplish this separation, in January 2015, eBay incorporated PayPal Holdings, Inc. ("PayPal Holdings"), which will become the parent of PayPal, Inc. and will hold directly or indirectly all of the assets and liabilities associated with PayPal, Inc. References to "we," "our," "us," "the Company" or "PayPal" refer to the combined entities of the payments business of eBay, including PayPal, Inc. and certain other assets and liabilities that have been historically held at the eBay corporate level, but are specifically identifiable and attributable to the payments business.

Except as otherwise indicated or unless the context otherwise requires, the information included in this information statement about PayPal assumes the completion of all of the transactions referred to in this information statement in connection with the separation and distribution. References in this information statement to "eBay" refer to eBay Inc., a Delaware corporation, and its consolidated subsidiaries, which prior to the separation and distribution, but not after such date, includes the business and operations of PayPal.

Trademarks, Trade Names and Service Marks

PayPal owns or has rights to use the trademarks, service marks and trade names that it uses in conjunction with the operation of its business. Some of the more important trademarks that PayPal owns or has rights to use that appear in this information statement include: PayPal[®], Braintree and Venmo, which may be registered or trademarked in the United States and other jurisdictions. PayPal's rights to some of these trademarks may be limited to select markets. Each trademark, trade name or service mark of any other company appearing in this information statement is, to PayPal's knowledge, owned by such other company.

QUESTIONS AND ANSWERS ABOUT THE SEPARATION AND DISTRIBUTION

<i>What is PayPal and why is eBay separating PayPal's business and distributing PayPal stock?</i>	PayPal Holdings, Inc., which is currently a wholly owned subsidiary of eBay, was formed to own and operate eBay's Payments business. The separation of PayPal from eBay and the distribution of PayPal common stock are intended to provide you with equity ownership in two separate, publicly traded companies that will be able to focus exclusively on each of their respective businesses. eBay and PayPal expect that the separation will result in enhanced long-term performance of each business for the reasons discussed in the section entitled "The Separation and Distribution—Reasons for the Separation."
<i>Why am I receiving this document?</i>	eBay is delivering this document to you because you are a holder of eBay common stock. Each holder of eBay common stock as of the record date will be entitled to receive one share of PayPal common stock for each share of eBay common stock held at the close of business on such date. This document will help you understand how the separation and distribution will affect your post-separation ownership in eBay and PayPal, respectively.
<i>How will the separation of PayPal from eBay work?</i>	To accomplish the separation, eBay will distribute all of the outstanding shares of PayPal common stock to eBay stockholders on a pro rata basis in a distribution intended to be tax-free for U.S. federal income tax purposes.
<i>Why is the separation of PayPal structured as a distribution?</i>	eBay believes that a tax-free distribution, for U.S. federal income tax purposes, of shares of PayPal stock to eBay stockholders is an efficient way to separate its Payments business in a manner that will create long-term value for eBay, PayPal and their respective stockholders.
<i>What is the record date for the distribution?</i>	The record date for the distribution will be July 8, 2015.
<i>When will the distribution occur?</i>	It is expected that all of the shares of PayPal common stock will be distributed by eBay at 11:59 p.m., Eastern Time, on July 17, 2015 to holders of record of shares of eBay common stock at the close of business on July 8, 2015, the record date for the distribution. eBay may delay or rescind the distribution. See "Risk Factors—Risks Related to the Separation—The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained."
<i>What do stockholders need to do to participate in the distribution?</i>	Stockholders of eBay as of the record date for the distribution will not be required to take any action to receive PayPal common stock in the distribution, but you are urged to read this entire information statement carefully. No stockholder approval of the distribution is required. You are not being asked for a proxy. You do not need to pay any consideration, exchange or surrender your existing shares of eBay common stock or take any other action to receive your shares of PayPal common stock. Please do not send in your eBay stock certificates. The distribution will not affect the number of outstanding

Table of Contents

shares of eBay common stock or any of your rights as an eBay stockholder, although it will affect the market value of each outstanding share of eBay common stock.

<i>How will shares of PayPal common stock be issued?</i>	<p>You will receive shares of PayPal common stock through the same channels that you currently use to hold or trade shares of eBay common stock, whether through a brokerage account, 401(k) plan or other channel. Receipt of PayPal shares will be documented for you in the same manner that you typically receive shareholder updates, such as monthly broker statements and 401(k) statements.</p> <p>If you own shares of eBay common stock, including shares owned in certificate form, as of the close of business on July 8, 2015, the record date for the distribution, eBay, with the assistance of Computershare Trust Company, N.A., or Computershare, the distribution agent, will electronically distribute shares of PayPal common stock to you or to your brokerage firm on your behalf in book-entry form. Computershare will mail you a book-entry account statement that reflects your shares of PayPal common stock, or your bank or brokerage firm will credit your account for the shares.</p>
<i>How many shares of PayPal common stock will I receive in the distribution?</i>	<p>eBay will distribute to you one share of PayPal common stock for each share of eBay common stock held by you as of the close of business on the record date for the distribution. Based on approximately 1.22 billion shares of eBay common stock outstanding as of June 1, 2015, a total of approximately 1.22 billion shares of PayPal common stock will be distributed. For additional information on the distribution, see “The Separation and Distribution.” PayPal shares are being issued on a pro rata basis, which means that every eBay stockholder will have the same ownership percentage in PayPal following the distribution as they held in eBay as of the record date.</p>
<i>Will PayPal issue fractional shares of its common stock in the distribution?</i>	<p>No. PayPal will not issue fractional shares of its common stock in the distribution. Fractional shares that eBay stockholders would otherwise have been entitled to receive, if any, will be aggregated and sold in the public market by the distribution agent. The aggregate net cash proceeds of these sales will be distributed pro rata (based on the fractional share such holder would otherwise be entitled to receive) to those stockholders who would otherwise have been entitled to receive fractional shares. Recipients of cash in lieu of any fractional shares will not be entitled to any interest on the amounts of payment made in lieu of fractional shares.</p>
<i>What conditions must be satisfied to complete the distribution?</i>	<p>The distribution is subject to the satisfaction (or if such condition is waiveable, waiver by eBay in its sole discretion) of the following conditions:</p> <ul style="list-style-type: none">• the transfer of assets and liabilities from eBay to PayPal shall be completed in accordance with the separation and distribution agreement;• eBay shall have received an opinion from eBay’s outside legal counsel regarding the qualification of the distribution, together

with certain related transactions, as transactions that are generally tax free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Internal Revenue Code (the “Code”);

- the U.S. Securities and Exchange Commission (the “SEC”) shall have declared effective the registration statement of which this information statement forms a part, and no stop order suspending the effectiveness of the registration statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the SEC;
- this information statement shall have been made available to the eBay stockholders;
- all actions or filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities laws shall have been taken and, where applicable, have become effective or been accepted by the applicable governmental entity;
- any approvals of any governmental entities required for the consummation of the separation and distribution have been obtained, including any required approvals of the Commission de Surveillance du Secteur Financier (the “CSSF”), the Bank Centrale du Luxembourg (the “BCL”) and the European Central Bank (the “ECB”);
- the transaction agreements relating to the separation shall have been duly executed and delivered by the parties;
- no order, injunction, or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the separation, distribution or any of the related transactions shall be in effect;
- the shares of PayPal common stock to be distributed shall have been accepted for listing on The NASDAQ Stock Market, subject to official notice of distribution;
- eBay shall have transferred or caused the other members of the eBay Group to transfer an aggregate of \$3.8 billion of cash to PayPal (including through one or more capital contributions); and
- no other event or development shall exist or have occurred that, in the judgment of eBay’s board of directors, in its sole discretion, would make it inadvisable to effect the separation or the distribution.

eBay and PayPal cannot assure you that any or all of these conditions will be met and may also waive any of the conditions to the distribution. In addition, eBay may delay or rescind its declaration of the distribution even after the record date for the distribution, as discussed in more detail under “Risk Factors—Risks Related to the Separation—The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.” For a complete discussion of all of the conditions to the

Table of Contents

	distribution, see “The Separation and Distribution—Conditions to the Distribution.”
<i>What is the expected date of completion of the separation?</i>	The completion and timing of the separation are dependent upon a number of conditions. It is expected that the shares of PayPal common stock will be distributed by eBay at 11:59 p.m., Eastern Time, on July 17, 2015 to the holders of record of shares of eBay common stock at the close of business on July 8, 2015, the record date for the distribution. However, no assurance can be provided as to the timing of the separation or that all conditions to the distribution will be met.
<i>Can eBay decide to cancel the distribution of PayPal common stock even if all the conditions have been met?</i>	Yes. Until the distribution has occurred, eBay has the right to terminate the distribution, even if all of the conditions are satisfied.
<i>What if I want to sell my shares of eBay common stock or my PayPal common stock?</i>	You should consult with your financial advisors, such as your stockbroker, bank or tax advisor.
<i>What is “regular-way” and “ex-distribution” trading of eBay common stock?</i>	Beginning on or shortly before the record date for the distribution and continuing up to and through the distribution date, it is expected that there will be two markets in eBay common stock: a “regular-way” market and an “ex-distribution” market. Shares of eBay common stock that trade in the “regular-way” market will trade with an entitlement to shares of PayPal common stock distributed pursuant to the distribution. Shares that trade in the “ex-distribution” market will trade without an entitlement to shares of PayPal common stock distributed pursuant to the distribution. If you hold shares of eBay common stock on the record date and then decide to sell any shares of eBay common stock before the distribution date, you should make sure your stockbroker, bank or other nominee understands whether you want to sell your shares of eBay common stock with or without your entitlement to PayPal common stock pursuant to the distribution.
<i>Where will I be able to trade shares of PayPal common stock?</i>	PayPal has applied to list its common stock on The NASDAQ Stock Market under the symbol “PYPL.” PayPal anticipates that trading in shares of its common stock will begin on a “when-issued” basis on or shortly before July 8, 2015, the record date for the distribution, and will continue up to and through the distribution date and that “regular-way” trading in PayPal common stock will begin on the first trading day following the completion of the separation. If trading begins on a “when-issued” basis, you may purchase or sell PayPal common stock up to and through the distribution date, but your transaction will not settle until after the distribution date. PayPal cannot predict the trading prices for its common stock before, on or after the distribution date.

Table of Contents

<i>What will happen to the listing of eBay common stock?</i>	eBay common stock will continue to trade on The NASDAQ Stock Market after the distribution under the symbol “EBAY.”
<i>Will the number of shares of eBay common stock that I own change as a result of the distribution?</i>	No. The number of shares of eBay common stock that you own will not change as a result of the distribution.
<i>Will the distribution affect the market price of my eBay common stock?</i>	Yes. As a result of the distribution, eBay expects the trading price of shares of eBay common stock immediately following the distribution to be lower than the “regular-way” trading price of such shares immediately prior to the distribution because the trading price will no longer reflect the value of the Payments business. There can be no assurance that the aggregate market value of the eBay common stock and the PayPal common stock following the separation will be higher or lower than the market value of eBay common stock if the separation and distribution did not occur. This means, for example, that the combined trading prices of one share of eBay common stock and one share of PayPal common stock after the distribution may be equal to, greater than or less than the trading price of one share of eBay common stock before the distribution.
<i>What are the material U.S. federal income tax consequences of the distribution?</i>	<p>It is a condition to the completion of the distribution that eBay receive an opinion from eBay’s outside legal counsel regarding the qualification of the distribution, together with certain related transactions, as transactions that are generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code. Assuming that the distribution, together with certain related transactions, so qualifies, you will not recognize any gain or loss and no amount will be included in your income, upon your receipt of shares of PayPal common stock pursuant to the distribution for U.S. federal income tax purposes. You will, however, recognize gain or loss for U.S. federal income tax purposes with respect to cash received in lieu of a fractional share of PayPal common stock.</p> <p>You should consult your own tax advisor as to the particular consequences of the distribution to you, including the applicability and effect of any U.S. federal, state and local tax laws, as well as foreign tax laws. For more information regarding the material U.S. federal income tax consequences of the distribution, see the section entitled “Material U.S. Federal Income Tax Consequences.”</p>
<i>What will PayPal’s relationship be with eBay following the separation?</i>	After the distribution, eBay and PayPal will be separate companies with separate management teams and separate boards of directors. PayPal will enter into a separation and distribution agreement with eBay to effect the separation and provide a framework for PayPal’s relationship with eBay after the separation and will enter into certain other agreements, such as an operating agreement, a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, colocation services agreements, a data sharing addendum and a product development agreement. These agreements will provide for the allocation between PayPal and eBay of eBay’s assets, employees,

Table of Contents

liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after PayPal's separation from eBay and will govern the relationships between PayPal and eBay subsequent to the completion of the separation. For additional information regarding the separation and distribution agreement and other transaction agreements, see the sections entitled "Risk Factors—Risks Related to the Separation" and "Certain Relationships and Related Party Transactions."

Who will manage PayPal after the separation?

PayPal will benefit from a management team with an extensive background in the payments industry. Led by Daniel H. Schulman, who will be PayPal's Chief Executive Officer and President after the separation, PayPal's management team will possess deep knowledge of, and extensive experience in, its industry. For more information regarding PayPal's management, see "Management."

Are there risks associated with owning PayPal common stock?

Yes. Ownership of PayPal common stock is subject to both general and specific risks relating to PayPal's business, the industry in which it operates, its ongoing contractual relationships with eBay and its status as a separate, publicly traded company. Ownership of PayPal common stock is also subject to risks relating to the separation. These risks are described in the "Risk Factors" section of this information statement beginning on page 15. You are encouraged to read that section carefully.

Does PayPal plan to pay dividends?

PayPal does not currently expect that it will pay a regular cash dividend. The declaration and payment of any dividends in the future by PayPal will be subject to the sole discretion of its board of directors and will depend upon many factors. See "Dividend Policy."

Will PayPal incur any indebtedness prior to or at the time of the distribution?

See "Description of Material Indebtedness" and "Risk Factors—Risks Related to PayPal's Business."

Who will be the distribution agent, transfer agent and registrar for the PayPal common stock?

The distribution agent, transfer agent and registrar for the PayPal common stock will be Computershare. For questions relating to the transfer or mechanics of the stock distribution, you should contact Computershare toll free at (877) 373-6374.

Where can I find more information about eBay and PayPal?

Before the distribution, if you have any questions relating to eBay's business performance, you should contact:

eBay Inc.
2065 Hamilton Avenue
San Jose, California 95125
Attention: Investor Relations
(408) 376-7493

After the distribution, PayPal stockholders who have any questions relating to PayPal's business performance should contact PayPal at:

PayPal Holdings, Inc.
2211 North First Street

Table of Contents

San Jose, California 95131
Attention: Investor Relations
investorrelations@paypalcorp.com

The PayPal investor relations website will be accessible prior to the distribution at
<http://investor.paypal-corp.com> .

INFORMATION STATEMENT SUMMARY

Except as otherwise indicated or unless the context otherwise requires, the information included in this information statement about PayPal assumes the completion of all of the transactions referred to in this information statement in connection with the separation and distribution. Unless the context otherwise requires, references in this information statement to “PayPal” refer to PayPal Holdings, Inc., a Delaware corporation, and its combined subsidiaries. References to PayPal’s historical business and operations refer to the business and operations of eBay’s Payments business that will be transferred to PayPal in connection with the separation and distribution. References in this information statement to “eBay” refer to eBay Inc., a Delaware corporation, and its consolidated subsidiaries, which prior to the distribution, but not after such date, includes the business and operations of PayPal.

PayPal

PayPal is a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. We put our customers at the center of everything we do. We strive to increase our relevance for consumers, merchants, friends and family to access and move their money anywhere in the world, anytime, on any platform and through any device (e.g., mobile, tablets, personal computers or wearables). We provide safer and simpler ways for businesses of all sizes to accept payments from merchant websites, mobile devices and applications, and at offline retail locations through a wide range of payment solutions across our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.

We enable global commerce by providing payment solutions for our approximately 162 million active customer accounts in over 200 markets, while providing customers a choice of how they would like to pay or get paid. A market is a geographic area or political jurisdiction, such as a country, territory or protectorate, in which we offer our services. A country, territory or protectorate is identified by a distinct set of laws and regulations. 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 products, in the past 12 months. Our gateway products include our Payflow Payments and certain Braintree products. A payment gateway links a merchant’s website to that merchant’s processing network and merchant account.

Table of Contents

We offer our customers the flexibility to use their account to both purchase and be paid for goods, as well as transfer and withdraw funds. A consumer can typically fund a purchase using a bank account, a PayPal account balance, a PayPal Credit account, a credit or debit card, or other stored value products such as coupons and gift cards. Our PayPal and Venmo products also make it safer and simpler for friends and family to transfer funds to each other using several of these funding sources. We offer merchants an end-to-end payments solution that provides authorization and settlement capabilities, as well as instant access to funds. We help merchants connect with their customers and manage risk. We measure the relevance of our products in the lives of our customers, and therefore the success of our business, through both payment volume and payment transactions. Payment volume is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products (“Total Payment Volume” or “TPV”). During 2014, our TPV was approximately \$235 billion, representing growth of 26% over 2013. “Payment transactions” is the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products. During 2014, payment transactions were approximately 4.0 billion, representing growth of 22% over 2013.



Our Payments Platform is built to make the existing global financial infrastructure work for people in the digital age. PayPal allows people to make seamless transactions between different markets and networks. Our Payments Platform connects with financial institutions around the world, and allows consumers to make purchases using a broad range of payment methods, regardless of where a merchant is located. Consumers who use our Payments Platform can engage in cross-border shopping by sending payments to each other in over 200 markets across the globe and in more than 100 currencies. This enables merchants to increase sales volume by allowing them to sell across borders to a much larger base of consumers.

We generate revenues by charging fees for providing transaction processing and other payment-related services, primarily based on the volume of activity, or TPV, processed through our Payments Platform. We also

Table of Contents

earn revenue by providing value added services to consumers and merchants, such as PayPal Credit products. Our revenue growth is influenced by, among other things, consumer spending patterns, merchant adoption of payment methods other than traditional credit and debit cards and cash, the expansion of multi-channel retail, the growth of mobile devices and merchant applications on those devices, the growth of consumers with access to the internet globally, the pace of transition from paper-based forms of payment to digital forms of payment, our share of the digital payments market, and our ability to innovate new methods of payment that merchants and consumers find to be valuable. Our strategy is to drive revenue growth by:

- Growing our core businesses globally through expanding our base of active customer accounts, increasing our customers’ use of our products and services by better addressing our customers’ everyday needs in managing and moving money and expanding the adoption of our solutions by new merchants and consumers;
- Diversifying our existing business by seeking new areas of growth in markets around the world and focusing on innovation both in the digital and the physical world;
- Providing software application developers with tools to quickly and easily integrate PayPal’s smart payment solutions into merchant and next generation mobile applications; and
- Leveraging the data we accumulate through processing transactions to build strong risk capabilities that enable the identification of illegal, high-risk, or fraudulent transactions with the highest level of accuracy, without impacting legitimate transactions and while incurring minimal losses.



PayPal is a popular form of payment for mobile commerce, and our business has grown with the increased adoption of mobile devices. In December 2013, we completed our acquisition of Braintree to strengthen our position in mobile payments and extend our coverage to a new class of retailers who offer their services primarily through mobile applications. As part of that acquisition, we also acquired Venmo, which offers a leading mobile application to move money between friends and family using their mobile device.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. Some of the laws and regulations to which we are subject were enacted recently and many such laws and regulations, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial interpretation. Changes in or non-compliance with laws and regulations, changes in the interpretation of laws and regulations, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business. Therefore, we monitor these areas closely to ensure compliant solutions for our customers who depend on us.

Summary of Risk Factors

An investment in our common stock is subject to a number of risks, including risks relating to PayPal's business, results of operations and financial condition, risks related to the separation and risks related to our common stock. Set forth below are some, but not all, of these risks. Please read the information in the section captioned "Risk Factors" for a more thorough description of these and other risks.

Risks Related to PayPal's Business, Results of Operations and Financial Condition

- Our operating and financial results come primarily from transactions involving payments made in a reporting period and are therefore subject to fluctuations that could adversely affect our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock.
- Global and regional economic conditions could harm our business.
- Our success depends to a large degree on our ability to successfully address the rapidly evolving market for transactions on mobile devices.
- If we cannot keep pace with rapid technological developments to provide new and innovative programs, products and services, the use of our products and our revenues could decline.
- Changes in how consumers fund their PayPal transactions could harm our business.
- Our business is subject to online security risks, including security breaches.
- Systems failures and resulting interruptions in the availability of our websites, applications, products or services could harm our business.
- Changes to payment card networks or bank fees, rules, or practices could harm our business.
- Failure to deal effectively with fraud, fictitious transactions, bad transactions, and negative customer experiences would increase our loss rate and harm our business, and could severely diminish merchant and consumer confidence in and use of our services.
- Any factors that reduce cross-border trade or make such trade more difficult could harm our business.
- Our business is subject to extensive government regulation and oversight relating to the provision of financial services.
- We are subject to consumer protection laws and regulations.
- We are subject to anti-money laundering and counter-terrorist financing laws and regulations.
- Regulation in the areas of privacy and protection of user data could harm our business.
- PayPal is not a bank or licensed lender in the United States and relies upon third parties to make loans and provide the other products critical to our business.
- Our credit products expose us to additional risks.
- New and proposed laws and regulations could harm our business.
- Substantial and increasingly intense competition worldwide in the global payments industry may harm our business.

Risks Related to the Separation

- The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.
- The combined post-separation value of eBay and PayPal common stock may not equal or exceed the pre-separation value of eBay common stock.
- We may not achieve some or all of the expected benefits of the separation, and the separation could harm our business.
- If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Internal Revenue Code, or the “Code,” eBay, PayPal and eBay stockholders could be subject to significant tax liabilities and, in certain circumstances, we could be required to indemnify eBay for material taxes pursuant to indemnification obligations under the tax matters agreement.
- eBay will be a significant source of our revenues after the distribution.

Risks Related to our Common Stock

- We cannot be certain that an active trading market for our common stock will develop or be sustained after the separation, and following the separation, and the price of our common stock may fluctuate significantly.
- There may be substantial changes in our stockholder base.

The Separation and Distribution

On September 30, 2014, eBay announced its intent to separate its Payments business and its Marketplaces business into two independent, publicly traded companies—PayPal and eBay. The separation will occur by means of a pro rata distribution to the eBay stockholders of 100% of the shares of common stock of PayPal, which was formed to own and operate eBay’s Payments business.

On June 26, 2015, the eBay board of directors approved the distribution of all of PayPal’s issued and outstanding shares of common stock on the basis of one share of PayPal common stock for each share of eBay common stock held as of the close of business on July 8, 2015, the record date for the distribution.

PayPal’s Post-Separation Relationship with eBay

After the distribution, eBay and PayPal will be separate companies with separate management teams and separate boards of directors. PayPal will have entered into a separation and distribution agreement with eBay, which is referred to in this information statement as the “separation agreement” or the “separation and distribution agreement.” In connection with the separation, PayPal will also enter into various other agreements to effect the separation and provide a framework for its relationship with eBay after the separation, such as an operating agreement, a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, colocation services agreements, a data sharing addendum and a product development agreement. These agreements will provide for the allocation between PayPal and eBay of eBay’s assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to, at and after PayPal’s separation from eBay and will govern key relationships between PayPal and eBay after the separation. For additional information regarding the separation agreement and other transaction agreements, see the sections entitled “Risk Factors—Risks Related to the Separation” and “Certain Relationships and Related Party Transactions.”

Reasons for the Separation

In the past, the eBay Inc. board of directors has considered whether and when it would make sense to separate PayPal from eBay. Until September 2014, the combination of the two businesses and the synergies and benefits they offered to each other were so valuable that the board determined that separation was not appropriate. The eBay board of directors believes that the creation of two independent public companies, with the

Table of Contents

new PayPal operating eBay's Payments business, and eBay operating the Marketplaces business is in the best interests of eBay and its stockholders for a number of reasons. The eBay board of directors believes that:

- The separation will allow each business to more effectively pursue its own distinct operating priorities, strategies and opportunities for long-term growth and profitability in the global commerce and payments landscape.
- The separation will speed up decision-making at each company and allow each to adapt more quickly to the rapidly changing market and customer dynamics in their respective markets.
- The separation will provide each company with increased flexibility to pursue new partnership and strategic opportunities that may have previously been unavailable for strategic or other reasons.
- The separation will permit each company to implement a capital structure appropriate to its strategy and business needs and to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in its business in a time and manner appropriate for its distinct strategy and business needs. This will facilitate a more efficient allocation of capital.
- The separation will facilitate incentive compensation arrangements for employees more directly tied to the performance of each company's business, and enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives.
- The separation will provide each company with direct access to capital markets and facilitate the ability for each to capitalize on its unique growth opportunities and effect future acquisitions utilizing its common stock.
- The separation will allow investors to separately value eBay and PayPal based on their distinct investment identities, including the merits, performance, growth profile, and future prospects of their respective businesses. The separation will also provide investors with two distinct and targeted investment opportunities.

The eBay board of directors also considered a number of potentially negative factors in evaluating the creation of independent public companies, including, among others, risks relating to the loss of synergy benefits between eBay and PayPal, and increased operating costs and one-time separation costs relating to the creation of a new public company, but concluded that certain of the synergy benefits could be preserved, at least for some significant period of time, through the operating and other agreements and that the potential benefits from separation outweighed these factors. For more information, see the sections entitled "The Separation and Distribution—Reasons for the Separation" and "Risk Factors" included elsewhere in this information statement.

Corporate Information

PayPal Holdings, Inc. was incorporated in Delaware in January 2015 for the purpose of owning and operating eBay's Payments business in connection with the separation and distribution described herein. Prior to the contribution of this business to PayPal, which will occur prior to the distribution, PayPal will have no operations. The address of PayPal's principal executive offices is PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131. PayPal's telephone number after the distribution will be (408) 967-1000. PayPal maintains an Internet site at www.paypal.com, and its investor relations site will be accessible prior to the distribution at <http://investor.paypal-corp.com>. PayPal's websites and the information contained therein or connected thereto shall not be deemed to be incorporated herein, and you should not rely on any such information in making an investment decision.

Reason for Furnishing this Information Statement

This information statement is being furnished solely to provide information to stockholders of eBay who will receive shares of PayPal common stock in the distribution. It is not and is not to be construed as an inducement or encouragement to buy or sell any of PayPal's securities. The information contained in this information statement is believed by PayPal to be accurate as of the date set forth on the cover of this information statement. Changes may occur after that date and neither eBay nor PayPal will update the information except in the normal course of their respective disclosure obligations and practices, or as required by applicable law.

Summary Historical and Unaudited Pro Forma Condensed Combined Financial Data

The following summary financial data reflects the combined operations of PayPal. PayPal derived the summary combined statement of income data for the years ended December 31, 2014, 2013 and 2012, and summary combined balance sheet data as of December 31, 2014 and 2013, as set forth below, from its audited combined financial statements, included elsewhere in this information statement. PayPal derived the summary combined statement of income data for the quarter ended March 31, 2015 and 2014 and summary combined balance sheet data as of March 31, 2015, as set forth below, from its unaudited combined financial statements, included elsewhere in this information statement. PayPal derived the summary combined balance sheet data as of March 31, 2014 and December 31, 2012 from PayPal's underlying financial records, which were derived from the financial records of eBay. The historical results do not necessarily indicate the results expected for any future period. To ensure a full understanding of this summary financial data, you should read the summary combined financial data presented below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and accompanying notes included elsewhere in this information statement.

The summary unaudited pro forma condensed combined balance sheet data as of March 31, 2015 has been prepared to reflect the separation as of March 31, 2015. The unaudited pro forma condensed combined statement of income data presented for the year ended December 31, 2014 and for the quarter ended March 31, 2015 assumes the spin-off occurred on January 1, 2014. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and PayPal believes such assumptions are reasonable under the circumstances.

The unaudited pro forma condensed combined financial statements may not be indicative of PayPal's results of operations or financial condition had the distribution and its anticipated post-separation capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition that would have resulted had PayPal been operating as an independent, publicly traded company during such periods. In addition, they are not necessarily indicative of its future results of operations or financial condition.

Historical basic and diluted earnings per share are not presented because PayPal's financial information has been prepared on a combined basis. These financial statements have not been prepared for a single legal entity that had share capital throughout the entire historical period and, accordingly, earnings per share for these periods has not been provided.

Table of Contents

You should read this summary financial data together with “Unaudited Pro Forma Condensed Combined Financial Statements,” “Capitalization,” “Selected Historical Combined Financial Data of PayPal,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the combined financial statements and accompanying notes included in this information statement.

	3 Months Ended March 31,			Year Ended December 31,			
	Pro Forma			Pro Forma			
	2015	2015 (In millions)	2014	2014	2014 (In millions)	2013	2012
Combined statement of income data							
Net revenue	\$ 2,134	\$ 2,137	\$ 1,874	\$ 8,012	\$ 8,025	\$ 6,727	\$ 5,662
Operating income	314	322	318	1,237	1,268	1,091	880
Net income	248	255	(382)	391	419	955	778
Pro forma earnings per share							
Basic	\$0.20			\$0.31			
Diluted	\$0.20			\$0.31			

	3 Months Ended March 31,			Year Ended December 31,		
	Pro Forma			Pro Forma		
	2015	2015 (In millions)	2014	2014	2013 (In millions)	2012
Combined balance sheet data						
Cash and cash equivalents	\$ 6,165	\$ 2,365	\$ 2,198	\$ 2,201	\$ 1,604	\$ 1,414
Current assets	21,381	18,207	15,382	17,565	14,620	12,403
Non-current assets	4,563	4,372	4,451	4,352	4,540	3,780
Total assets	25,944	22,579	19,833	21,917	19,160	16,183
Current liabilities	12,797	13,549	12,252	13,283	11,261	9,574
Long term liabilities	618	390	461	386	509	428
Total liabilities	13,415	13,939	12,713	13,669	11,770	10,002
Total equity	12,529	8,640	7,120	8,248	7,390	6,181

RISK FACTORS

The following discussion is divided into three sections. The first section, which begins immediately following this paragraph, discusses some of the risks that may affect our business, results of operations and financial condition. The second section, captioned “Risk Related to the Separation,” discusses some of the risks relating to our plan to separate PayPal into an independent publicly traded company. The third section, captioned “Risks Related to Our Common Stock,” discusses some of the risks relating to an investment in PayPal’s Common Stock. You should carefully review all of these sections, as well as our combined financial statements and notes thereto and the other information appearing in this report, for important information regarding risks that affect us.

Risk Factors That May Affect Our Business, Results of Operations and Financial Condition

Our operating and financial results come primarily from transactions involving payments made in a reporting period and are therefore subject to fluctuations that could adversely affect our business, financial condition, results of operations and cash flows, as well as the trading price of our common stock.

Our operating and financial results have varied on a quarterly basis during our operating history and may continue to fluctuate significantly as a result of a variety of factors, including as a result of the risks set forth in this “Risk Factors” section. It is difficult for us to forecast the level or source of our revenues or earnings (loss) accurately. In view of the rapidly evolving nature of our business, period-to-period comparisons of our operating results may not be meaningful, and you should not rely upon them as an indication of future performance. We do not have backlog, and substantially all of our net revenues each quarter come primarily from transactions involving payments during that quarter. Due to the inherent difficulty in forecasting revenues, it is also difficult to forecast expenses as a percentage of net revenues. Quarterly and annual expenses as a percentage of net revenues reflected in our combined financial statements may be significantly different from historical or projected rates. Our operating results in one or more future quarters may fall below the expectations of securities analysts and investors. The trading price of our common stock could decline, perhaps substantially, as a result of the factors described in this paragraph.

Global and regional economic conditions could harm our business.

Our operations and performance depend significantly on global and regional economic conditions. Adverse economic conditions and events (including volatility or distress in the equity and/or debt or credit markets and fluctuations in foreign currency exchange rates) have in the past negatively impacted regional and global financial markets and will likely continue to do so from time to time in the future. These events and conditions could have a negative and adverse impact on the companies and customers with which we do business. In addition, financial turmoil affecting the banking system or financial markets could cause additional consolidation of the financial services industry, or significant financial service institution failures, new or incremental tightening in the credit markets, low liquidity, and extreme volatility in fixed income, credit, currency, and equity markets. Adverse impacts to the companies and customers with which we do business, the banking system, or financial markets could have a material adverse effect on our business, including a reduction in the volume and prices of transactions on our payments platforms.

Our success depends to a large degree on our ability to successfully address the rapidly evolving market for transactions on mobile devices.

Mobile devices are increasingly used for ecommerce transactions and payments. A significant and growing portion of our customers access our platforms through mobile devices. We may lose customers if we are not able to continue to meet our customers’ mobile and multi-screen experience expectations. The variety of technical and other configurations across different mobile devices and platforms increases the challenges associated with this environment. In addition, a number of other companies with significant resources and a number of innovative startups have introduced products and services focusing on mobile markets.

Table of Contents

Our ability to successfully address the challenges posed by the rapidly evolving market for mobile transactions is crucial to our continued success, and any failure to continuously increase the volume of mobile transactions effected through our platforms could harm our business.

If we cannot keep pace with rapid technological developments to provide new and innovative programs, products and services, the use of our products and our revenues could decline.

Rapid, significant technological changes continue to confront the industries in which we operate, including developments in smart cards, tokenization, ecommerce, mobile, and radio frequency and proximity payment devices, such as contactless payments. We cannot predict the effect of technological changes on our business. In addition to our own initiatives and innovations, we rely in part on third parties, including some of our competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the industries in which we operate will continue to emerge. These new services and technologies may be superior to, or render obsolete, the technologies we currently use in our products and services. Incorporating new technologies into our products and services may require substantial expenditures and take considerable time, and ultimately may not be successful. In addition, our ability to adopt new services and develop new technologies may be inhibited by industry-wide standards, payments networks, new laws and regulations, resistance to change from consumers or merchants, or third parties' intellectual property rights. Our success will depend on our ability to develop new technologies and adapt to technological changes and evolving industry standards.

Changes in how consumers fund their PayPal transactions could harm our business.

We pay significant transaction fees when consumers fund payment transactions using credit cards, lower fees when consumers fund payments with debit cards, nominal fees when consumers fund payment transactions by electronic transfer of funds from bank accounts, and no fees when consumers fund payment transactions from an existing PayPal account balance or through the PayPal Credit products. Our financial success is highly sensitive to changes in the rate at which our consumers fund payments using credit and debit cards, which can significantly increase our costs. Some of our consumers may prefer to use credit and debit cards if these cards offer functionality and benefits not associated with the use of their bank accounts. Some of our offerings, including the ability of consumers to make a limited number of "guest" payments without opening a PayPal account, have a higher rate of payment card funding than our basic product offering. An increase in the portion of our payment volume using credit and debit cards would materially and adversely affect our financial performance. Some of our plans to lower our funding costs, including both the PayPal Credit products and the ability for consumers to defer payment for a short period of time on some transactions, may increase the risk to us of nonpayment by consumers. An increase in fees associated with our funding mix or in losses associated with nonpayment by consumers could harm our business.

Our business is subject to online security risks, including security breaches.

Our business involves the storage and transmission of customers' personal financial information. In addition, a significant number of our customers authorize us to bill their payment card accounts directly for all transaction and other fees charged by us. We have built our reputation on the premise that our payments platform offers customers a secure way to make payments. An increasing number of websites, including those owned by several other large Internet and offline companies, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. In May 2014, eBay Inc. publicly announced that criminals were able to penetrate and steal certain data, including user names, encrypted user passwords and other non-financial user data from certain of its Marketplaces business unit databases, which led to Marketplaces requiring a password reset and fewer transactions using our PayPal services. A breach of security at PayPal could have negative consequences to our reputation, which could result in our customers using our services less often, and have significant out-of-pocket financial impact.

Table of Contents

The techniques used to obtain unauthorized access, disable, or degrade service, or sabotage systems, change frequently, may be difficult to detect for a long time, and often are not recognized until launched against a target. Certain efforts may be state sponsored and supported by significant financial and technological resources and therefore may be even more difficult to detect. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees, contractors and temporary staff. A party that is able to circumvent our security measures could misappropriate our or our customers' personal proprietary information, cause interruption in our operations and damage our computers or those of our customers. In addition, our customers have been and likely will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate user names, passwords, payment card numbers, or other personal information or to introduce viruses or other malware through "trojan horse" programs to our customers' computers. Also, our information technology and infrastructure may be vulnerable to cyberattacks or security incidents and third parties may be able to access our customers' proprietary information and payment card data that are stored on or accessible through our systems. Any security breach at a company providing services to us or our customers could have similar effects. Because we promote to our customers that our payments platform offers a secure way to make payments, a security breach would have a significant impact on our reputation.

In addition, under payment card rules and our contracts with our card processors, if there is a breach of payment card information that we store, or that is stored by our direct payment card processing customers, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. If we were unable to accept payment cards, our business would be harmed. Additionally, financial services regulators in various jurisdictions, including the United States and the European Union, have implemented or are considering proposals to impose new authentication requirements on banks and payment processors intended to reduce online fraud, which could impose significant costs, require us to change our business practices, make it more difficult for new customers to join PayPal, and reduce the ease of use of our products, which could harm our business.

We may also need to expend significant additional resources to protect against security breaches or to redress problems caused by breaches. These issues are likely to become more difficult and costly as we expand the number of markets where we operate. Additionally, our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches and we may not be able to fully collect, if at all, under these insurance policies.

Systems failures and resulting interruptions in the availability of our websites, applications, products or services could harm our business.

Our systems may experience service interruptions or degradation because of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses, or other events. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism. Some of our systems are not fully redundant and our disaster recovery planning is not sufficient for all eventualities. In addition, as a provider of payments solutions, we are subject to increased scrutiny by regulators that may require specific business continuity and disaster recovery plans and more rigorous testing of such plans. This increased scrutiny may be costly and time consuming and may divert our resources from other business priorities.

We have experienced and will likely continue to experience system failures, denial of service attacks and other events or conditions from time to time that interrupt the availability or reduce the speed or functionality of our websites and mobile applications. These events have resulted and likely will result in loss of revenue. A prolonged interruption in the availability or reduction in the speed or other functionality of our websites and mobile applications could materially harm our business. Frequent or persistent interruptions in our services could

Table of Contents

cause current or potential customers to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our sites, and could permanently harm our reputation and brands. Moreover, to the extent that any system failure or similar event results in damages to our customers or their businesses, these customers could seek significant compensation from us for their losses and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address.

Our website has suffered significant intermittent unavailability, including for example, transaction failures which affected some customers in the United Kingdom for over 24 hours in August 2014 and mobile login failures which affected some customers for several hours in April 2014. Reliability is particularly critical for us because the full-time availability of our PayPal services is critical to our goal of gaining widespread acceptance among consumers and merchants for digital and mobile payments. We have undertaken certain system upgrades and re-platforming efforts designed to improve our reliability and speed. These efforts are costly and time consuming, involve significant technical risk and may divert our resources from new features and products, and there can be no guarantee that these efforts will succeed. Because we are a regulated financial institution, frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, or mandatory and costly changes to our business practices, and ultimately could cause us to lose existing licenses we need to operate or prevent us from obtaining additional licenses that we need to expand.

We also rely on facilities, components and services supplied by third parties, including eBay, and our business may be materially adversely affected to the extent these components or services do not meet our expectations or these third parties cease to provide the services or facilities. In particular, a decision by any of our third party hosting providers to close a facility that we use could cause system interruptions and delays, result in loss of critical data and cause lengthy interruptions in our services. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of systems failures and similar events.

Changes to payment card networks or bank fees, rules, or practices could harm our business.

We do not directly access the payment card networks, such as Visa and MasterCard, that enable our acceptance of credit cards and debit cards (including some types of prepaid cards). As a result, we must rely on banks or other payment processors to process transactions, and must pay fees for the services. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction which accesses their networks. Our payment card processors have the right to pass any increases in interchange fees and assessments on to us as well as increase their own fees for processing. Any changes in interchange fees and assessments could increase our operating costs and reduce our operating income.

In addition, in some jurisdictions, governments have required Visa and MasterCard to reduce interchange fees, or have opened investigations as to whether Visa's or MasterCard's interchange fees and practices violate antitrust law. In the United States, the Federal Reserve Board issued a final rule capping debit card interchange fees at significantly lower rates than Visa or MasterCard previously charged. In the European Union, the Multilateral Interchange Fee ("MIF") Regulation limits credit and debit interchange fees for payments to 0.3% and 0.2%, respectively. The MIF Regulation, which is expected to become effective in the second half of 2015, may significantly impact our pricing policy in the European Union. Any such material reduction in credit or debit card interchange rates in the United States or other markets could jeopardize our competitive position against traditional credit and debit card processors, although it would also lower our costs. Future changes to those regulations or to our business could potentially cause us to be treated as a payment card network, which could subject us to additional regulation and require us to change our business practices, which could reduce our revenue and adversely affect our business.

We are required by our processors to comply with payment card network operating rules, including special operating rules for payment service providers to merchants, and we have agreed to reimburse our processors for

Table of Contents

any fines they are assessed by payment card networks as a result of any rule violations by us or our merchants. The payment card networks set and interpret the card operating rules. Payment card networks have from time to time alleged that various aspects of our business model violate these operating rules. If such allegations are not resolved, they could result in material fines and penalties or require changes in our business that may be costly. The payment card networks could adopt new operating rules or interpret or re-interpret existing rules that we or our processors might find difficult or even impossible to follow, or costly to implement. As a result, we could lose our ability to give consumers the option of using payment cards to fund their payments or the choice of currency in which they would like their card to be charged. If we were unable to accept payment cards or were meaningfully limited in our ability to do so, our business would be harmed.

We and our payment card processors have implemented specific business processes for merchants in order to comply with operating rules for providing services to merchants, but any failure to comply could result in fines. We also could be, and in the past have been, subject to fines from payment card networks if we fail to detect that merchants are engaging in activities that are illegal or that are considered “high risk,” primarily the sale of certain types of digital content. For “high risk” merchants, we must either prevent such merchants from using our PayPal services or register such merchants with the payment card networks and conduct additional monitoring with respect to such merchants. Although the amount of these fines has not been material to date, any additional fines in the future could become material and could result in a termination of our ability to accept payment cards or require changes in our process for registering new customers. This would significantly damage our business. Our retail point-of-sale solution and PayPal Here product are also subject to payment card network operating rules, which may increase the costs of those products or otherwise negatively impact their deployment.

Failure to deal effectively with fraud, fictitious transactions, bad transactions, and negative customer experiences would increase our loss rate and harm our business, and could severely diminish merchant and consumer confidence in and use of our services.

We incur substantial losses due to claims from consumers that merchants have not performed or that their goods or services do not match the merchant’s description. We seek to recover such losses from the merchant, but may not be able to recover in full if the merchant is unwilling or unable to pay. We also incur losses from claims that the consumer did not authorize the purchase, from consumer fraud, from erroneous transmissions and from customers who have closed bank accounts or have insufficient funds in them to satisfy payments. In addition, if losses incurred by us related to payment card transactions become excessive, they could potentially result in our losing the right to accept payment cards for payment. In the event that we were unable to accept payment cards, the number of transactions processed through our PayPal services would decrease substantially and our business could be harmed. We are similarly subject to the risk of fraudulent activity associated with merchants, consumers of PayPal Credit products and third parties handling our user information. We have taken measures to detect and reduce the risk of fraud, but these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud or in connection with new product offerings. If these measures do not succeed, our business could be harmed.

Any factors that reduce cross-border trade or make such trade more difficult could harm our business.

Cross-border trade is an important source of both revenue and profits for us. For the year ended December 31, 2014, approximately 24% of total payment volume (“TPV”) involved cross-border trade (i.e., transactions where the merchant and consumer were in different countries). Cross-border transactions generally provide higher revenues and operating income than similar transactions that take place within a single country or market. Cross-border trade also represents our primary (or in some cases, only) presence in certain important markets, such as China.

Cross-border trade is subject to, and may be impacted by, foreign exchange rate fluctuations. In addition, the potential interpretation and application of laws of multiple jurisdictions (e.g., the jurisdiction of the merchant and the consumer) are often extremely complicated in the context of cross-border trade. The interpretation and/or

Table of Contents

application of such laws could impose restrictions on cross-border trade. Any factors that increase the costs of cross-border trade or restrict, delay, or make cross-border trade more difficult or impractical would lower our revenues and profits and could harm our business.

Our business is subject to extensive government regulation and oversight relating to the provision of financial services.

We are subject to various laws and regulations in the United States and other countries where we operate. Such laws and regulations include those governing banking, deposit taking, cross-border and domestic money transmission, foreign exchange, and payment services, such as payment processing and settlement services. The legal and regulatory requirements that apply to us vary in the markets where we operate and have increased over time as the geographical scope and complexity of our business and products have expanded. While we have a compliance program focused on compliance with applicable laws and regulations and have increased the resources allocated to that program in the last several years, we may still be subject to fines or other enforcement actions in one or more jurisdictions or be required to make changes to our business practices or compliance programs in the future. Non-compliance could also result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions. Costs associated with fines, enforcement actions, as well as reputational harm, changes in compliance requirements or limits on our ability to expand our product offerings could harm our business.

PayPal has obtained licenses to operate as a money transmitter (or its equivalent) in the United States, in the states where it is required, and the District of Columbia, the U.S. Virgin Islands and Puerto Rico. Our subsidiary, Venmo, is also licensed as a money transmitter in certain U.S. states. As licensed money transmitters, PayPal and Venmo are subject to restrictions with respect to their investment of customer funds, reporting requirements, bonding requirements and inspection by state regulatory agencies. Accordingly, we could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states, forced to change our business practices or be required to obtain additional licenses or regulatory approvals that could impose substantial cost if we violate these laws or regulations.

While we currently allow our consumers with credit cards to send payments from approximately 200 markets, we allow customers in only approximately half of those markets (including the United States) to also receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may affect our ability to grow in these markets. Of the markets whose residents can use our PayPal services, approximately 30 markets are in member states of the European Union. We provide localized versions of our service to customers in the European Union through 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. Accordingly, PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money-laundering, capitalization, funds management, corporate governance, privacy, information security, bank secrecy, taxation, sanctions, or other requirements imposed on Luxembourg banks. Any fines or other enforcement actions could adversely affect our business. In addition, European Union laws and regulations are typically subject to different and potentially inconsistent interpretations by the countries that are members of the European Union, which can make compliance more costly and operationally difficult to manage.

In many markets, such as China, much of Southeast Asia and South America, we serve our customers through PayPal Pte. Ltd., our wholly-owned subsidiary that is based in Singapore. PayPal Pte. Ltd. is supervised by the Monetary Authority of Singapore as a holder of a stored value facility and does not hold a remittance license. As a result, PayPal Pte. Ltd. is not able to offer remittance payments (including donations to charities) in Singapore, and can only offer payments for the purchase of goods and services. In many of the markets (other than Singapore) served by PayPal Pte. Ltd., it is not clear whether our Singapore-based service is subject only to Singapore law or, if it is subject to local laws, whether such local laws would require a payment processor like us to be licensed as a bank or financial institution or otherwise.

Table of Contents

In Australia, we serve our customers through PayPal Australia Pty. Ltd., which is licensed by the Australian Securities and Investments Commission as a financial product and by the Australian Prudential Regulation Authority as a purchased payment facility provider, which is a type of authorized depository institution. Accordingly, PayPal Australia would be subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, privacy, corporate governance or other requirements imposed on Australian depository institutions.

We are also subject to regulation in other markets in which we do business and we have been and expect to continue to be required to apply for various licenses, certifications and regulatory approvals in a number of the countries where we have operations, such as Canada, Turkey, China, Mexico, Brazil and Hong Kong. There can be no assurance that PayPal will be able to obtain any such licenses. Even if PayPal were able to obtain such licenses, there are substantial costs and potential product changes involved in maintaining such licenses, and PayPal would be subject to fines or other enforcement action if it violates disclosure, reporting, anti-money laundering, capitalization, corporate governance or other requirements of such licenses. These factors could impose substantial additional costs and involve considerable delay to the development or provision of PayPal's products in certain countries.

In many other countries it may not be clear whether we are required to be licensed as a bank, financial institution or otherwise. In such markets, we may rely on partnerships with local banks to process payments and conduct foreign exchange in local currency. Local regulators may use their power to slow or halt payments to local merchants conducted through our local banking partner. Such regulatory actions or the need to obtain licenses, certifications or other regulatory approvals could impose substantial costs and involve considerable delay to the provision or development of our PayPal services in a given market, or could require significant and costly operational changes or prevent us from providing any services in a given market.

We are subject to consumer protection laws and regulations.

We are subject to consumer protection laws and regulations in the United States and the other countries in which we operate. We are focused on compliance with these laws and regulations and have programs designed to comply with new and existing consumer protection requirements. However, any errors, failures, or delays in complying with such consumer protection laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions, as well as reputational harm. Any new consumer protection laws and regulations (or changes to, or expansion of, the interpretation or application of existing laws and regulations) applicable to us could subject us to additional restrictions on our operations, additional compliance and licensure requirements, and increased regulatory scrutiny, which could force us to change our business practices or limit our ability to grow our business. Costs associated with fines or enforcement actions, changes in compliance requirements, or limitations on our ability to grow our business, could have an adverse effect on our financial results and harm our business.

Although there have been no definitive interpretations to date, we have taken actions as though our services are subject to the Electronic Fund Transfer Act and Regulation E issued by the Consumer Financial Protection Bureau ("CFPB"). Under such regulations, among other things, we are required to provide advance disclosure of changes to our services, to follow specified error resolution procedures and to reimburse consumers for losses from certain transactions not authorized by the consumer. Additionally, even technical violations of these laws can result in penalties of up to \$1,000 for each non-compliant transaction or up to \$500,000 per violation in any class action, and we could also be liable for plaintiffs' attorneys' fees. In the second quarter of 2010, two putative class-action lawsuits (Devinda Fernando and Vadim Tsigel v. PayPal, Inc. and Moises Zepeda v. PayPal, Inc.) were filed in the U.S. District Court for the Northern District of California. These lawsuits contain allegations related to violations of aspects of the Electronic Fund Transfer Act and Regulation E and violations of a previous settlement agreement related to Regulation E, and/or allege that we improperly held consumer funds or otherwise improperly limited consumer accounts. These lawsuits seek damages as well as changes to our business practices, among other remedies. A determination that there have been violations of the Electronic Fund Transfer

Table of Contents

Act, Regulation E or violations of other laws relating to our business practices could expose us to significant liability. Any changes to our business practices resulting from these lawsuits could require us to incur significant costs and to expend substantial resources, which could delay other planned product launches or improvements and further harm our business.

The financial services sector has been increasingly subject to regulatory scrutiny. In January 2012, the CFPB finalized rules under Regulation E, mandated by the Dodd-Frank Act, which required us, beginning in October 2013, to provide additional disclosures, error resolution rights, and cancellation rights to U.S. consumers who make international remittance payments. In November 2014, the CFPB proposed a new prepaid account rule that would apply to prepaid cards and mobile wallets, including PayPal accounts. In December 2014, we became subject to CFPB supervision and examination pursuant to a new regulation that allows the CFPB to supervise all companies, including PayPal, that provide more than one million international money transfers per year. Under the regulation, CFPB examiners are now able to examine us for compliance with the remittance transfer rule and other laws and regulations. For other matters relating to regulation by the CFPB, please see the section of this information statement entitled “Business—Legal and Regulatory Proceedings.”

PayPal (Europe) implements its localized services in European Union countries through a “passport” notification process through the Luxembourg regulator to regulators in other European Union member states pursuant to European Union Directives, and has completed the “passport” notification process in all European Union member countries other than Croatia. 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 for expanding our business in European Union countries. In addition, the countries that are members of the European Union may each have different and potentially inconsistent interpretations of regulations implementing the European Union Payment Services Directive, which could make compliance more costly and operationally difficult to manage. The European Commission has proposed revisions to the Payments Services and Anti-Money Laundering Directives, which could further make compliance more costly and operationally difficult to manage. Finally, if the assets of PayPal (Europe) exceed certain thresholds, or if the European Central Bank determines that PayPal is a significant supervised entity, PayPal (Europe) could become directly regulated by the European Central Bank rather than primarily by Luxembourg as a less significant supervised entity, which would likely increase its costs.

We are subject to anti-money laundering and counter-terrorist financing laws and regulations.

We are subject to various anti-money laundering and counter-terrorist financing laws and regulations around the world that prohibit, among other things, our involvement in transferring the proceeds of criminal activities. We have programs designed to comply with new and existing legal and regulatory requirements. However, any errors, failures, or delays in complying with federal, state or foreign anti-money laundering or counter-terrorist financing laws and regulations could result in significant criminal and civil lawsuits, penalties, forfeiture of significant assets, or other enforcement actions, as well as reputational harm. For a discussion of our dealings with the U.S. Department of Treasury’s Office of Foreign Assets Control (“OFAC”), please see the section of this information statement entitled “Business—Legal and Regulatory Proceedings.”

U.S. regulators have increased their scrutiny of compliance with these obligations, which may require us to further revise or expand our compliance program, including the procedures we use to verify the identity of our customers and to monitor international and domestic transactions. Several countries in which we are regulated have also implemented new anti-money laundering and counter-terrorist financing laws and regulations, and we have had to make changes to our compliance program in response. Regulators regularly re-examine the transaction volume thresholds at which we must obtain and keep applicable records or verify identities of customers and any change in such thresholds could result in greater costs for compliance. Costs associated with fines or enforcement actions, changes in compliance requirements, or limitations on our ability to grow our

Table of Contents

business could harm our business and any new requirements or changes to existing requirements could impose significant costs, result in delays to planned product improvements, make it more difficult for new customers to join our network and reduce the attractiveness of our products and services.

Regulation in the areas of privacy and protection of user data could harm our business.

We are subject to laws relating to the collection, use, retention, security, and transfer of personally identifiable information about our customers around the world. Much of the personal information that we collect, especially financial information, is regulated by multiple laws. User data protection laws may be interpreted and applied inconsistently from country to country. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among ourselves, our subsidiaries, and other parties with which we have commercial relations. These laws continue to develop in ways we cannot predict and that may harm our business.

Regulatory scrutiny of privacy, user data protection, use of data and data collection is increasing on a global basis. We are subject to a number of privacy and similar laws and regulations in the countries in which we operate and these laws and regulations will likely continue to evolve over time, both through regulatory and legislative action and judicial decisions. Some of these laws impose requirements that are inconsistent with one another, yet regulators may claim that both apply. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and violations of privacy-related laws can result in significant penalties. In addition, compliance with these laws may restrict our ability to provide services to our customers that they may find to be valuable. A determination that there have been violations of laws relating to our practices under communications-based laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business. In particular, because of the enormous number of texts, emails and other communications we send to our customers, communications laws that provide a specified monetary damage award or fine for each violation (such as those described below) could result in particularly large awards or fines.

For example, the Federal Communications Commission amended certain of its regulations under the Telephone Consumer Protection Act, or TCPA, in 2012 and 2013 in a manner that could increase our exposure to liability for certain types of telephonic communication with customers, including but not limited to text messages to mobile phones. Under the TCPA, plaintiffs may seek actual monetary loss or statutory damages of \$500 per violation, whichever is greater, and courts may treble the damage award for willful or knowing violations. We are regularly subject to class-action lawsuits, as well as individual lawsuits, containing allegations that our business violated the TCPA. We recently settled *Murray v. Bill Me Later* (filed in the U.S. District Court for the Northern District of Illinois in June 2012), which alleged that Bill Me Later made calls featuring artificial or prerecorded voices without prior consent. These lawsuits, and other private lawsuits not currently alleged as class actions, seek damages (including statutory damages) and injunctive relief, among other remedies. Given the enormous number of communications we send to our customers, a determination that there have been violations of the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business. We have also received inquiries from regulators regarding future revisions to our user agreement. See “Business—Legal and Regulatory Proceedings—Regulatory Proceedings.”

We post on our websites our privacy policies and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations could result in proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation), subject us to significant penalties and negative publicity, require us to change our business practices, increase our costs and adversely affect our business. Data collection, privacy and security have become the subject of increasing public concern. If Internet and mobile customers were to reduce their use of our websites, mobile platforms, products, and services as a result of these concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Table of Contents

PayPal is not a bank or licensed lender in the United States and relies upon third parties to make loans and provide the other products critical to our business.

As PayPal is neither a chartered financial institution nor licensed to make loans in any state, we must rely on a bank or licensed lender to offer the PayPal Credit products in the United States. Currently, when a U.S. consumer makes a purchase using a PayPal Credit product, a 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 and retain most of the receivables related to the consumer loans made by the chartered financial institution and, as a result, bear most of the risk of loss in the event of loan defaults. Although the chartered financial institution continues to own each of the consumer accounts, we own most of the related consumer loan receivables, and we are also responsible for servicing functions related to the consumer account.

Comenity Capital Bank and WebBank, which are both industrial banks chartered by the State of Utah, currently issue PayPal Credit products in the United States, with Comenity Capital Bank originating the majority of new loans. As part of this arrangement, WebBank has agreed to take ownership of (and originate loans with respect to) all consumer accounts in the event of a termination or interruption in Comenity Capital Bank's ability to lend. Nevertheless, any termination or interruption of WebBank's or Comenity Capital Bank's ability to lend could result in the inability to originate any new PayPal Credit products, which would require us either to reach a similar arrangement with another chartered financial institution, which, if possible at all, may not be available on favorable terms, or to obtain our own bank charter, which would be a time-consuming and costly process and would subject us to a number of additional laws and regulations, compliance with which would be burdensome.

The PayPal Credit products also rely on third-party merchant processors and payment gateways to process transactions. For the year ended December 31, 2014, approximately 16% of all transaction volume by dollar amount through the PayPal Credit products was settled through the facilities of a single vendor. Any disruption to these third-party payment processing and gateway services would adversely affect the PayPal Credit products.

Our credit products expose us to additional risks.

Our PayPal Credit products are offered to a wide range of consumers, and the financial success of these products depends on our ability and the ability of the banks issuing the PayPal Credit products to manage the credit risk related to these products. The lenders extend credit at the point of sale using our proprietary segmentation and credit scoring algorithms and other analytical techniques designed to analyze the credit risk of specific consumers based on their past purchasing and payment history as well as their credit scores. These algorithms and techniques may not accurately predict the creditworthiness of a consumer due to inaccurate assumptions about a particular consumer or the economic environment, among other factors. The accuracy of the predictions and the ability of the lenders and our ability to manage credit risk related to the PayPal Credit products may also be affected by legal or regulatory changes (e.g., bankruptcy laws and minimum payment regulations), competitors' actions, changes in consumer behavior, and other factors. A lender may incorrectly interpret the data produced by these algorithms in setting its credit policies, which may impact the financial performance of the PayPal Credit products. In addition, economic and financial conditions may affect consumer confidence levels and reduce consumers' ability or willingness to use credit, including the credit extended by a lender to PayPal Credit account holders who use the PayPal Credit products, which could harm our business. As of December 31, 2014, approximately \$20.2 billion 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 institutions that are the issuers of PayPal Credit products based on, among other things, account usage and consumer creditworthiness.

Over the past several years, the volume of credit extended by the financial institutions issuing the PayPal Credit products has increased. In the United States, we purchase the receivables relating to these consumer loans

Table of Contents

extended by the issuing banks, and therefore bear the risk of loss in the event of loan defaults. Like other businesses with significant exposure to losses from consumer credit, we face the risk that PayPal Credit account holders will default on their payment obligations, making the receivables uncollectible and creating the risk of potential charge-offs. The rate at which receivables were charged off as uncollectible, or the net charge-off rate, was approximately 5.67% for the year ended December 31, 2014. The non-payment rate among PayPal Credit account holders may increase due to, among other things, changes to underwriting standards by us and the financial institutions issuing the PayPal Credit products, worsening economic conditions, such as a recession or greater austerity in various countries, and high unemployment rates. Consumers who miss payments often fail to repay their loans, and consumers who file for protection under the bankruptcy laws generally do not repay their loans.

We have entered into an agreement with Synchrony (formerly GE Capital Retail Bank) pursuant to which we, one of our affiliates, or a third party partner of ours, will purchase, subject to certain conditions, a dual-branded retail credit card portfolio from Synchrony. We will ultimately own the related consumer loan receivables. This transaction is currently expected to close in the fourth quarter of 2016, although there can be no assurance that this transaction will close on terms currently contemplated, or at all. If this transaction is consummated, it will increase the risks relating to our ownership of consumer loan receivables.

In 2013, we began a program, working with WebBank, for WebBank to offer working capital financing to selected merchants in the United States, and for us to purchase the related receivables. Similar programs are also available in the United Kingdom and Australia. Loans to merchants present risks similar to those discussed above associated with the PayPal Credit products.

We purchase receivables related to PayPal Credit products and other credit accounts. If we are unable to fund our purchase of these receivables adequately or in a cost-effective manner, or if we are unable to efficiently manage the cash resources utilized to purchase these receivables, our business could be harmed.

New and proposed laws and regulations could harm our business.

We are subject to laws and regulations affecting our domestic and international operations in a number of other areas, including data privacy requirements, intellectual property ownership and infringement, tax, anti-competition, export requirements, anti-corruption, labor, advertising, billing, promotions, quality of services, environmental, and health and safety regulations. It is not always clear how these laws and regulations apply to our business. Many of these laws and regulations were adopted prior to the advent of the Internet, mobile, and related technologies and, as a result, do not contemplate or address the unique issues of the Internet, mobile and related technologies. Many of these laws, including some of those that do reference the Internet, mobile and related technologies are subject to interpretation by the courts on an ongoing basis and, as a result, their applicability and scope remain uncertain.

Compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. For example, new or proposed laws in certain countries require us to maintain separate servers in those countries so that all personal data of citizens of that country are maintained locally. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products or services in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

Financial and political events have increased the level of regulatory scrutiny on large companies, and regulatory agencies may view matters or interpret laws and regulations differently than they have in the past and

Table of Contents

in a manner adverse to our business. Our success and increased visibility have driven existing businesses that perceive us to be a threat to their businesses to raise concerns about our business models to policymakers and regulators. These businesses and their trade association groups employ significant resources in their efforts to shape the legal and regulatory regimes in countries where we have significant operations. They may employ these resources in an effort to change the legal and regulatory regimes in ways intended to reduce the effectiveness of our business and the ability of customers to use our products and services.

As we expand and localize our international activities, we are increasingly becoming obligated to comply with the laws of the countries or markets in which we operate. In addition, because our services are accessible worldwide and we facilitate sales of goods and provide services to customers worldwide, one or more jurisdictions may claim that we or our customers are required to comply with their laws. Laws regulating Internet, mobile and related technologies outside of the United States are generally less favorable to us than those in the United States. Compliance may be more costly or may require us to change our business practices or restrict our services, and the imposition of any regulations on us or our customers could harm our business. In addition, we may be subject to multiple overlapping legal or regulatory regimes that impose conflicting requirements on us (e.g., in cross-border trade). Our alleged failure to comply with foreign laws could subject us to penalties ranging from criminal prosecution to significant fines to bans on our services, in addition to the significant costs we may incur in defending against such actions.

Following the global financial crisis of 2008, U.S. federal lawmakers enacted the Dodd-Frank Act overhauling the federal government's oversight of consumer financial products and systemic risk in the U.S. financial system. The general effect of the financial reform law has been, and we expect will continue to be, to require us to make additional disclosures to our consumers and to impose new restrictions and requirements on certain of our activities, resulting in new compliance requirements and obligations that could increase our costs, may result in increased litigation and the need to make expensive product changes, and could otherwise harm our business.

Substantial and increasingly intense competition worldwide in the global payments industry may harm our business.

The global payments industry is highly competitive. We compete against businesses in varied industries, many of whom are larger than we are, have a dominant and secure position in other industries, and offer other goods and services to consumers and merchants which we do not offer. As online and offline commerce increasingly converge, the pace of change, innovation and disruption is increasing. The global payments industry is rapidly changing, highly innovative and increasingly subject to regulatory scrutiny, which may negatively affect the competitive landscape. We compete against all forms of payments, including:

- paper-based transactions (principally cash and checks);
- providers of traditional payment methods, particularly credit and debit cards, money orders, and Automated Clearing House transactions (these providers are primarily well-established banks);
- providers of “digital wallets” which offer customers the ability to pay online and/or on mobile devices through a variety of payment methods, including with mobile applications, through contactless payments, and with a variety of payment methods;
- providers of mobile payments solutions that use tokenized card data approaches and Near Field Communication (“NFC”) functionality (including Host Based Card Emulation (“HCE”) functionality to eliminate the need for a physical NFC chip in the device);
- payment-card processors that offer their services to merchants;
- providers of “person-to-person” payments that facilitate individuals sending money with an email address or mobile phone number;
- providers of mobile payments; and

Table of Contents

- providers of card readers for mobile devices and of other new point of sale and multi-channel technologies.

We also face competition and potential competition from:

- money remitters;
- services that provide online merchants the ability to offer their customers the option of paying for purchases from their bank account or paying on credit in the United States and abroad;
- issuers of stored value targeted at online payments;
- other international online payment-services providers;
- other providers of online account-based payments;
- payment services targeting users of social networks and online gaming, often through billing to the consumer's mobile phone account;
- mobile payment services between bank accounts;
- payment services enabling banks to offer their online banking customers the ability to send and receive payments through their bank account;
- online shopping services that provide special offers linked to a specific payment provider; and
- services that help merchants accept and manage virtual currencies.

Some of these payment providers have greater customer bases, volume, scale, and market share than we do, which may provide significant competitive advantages. Some of these competitors may also be subject to less burdensome licensing, anti-money laundering, counter-terrorist financing, and other regulatory requirements. They may devote greater resources to the development, promotion, and sale of products and services, and they may offer lower prices or more effectively introduce their own innovative programs and services that adversely impact our growth. We also expect new entrants to offer competitive products and services. In addition, some merchants provide such services to themselves. Competing services tied to established banks and other financial institutions may offer greater liquidity and engender greater consumer confidence in the safety and efficacy of their services. In addition, in certain countries, such as Germany, Netherlands and Australia, electronic funds transfer is a leading method of payment for both online and offline transactions. As in the United States, established banks and other financial institutions that do not currently offer online payments could quickly and easily develop such a service.

We compete primarily on the basis of the following:

- ability to attract, retain and engage both merchants and consumers with relatively low marketing expense;
- ability to show that merchants will achieve incremental sales by offering our PayPal services;
- security of transactions and the ability for consumers to use our PayPal services without sharing their financial information with the merchant;
- simplicity of our fee structure;
- ability to develop services across multiple commerce channels, including mobile payments and payments at the retail point of sale;
- trust in our dispute resolution and buyer and seller protection programs;
- customer service;
- brand recognition;
- website, mobile platform and application onboarding, ease-of-use and accessibility;

Table of Contents

- system reliability and data security;
- ease and quality of integration into third-party mobile applications; and
- quality of developer tools such as our application programming interfaces and software development kits.

If we are not able to differentiate our business from those of our competitors, drive value for our customers, and/or effectively align our resources with our goals and objectives, we may not be able to compete effectively against our competitors. Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely harm our business.

We are exposed to fluctuations in foreign currency exchange rates.

We have significant operations internationally that are denominated in foreign currencies, primarily the Euro, British Pound, and Australian Dollar, subjecting us to foreign currency risk. The strengthening or weakening of the U.S. dollar versus the Euro, British Pound, and Australian Dollar impacts the translation of our net revenues generated in these foreign currencies into the U.S. dollar. In 2014, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$25 million (inclusive of a \$36 million negative impact from hedging activities). In 2013, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$8 million (inclusive of a \$4 million negative impact from hedging activities). Additionally, in connection with our services in multiple currencies, we set our foreign exchange rates twice per day, and may face financial exposure if we incorrectly set our foreign exchange rates or as a result of fluctuations in foreign exchange rates between the times that we set our foreign exchange rates. Given that we also hold some corporate and customer funds in non-U.S. currencies, our financial results are affected by the translation of these non-U.S. currencies into U.S. dollars. While we regularly enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to predict or eliminate the effects of this exposure. Fluctuations in foreign exchange rates could significantly impact our financial results.

We are exposed to fluctuations in interest rates.

We are exposed to interest rate risk from our investment portfolio and from interest-rate sensitive assets underlying the customer balances we hold on our combined balance sheet as customer accounts. As of December 31, 2014, approximately 97% of our total cash and investment portfolio was held in cash and cash equivalents. The assets underlying our customer balances we hold on our combined 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. We seek to preserve principal while holding eligible liquid assets, as defined by the regulatory requirements and commercial law in the jurisdictions in which 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. A 100 basis point adverse change in interest rates would not have a material impact on the Company's financial assets or liabilities at December 31, 2014 and 2013.

Also, fluctuations in interest rates may adversely impact our customers' spending levels and ability and willingness to pay outstanding amounts owed to us. Higher interest rates often lead to higher payment obligations by customers to us and other lenders under mortgage, credit card and other consumer 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.

In addition, we may enter into a new revolving credit facility that could bear interest at a floating rate. As a result, we will be exposed to fluctuations in interest rates to the extent of our borrowings under the revolving credit facility.

Table of Contents

Changes to our buyer and seller protection programs could increase our loss rate.

Our buyer and seller protection programs protect merchants and consumers from fraudulent transactions. In addition, consumers who pay through PayPal may have reimbursement rights from their payment card company or bank, which in turn will seek recovery from us. The risk of losses from our buyer and seller protection programs are specific to individual buyers, sellers and transactions, and may also be impacted by regional variations to these programs and modifications to these programs resulting from changes in regulatory requirements or changes that we decide to implement. Following the distribution, we will extend our protection programs to certain customers' purchases on eBay, and our costs will therefore increase. See footnote (b) to "Unaudited Pro Forma Condensed Combined Financial Statements." For the periods presented in the combined financial statements, payments under these programs have ranged between 0.08% and 0.12% of TPV on an annual basis. Historical trends may not be an indication of future payments under these programs. Increases in our loss rate resulting from changes to our buyer and seller protection programs could harm our business.

Our international operations are subject to increased risks, which could harm our business.

Our international operations, especially in the United Kingdom, Germany (and the other countries of the European Union) and China, have generated a majority of our net revenues in recent years. In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

- expenses associated with localizing our products and services and customer data, including offering customers the ability to transact business in the local currency and adapting our products and services to local preferences (e.g., payment methods) with which we may have limited or no experience;
- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, foreign currency exchange restrictions or extreme fluctuations in foreign currency exchange rates for a particular currency;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, public health issues, acts of war, and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and foreign laws prohibiting corrupt payments to government officials, as well as U.S. and foreign laws designed to combat money laundering and the financing of terrorist activities;
- antitrust and competition regulations;
- potentially adverse tax developments and consequences;
- economic uncertainties relating to sovereign and other debt;
- different, uncertain, or more stringent user protection, data protection, privacy, and other laws;
- risks related to other government regulation or required compliance with local laws;
- national or regional differences in macroeconomic growth rates;
- local licensing and reporting obligations; and
- increased difficulties in collecting accounts receivable.

Violations of the complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions, or sanctions against us, our officers, or our employees; prohibitions on the

Table of Contents

conduct of our business; and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks are inherent in our international operations and expansion and may increase our costs of doing business internationally and could harm our business.

Use of our payments services for illegal purposes could harm our business.

Our payment system is susceptible to potentially illegal or improper uses, including terrorist financing, illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted or trademarked goods, money laundering, bank fraud, child pornography trafficking, prohibited sales of alcoholic beverages or tobacco products, online securities fraud. There has been an increased focus by intellectual property rights owners and government officials on the role that payments systems play in the sale of, and payment for, pirated digital goods on the Internet, primarily through file sharing services. Changes in law have increased the penalties for intermediaries providing payment services for certain illegal activities and additional payments-related proposals are under active consideration by government authorities. Intellectual property rights owners may seek to bring legal action against providers of payments solutions, such as PayPal, and other entities that are peripherally involved in the sale of infringing items. Rights owners have also increasingly gone into U.S. courts and obtained injunctions requiring us to cease handling transactions for named websites and third parties (in most cases located outside the United States) and to hold the funds of such parties pending judicial resolution of the rights owners' claims, which disrupts the relationship between such parties and us.

Any resulting claims could damage our reputation and any resulting liabilities, loss of transaction volume or increased costs could harm our business.

We are subject to risks associated with information disseminated through our services.

Online services companies may be subject to claims relating to information disseminated through their services, including claims alleging defamation, libel, breach of contract, invasion of privacy, negligence, copyright or trademark infringement, among other things. The laws relating to the liability of online services companies for information disseminated through their services are subject to frequent challenges both in the United States and foreign jurisdictions. Any liabilities incurred as a result of these matters could require us to incur additional costs and harm our reputation and our business.

Our potential liability to third parties for the customer-provided content on our sites, particularly in jurisdictions outside the United States where laws governing Internet transactions are unsettled, may increase. If we become liable for information provided by our customers and carried on our service in any jurisdiction in which we operate, we could be directly harmed and we may be forced to implement new measures to reduce our exposure to this liability, including expending substantial resources or discontinuing certain service offerings, which could harm our business.

Our failure to manage the assets underlying our customer funds properly could harm our business.

Our ability to manage and account accurately for the assets underlying our customer funds requires a high level of internal controls. As our business continues to grow and we expand our product offerings, we must continue to strengthen our internal controls accordingly. Our success requires significant public confidence in our ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain the necessary controls or to manage the assets underlying our customer funds accurately could severely diminish customer use of our products and/or result in penalties and fines, which could harm our business.

Table of Contents

We are subject to regulatory activity and antitrust litigation under competition laws.

We are subject to scrutiny by various government agencies under U.S. and foreign laws and regulations, including competition laws. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies have in the past and may in the future allege that our actions violate the antitrust or competition laws of the United States, individual states, the European Commission or other countries, or otherwise constitute unfair competition. An increasing number of governments are regulating competition law activities, including increased scrutiny in large markets such as China. Our business partnerships or agreements or arrangements with customers or other companies could give rise to regulatory action or antitrust litigation. Some regulators, particularly those outside of the United States, may perceive our business to be used so broadly that otherwise uncontroversial business practices could be deemed anticompetitive. Any claims or investigations, even if without foundation, may be very expensive to defend or respond to, involve negative publicity and substantial diversion of management time and effort and could result in significant judgments against us or require us to change our business practices.

We are subject to patent litigation.

We have repeatedly been sued for allegedly infringing other parties' patents. We are a defendant in a number of patent lawsuits and have been notified of several other potential patent disputes. We expect that we will increasingly be subject to patent infringement claims because, among other reasons:

- our products and services continue to expand in scope and complexity;
- we continue to expand into new business areas, including through acquisitions; and
- the universe of patent owners who may claim that we, any of the companies that we have acquired, or our customers infringe their patents, and the aggregate number of patents controlled by such patent owners, continues to increase.

Such claims may be brought directly against us and/or against our customers whom we may indemnify either because we are contractually obligated to do so or we choose to do so as a business matter. We believe that an increasing number of these claims against us and other technology companies have been, and continue to be, initiated by third parties whose sole or primary business is to assert such claims. In addition, we have seen significant patent disputes between operating companies in some technology industries. Patent claims, whether meritorious or not, are time-consuming and costly to defend and resolve, and could require us to make expensive changes in our methods of doing business, enter into costly royalty or licensing agreements, make substantial payments to satisfy adverse judgments or settle claims or proceedings, or cease conducting certain operations, which would harm our business.

We may be unable to adequately protect or enforce our intellectual property rights, or third parties may allege that we are infringing their intellectual property rights.

We believe the protection of our intellectual property, including our trademarks, patents, copyrights, domain names, trade dress, and trade secrets, is critical to our success. We seek to protect our intellectual property rights by relying on applicable laws and regulations in the United States and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services, including confidentiality and invention assignment agreements entered into with our employees and contractors and confidentiality agreements with parties with whom we conduct business.

However, effective intellectual property protection may not be available in every country in which our products and services are made available, and contractual arrangements and other steps we have taken to protect our intellectual property may not prevent third parties from infringing or misappropriating our intellectual property or deter independent development of equivalent or superior intellectual property rights by others. Trademark, copyright, patent, domain name, trade dress and trade secret protection is very expensive to maintain

Table of Contents

and may require litigation. We must protect our intellectual property rights and other proprietary rights in an increasing number of jurisdictions, a process that is expensive and time consuming and may not be successful in every jurisdiction. Also, we may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Any failure to adequately protect or enforce our intellectual property rights, or significant costs incurred in doing so, could materially harm our business.

As the number of products in the software industry increases and the functionality of these products further overlap, and as we acquire technology through acquisitions or licenses, we may become increasingly subject to infringement claims, including patent, copyright, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the patent and other intellectual property rights of others. The ultimate outcome of any allegation is uncertain and, regardless of the outcome, any such claim, with or without merit, may be time-consuming, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping, or redesign our products, or require us to pay substantial amounts to satisfy judgments or settle claims or lawsuits or to pay substantial royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation or claims arising out of intellectual property matters, may harm our business.

We are regularly subject to general litigation, regulatory disputes, and government inquiries.

We are regularly subject to claims, lawsuits (including class actions and individual lawsuits), government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, consumer protection, accessibility claims, securities, tax, labor and employment, commercial disputes, content generated by our customers, services 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, some of the laws and regulations affecting Internet and mobile commerce and consumer credit are subject to ongoing interpretation by the courts and governmental authorities, and the resulting uncertainty in the scope and application of these laws and regulations increases the risk that we will be subject to private claims and governmental actions alleging violations of those laws and regulations.

The outcome and impact of such claims, lawsuits, government investigations, and proceedings 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, and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that is subject to judgment calls. It is possible that a resolution of one or more such proceedings could require us to make substantial payments to satisfy judgments, fines or penalties or to settle claims or proceedings, any of which could materially 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, or requiring a change in our business practices in costly ways, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could materially adversely affect our business.

We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign tax jurisdictions and have structured our operations to reduce our effective tax rate. Our determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing a number of investigations, audits and reviews by taxing authorities throughout the world,

Table of Contents

including with respect to our tax structure. Any adverse outcome of any such audit or review could have a negative effect on our business and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

In addition, our future income taxes could be adversely affected by earnings being lower than anticipated (or by the incurrence of losses) in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange risk management program, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

In light of continuing fiscal challenges in certain U.S. states and in many countries in Europe, various levels of government are increasingly focused on tax reform and other legislative action to increase tax revenue, including corporate income taxes. For example, the economic downturn reduced tax revenues for United States federal and state governments, and a number of proposals to increase taxes from corporate entities have been implemented or are being considered at various levels of government. These include a number of proposals to modify the U.S. federal income tax laws applicable to companies, like ours, operating in multiple U.S. and foreign jurisdictions which, if enacted, could materially increase our effective tax rate. A number of U.S. states have attempted to increase corporate tax revenues by taking an expansive view of corporate presence to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state, and taxing authorities in foreign jurisdictions may take similar actions. Many U.S. states are also altering their apportionment formulas to increase the amount of taxable income or loss attributable to their state from certain out-of-state businesses. Similarly, in Europe, and elsewhere in the world, there are various tax reform efforts underway designed to ensure that corporate entities are taxed on a larger percentage of their earnings. If more taxing authorities are successful in applying direct taxes to Internet companies that do not have a physical presence in their respective jurisdictions, this could increase our effective tax rate.

We and our merchants may be subject to sales reporting and record-keeping obligations.

One or more states or the federal government or foreign countries may seek to impose reporting or record-keeping obligations on companies that engage in or facilitate ecommerce. Such an obligation could be imposed by legislation intended to improve tax compliance (and legislation to such effect has been contemplated by several states and a number of foreign jurisdictions) or if one of our companies was ever deemed to be the legal agent of our merchants by a jurisdiction in which it operates. We are required to report to the Internal Revenue Service, (“IRS”), on customers subject to U.S. income tax who receive more than \$20,000 in payments and more than 200 payments in a calendar year. As a result, we are required to request tax identification numbers from certain payees, track payments by tax identification number and, under certain conditions, withhold a portion of payments and forward such withholding to the IRS. We have modified our software to meet these requirements and expect increased operational costs and changes to our customer experience in connection with complying with these reporting obligations. The IRS regulations also require us to collect a certification of non-U.S. taxpayer status from certain international merchants. The Foreign Account Tax Compliance Act, which took effect at the start of 2013, is likely to require an increase in the number of non-U.S. customers from whom we must obtain a similar certification, and to increase the compliance burdens on us. Any failure by us to meet these new requirements could result in substantial monetary penalties and other sanctions and could harm our business.

Acquisitions, joint ventures, and strategic investments could result in operating difficulties and could harm our business.

We have acquired a significant number of businesses of varying size and scope, technologies, services, and products. We also 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 businesses, technologies, services, products, and other assets, as well as strategic investments and joint ventures.

Table of Contents

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, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- difficulty making new and 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, 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 and other standards;
- risks associated with our expansion into new international markets;
- derivative lawsuits resulting from the acquisition;
- 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
- our dependence on the acquired business' accounting, financial reporting, operating metrics and similar systems, controls and processes and the risk that errors or irregularities in those systems, controls and processes will lead to errors in our combined 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 types of transactions and any of these transactions could be material to our financial condition and results of operations. In addition, 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.

In addition, we may make certain investments, including through joint ventures, in which we have a minority equity interest and/or lack management and operational control. Under such circumstances, the controlling joint venture partner in a joint venture investment may have business interests, strategies or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling investor, joint venture partner or joint venture company may result in harm to our reputation or adversely affect the value of our investment in the investment or joint venture.

Table of Contents

Problems with or price increases by third parties who provide services to us or to our customers could harm our business.

A number of third parties provide services to us or to our customers. We are dependent on caching services that make our sites load faster, the processing companies and banks that link us to the payment card, and bank clearing networks to process transactions, among others. We are subject to, among other things, increases in interchange fees and assessments that payment card networks such as Visa and MasterCard charge for each transaction using one of their cards (which our payment card processors have the right to pass on to us), as well as changes in payment card network operating rules, including special operating rules for Internet payment services providers, such as PayPal. Similarly, we rely on unaffiliated lenders to make the consumer and other loans originated through the PayPal Credit products and also rely heavily on third parties to operate our services, including merchant processors and payment gateways to process transactions and third parties that provide loan receivable tracking and customer statements processing. Financial or regulatory issues, labor issues (e.g., strikes, lockouts, or work stoppages), or other problems that prevent these companies from providing services to us or our customers could harm our business.

Price increases by, or service terminations, disruptions or interruptions at, companies that provide services to us and our customers and clients could also make it more difficult for our merchants to complete transactions, thereby harming our business. Some third parties who provide services to us may have or gain market power and be able to increase their prices to us without competitive constraint.

We have outsourced certain functions to third-party providers, including some customer support and product development functions, which are critical to our operations. If our service providers do not perform satisfactorily, our operations could be disrupted, which could result in customer dissatisfaction and could harm our business.

There can be no assurance that third parties who provide services directly to us or our customers will continue to do so on acceptable terms, or at all. If any third parties were to stop providing services to us or our merchants on acceptable terms, including as a result of bankruptcy, we may be unable to procure alternatives from other third parties in a timely and efficient manner and on acceptable terms, or at all.

Our developer platforms, which are open to merchants and third-party developers, subject us to additional risks.

We provide third-party developers with access to application programming interfaces, software development kits and other tools designed to allow them to produce applications for use, with a particular focus on mobile applications. There can be no assurance that merchants or third-party developers will develop and maintain applications and services on our open platforms on a timely basis or at all, and a number of factors could cause such third-party developers to curtail or stop development for our platforms. In addition, our business is subject to many regulatory restrictions. It is possible that merchants and third-party developers who utilize our development platforms or tools could violate these regulatory restrictions and we may be held responsible for such violations, which could harm our business.

Our retail point of sale solutions expose us to additional risks.

We have announced several retail point of sale solutions, which enable merchants to accept payments using a payments card reader attached to, or otherwise communicating with, a mobile device or to scan payment cards and codes using the mobile device's embedded camera and which will enable consumers to use their mobile devices to pay hands-free. To the extent that we continue to expand our product and service offerings at the retail point of sale, we will face additional risks, including:

- increased expectations from offline retailers regarding the reliability and availability of our systems and services and correspondingly lower amounts of downtime, which we may not be able to meet;

Table of Contents

- significant competition at the retail point of sale, particularly from established payment card providers such as Visa, MasterCard and American Express, many of which have substantially greater resources than we do;
- increased targeting by fraudsters, and given that our fraud models are less developed in this area, we may experience increases in fraud and associated transaction losses as we adjust to fraudulent activity at the point of sale;
- exposure to product liability claims to the extent that hardware devices that we produce for use at the retail point of sale malfunction or are not in compliance with laws, which could result in substantial liability and require product recalls or other actions;
- exposure to new or additional laws and regulations;
- increased reliance on third parties involved with processing in-store payments, including independent software providers, electronic point of sale providers, hardware providers (such as cash register and pin-pad providers), payment processors and banks that enable in-store transactions; and
- lower operating income than our other payment solutions.

Unless we are able to successfully manage these risks, including driving adoption of, and significant volume through, our retail point of sale solutions over time, our business may be harmed.

Our success largely depends on key personnel. Because competition for our key employees is intense, we may not be able to attract, retain, and develop the highly skilled employees we need to support our business. The loss of senior management or other key personnel could harm our business.

Our future performance depends substantially on the continued services of our senior management and other key personnel, including key engineering and product development personnel, and our ability to attract, retain, and motivate key personnel. Competition for key personnel is intense, especially in the Silicon Valley where our corporate headquarters are located, and we may be unable to successfully attract, integrate, or retain sufficiently qualified key personnel. In making employment decisions, particularly in the Internet and high-technology industries, job candidates often consider the value of the equity awards they would receive in connection with their employment and fluctuations in our stock price may make it more difficult to attract, retain, and motivate employees. In addition, we do not have long-term employment agreements with any of our key personnel and do not maintain any “key person” life insurance policies. The loss of the services of any of our senior management or other key personnel, or our inability to attract highly qualified senior management and other key personnel, could harm our business.

Risks Related to the Separation

The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.

The distribution is subject to the satisfaction (or waiver by eBay in its sole discretion) of certain conditions set forth in the separation and distribution agreement. eBay may delay the distribution even after the record date set by the eBay board for the distribution, and (if the conditions to the distribution are not met) eBay may rescind the distribution even after having declared the dividend and set the record date. One of the conditions to the distribution is the receipt of any required approvals of the Commission de Surveillance du Secteur Financier of Luxembourg (the “CSSF”) and the European Central Bank (the “ECB”) to the distribution. The approval of the ECB is required under the European Union’s recently implemented system of financial supervision over credit institutions operating in the European Union, called the single supervisory mechanism. Under this system, for countries in the European Union that use the Euro (or have otherwise opted in), a national competent authority (“NCA”), in our case, the CSSF, must assess a proposed acquisition of holdings in a credit institution. If the NCA is satisfied that the application complies with national conditions for authorizations, it will propose to the ECB a draft decision containing its assessment and recommendations. The ECB will review the NCA’s assessment and has the right to oppose it. This process is very new, and procedures have only recently been developed.

Table of Contents

The ECB has informed eBay that it considers the distribution of PayPal common stock to constitute an acquisition of holdings in our Luxembourg banking subsidiary and, therefore, that the distribution is subject to this new review process. We have submitted our application to the CSSF, which has made its assessment and forwarded its dossier on our application to the ECB. Although we do not expect the ECB to oppose the distribution and currently expect to receive the approval of the ECB in advance of the scheduled distribution date, there is no assurance that the ECB will provide its approval on this timeline, or at all. If the ECB does not provide its approval prior to July 17, 2015, the distribution will not occur on that date, and trades made in the “when-issued” market will not be settled until a later date. Should the delay be prolonged, eBay may be forced to formally rescind the declaration of the distribution and set a new record date. If the distribution is delayed due to this condition, changing market or other conditions during such delay could affect the aggregate market value of PayPal common stock following the separation.

The combined post-separation value of eBay and PayPal common stock may not equal or exceed the pre-separation value of eBay common stock.

As a result of the distribution, eBay expects the trading price of eBay common stock immediately following the distribution to be lower than the “regular-way” trading price of such common stock immediately prior to the distribution because the trading price will no longer reflect the value of the Payments business held by PayPal. The aggregate market value of the eBay common stock and the PayPal common stock following the separation may be higher or lower than the market value of eBay common stock immediately prior to the separation.

We may not achieve some or all of the expected benefits of the separation, and the separation could harm our business.

We may not be able to achieve the full strategic and financial benefits expected to result from the separation, or such benefits may be delayed or not occur at all. The separation and distribution is expected to provide the following benefits, among others: enhanced strategic and management focus; better ability to form strategic partnerships and relationships; faster decision-making; more efficient allocation of capital; alignment of incentives with performance objectives; direct access to the capital markets; and a distinct investment identity. For more information regarding the reasons for the separation, please refer to “The Separation and Distribution.”

We may not achieve these and other anticipated benefits for a variety of reasons, including, among others:

- the separation will require significant amounts of management’s time and effort, which may divert management’s attention from operating and growing our business;
- following the separation, we may be more susceptible to market fluctuations and other adverse events than if we were still a part of eBay;
- following the separation, our business will be less diversified than eBay’s business prior to the separation;
- following the separation, regulatory requirements may inhibit or prevent certain of the activities the parties intend to continue to preserve operating synergies; and
- the other actions required to separate the respective businesses could disrupt our operations.

If we fail to achieve some or all of the benefits expected to result from the separation, or if such benefits are delayed, our business could be harmed.

If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Internal Revenue Code (the “Code”), eBay, PayPal and eBay stockholders could be subject to significant tax liabilities and, in certain circumstances, we could be required to indemnify eBay for material taxes pursuant to indemnification obligations under the tax matters agreement.

Table of Contents

A condition to the distribution is the receipt by eBay of an opinion from eBay's outside legal counsel regarding the qualification of the distribution, together with certain related transactions, as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code. The opinion will be based on and rely on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings of eBay and PayPal, including those relating to the past and future conduct of eBay and PayPal. If any of these representations, statements or undertakings are, or become, inaccurate or incomplete, or if eBay or PayPal breach any of their respective covenants in the separation documents, the opinion of counsel may be invalid and the conclusions reached therein could be jeopardized.

Notwithstanding the opinion of counsel, the IRS could determine that the distribution, together with certain related transactions, should be treated as a taxable transaction if the IRS determines that any of these representations, assumptions, or undertakings upon which such opinion was based are incorrect or have been violated or if the IRS disagrees with the conclusions in the opinion of counsel. An opinion of counsel is not binding on the IRS or any court and there can be no assurance that the IRS will not challenge the conclusions reached in the opinion. The IRS will not provide any opinion in advance of the separation that our proposed transaction will be tax-free.

If the distribution, together with certain related transactions, failed to qualify as a transaction that is generally tax-free under Sections 368(a)(1)(D) and 355 of the Code, in general, eBay would recognize taxable gain as if it had sold the PayPal common stock in a taxable sale for its fair market value, eBay stockholders who receive PayPal common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares and we could incur significant liabilities. For more information, please refer to "Material U.S. Federal Income Tax Consequences."

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

To preserve the tax-free treatment to eBay of the separation and the distribution, under the tax matters agreement that we will enter into with eBay, for a period of time following the distribution, we generally will be 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 Code.

These restrictions may limit our ability to pursue certain strategic transactions or other transactions that may maximize the value of our business. For more information, please refer to "Material U.S. Federal Income Tax Consequences" and "Certain Relationships and Related Person Transactions—The Tax Matters Agreement."

We have no history of operating as an independent company in our current form, and our historical and pro forma financial information is not necessarily representative of the results that we would have achieved as a separate, publicly traded company and may not be a reliable indicator of our future results.

Our historical information provided in this information statement refers to our business as operated by and integrated with eBay. Our historical and pro forma financial information included in this information statement is derived from the consolidated financial statements and accounting records of eBay. Accordingly, the historical and pro forma financial information included in this information statement does not necessarily reflect the financial condition, results of operations, or cash flows that we would have achieved as a separate, publicly traded company during the periods presented or those that we will achieve in the future primarily as a result of the factors described below:

- Prior to the separation, our business has been operated by eBay as part of its broader corporate organization, rather than as an independent company. eBay or one of its affiliates performed various corporate functions for us, such as legal, finance, treasury, accounting, tax, auditing, human resources,

Table of Contents

and public affairs. Our historical and pro forma financial results reflect allocations of corporate expenses from eBay for such functions, which are likely to be less than the expenses we would have incurred had we operated as a separate publicly traded company.

- Currently, our business is integrated with the other businesses of eBay. Historically, we have shared economies of scope and scale in costs, employees, vendor relationships and customer relationships. Although we will enter into transition agreements and an operating agreement with eBay, these arrangements may not retain or fully capture the benefits that we have enjoyed as a result of being integrated with eBay and may result in our paying higher charges than in the past for these services. This could have an adverse effect on our results of operations and financial condition following the completion of the separation.
- We may lose certain synergies and benefits we enjoyed as a result of being a part of eBay. As a part of eBay, we benefited from, among other things, the acquisition of new customers from eBay, capital to fund acquisitions, investments, and credit, and data from eBay that helps us to manage risks and maintain a low loss rate. In addition, being a part of eBay enables us to leverage eBay's technology capabilities, data, commerce platforms and relationships with retailers, brands and large merchants worldwide. The loss of these synergies and benefits could have an adverse impact on our results of operations and financial condition following the completion of the separation.
- Generally, our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, have historically been satisfied as part of the corporate-wide cash management policies of eBay. Following the completion of the separation, we may need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, or through strategic relationships or other arrangements, which may or may not be available and may be more costly.
- After the completion of the separation, the cost of capital for our business may be higher than eBay's cost of capital prior to the separation.

Other significant changes may occur in our cost structure, management, financing, and business operations as a result of operating as a company separate from eBay. For additional information about the past financial performance of our business and the basis of presentation of the historical combined financial statements and the unaudited pro forma condensed combined financial statements of our business, see "Unaudited Pro Forma Condensed Combined Financial Statements," "Selected Historical Combined Financial Data of PayPal," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and accompanying notes included elsewhere in this information statement.

eBay will be a significant source of our revenues after the distribution.

After the distribution, we will derive a significant amount of revenues from eBay. If the operating agreement expires or if eBay terminates the operating agreement prior to its expiration or there is a significant change in our relationship with eBay, including if eBay becomes a merchant of record, eliminates or modifies any of its risk management or customer protection programs, directs transactions to a different provider of payment services or offers eBay customers more payment options, our business could be harmed.

Until the separation occurs, eBay has sole discretion to change the terms of the separation in ways which may be unfavorable to us.

Until the separation occurs, we will be a wholly owned subsidiary of eBay. Accordingly, eBay will effectively have the sole and absolute discretion to determine and change the terms of the separation, including the terms of any agreements between eBay and us. These changes could be unfavorable to us. In addition, eBay may decide at any time not to proceed with the separation and distribution.

Table of Contents

eBay may fail to perform under various transaction agreements that will be executed as part of the separation or it may fail to have necessary systems and services in place when certain of the transaction agreements expire.

In connection with the separation, we will enter into a separation and distribution agreement with eBay and will also enter into various other agreements, including an operating agreement, colocation services agreements, a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, a data sharing addendum, and a product development agreement. The separation agreement, the tax matters agreement, the employee matters agreement, and intellectual property matters agreement will determine the allocation of assets and liabilities (including by means of licensing) between the companies following the separation for those respective areas and will include any necessary indemnifications related to liabilities and obligations. The operating agreement, colocation services agreements and data sharing addendum will establish certain commercial relationships between eBay and us related to payment processing, credit, information technology infrastructure and data sharing. The transition services agreement will provide for the performance of certain services by each company for the benefit of the other for a limited period of time after the separation. We will rely on eBay to satisfy its performance and payment obligations under these agreements. If eBay is unable to satisfy its obligations under these agreements, including its indemnification obligations, we could incur operational difficulties or losses. If we do not have in place our own systems and services, or if we do not have agreements with other providers of these services once these transaction agreements expire or terminate, we may not be able to operate our business effectively and our profitability may decline.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we will be subject following the distribution.

Our financial results previously were included within the consolidated results of eBay, and its reporting and control systems were appropriate for subsidiaries of a public company. Prior to the distribution, we were not directly subject to reporting and other requirements of the Securities Exchange Act of 1934, as amended, and Section 404 of the Sarbanes-Oxley Act of 2002. After the distribution, we expect to be subject to such reporting and other requirements in 2016, which will require, among other things, annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These and other obligations will place significant demands on our management, administrative, and operational resources, including accounting and information technology resources. To comply with these requirements, we anticipate that we will need to upgrade our systems, including duplicating computer hardware infrastructure, implement additional financial and management controls, reporting systems and procedures, and hire additional accounting, finance and information technology staff. If we are unable to do this in a timely and effective fashion, our ability to comply with our financial reporting requirements and other rules that apply to reporting companies could be impaired and our business could be harmed.

After the separation, certain of our directors may have actual or potential conflicts of interest because of their previous or continuing positions at eBay.

Because of their current or former positions with eBay, certain of our expected directors own eBay common stock and equity awards. Following the separation, even though our board of directors will consist of a majority of directors who are independent, some of our directors will continue to have a financial interest in eBay common stock and equity awards. In addition, it is expected that one of our directors will continue serving on the board of directors of eBay. Continuing ownership of eBay common stock and equity awards, or service as a director at both companies could create, or appear to create, potential conflicts of interest if PayPal and eBay have disagreements about the contracts between them that continue or face decisions that could have different implications for PayPal and eBay.

Table of Contents

Risks Related to Our Common Stock

We cannot be certain that an active trading market for our common stock will develop or be sustained after the separation, and following the separation, and the price of our common stock may fluctuate significantly.

A public market for our common stock does not currently exist. We anticipate that on or prior to the record date for the distribution, trading of shares of our common stock will begin on a “when-issued” basis which will continue through the distribution date. However, we cannot guarantee that an active trading market will develop or be sustained for our common stock after the separation. Nor can we predict the prices at which shares of our common stock may trade after the separation. Similarly, we cannot predict the effect of the separation on the price of our common stock or whether the combined market value of our common stock and the eBay common stock will be less than, equal to or greater than the market value of eBay common stock prior to the separation.

The price of our common stock may fluctuate significantly due to a number of factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results;
- changes in earnings estimated by securities analysts or our ability to meet those estimates;
- the change in our stockholder base due to the spin-off;
- the operating and stock price performance of comparable companies;
- changes to the regulatory and legal environment under which we operate; and
- market conditions in the payments industry, the industries of merchants and the domestic and worldwide economy as a whole.

There may be substantial changes in our stockholder base.

Many investors holding eBay common stock may hold that stock because of a decision to invest in a company with eBay’s profile. Following the distribution, the shares of our common stock held by those investors will represent an investment in a payments company with a different profile. This may not be aligned with a holder’s investment strategy and may cause the holder to sell the shares. As a result, our stock price may decline or experience volatility as our stockholder base changes.

PayPal’s amended and restated certificate of incorporation will designate the state courts of the State of Delaware, or, if no state court located in the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by PayPal’s stockholders, which could discourage lawsuits against PayPal and PayPal’s directors and officers.

PayPal’s amended and restated certificate of incorporation will provide that unless the corporation otherwise determines, the state courts of the State of Delaware, or, if no state court located in the state of Delaware has jurisdiction, the federal court for the District of Delaware, will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of PayPal, any action asserting a claim of breach of a fiduciary duty owed by any director or officer of PayPal to PayPal or PayPal’s stockholders, creditors or other constituents, any action asserting a claim against PayPal or any director or officer of PayPal arising pursuant to any provision of the Delaware General Corporation Law or PayPal’s amended and restated certificate of incorporation or bylaws, or any action asserting a claim against PayPal or any director or officer of PayPal governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of PayPal’s stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with PayPal or PayPal’s directors or officers, which may discourage such lawsuits against PayPal and PayPal’s directors and officers. Alternatively, if a court outside of Delaware were to find this exclusive forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings described above, PayPal may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect PayPal’s business, financial condition or results of operations.

Table of Contents

Certain provisions in PayPal's amended and restated certificate of incorporation and bylaws may prevent or delay an acquisition of PayPal, which could decrease the trading price of PayPal common stock.

PayPal's amended and restated certificate of incorporation and amended and restated bylaws will contain certain provisions that may have the effect of deterring coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and by encouraging prospective acquirers to negotiate with PayPal's board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the fact that directors may not be elected, removed or replaced at stockholder-requested special meetings unless a person, entity or group owns at least a majority of PayPal's outstanding common stock;
- the right of PayPal's board to issue preferred stock without stockholder approval; and
- the ability of PayPal's directors, and not stockholders, to fill vacancies on PayPal's board of directors in most circumstances.

PayPal has also elected not to be governed by Section 203 of the DGCL, which provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliates becomes the holder of more than 15% of the corporation's outstanding voting stock. PayPal's amended and restated certificate of incorporation will, however, contain a provision that generally mirrors Section 203 of the DGCL, except that there will be a 20% threshold instead of the 15% provided for by the DGCL. These provisions could delay or prevent a change of control that PayPal's stockholders may favor.

Certain of the above provisions were added pursuant to the agreement between eBay Inc. and certain entities under the control of Carl C. Icahn. These provisions are not intended to make PayPal immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that PayPal's board of directors determines is not in the best interests of PayPal and PayPal's stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

In addition, an acquisition or further issuance of PayPal's stock could trigger the application of Section 355(e) of the Code. For a discussion of Section 355(e), see "Material U.S. Federal Income Tax Consequences." Under the tax matters agreement, PayPal would be required to indemnify eBay for any resulting taxes, and this indemnity obligation might discourage, delay or prevent a change of control that PayPal's stockholders may consider favorable. Please refer to "Certain Relationships and Related Person Transactions" and "Description of PayPal's Capital Stock" for a more detailed description of these agreements and provisions.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This information statement and other materials eBay and PayPal have filed or will file with the SEC contain, or will contain, certain forward-looking statements regarding business strategies, market potential, future financial performance and other matters. The words “believe,” “expect,” “anticipate,” “project” and similar expressions, among others, generally identify “forward-looking statements,” which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. In particular, information included under “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and “The Separation and Distribution” contain forward-looking statements. Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of PayPal management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. Except as may be required by law, PayPal undertakes no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this information statement. Factors that could cause actual results or events to differ materially from those anticipated include the matters described under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

THE SEPARATION AND DISTRIBUTION

Overview

On September 30, 2014, eBay Inc. (“eBay”) announced its intent to separate its payments business into an independent, publicly-traded company. To accomplish this separation, in January 2015, eBay incorporated PayPal Holdings, Inc. (“PayPal Holdings”) which will ultimately become the parent of PayPal, Inc. and will hold directly or indirectly all of the assets and liabilities associated with PayPal, Inc. eBay intends to effect this separation through a pro rata distribution of the common stock of PayPal Holdings to its stockholders. References to “we,” “our,” “us,” “the Company” or “PayPal” refer to the combined entities of the payments business of eBay, including PayPal, Inc. and certain other assets and liabilities that have been historically held at the eBay corporate level, but are specifically identifiable and attributable to the payments business.

On June 26, 2015, the eBay board of directors approved the distribution of the issued and outstanding shares of PayPal common stock on the basis of one share of PayPal common stock for each share of eBay common stock held as of the close of business on the record date of July 8, 2015.

The separation and distribution as described in this information statement is subject to the satisfaction (or to the extent waiveable, waiver by eBay in its sole discretion) of certain conditions, including the receipt of any required approvals of the Commission de Surveillance du Secteur Financier (the “CSSF”) and the Bank Centrale du Luxembourg, as well as the European Central Bank (“ECB”). For a more detailed description of these conditions, see “—Conditions to the Distribution.” The CSSF has prepared a complete file regarding the separation and distribution for approval by the ECB. Although we currently expect to receive the approval of the ECB in advance of the scheduled distribution date, there is no assurance that the ECB will provide its approval on this timeline, or at all. See “Risk Factors—The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.” PayPal expects that at 11:59 p.m., Eastern Time, on July 17, 2015 following the satisfaction or waiver of the conditions to the distribution, each eBay stockholder will receive one share of PayPal common stock for each share of eBay common stock held at the close of business on the record date for the distribution, as described below. We refer to the date of the distribution of the shares of PayPal common stock as the “distribution date.” You will not be required to make any payment, surrender or exchange your eBay common stock or take any other action to receive your shares of PayPal’s common stock in the distribution.

Reasons for the Separation

The eBay board of directors determined that the creation of two independent public companies, with PayPal operating the Payments business, and eBay operating the Marketplaces business is in the best interests of eBay and its stockholders and approved the plan of separation. A wide variety of factors were considered by the eBay board of directors in evaluating the creation of independent public companies. Among other things, the eBay board of directors considered the following expected benefits:

- *Enhanced strategic and management focus* . The separation will allow each of PayPal and eBay to more effectively pursue its distinct operating priorities and strategies and opportunities for long-term growth and profitability in the global commerce and payments landscape. PayPal’s management will be able to focus exclusively on its payments business, while eBay’s management will be dedicated solely to growing its marketplaces business.
- *Faster decision-making* . The separation will speed up decision-making at each company and allow each to adapt more quickly to the rapidly changing market and customer dynamics in their respective markets.
- *Increased flexibility* . The separation will provide each company with increased flexibility to pursue new partnership and strategic opportunities that may have previously been unavailable for strategic or other reasons.
- *More efficient allocation of capital* . The separation will permit each company to implement a capital structure appropriate to its strategy and business needs and to concentrate its financial resources solely on its own operations without having to compete with each other for investment capital. This will

Table of Contents

provide each company with greater flexibility to invest capital in its businesses in a time and manner appropriate for its distinct strategy and business needs and facilitate a more efficient allocation of capital.

- *Alignment of incentives with performance objectives* . The separation will facilitate incentive compensation arrangements for employees more directly tied to the performance of the relevant company's business, and enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives of the business they support.
- *Direct access to capital markets* . The separation will provide each company with direct access to the capital markets and will facilitate PayPal's ability to effect future acquisitions utilizing PayPal's common stock. As a result, each company will have more flexibility to capitalize on its unique growth opportunities.
- *Distinct investment identity* . The separation will allow investors to separately value eBay and PayPal based on their distinct investment identities. PayPal's payments business differs from eBay's marketplaces business in several respects, such as the nature of the business, growth profile, competitors, regulation and technology. The separation will enable investors to evaluate the merits, performance and future prospects of each company's respective business and to invest in each company separately based on these distinct characteristics, and may attract new investors to each business, who may not have properly assessed the value of the Payments and Marketplaces businesses as stand-alone entities relative to the value they are currently accorded.

Neither PayPal nor eBay can assure you that, following the separation, any of the benefits described above or otherwise will be realized to the extent anticipated or at all.

The eBay board of directors also considered a number of potentially negative factors in evaluating the creation of independent public companies, including the loss of synergies and joint purchasing power and increased costs resulting from operating as a separate public entity, one-time costs of the separation, and the risk of not realizing the anticipated benefits of the separation. The eBay board of directors concluded that the potential benefits outweighed these factors.

Formation of PayPal Holdings

PayPal Holdings was formed in January 2015 for the purpose of owning and operating eBay's payments business. As part of the plan to create two independent public companies, eBay plans to transfer the equity interests of certain entities that operate the payments business and the assets and liabilities of the payments business to PayPal Holdings prior to the distribution.

When and How You Will Receive the Distribution

With the assistance of Computershare Trust Company, N.A., or Computershare, eBay expects to distribute PayPal common stock at 11:59 p.m., Eastern Time, on the distribution date, to all holders of outstanding eBay common stock as of the close of business on July 8, 2015, the record date for the distribution. Computershare will serve as the settlement and distribution agent in connection with the distribution and the transfer agent and registrar for PayPal common stock.

If you own shares of eBay common stock as of the close of business on the record date for the distribution, PayPal's common stock that you are entitled to receive in the distribution will be issued electronically, as of the distribution date, to you in direct registration form or to your bank or brokerage firm on your behalf. If you are a registered holder, Computershare will then mail you a direct registration account statement that reflects your shares of PayPal common stock. If you hold your shares through a bank or brokerage firm, your bank or

Table of Contents

brokerage firm will credit your account for the shares. Direct registration form refers to a method of recording share ownership when no physical share certificates are issued to shareholders, as is the case in this distribution. If you sell eBay common stock in the “regular-way” market up to and including the distribution date, you will be selling your right to receive shares of PayPal common stock in the distribution.

Commencing on or shortly after the distribution date, if you hold physical stock certificates that represent your shares of eBay common stock and you are the registered holder of the shares represented by those certificates, the distribution agent will mail to you an account statement that indicates the number of shares of PayPal’s common stock that have been registered in book-entry form in your name.

Most eBay stockholders hold their shares of common stock through a bank or brokerage firm. In such cases, the bank or brokerage firm would be said to hold the shares in “street name” and ownership would be recorded on the bank or brokerage firm’s books. If you hold your shares of eBay common stock through a bank or brokerage firm, your bank or brokerage firm will credit your account for the PayPal common stock that you are entitled to receive in the distribution. If you have any questions concerning the mechanics of having shares held in “street name,” please contact your bank or brokerage firm.

Transferability of Shares You Receive

Shares of PayPal common stock distributed to holders in connection with the distribution will be transferable without registration under the U.S. Securities Act of 1933, as amended (the “Securities Act”), except for shares received by persons who may be deemed to be PayPal affiliates. Persons who may be deemed to be PayPal affiliates after the distribution generally include individuals or entities that control, are controlled by or are under common control with PayPal, which may include certain PayPal executive officers, directors or principal stockholders. Securities held by PayPal affiliates will be subject to resale restrictions under the Securities Act. PayPal affiliates will be permitted to sell shares of PayPal common stock only pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act, such as the exemption afforded by Rule 144 under the Securities Act.

Number of Shares of PayPal Common Stock You Will Receive

For each share of eBay common stock that you own at the close of business on July 8, 2015, the record date for the distribution, you will receive one share of PayPal common stock on the distribution date. eBay will not distribute any fractional shares of PayPal common stock to its shareholders. Instead, if you are a registered holder of a fractional share of eBay common stock, Computershare (the distribution agent) will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate cash proceeds (net of discounts and commissions) of the sales pro rata (based on the fractional share such holder would otherwise be entitled to receive) to each holder who otherwise would have been entitled to receive a fractional share in the distribution. The distribution agent, in its sole discretion, without any influence by eBay or PayPal, will determine when, how, and through which broker-dealer and at what price to sell the whole shares. Any broker-dealer used by the distribution agent will not be an affiliate of either eBay or PayPal. Computershare is not an affiliate of either eBay or PayPal. Neither PayPal nor eBay will be able to guarantee any minimum sale price in connection with the sale of these shares. Recipients of cash in lieu of fractional shares, if any, will not be entitled to any interest on the amounts of payment made in lieu of fractional shares.

The aggregate net cash proceeds of any sales of fractional shares will be taxable for U.S. federal income tax purposes. See “Material U.S. Federal Income Tax Consequences” for an explanation of the material U.S. federal income tax consequences of the distribution. If you hold physical certificates for shares of eBay common stock and are the registered holder, you will receive a check from the distribution agent in an amount equal to your pro rata share of the aggregate net cash proceeds of the sales. PayPal estimates that it will take approximately two weeks from the distribution date for the distribution agent to complete the distributions of the aggregate net cash

Table of Contents

proceeds. If you hold your shares of eBay common stock through a bank or brokerage firm, your bank or brokerage firm will receive, on your behalf, your pro rata share of the aggregate net cash proceeds of the sales and will electronically credit your account for your share of such proceeds.

Treatment of Equity Based Compensation

Outstanding awards granted under eBay's equity compensation programs will be adjusted in accordance with the terms of such programs to reflect the impact of the separation on such awards, with such adjusted awards to relate to shares of eBay and/or PayPal common stock, as applicable, and with appropriate adjustments to the exercise prices (for options) and number of shares subject to such awards. For a more detailed discussion of the treatment of outstanding equity awards, see "Certain Relationships and Related Person Transactions—Employee Matters Agreement."

Results of the Distribution

After the distribution, PayPal will be an independent, publicly traded company. The actual number of shares to be distributed will be determined at the close of business on July 8, 2015, the record date for the distribution, and will reflect any exercise of eBay options between the date the eBay board of directors declares the distribution and the record date for the distribution. The distribution will not affect the number of outstanding shares of eBay common stock or any rights of eBay shareholders. eBay will not distribute any fractional shares of PayPal common stock.

PayPal will enter into a separation agreement and will enter into other related agreements with eBay before the distribution to effect the separation and provide a framework for PayPal's relationship with eBay after the separation. These agreements will provide for the allocation between eBay and PayPal of eBay's assets, liabilities and obligations (including its investments, property and employee benefits and tax-related assets and liabilities) attributable to periods prior to PayPal's separation from eBay and will govern the relationship between eBay and PayPal after the separation. For a more detailed description of these agreements, see "Certain Relationships and Related Party Transactions."

Market for PayPal's Common Stock

There is currently no public trading market for PayPal's common stock. PayPal has applied to have its common stock authorized for listing on The NASDAQ Stock Market under the symbol "PYPL." PayPal has not and will not set the initial price of its common stock. The initial price will be established by the public markets.

PayPal cannot predict the price at which its common stock will trade after the distribution. The combined trading prices, after the separation, of the shares of PayPal common stock that each eBay shareholder will receive in the distribution and the shares of eBay common stock held at the record date for the distribution may not equal the "regular-way" trading price of a eBay share immediately prior to the separation. The price at which PayPal common stock trades may fluctuate significantly, particularly until an orderly public market develops. Trading prices for PayPal common stock will be determined in the public markets and may be influenced by many factors. See "Risk Factors—Risks Related to PayPal's Common Stock."

Trading Between the Record Date and Distribution Date

Beginning on or shortly before the record date for the distribution and continuing up to and including through the distribution date, eBay expects that there will be two markets in eBay common stock: a "regular-way" market and an "ex-distribution" market. Shares of eBay common stock that trade on the "regular-way" market will trade with an entitlement to PayPal common stock distributed pursuant to the separation. Shares of eBay common stock that trade on the "ex-distribution" market will trade without an entitlement to PayPal common stock distributed pursuant to the distribution. Therefore, if you sell shares of eBay common stock in the

Table of Contents

“regular-way” market up to and including through the distribution date, you will be selling your right to receive PayPal common stock in the distribution. If you own shares of eBay common stock at the close of business on the record date and sell those shares on the “ex-distribution” market up to and including through the distribution date, you will receive the shares of PayPal common stock that you are entitled to receive pursuant to your ownership as of the record date of the shares of eBay common stock.

Furthermore, beginning on or shortly before the record date for the distribution and continuing up to and including the distribution date, PayPal expects that there will be a “when-issued” market in its common stock. “When-issued” trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The “when-issued” trading market will be a market for shares of PayPal common stock that will be distributed to holders of shares of eBay common stock on the distribution date. If you owned shares of eBay common stock at the close of business on the record date for the distribution, you would be entitled to shares of PayPal common stock distributed pursuant to the distribution. You may trade this entitlement to shares of PayPal common stock, without the shares of eBay common stock you own, on the “when-issued” market, but your transaction will not settle until after the distribution date. On the first trading day following the distribution date, “when-issued” trading with respect to PayPal common stock will end, and “regular-way” trading will begin.

Conditions to the Distribution

eBay has announced that the distribution will be effective at 11:59 p.m., Eastern Time, on July 17, 2015, provided that the following conditions shall have been satisfied (or if any such condition is waivable, waived by eBay in its sole discretion):

- the transfer of assets and liabilities from eBay to PayPal shall be completed in accordance with the separation and distribution agreement;
- eBay shall have received an opinion from eBay’s outside legal counsel regarding the qualification of the distribution, together with certain related transactions, as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and Section 355 of the Code;
- the SEC shall have declared effective the registration statement of which this information statement forms a part, and no stop order suspending the effectiveness of the registration statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the SEC;
- this information statement shall have been made available to the eBay stockholders;
- all actions or filings necessary or appropriate under applicable U.S. federal, U.S. state or other securities laws shall have been taken and, where applicable, have become effective or been accepted by the applicable governmental entity;
- any approvals of any governmental entities required for the consummation of the separation and distribution have been obtained, including any required approvals of the Commission de Surveillance du Secteur Financier (“CSSF”), the Bank Centrale du Luxembourg (“BCL”) and the ECB;
- the transaction agreements relating to the separation shall have been duly executed and delivered by the parties;
- no order, injunction, or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the separation, distribution or any of the related transactions shall be in effect;
- the shares of PayPal common stock to be distributed shall have been accepted for listing on The NASDAQ Stock Market, subject to official notice of distribution;
- eBay shall have transferred or caused its subsidiaries to transfer an aggregate of \$3.8 billion of cash to PayPal (including through one or more capital contributions); and
- no other event or development shall exist or have occurred that, in the judgment of eBay’s board of directors, in its sole discretion, would make it inadvisable to effect the separation or the distribution.

Table of Contents

eBay and PayPal cannot assure you that any or all of these conditions will be met and may also waive any of the conditions to the distribution. In addition, eBay will have the sole and absolute discretion to determine (and change) the terms of, and whether to proceed with, the distribution and, to the extent it determines to so proceed, to determine the record date for the distribution and the distribution date and the distribution ratio. eBay may delay or rescind its declaration of the distribution even after the record date for the distribution, as discussed in more detail under “Risk Factors—Risks Related to the Separation—The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.” eBay does not intend to notify its shareholders of any modifications to the terms of the separation that, in the judgment of its board of directors, are not material. For example, the eBay board of directors might consider material such matters as significant changes to the distribution ratio, the assets to be contributed or the liabilities to be assumed in the separation. To the extent that the eBay board of directors determines that any modifications by eBay materially change the material terms of the distribution, eBay will notify eBay shareholders in a manner reasonably calculated to inform them about such modifications as may be required by law, by, for example, publishing a press release, filing a current report on Form 8-K, or circulating a supplement to this information statement.

DIVIDEND POLICY

PayPal does not expect to pay a regular cash dividend following the distribution. The timing, declaration, amount of and payment of any dividends following the separation by PayPal is within the discretion of its board of directors and will depend upon many factors, including PayPal's financial condition, earnings, capital requirements of its operating subsidiaries, debt service obligations, covenants associated with certain of PayPal's debt service obligations, legal requirements, regulatory constraints, industry practice, ability to gain access to capital markets, and other factors deemed relevant by its board of directors. Moreover, if PayPal determines to pay any dividend in the future, there can be no assurance that it will continue to pay such dividends or the amount of such dividends.

CAPITALIZATION

The following table sets forth PayPal's capitalization on a historical basis and on a pro forma basis to give effect to the pro forma adjustments included in PayPal's unaudited pro forma financial information as if the separation and distribution took place on March 31, 2015. The information below is not necessarily indicative of what PayPal's capitalization would have been had the separation, distribution and related financing transactions been completed as of March 31, 2015. In addition, it is not indicative of PayPal's future capitalization. This table should be read in conjunction with "Unaudited Pro Forma Condensed Combined Financial Statements," "Selected Historical Combined Financial Data of PayPal," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and PayPal's combined financial statements and notes included in the "Index to Financial Statements and Schedule" section of this information statement.

	As of March 31, 2015	
	Historical	Pro Forma
	(In millions)	
	(Unaudited)	
Cash and equivalents ⁽¹⁾	\$ 2,365	\$ 6,165
Indebtedness:		
Short-term debt		
Notes and payable to affiliates ⁽³⁾	868	116
Total Indebtedness	\$ 868	\$ 116
Stockholders' equity:		
Common stock, par value \$0.0001 per share on a pro forma basis ⁽²⁾	—	—
Additional paid-in capital ⁽¹⁾	—	12,387
Net parent investment ^{(1), (2)}	8,498	—
Accumulated other comprehensive income (loss)	142	142
Total stockholders' equity	\$ 8,640	\$ 12,529
Total Capitalization	\$ 9,508	\$ 12,645

(1) Reflects a \$3.8 billion total cash contribution to PayPal from eBay.

(2) Represents the effect of the expected pro forma distribution of approximately 1.2 billion shares of our common stock at par value \$0.0001 per share to holders of eBay common stock and the resulting elimination of eBay's net parent investment.

(3) Represents the settlement of certain intercompany arrangements between PayPal and eBay in connection with the distribution.

SELECTED HISTORICAL COMBINED FINANCIAL DATA OF PAYPAL

The following selected combined financial data reflects the combined operations of PayPal. PayPal derived the selected combined statement of income data for the years ended December 31, 2014, 2013 and 2012 and the selected combined balance sheet data as of December 31, 2014 and 2013, as set forth below, from its audited combined financial statements, which are included in the “Index to Financial Statements and Schedule” section of this information statement. PayPal derived the selected combined statement of income data for the years ended December 31, 2011 and 2010 and the selected combined balance sheet data as of December 31, 2012, 2011 and 2010 from PayPal’s underlying financial records, which were derived from the financial records of eBay. PayPal derived the selected combined statement of income data for the quarter ended March 31, 2015 and 2014 and selected combined balance sheet data as of March 31, 2015, as set forth below, from its unaudited combined financial statements, included elsewhere in this information statement. PayPal derived the selected combined balance sheet data as of March 31, 2014 from PayPal’s underlying financial records, which were derived from the financial records of eBay. The selected unaudited pro forma combined statement of income data for the quarter ended March 31, 2015 and the year ended December 31, 2014 and the selected pro forma balance sheet data as of March 31, 2015 are derived from the “Unaudited Pro Forma Condensed Combined Financial Statements” included elsewhere in this information statement. The selected unaudited pro forma combined statement of income data has been prepared to reflect certain pro forma transactions in the selected pro forma combined statement of income as if they had occurred or had become effective as of January 1, 2014. The selected unaudited pro forma condensed combined balance sheet has been prepared to give effect to certain pro forma transactions as though they had occurred on March 31, 2015. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable.

The historical and unaudited pro forma combined results do not necessarily indicate the results expected for any future period. To ensure a full understanding, you should read the selected combined financial data presented below in conjunction with “Unaudited Pro Forma Condensed Combined Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the combined financial statements and accompanying notes included elsewhere in this information statement.

Historical basic and diluted earnings per share are not presented because PayPal’s financial information has been prepared on a combined basis. These financial statements have not been prepared for a single legal entity that had share capital throughout the entire historical period and, accordingly, EPS for these periods has not been provided.

	3 Months Ended March 31,			Year Ended December 31,						
	Pro Forma			Pro Forma						
	2015	2015	2014	2014	2014	2013	2012	2011	2010	
	(Unaudited in millions)				(In millions)					
Combined Statement of Income Data:										
Net revenue	\$ 2,134	\$ 2,137	\$ 1,874	\$ 8,012	\$ 8,025	\$ 6,727	\$ 5,662	\$ 4,499	\$3,508	
Operating income	314	322	318	1,237	1,268	1,091	880	556	390	
Net income	248	255	(382)	391	419	955	778	460	350	
Earnings Per Share										
Basic	\$ 0.20	N/A	N/A	\$ 0.31	N/A	N/A	N/A	N/A	N/A	
Diluted	\$ 0.20	N/A	N/A	\$ 0.31	N/A	N/A	N/A	N/A	N/A	
Combined Balance Sheet Data:										
Total assets	\$ 25,944	\$22,579	\$19,833		\$21,917	\$19,160	\$16,183	\$11,140	\$8,300	
Total long term liabilities	618	390	461		386	509	428	306	188	

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined financial statements presented below have been derived from PayPal's historical combined financial statements for the year ended December 31, 2014 and as of and for the quarter ended March 31, 2015. The unaudited pro forma condensed combined financial statements should be read in conjunction with PayPal's historical combined financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this information statement. The unaudited pro forma condensed combined statement of income has been prepared to give effect to the Pro Forma Transactions (as defined below) as if the Pro Forma Transactions had occurred or had become effective as of January 1, 2014. The unaudited pro forma condensed combined balance sheet has been prepared to give effect to the Pro Forma Transactions as though the Pro Forma Transactions had occurred on March 31, 2015.

Our unaudited pro forma condensed combined financial statements have been prepared based on available information, assumptions, and estimates that management believes are reasonable. The unaudited pro forma condensed combined financial statements are for illustrative and informational purposes only, and do not reflect what PayPal's financial position and results of operations would have been had the separation occurred on the dates indicated and are not necessarily indicative of its future financial position and future results of operations.

Our unaudited pro forma condensed combined financial statements have been prepared to reflect adjustments to our audited historical combined financial statements that are: (i) factually supportable, (ii) directly attributable to the distribution, and, for purposes of the combined statements of income, (iii) expected to have continuing impact on our results of operations. The unaudited pro forma condensed combined financial statements have been adjusted to give effect to the following (the "Pro Forma Transactions"):

- The issuance of approximately 1.22 billion shares of PayPal common stock;
- The tax free distribution, for U.S. federal income tax purposes, of PayPal common stock to eBay shareholders and the resulting elimination of eBay's historical net parent investment in PayPal;
- Our anticipated post distribution capital structure, including an anticipated \$3.8 billion cash contribution to PayPal from eBay;
- The transfers of certain assets and liabilities to PayPal from eBay; and
- The impact of, and transactions contemplated by the separation and distribution agreement, operating agreement, transition services agreement, tax matters agreement, employee matters agreement, intellectual property matters agreement, colocation services agreements, a data sharing addendum and product development agreement.

Our historical combined statement of income includes allocations of certain expenses relating to support functions historically provided by eBay. These functions include, but are not limited to: finance, legal, human resources, information technology, employee benefits administration, treasury, investor relations, corporate development, risk management, shared services and other general and administrative costs. To operate as an independent public company, we expect to incur costs to replace those services previously provided by eBay in addition to incremental standalone costs. We expect these incremental costs to be \$100 million to \$150 million on an annual pre-tax basis. Due to the scope and complexity of these activities, the amount and timing of these incremental costs could vary and, consequently, are not included in the Pro Forma Transactions.

The unaudited pro forma condensed combined financial statements constitute forward-looking information and are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. See "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" included elsewhere in this information statement.

Table of Contents

PayPal Holdings, Inc.

Unaudited Pro Forma Condensed Combined Statement of Income Three Months Ended March 31, 2015

	<u>As Reported</u>	<u>Pro Forma Adjustments</u> (In millions, except per share amounts)	<u>Pro Forma</u>
Net revenues	\$ 2,137	\$ (3)(a)	\$2,134
Operating expenses:			
Transaction expense	575	—	575
Transaction and loan losses	178	10(b)	188
Customer support and operations	275	3(b) (c) (j)	278
Sales and marketing	236	(13)(d)	223
Product development	224	—	224
General and administrative	138	1(b)	139
Depreciation and amortization	141	4(j)	145
Restructuring	48	—	48
Total operating expenses	<u>1,815</u>	<u>5</u>	<u>1,820</u>
Operating income	322	(8)	314
Other income (expense), net	<u>(1)</u>	<u>—</u>	<u>(1)</u>
Income before income taxes	321	(8)	313
Income tax expense (benefit)	<u>66</u>	<u>(1)(e)</u>	<u>65</u>
Net income attributable to PayPal	<u>\$ 255</u>	<u>\$ (7)</u>	<u>\$ 248</u>
Net Income Attributable to PayPal Per Share of Common Stock (dollars)			
Basic		(f)	\$ 0.20
Diluted		(f)	\$ 0.20
Average Common Shares Outstanding			
Basic		(f)	1,216
Diluted		(f)	1,229

[Table of Contents](#)

PayPal Holdings, Inc.
Unaudited Pro Forma Condensed Combined Statement of Income
Year Ended December 31, 2014

	<u>As Reported</u>	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro</u> <u>Forma</u>
	(In millions, except per share amounts)		
Net revenues	\$ 8,025	\$ (13)(a)	\$8,012
Operating expenses:			
Transaction expense	2,170	—	2,170
Transaction and loan losses	646	43(b)	689
Customer support and operations	1,055	13(b)(c)(j)	1,068
Sales and marketing	998	(60)(d)	938
Product development	890	—	890
General and administrative	482	6(b)	488
Depreciation and amortization	516	16(j)	532
Restructuring	—	—	—
Total operating expenses	<u>6,757</u>	<u>18</u>	<u>6,775</u>
Operating income	1,268	(31)	1,237
Other income (expense), net	(7)	—	(7)
Income before income taxes	<u>1,261</u>	<u>(31)</u>	<u>1,230</u>
Income tax expense (benefit)	<u>842</u>	<u>(3)(e)</u>	<u>839</u>
Net income attributable to PayPal	<u>\$ 419</u>	<u>\$ (28)</u>	<u>\$ 391</u>
Net Income Attributable to PayPal Per Share of Common Stock (dollars)			
Basic		(f)	\$ 0.31
Diluted		(f)	\$ 0.31
Average Common Shares Outstanding			
Basic		(f)	1,251
Diluted		(f)	1,262

Table of Contents

PayPal Holdings, Inc.
Unaudited Pro Forma Condensed Combined Balance Sheet
At March 31, 2015

	<u>As Reported</u>	<u>Pro Forma Adjustments</u> (In millions, except per share amounts)	<u>Pro Forma</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,365	\$ 3,800(g)	\$ 6,165
Short-term investments	10	—	10
Accounts receivable, net	53	—	53
Loans and interest receivable, net	3,566	—	3,566
Funds receivable and customer accounts	10,945	—	10,945
Notes and receivable from affiliates	788	(626)(h)	162
Other current assets	480	—	480
Total current assets	<u>18,207</u>	<u>3,174</u>	<u>21,381</u>
Long-term investments	31	—	31
Property and equipment, net	989	165(i)(j)	1,154
Goodwill	3,184	—	3,184
Intangible assets, net	138	14(k)	152
Other assets	30	12(l)	42
Total assets	<u>\$ 22,579</u>	<u>\$ 3,365</u>	<u>\$ 25,944</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$ 125	\$ —	\$ 125
Funds payable and amounts due to customers	10,945	—	10,945
Notes and payable to affiliates	868	(752)(h)	116
Accrued expenses and other current liabilities	1,565	—	1,565
Income taxes payable	46	—	46
Total current liabilities	<u>13,549</u>	<u>(752)</u>	<u>12,797</u>
Long-term liabilities	390	228(g)(j)(k)	618
Total liabilities	<u>13,939</u>	<u>(524)</u>	<u>13,415</u>
Commitments and contingencies (Note 8)			
Equity:			
Common stock, \$0.0001 par value	—	— (m)	—
Accumulated other comprehensive income (loss)	142	—	142
Net parent investment	8,498	(8,498)(m)	—
Additional paid-in capital	—	12,387(m)	12,387
Total equity	<u>8,640</u>	<u>3,889</u>	<u>12,529</u>
Total liabilities and equity	<u>\$ 22,579</u>	<u>\$ 3,365</u>	<u>\$ 25,944</u>

Table of Contents

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

- (a) 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.
- (b) Reflects the effect of the following costs that were historically reimbursed to PayPal by eBay for the administration of eBay's customer protection programs as follows:

<u>\$ in millions</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Protection program losses, historically reported as a reduction of transaction and loan losses	10	43
Protection program services, historically reported as a reduction of customer support and operations	4	16
Protection program services, historically reported as a reduction in general and administrative expenses	1	6

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

- (c) Reflects the impact of an additional \$7 million and \$2 million for the year ended December 31, 2014 and the quarter ended March 31, 2015, respectively, representing 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.
- (d) Reflects the net reduction of costs charged to PayPal by eBay for referral services and user penetration. eBay charged PayPal a total of \$119 million and \$30 million for the year ended December 31, 2014 and the quarter ended March 31, 2015, respectively, for similar services. Pursuant to the terms of the operating agreement, these charges would have been \$59 million and \$17 million for the year ended December 31, 2014 and the quarter ended March 31, 2015, respectively, consisting of payments for customers acquired and incentives for the usage of PayPal products (including credit products) on certain eBay properties.
- (e) Reflects the tax effect of pro forma adjustments using the respective statutory tax rate for the year ended December 31, 2014 and for the quarter ended March 31, 2015.
- (f) The calculations of pro forma basic earnings per share and average shares outstanding for the period presented are based on the number of shares used to calculate eBay common stock outstanding for the year ended December 31, 2014 and the quarter ended March 31, 2015, adjusted for the expected distribution ratio of one share of our common stock for every share of eBay common stock outstanding.

The calculations of pro forma diluted earnings per share and weighted-average shares outstanding for the period presented are based on the number of shares used to calculate eBay diluted earnings per share for the year ended December 31, 2014 and the quarter ended March 31, 2015, adjusted for the same distribution ratio. This calculation may not be indicative of the dilutive effect that will actually result from PayPal stock-based awards issued in connection with the adjustment of outstanding eBay stock-based awards or the grant of new stock-based awards. The number of dilutive shares of our common stock underlying PayPal stock-based awards issued in connection with the adjustment of outstanding eBay stock-based awards will not be determined until after the distribution date.

We are unable to calculate historical basic and diluted earnings per share prior to the distribution because the financial information included in the filing has been prepared on a combined basis. These financial statements have not been prepared for a separate legal entity that had share capital throughout the historical periods presented and accordingly, earnings per share for these periods has not been provided.

- (g) Reflects a \$3.8 billion cash contribution to PayPal from eBay, as well as the associated deferred tax impact of \$235 million attributable to the contribution.

Table of Contents

- (h) Reflects the settlement of certain intercompany agreements between PayPal and eBay pursuant to the separation and distribution agreement. These amounts are comprised principally of intercompany financing payables and receivables stemming from eBay's and PayPal's shared cash management and treasury program. Following the separation, PayPal will perform its own cash management and treasury functions.
- (i) Reflects \$14 million in carrying value of certain information technology equipment that will be transferred from eBay to PayPal in connection with the colocation services agreements.
- (j) Reflects the contribution of data center facilities in Phoenix, Arizona and Denver, Colorado from eBay to PayPal at an estimated amount of \$151 million, pursuant to the colocation services agreements. The amount is based on the historical book value of these facilities as of March 31, 2015. The Company's pro forma income statements reflect the reversal of historically allocated amounts from eBay to PayPal of \$10 million and \$3 million for the year ended December 31, 2014 and the quarter ended March 31, 2015, respectively. Additionally, the pro forma income statements reflect depreciation expense \$16 million and \$4 million for the year ended December 31, 2014 and the quarter ended March 31, 2015, respectively.
- (k) Reflects \$14 million in carrying value of certain patents that will be transferred from eBay to PayPal in connection with the intellectual property matters agreement, as well as a corresponding reduction of deferred tax liabilities of \$3 million associated with the transfer.
- (l) Reflects the transfer of assets relating to certain eBay employee benefit plans pursuant to the terms of the employee matters agreement.
- (m) Represents the distribution of approximately 1.2 billion shares of our common stock at par value \$0.0001 per share to holders of eBay common stock and the resulting elimination of eBay's net parent investment.

BUSINESS***Overview***

PayPal Holdings, Inc. (“we,” “our,” “us,” “the Company” or “PayPal”) is a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. We put our customers at the center of everything we do. We strive to increase our relevance for consumers, merchants, friends and family to access and move their money anywhere in the world, anytime, on any platform and through any device (e.g., mobile, tablets, personal computers or wearables). We provide safer and simpler ways for businesses of all sizes to accept payments from merchant websites, mobile devices and applications, and at offline retail locations through a wide range of payment solutions across our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.

We enable global commerce by providing payment solutions for our approximately 162 million active customer accounts in over 200 markets, while providing customers a choice of how they would like to pay or get paid. A market is a geographic area or political jurisdiction, such as a country, territory, or protectorate, in which we offer our services. A country, territory or protectorate is identified by a distinct set of laws and regulations. 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 products, in the past 12 months. Our gateway products include our Payflow Payments and certain Braintree products. A payment gateway links a merchant’s website to that merchant’s processing network and merchant account.

We offer our customers the flexibility to use their account to both purchase and be paid for goods, as well as transfer and withdraw funds. A consumer can typically fund a purchase using a bank account, a PayPal account balance, a PayPal Credit account, a credit or debit card or other stored value products such as coupons and gift cards. Our PayPal and Venmo products also make it safer and simpler for friends and family to transfer funds to each other using several of these funding sources. We offer merchants an end-to-end payments solution that provides authorization and settlement capabilities, as well as instant access to funds. We help merchants connect with their customers and manage risk. We measure the relevance of our products in the lives of our customers, and therefore the success of our business, through both payment volume and payment transactions. Payment volume is the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products (“Total Payment Volume” or “TPV”). During 2014, our TPV was approximately \$235 billion, representing growth of 26% over 2013. “Payment transactions” is the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products. During 2014, payment transactions were approximately 4.0 billion, representing growth of 22% over 2013.



Our Payments Platform is built to make the existing global financial infrastructure work for people in the digital age. PayPal allows people to make seamless transactions between different markets and networks. Our Payments Platform connects with financial institutions around the world, and allows consumers to make purchases using a broad range of payment methods, regardless of where a merchant is located. Consumers who use our Payments Platform can engage in cross-border shopping by sending payments to each other in more than 200 markets across the globe and in more than 100 currencies. This enables merchants to increase sales volume by allowing them to sell across borders to a much larger base of consumers.

We generate revenues by charging fees for providing transaction processing and other payment-related services, primarily based on the volume of activity, or TPV, processed through our Payments Platform. We also earn revenue by providing value added services to consumers and merchants, such as PayPal's Credit products. Our revenue growth is influenced by, among other things, consumer spending patterns, merchant adoption of payment methods other than traditional credit cards and cash, the expansion of multi-channel retail, the growth of mobile devices and merchant applications on those devices, the growth of consumers with access to the internet globally, the pace of transition from paper-based forms of payment to digital forms of payment, our share of the digital payments market, and our ability to innovate new methods of payment that merchants and consumers find to be valuable. Our strategy is to drive revenue growth by:

- Growing our core businesses globally through expanding our base of active customer accounts, increasing our customers' use of our products and services by better addressing our customers' everyday needs in managing and moving money and expanding the adoption of our solutions by new merchants and consumers;
- Diversifying our existing business by seeking new areas of growth in markets around the world and focusing on innovation both in the digital and the physical world;
- Providing software application developers with tools to quickly and easily integrate PayPal's smart payment solutions into merchant and next generation mobile applications; and

Table of Contents

- Leveraging the data we accumulate through processing transactions to build strong risk capabilities that enable the identification of illegal, high-risk, or fraudulent transactions with the highest level of accuracy, without impacting legitimate transactions and while incurring minimal losses.



PayPal is a popular form of payment for mobile commerce, and our business has grown with the increased adoption of mobile devices. In December 2013, we completed our acquisition of Braintree to strengthen our position in mobile payments and extend our coverage to a new class of retailers who offer their services primarily through mobile applications. As part of that acquisition, we also acquired Venmo, which offers a leading mobile application to move money between friends and family using their mobile device. Braintree’s and Venmo’s focus on mobile payments, their reach with a new class of retailers and the technology obtained through the acquisition have increased our payment capabilities, improved our current product offerings and expanded our footprint with earlier stage merchants and a diversified demographic of consumers.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. Some of the laws and regulations to which we are subject were enacted recently and many such laws and regulations, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial interpretation. Changes in or non-compliance with laws and regulations, changes in the interpretation of laws and regulations, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition. Therefore, we monitor these areas closely to ensure compliant solutions for our customers who depend on us.

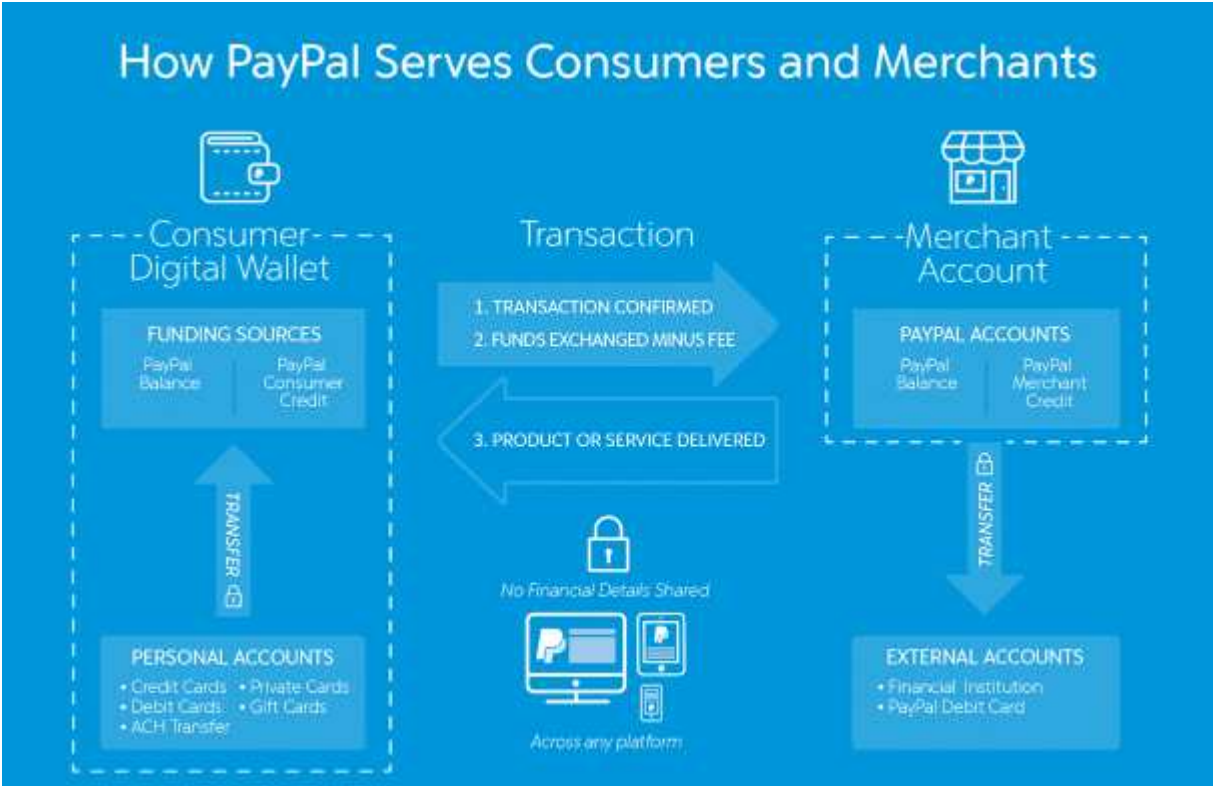
Connecting Merchants and Consumers

We operate a proprietary global technology platform that links merchants and consumers around the globe to facilitate the processing of payment transactions, allowing us to connect millions of merchants and consumers worldwide. Our Payments Platform facilitates an efficient and secure means for merchants to receive payments, and

Table of Contents

a convenient, secure way for consumers to make payments. We process transactions through our Payments Platform in more than 200 markets, allowing customers to pay and get paid in more than 100 currencies, withdraw funds to their bank accounts in 57 currencies and hold balances in their PayPal accounts in 26 currencies.

A transaction on our Payments Platform can involve up to three participants in addition to us: a merchant, a consumer and the consumer’s funding source provider. The following diagram illustrates a typical payment transaction between a consumer and a merchant on our Payments Platform:



Consumers

We enable consumers to more safely exchange funds with merchants using their PayPal digital wallet. Our digital wallet provides consumers with the ability to draw funds from a variety of their financial resources, which may include both “internal” sources of funds (i.e., a PayPal account balance or PayPal Credit account) and sources of funds that are “external” to PayPal (e.g., bank transfers, credit and debit cards or gift cards), within one application. We generally do not charge consumers to fund or draw from their accounts; however, we generate revenue from consumers on fees charged to exchange currencies and on interest and fees from consumer loans originated through our PayPal Credit products.

We value our relationship with our consumers and invest in this relationship; we strive to provide efficient customer service, account support, protection from loss, and create relevant products. Approximately 8,000 people in our customer service organization work around the clock to provide our consumers with answers and solutions when and where they need them, in over 20 languages. We have operations centers around the world, including in Chandler, Arizona; Hunt Valley, Maryland; Omaha, Nebraska; Berlin, Germany; Dundalk, Ireland; Dublin, Ireland; Kuala Lumpur, Malaysia; Sao Paulo, Brazil; and Shanghai, China that strive to provide high-quality service and support for our customers. We have also developed a number of trust and security programs, including PayPal’s Buyer Protection Program, that provide additional protection to consumers for qualifying

Table of Contents

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 (see Protecting Merchants and Consumers discussion below).

Traditional financial institutions often charge fees for basic services provided to their customers, and existing alternatives to these financial institutions, including services to cash a check or pay a bill, are often inconvenient and expensive. We focus on providing low cost consumer products that democratize the access to and movement of money. We believe that managing and moving a consumer's hard earned money should be a right, not a privilege. Through our technology and products, we believe we can change the status quo and make digital payments more efficient and accessible. We expect person-to-person (or "P2P") transfers to contribute to this strategy. These P2P products are believed to have network effects, helping to establish relationships with potential PayPal users by allowing them to join the Payments Platform at the time of making or receiving payments, which encourages our natural, user-driven growth. PayPal offers P2P payment solutions through its website, its PayPal mobile application, and through Venmo, a mobile application that enables payment transactions between non-merchant account holders.

Merchants

As commerce continues to transition from the physical world to the digital world and from domestic commerce to global commerce, our proprietary Payments Platform provides opportunities for merchants to grow their businesses. We partner with merchants to help them grow and expand their businesses by improving sales conversion, providing global reach, offering alternative payment methods (such as easy integration credit products and mobile capabilities), reducing losses through proprietary protection programs and leveraging data analytics. We continue to grow merchant acceptance through business development activities and direct relationships with merchants. We enable merchants to more safely and simply receive payments from our active customer accounts, providing global reach while reducing some of the complexity and friction involved in enabling overseas and cross-border trade. For the year ended December 31, 2014, approximately 48% of PayPal's TPV involved a merchant outside of the U.S., and approximately 24% was cross-border (i.e., transactions where the merchant and consumer were in different countries).

A merchant can typically open a standard PayPal account and begin accepting payments through PayPal within a few minutes. Most online or mobile merchants can onboard quickly and are not required to invest in new or specialized hardware. Our Payments Platform supports growth with a variety of value added services designed to help businesses of all sizes manage their cash flow, invoice clients, pay bills, and reduce the need for merchants to receive and store sensitive customer financial information. For our standard service, we do not charge merchants setup or recurring fees. A merchant can also integrate with Braintree to begin accepting payments with credit or debit cards, PayPal, Venmo, digital currencies such as Bitcoin, or other payment solutions with a single integration.

Our payment and PayPal Credit products, are designed to help merchants increase the conversion rate of consumer purchases on their websites and mobile applications. For example, our One Touch product allows consumers to authenticate their account during their first One Touch purchase. This enables them to skip the login process for future payments and turn shopping into a one touch operation with near-instant authentication. We also provide the ability for merchants to offer (and consumers to fund) payments via a deferred payment option using our PayPal Credit products. When a consumer funds a purchase using PayPal Credit, our chartered financial institution in Luxembourg, or an independent chartered financial institution in the U.S. with whom we partner, extends credit to the consumer, funds the extension of credit at the point of sale ("POS") and advances funds to the merchant. In the U.S., we subsequently purchase the consumer receivables related to the consumer loans from the independent chartered financial institution with whom we partnered and as a result of that purchase, bear the risk of loss on the related consumer receivables, less the participation interest held by the independent chartered financial institution. We are responsible for all servicing functions related to the PayPal Credit customer account balances. In addition, we have a program in which we offer certain of our merchants a line of credit, which may be paid back to PayPal through a percentage of their sales generated through PayPal.

Table of Contents

We value our relationship with merchants and invest in this relationship by providing customer service, account support, developer advocacy and support, and proprietary risk and security solutions. In addition to our consumer protection programs, we have also developed PayPal's Seller Protection Program. This program provides 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. By offering dual buyer and seller protection programs, both the consumer and merchant can transact with confidence.

Our Payments Platform and open application programming interfaces ("APIs") are designed to allow developers to innovate with ease and to offer cutting edge applications to a large ecosystem of merchants and consumers, while at the same time maintaining the security of our customers' financial information. We provide developers with easy to use, flexible and powerful tools that are designed to leverage our global reach and payment capabilities. Our software developer kits ("SDKs") are specifically focused on the mobile application market and are designed to remove friction by not requiring a redirect to PayPal.com or an additional log in. We are using a true "mobile first" approach to make payments simple and intuitive.

Revenue Sources

We earn revenues primarily by processing customer transactions on our Payments Platform and from other value added services. Our revenues are classified into the following two categories:

- *Transaction revenues:* Net transaction fees charged to consumers and merchants based on the volume of activity processed through our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.
- *Other value added services :* Net revenues derived principally from interest and fees earned on our PayPal Credit loans receivable portfolio, subscription fees, gateway fees, revenue share we earn through partnerships and other services that we provide to consumers and merchants.

Transaction revenues are generated from fees charged to merchants on the TPV that we enable. Growth in TPV is also directly impacted by the number of active customer accounts and the payment transactions that we enable on our payments platform. In 2014, transaction revenues generated from customers and merchants on eBay's marketplace who completed a transaction using our products constituted 29% of our net revenues, down from 32% in 2013. The decline in percentage of revenues generated from eBay buyers and eBay sellers reflects the growth in adoption of PayPal solutions on platforms other than eBay. No other source of revenue represented more than 10% of our revenues.

Our pricing varies among regions and can be modified for individual merchants through customer-specific agreements, which provide merchants with financial incentives and other benefits to issue, accept, route, prioritize and promote our branded products and other payment programs. These financial incentives may be based on TPV or other performance-based criteria, such as issuance of new payment products, increased acceptance of our products, launch of new programs or execution of marketing initiatives.

Protecting Merchants and Consumers

Protecting merchants and consumers from loss is imperative to successfully competing in the payments industry. Trust and security are essential for our customers, and PayPal invests significantly in providing both merchants and consumers with comprehensive protection. The risk to merchants and consumers (and their payments partners) from fraudulent activities, such as account takeover, identity theft and counterparty mal-intent, is growing. Our ability to protect both consumers and merchants is based largely on our ability to leverage the data we collect on transactions and our analytical capabilities. We believe mobile devices will play an important part in the future of commerce, creating the opportunities to make our ecosystem safer. For example, PayPal is able to use accurate location data and growing protection for the mobile operating environment to reduce risk to merchants and consumers.

Table of Contents

We enable consumers to make payments safely and simply without sharing sensitive financial information, such as credit card or debit card numbers, with merchants or other consumers. To make payments using PayPal, consumers need to disclose only their email address or mobile phone number to merchants. The account-based nature of our Payments Platform helps us to better detect and prevent fraud when funds enter, flow through and exit the Payments Platform because our transactions are tokenized and because payment authorization credentials are separated from account holder information. Our ongoing investment in systems and processes designed to enhance the safety and security of our products reflects our goal of having PayPal recognized as one of the world's most trusted payments brands.

We provide merchants and consumers with protection programs on substantially all transactions completed through our Payments Platform, except for transactions using our gateway products. These programs protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our risk management capabilities allow us to provide these protections, which are generally much broader than those protections provided by other participants in the payments industry. Most payments providers do not offer merchant protection in general, and those that do so generally do not provide protection of online or card not present transactions. As a result, merchants may incur losses for chargebacks and other claims on certain transactions when using other payments providers that they would not incur if they had used PayPal's payments services. PayPal also provides consumer protection against losses and accepts claims for 180 days post transaction in the markets that PayPal serves. This protection is consistent with, or better than, that offered by other payments providers. We believe that as a result of these programs, consumers can be confident that they will only be required to pay if they receive the product in the condition as described, and merchants can be confident that they will receive payment for the product that they are delivering to the customer.

Our Payments Platform utilizes a combination of proprietary technologies and services as well as technologies and services provided by third parties. We have developed intuitive user interfaces, customer tools and transaction processing, database and network applications that help enable our users to reliably and securely complete transactions on our sites and help our customers to utilize its suite of services. Our technology infrastructure simplifies the storage and processing of large amounts of data, eases the deployment and operation of large-scale global products and services and automates much of the administration of large-scale clusters of computers. Our technology infrastructure has been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences. We strive to continually improve our technology infrastructure to enhance the customer experience and to increase efficiency, scalability and security.

Our Payments Platform's architecture enables us to connect all parties regardless of whether the transaction is occurring at a traditional physical location, online or through a mobile device. The Payments Platform incorporates multiple layers of protection, both for continuity purposes and to help address cyber-security challenges. We engage in multiple efforts to protect the Payments Platform against these challenges, including regularly testing our systems to address potential vulnerabilities.

Intellectual Property

The protection of our intellectual property, including our trademarks (particularly those covering the PayPal name), patents, copyrights, domain names, trade dress and trade secrets is critical to our success. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. We have routinely entered into confidentiality and invention assignment agreements with our employees and contractors and nondisclosure agreements with parties with whom we conduct business to control access to and limit disclosure of our proprietary information.

We pursue the registration of our domain names, trademarks and service marks in the U.S. and internationally. Additionally, we have filed U.S. and international patent applications covering certain aspects of our proprietary

Table of Contents

technology. Effective trademark, copyright, patent, domain name, trade dress and trade secret protection is very expensive to maintain and may require litigation. We must protect our intellectual property and other proprietary rights in an increasing number of jurisdictions, a process that is expensive and time consuming and may not be successful.

We have registered our core brands as trademarks and domain names in the U.S. and a large number of other jurisdictions and have in place an active program to continue to secure trademarks and domain names that correspond to our brands in markets of interest.

Competition

Consumers may choose to pay merchants through a variety of alternative means, including credit and debit cards, automated clearing house and bank transfers, other online payment services, offline payment methods such as cash, check or money order and by using mobile phones. PayPal's products compete with products from three-party networks (such as American Express and Discover), four-party networks (such as Visa and MasterCard) and other mobile payment solutions.

PayPal seeks to differentiate itself from industry participants on the safety of the transaction (our risk management capabilities as well as protection of consumer account details), the simplicity provided for digital transactions (use of an e-mail address, a mobile phone number or our One Touch product), and being both brand and technology agnostic. Further, unlike traditional four-party networks or other mobile payment solutions, PayPal has a direct financial relationship with both its consumers and merchants. As a result of our risk management capabilities, PayPal can provide its customers with protection from fraud and other losses incurred by participants to a transaction.

To compete effectively, we will need to continue to expend significant resources in technology and marketing. During 2014, PayPal incurred over \$1 billion on product innovation and development, and enhancing our infrastructure, to ensure our customers have the capabilities they need and want to complete transactions safely and simply. Further, in 2014, we incurred over \$270 million related to our efforts to promote our brands through advertising, promotions, and other strategic initiatives. Our marketing efforts play an important role in building brand visibility, usage and overall preference among consumers at checkout.

Government Regulation

Government regulation impacts key aspects of our business. We are subject to regulations that affect the payments industry in the countries we operate.

Payments Regulation. Various laws and regulations govern the payments industry in the U.S. and globally. In the U.S., several of our subsidiaries hold licenses to operate as a money transmitter (or its equivalent), which, among other things, subjects those subsidiaries to reporting requirements, bonding requirements, limitations on the investment of customer funds and inspection by state regulatory agencies. Outside the U.S., we provide localized versions of our service to customers through various foreign subsidiaries. The activities of those non-U.S. entities are, or may, be supervised by a financial regulatory authority in the jurisdictions in which they operate. Among other regulatory authorities, the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"), the Australian Securities and Investments Commission, the Monetary Authority of Singapore, the Reserve Bank of India and the Central Bank of Russia have asserted jurisdiction over some or all of our activities in a particular country. This list is not exhaustive, as there are numerous other regulatory agencies that have or may assert jurisdiction. The laws and regulations applicable to the payments industry in any given jurisdiction are subject to interpretation and change.

Banking Agency Supervision. We serve our customers in the European Union through PayPal (Europe) S.a.r.l. et Cie, SCA, a wholly-owned subsidiary that is licensed and subject to regulation as a bank in Luxembourg by the CSSF. Consequently, we must comply with rules and regulations of the banking industry related to capitalization,

Table of Contents

funds management, corporate governance, anti-money laundering, disclosure, reporting and inspection. We also are, or may be, subject to banking-related regulations in other countries now or in the future related to our role in the financial industry. In addition, based on our relationships with our partner financial institutions in the U.S., we are subject to indirect regulation and examination by these financial institutions' regulators.

Consumer Financial Protection Bureau. The Consumer Financial Protection Bureau (the "CFPB") has significant authority to regulate consumer financial products in the United States, including consumer credit, deposit, payment, and similar products. The CFPB and other similar regulatory agencies in other jurisdictions may have broad consumer protection mandates that could result in the promulgation and interpretation of rules and regulations that may affect our business.

Anti-Money Laundering. PayPal is subject to anti-money laundering ("AML") laws and regulations in the U.S. and other jurisdictions outside of the U.S. We have implemented a comprehensive AML program designed to prevent our payment network from being used to facilitate money laundering, terrorist financing, and other illicit activity, or to do business in countries or with persons and entities included on designated country or person lists promulgated by the U.S. Department of the Treasury's Office of Foreign Assets Controls ("OFAC") and equivalent authorities in other countries. Our AML compliance program is comprised of policies, procedures and internal controls, including the designation of a compliance officer, and is designed to address these legal and regulatory requirements and assist in managing money laundering and terrorist financing risks.

Interchange Fees. Interchange fees associated with four-party payments systems are being reviewed or challenged in various jurisdictions. For example, in the European Union, the Multilateral Interchange Fee ("MIF") Regulation (which we expect to become effective in 2015) caps credit and debit interchange fees for cards payments and provides for business rules to be complied by any company dealing with card transactions, including PayPal. As a result, the fees that we collect in certain jurisdictions may become the subject of regulatory challenge.

Data Protection and Information Security. Aspects of our operations or business are subject to privacy and data protection regulation in the United States, the European Union and elsewhere. For example, in the United States, we are subject to information safeguarding requirements under the Gramm-Leach-Bliley Act that require the maintenance of a written, comprehensive information security program and in Europe, the operations of our Luxembourg bank are subject to information safeguarding requirements under the Luxembourg Banking Act, among other laws. Regulatory authorities around the world are considering numerous legislative and regulatory proposals concerning privacy and data protection. In addition, the interpretation and application of these privacy and data protection laws in the United States, Europe and elsewhere are often uncertain and in a state of flux.

Additional Regulatory Developments. Various regulatory agencies also continue to examine a wide variety of issues, including virtual currencies, identity theft, account management guidelines, privacy, disclosure rules, security and marketing that would impact PayPal.

For an additional discussion on governmental regulation affecting our business, please see the risk factors related to regulation of our payments business and regulation in the areas of consumer privacy, data use and/or security in "Risk Factors —Risk Factors That May Affect Our Business, Results of Operations and Financial Condition" included elsewhere in this Information Statement.

Legal and Regulatory Proceedings

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

Table of Contents

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 below, we are unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

Amounts accrued for legal and regulatory proceedings for which we believe a loss is probable were not material for the year ended December 31, 2014. Except as otherwise noted for the proceedings described below, 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 to PayPal. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

Regulatory Proceedings

We routinely report to the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") on payments we have rejected or blocked pursuant to OFAC sanctions regulations and on any possible violations of those regulations. We have cooperated with OFAC in recent years regarding our review process over transaction monitoring and have self-reported a large number of small dollar amount transactions that could possibly be in violation of OFAC sanctions regulations. In March 2015, we reached a settlement with OFAC regarding the possible violations arising from our practices between 2009 and 2013, before our implementation of real-time monitoring processes. In addition, we continue to cooperate with OFAC regarding more recent self-reported transactions that could also possibly be in violation of OFAC sanctions regulations. Such self-reported transactions could result in claims or actions against us including litigation, injunctions, damage awards or require us to change our business practices 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 August 7, 2013 and January 13, 2014, eBay, PayPal and certain wholly owned subsidiaries of PayPal received Civil Investigative Demands ("CIDs") from the CFPB requesting that we provide testimony, produce documents and provide information relating primarily to the acquisition, management, and operation of our PayPal Credit products, including online credit products and services, advertising, loan origination, customer acquisition, servicing, debt collection, and complaints handling practices. We have cooperated with the CFPB throughout the course of the investigation. In May 2015, we entered into a Consent Order with the CFPB in which we settled potential allegations arising from PayPal Credit practices between 2011 and 2015. This settlement included \$15 million in redress to consumers, a \$10 million civil monetary penalty, and our agreement to various changes to our disclosures and business practices. We will continue to cooperate and engage with the CFPB and work to ensure compliance with the settlement terms. Violation of the settlement could result in claims or actions against us, including litigation, injunctions, or damage awards or require us to change our business practices that could result in a material loss, require significant management time, result in the diversion of significant operational resources or otherwise harm our business.

Following media reports about future revisions to our user agreement, the New York Attorney General's office has sent us a letter expressing concern and asking us to respond to certain questions. The Federal Communications Commission, the Federal Trade Commission and four senators have also contacted us regarding this subject. We are in the process of responding to these parties.

Table of Contents

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 recent 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.

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, damage awards (including statutory damages for certain causes of action in certain jurisdictions), 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.

Properties

We own and lease various properties in the U.S. and other countries around the world. We use the properties for executive and administrative offices, data centers, product development offices, fulfillment centers and customer service offices. As of December 31, 2014, our owned and leased properties provided us with aggregate square footage as follows:

	<u>United States</u>	<u>Other Countries</u> (In millions)	<u>Total</u>
Owned facilities	1.0	—	1.0
Leased facilities	0.9	1.2	2.1
Total facilities	<u>1.9</u>	<u>1.2</u>	<u>3.1</u>

Our corporate headquarters are located in San Jose, California and occupy approximately 0.7 million of owned square feet.

Seasonality

The Company does not experience meaningful seasonality. No individual quarter in 2014, 2013 or 2012 accounted for more than 30% of net revenue.

Table of Contents

Financial Information About Segments

See “Note 9—Segment and Geographical Information” to the combined financial statements included in this information statement for certain financial information about segments.

Employees

As of December 31, 2014, we employed approximately 15,800 people globally, of whom approximately 9,100 of our employees were located in the U.S. We consider our relationship with employees to be good.

Corporate Information

PayPal was incorporated in Delaware in January 2015 for the purpose of owning and operating eBay’s Payments business in connection with the separation and distribution described herein. Prior to the contribution of this business to PayPal, which will occur prior to the distribution, PayPal will have no operations.

The address of PayPal’s principal executive offices is PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131. PayPal’s telephone number after the distribution will be (408) 967-1000. PayPal maintains an Internet site at www.paypal.com, and its investor relations site will be accessible prior to the distribution at <http://investor.paypal-corp.com>. PayPal’s website and the information contained therein or connected thereto shall not be deemed to be incorporated herein, and you should not rely on any such information in making an investment decision.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Please read the following discussion in conjunction with the audited combined financial statements, which are comprised of the payments business of eBay Inc., including PayPal, Inc. and certain other assets and liabilities that have historically been held at the eBay Inc. corporate level, but are specifically identifiable and attributable to the payments business, and corresponding notes, and the unaudited pro forma condensed combined financial statements and corresponding notes included elsewhere in this information statement. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. The matters discussed in these forward-looking statements are subject to risk, uncertainties, and other factors that could cause actual results to differ materially from those projected or implied in the forward-looking statements. Please see "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

On September 30, 2014, eBay Inc. ("eBay") announced its intent to separate its payments business into an independent, publicly traded company. To accomplish this separation, in January 2015, eBay incorporated PayPal Holdings, Inc. ("PayPal Holdings") which will ultimately become the parent of PayPal, Inc. and will hold, directly or indirectly, all of the assets and liabilities associated with PayPal, Inc. References to "we," "our," "us," "the Company" or "PayPal" refer to the combined entities of the payments business of eBay, including PayPal, Inc. and certain other assets and liabilities that have been historically held at the eBay corporate level, but are specifically identifiable and attributable to the payments business.

Years ended December 31, 2014, 2013 and 2012

We recorded net income of \$419 million in 2014, \$955 million in 2013 and \$778 million in 2012. The decrease in net income in 2014 was primarily attributable to an increase in income tax expense of \$713 million primarily resulting from the recognition of deferred tax liabilities relating to undistributed foreign earnings of certain foreign subsidiaries for 2013 and prior years. We recorded non-GAAP net income of \$1.3 billion in 2014, \$1.2 billion in 2013 and \$1.0 billion in 2012. The increase in non-GAAP net income in 2014 and 2013 was attributable to an increase in operating income in each of these periods.

Net revenues increased 19% in 2014 and 2013. The increase was primarily driven by growth in total payment volume ("TPV") of 26% in 2014 and 24% in 2013. Operating expenses increased \$1.1 billion and \$854 million, or 20% and 18% in 2014 and 2013, respectively. The increase was primarily due to an increase in transaction expense, transaction and loan losses, and additional investments in sales and marketing programs and product development initiatives.

Operating income increased \$177 million, or 16% in 2014 compared to 2013, and \$211 million, or 24% in 2013 compared to 2012. Non-GAAP operating income increased \$237 million, or 17%, in 2014 compared to 2013 and \$244 million, or 21%, in 2013 compared to 2012. Our non-GAAP operating margin was 21% in 2014, 21% in 2013 and 21% in 2012. Operating income and non-GAAP operating income increased in 2014 and 2013 as a result of the increase in net revenues.

We generated net cash flows from operations of \$2.2 billion for the year ended December 31, 2014, compared to \$2.0 billion and \$1.6 billion for the years ended December 31, 2013 and 2012, respectively. We generated free cash flow of \$1.7 billion, \$1.6 billion and \$1.1 billion in 2014, 2013 and 2012, respectively.

Table of Contents

The following table provides a summary of our combined operating results for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2014	2013	2012	2014	2013
	<i>(In millions, except percentages)</i>				
Net Revenues	\$8,025	\$6,727	\$5,662	19%	19%
Operating Expenses	6,757	5,636	4,782	20%	18%
Operating Income	1,268	1,091	880	16%	24%
Income Tax Expense	842	129	113	553%	14%
Effective Income Tax Rate	67%	12%	13%	**	**
Net Income	\$ 419	\$ 955	\$ 778	(56)%	23%

** Not Meaningful

The following table provides a summary of our combined non-GAAP financial measures for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2014	2013	2012	2014	2013
	<i>(In millions, except percentages)</i>				
Non-GAAP operating income	\$1,648	\$1,411	\$1,167	17%	21%
Non-GAAP operating margin	21%	21%	21%	**	**
Non-GAAP net income	\$1,343	\$1,186	\$ 961	13%	23%

** Not Meaningful

Please refer to “Non-GAAP Measures” below for discussion of the items excluded from non-GAAP operating income, non-GAAP operating margin and non-GAAP net income.

Three months ended March 31, 2015 and 2014

We recorded net income of \$255 million and a net loss of \$382 million in the three months ended March 31, 2015 and 2014, respectively. The increase in net income in 2015 was primarily attributable to a decrease in income tax expense of \$628 million, primarily resulting from the recognition of deferred tax liabilities in the three months ended March 31, 2014 relating to undistributed foreign earnings of certain foreign subsidiaries for 2013 and prior years. We recorded non-GAAP net income of \$360 million and \$337 million in the three months ended March 31, 2015 and 2014, respectively.

Net revenues increased 14% in the three months ended March 31, 2015 compared to the same period of the prior year. The increase was primarily driven by growth in TPV of 17%. Operating expenses increased \$259 million, or 17%, in the three months ended March 31, 2015 compared to the same period of the prior year. The increase was primarily due to an increase in transaction expense, transaction and loan losses, general and administrative expenses and additional investments in product development initiatives. Operating expenses in the three months ended March 31, 2015 also included \$48 million in restructuring expense representing approximately 3% of the growth in total operating expenses compared to the same period in the prior year.

Operating income increased \$4 million, or 1% in the three months ended March 31, 2015 compared to the same period of the prior year. Non-GAAP operating income increased \$61 million, or 15%, in the three months ended March 31, 2015 compared to the same period of the prior year. Our non-GAAP operating margin was 22% in the three months ended March 31, 2015 and 2014. Operating income and non-GAAP operating income increased as a result of the increase in net revenues.

Table of Contents

We generated net cash flows from operations of \$544 million for the three months ended March 31, 2015, compared to \$425 million for the three months ended March 31, 2014. We generated free cash flow of \$350 million and \$325 million in the three months ended March 31, 2015 and 2014, respectively.

The following table provides a summary of our combined operating results for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,		Percent Increase/ (Decrease)
	2015	2014	
<i>(In millions, except percentages)</i>			
Net Revenues	\$ 2,137	\$ 1,874	14%
Operating Expenses	1,815	1,556	17%
Operating Income	322	318	1%
Income Tax Expense	66	694	(90)%
Effective Income Tax Rate	21%	222%	**
Net Income/(Loss)	\$ 255	\$ (382)	(167)%

** Not Meaningful

The following table provides a summary of our combined non-GAAP financial measures for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,		Percent Increase/ (Decrease)
	2015	2014	
<i>(In millions, except percentages)</i>			
Non-GAAP operating income	\$ 473	\$ 412	15%
Non-GAAP operating margin	22%	22%	**
Non-GAAP net income	\$ 360	\$ 337	7%

** Not Meaningful

Please refer to “Non-GAAP Measures” below for discussion of the items excluded from non-GAAP operating income, non-GAAP operating margin and non-GAAP net income.

Business Environment

We are a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. We put our customers at the center of everything we do. We strive to increase our relevance for consumers, merchants, friends and family to manage and move their money anywhere in the world, anytime, on any platform and through any device (e.g., mobile, tablets, personal computers or wearables). We provide safer and simpler ways for businesses of all sizes to accept payments from merchant websites, mobile devices and applications, and at offline retail locations through a wide range of payment solutions across our Payments Platform, including PayPal Credit, Braintree and Venmo products.

We provide merchants and consumers with protection programs on substantially all transactions completed through our Payments Platform, except for transactions using our gateway products. Our gateway products include our Payflow Payments and certain Braintree products. A payment gateway links a merchant’s website to their processing network and merchant account. Our protection programs protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our ability to protect both consumers and merchants is based largely on our risk management capabilities, which in turn depend on our ability to leverage the data we collect on transactions and our analytical capabilities. The protections we provide are generally much

Table of Contents

broader than those protections provided by other participants in the payments industry. We believe that as a result of these programs, consumers can be confident that they will only be required to pay if they receive the product in the condition as described, and that merchants can be confident that they will receive payment for the product that they are delivering to the customer.

Our Payments Platform and open application programming interfaces (“APIs”) are designed to allow developers to innovate with ease and to offer cutting edge applications to a large ecosystem of merchants and consumers, while at the same time maintaining the security of our customers’ financial information. We provide developers with easy to use, flexible and powerful tools that are designed to leverage our global reach and payment capabilities. Our software developer kits (“SDKs”) are specifically focused on the mobile application market and are designed to remove friction by not requiring a redirect to PayPal.com or an additional login. We are using a true “mobile first” approach to make payments simple and intuitive.

We generated approximately 52% of our 2014 net revenues, 52% of our 2013 net revenues and 51% of our 2012 net revenues from merchants or consumers domiciled outside of the United States. Other than the United States, the United Kingdom was the only country where we generated more than 10% of total net revenues in 2014, 2013 and 2012. During each of these periods, we have also generated more than 10% of total net revenues in the euro zone. Because we have generated substantial net revenues internationally in recent periods, including the years ended December 31, 2014, 2013 and 2012, we are subject to the risks of doing business in foreign countries as discussed under “Risk Factors—Risk Factors That May Affect Our Business, Results of Operations and Financial Condition.” In that regard, fluctuations in foreign currency exchange rates impact our results of operations. We have a foreign currency risk management program that is designed to reduce our exposure to fluctuations in foreign currencies; however, the effectiveness of this program in mitigating the impact of foreign currency fluctuations on our results of operations varies from period to period, and in any given period, operating results are usually affected, sometimes significantly, by changes in foreign currency exchange rates. We calculate the year-over-year impact of foreign currency movements on our business using prior period foreign currency exchange rates applied to current year transactional currency amounts.

The markets for our products are intensely competitive and are subject to rapid technological change, including but not limited to our products’ ability to complete transactions accurately, safely and quickly on merchant websites, within their mobile applications, or in a physical location. Since a large number of merchants accept forms of payment other than PayPal, the use of our product is ultimately a consumer choice. We compete for consumer preference by offering safer and simpler ways to access and move money through any mobile device or personal computer. We face competition from existing online, mobile and offline payment methods.

Our business is subject to regulation in the countries in which we operate, including regulations such as Anti-Money Laundering (“AML”) and Know Your Customer (“KYC”) policies. Information security risks for global payments and technology companies have significantly increased in recent years. Although we have not experienced any material impacts relating to cyber-attacks or other information security breaches on our Payments Platform, there can be no assurance that we are immune to these risks and will not suffer such losses in the future. See our risk factor in “Risk Factors—Risk Factors That May Affect Our Business, Results of Operations and Financial Condition” related to a failure or breach of our security systems or infrastructure as a result of cyber-attacks.

Impact of Foreign Currency Rates

We have significant operations internationally that are denominated in foreign currencies, primarily the Euro, British Pound, and Australian 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 Euro, British Pound and Australian Dollar impacts the translation of our net revenues generated in these foreign currencies into the U.S. dollar. In 2014, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$58 million (inclusive of a \$36 million negative impact from hedging activities). In 2013, foreign

Table of Contents

currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$20 million (inclusive of a \$4 million negative impact from hedging activities). In 2014 and 2013, foreign currency movements relative to the U.S. dollar did not have a significant impact on net income. Additionally, in connection with our services in multiple currencies, we set our foreign exchange rates twice per day, and may face financial exposure if we incorrectly set our foreign exchange rates or as a result of fluctuations in foreign exchange rates between the times that we set our foreign exchange rates. Given that we also hold some corporate and customer funds in non-U.S. currencies, our financial results are affected by the translation of these non-U.S. currencies into U.S. dollars. While from time to time we enter into transactions to hedge portions of our foreign currency translation exposure, it is impossible to predict or eliminate the effects of this exposure. Fluctuations in foreign exchange rates could significantly impact our financial results.

Three months ended March 31, 2015 and 2014

In the three months ended March 2015 and 2014, we generated approximately 52% of net revenues from customers domiciled outside of the United States. Other than the United States, the United Kingdom was the only country where we generated more than 10% of total net revenues in these periods.

In the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$80 million (inclusive of a \$50 million favorable impact from hedging activities), and decreased total operating expenses by approximately \$75 million. Therefore, in the three months ended March 31, 2015, foreign currency movements relative to the U.S. dollar did not have a significant impact on net income. In the three months ended March 31, 2014, foreign currency movements relative to the U.S. dollar negatively impacted net revenues by approximately \$8 million (inclusive of a \$17 million negative impact from hedging activities).

Financial Results - Fiscal Years 2014, 2013 and 2012

Net Revenues

Revenue Description

We earn revenue from the following types of transactions:

- *Transaction revenues:* Net transaction fees charged to consumers and merchants based on the volume of activity processed through our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.
- *Other value added services :* Net revenues derived principally from interest and fees earned on our PayPal Credit loans receivable portfolio, subscription fees, gateway fees, revenue share we earn through partnerships and other services that we provide to consumers and merchants.

Transaction revenues are generated from fees charged to merchants on the volume of activity we enable (“Total Payments Volume” or “TPV”). We define TPV as the value of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products. Our Payments Platform includes PayPal, PayPal Credit, Venmo and Braintree products. Growth in TPV is also directly impacted by the payment transactions that we enable on our payments platform. Payment transactions is the total number of payments, net of payment reversals, successfully completed through our Payments Platform, excluding transactions processed through our gateway products. We earn additional fees on transactions settled in foreign currencies when we enable cross-border transactions. We also earn interest and related fees on receivables from consumers and merchants that use our PayPal Credit products.

Our revenues can be significantly impacted by the following:

- The mix between merchant types;
- Mix between domestic and cross-border transactions;

Table of Contents

- Geographic region or country in which a transaction occurs; and
- The amount of PayPal Credit loans receivable outstanding with consumers and merchants.

Net revenues analysis

The significant components of our net revenue for the years ended December 31, 2014, 2013 and 2012 were as follows:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2014	2013	2012	2014	2013
	<i>(In millions, except percentages)</i>				
Transaction revenues	\$ 7,107	\$ 5,992	\$ 5,028	19%	19%
Other value added services	918	735	634	25%	16%
Net revenues	<u>\$ 8,025</u>	<u>\$ 6,727</u>	<u>\$ 5,662</u>	19%	19%

The increase in transaction revenues in 2014 and 2013 was primarily based on the growth in TPV and the total number of payment transactions on our Payments Platform.

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

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2014	2013	2012	2014	2013
	<i>(In millions, except percentages)</i>				
Active customer accounts	162	143	123	13%	16%
Number of payment transactions	3,964	3,261	2,663	22%	22%
Total TPV	\$ 234,635	\$ 185,606	\$ 150,066	26%	24%
Percent of cross-border TPV	24%	24%	24%	**	**
Percent of TPV from large merchants	42%	39%	36%	**	**

** Not Meaningful

The growth in TPV was driven largely by the increase in the number of payment transactions and active customer accounts in 2014 and 2013. The growth in transaction revenues was lower than the growth in TPV and growth in payment transactions due to a higher portion of TPV generated by large merchants who generally pay lower rates on higher transaction volume. We define large merchants as merchants who have generated TPV greater than \$1.2 million in the last 12 months. The impact of increases or decreases in prices charged to our customers did not significantly impact revenue growth in 2014 or 2013.

Net revenues from other value added services increased by 25% and 16% in 2014 and 2013, respectively. The increases were primarily due to interest and fee income earned on loans receivable outstanding from consumers that used our PayPal Credit products as a funding source. The total loans receivable balance as of December 31, 2014 and 2013 was \$3.6 billion and \$2.8 billion, respectively, reflecting a year over year increase of 29%. In 2013, the increase in interest and fee income was offset by a decrease in revenue share we earn through partnerships and a decrease in net revenues from other services that we provide to consumers and merchants.

Table of Contents

Operating Expenses

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

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2014	2013	2012	2014	2013
	<i>(In millions, except percentages)</i>				
Transaction expense	\$ 2,170	\$ 1,835	\$ 1,518	18%	21%
Transaction and loan losses	646	502	365	29%	38%
Customer support and operations	1,055	950	814	11%	17%
Sales and marketing	998	791	662	26%	19%
Product development	890	727	677	22%	7%
General and administrative	482	378	345	28%	10%
Depreciation and amortization	516	453	382	14%	19%
Restructuring	—	—	19	**	**
Total operating expenses	\$ 6,757	\$ 5,636	\$ 4,782	20%	18%
Transaction expense rate ¹	0.92%	0.99%	1.01%		
Transaction and loan loss rate ²	0.28%	0.27%	0.24%		

¹ Transaction expense rate is calculated by dividing transaction expense by TPV

² Transaction and loan loss rate is calculated by dividing transaction and loan losses by TPV

** Not Meaningful

Transaction expense

Transaction expense is primarily comprised of the costs we incur to accept a customer's funding source of payment. These costs include fees paid to payment processors and other financial institutions in order to draw funds from a customer's credit or debit card, bank account or other funding source they have stored in their digital wallet. Transaction expense also includes interest expense on borrowings incurred to finance our portfolio of loans receivable arising from our PayPal Credit funding option. We refer to the allocation of funding sources used by our consumers as our "funding mix." The cost of funding a transaction with a credit card is generally more costly than the cost of funding a transaction from a bank or through internal sources such as a PayPal account balance or PayPal Credit. As we expand the availability of alternative funding sources to our customers, a change in funding mix can increase or decrease our transaction expense rate. For the years ended December 31, 2014, 2013 and 2012, approximately 2% of TPV was funded with PayPal Credit.

The increase of \$335 million or 18% in transaction expense in 2014 compared to 2013, and the increase of \$317 million or 21% in 2013 compared to 2012 is predominantly attributable to an increase in TPV. Our transaction expense rates in 2014 compared to 2013, and in 2013 compared to 2012 have improved due to a favorable funding mix and a larger share of TPV in countries where we pay lower rates for transactions funded with credit cards than in the U.S. In addition, as our technology platform has continued to expand, we are more cost efficient in enabling global payments. For the years ended December 31, 2014, 2013 and 2012, approximately 48%, 48% and 46% of TPV was outside of the U.S. From time to time, payment card networks have increased, and may increase in the future, the interchange fees and assessments that they charge for each transaction which accesses their networks. Our payment card processors have the right to pass any increases in interchange fees and assessments on to us as well as increase their own fees for processing. Such changes in interchange fees and assessments could increase our transaction expense. Interest expense on borrowings incurred to finance our portfolio of loans receivable, included in Transaction expense, was \$7 million, \$14 million and \$12 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Table of Contents

Transaction and loan losses

Transaction losses include the expense associated with our customer protection programs, fraud, and chargebacks. Loan losses include the losses associated with our loans receivable balances. We expect our transaction and loan losses to fluctuate depending on many factors, including TPV, macroeconomic conditions, the extent of our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our PayPal Credit products. Additionally, we recover certain amounts from eBay related to customer protection programs offered on eligible eBay purchases made with PayPal. These amounts include the transaction losses associated with customer claims and are included as a reduction of transaction and loan losses in the combined statement of income. Our transaction losses will be impacted by the cancellation to this arrangement with eBay following our separation.

The increase of \$144 million or 29% in transaction and loan losses in 2014 compared to 2013, and the increase of \$137 million or 38% in 2013 compared to 2012 are predominantly attributable to higher TPV and loan losses. Loan losses relating to our loans receivable portfolio were \$239 million in 2014, \$194 million in 2013 and \$134 million in 2012, reflecting an increase of 23% in 2014 compared to 2013, and an increase of 45% in 2013 compared to 2012. The increase in loan losses is due to growth in the portfolio of loans receivable outstanding arising from consumers who chose PayPal Credit as a funding option. The total loans receivable balance as of December 31, 2014 and 2013 was \$3.6 billion and \$2.8 billion, respectively, reflecting a year over year increase of 29% in each year. The following table provides information regarding the credit quality of a pool of consumer loans and interest receivable balance:

	December 31,	
	2014	2013
Percentage of Loans Receivable with FICO scores > 680	54%	55%
Percentage of Loans Receivable with FICO scores < 599	9%	9%
Percent of Loans Receivable current	90%	90%
Percent of Loans Receivable > 90 days outstanding	4%	4%

Our transaction and loan loss rates did not fluctuate significantly between 2014 and 2013. Our transaction and loan loss rates increased between 2013 and 2012 primarily due to the increase in losses relating to our loans receivable portfolio. Modifications to our PayPal Credit products acceptable risk parameters during those periods did not have a material impact on our loan losses.

Recoveries associated with transaction losses incurred on eligible eBay purchases during the years ended December 31, 2014, 2013 and 2012 were \$43 million, \$48 million and \$36 million, respectively.

Customer support and operations

Customer support and operations expenses include costs incurred to provide 24-hour call support to our customers, our site operations and other infrastructure costs incurred to support our Payments Platform, costs to support our trust and security programs protecting our merchants and consumers and other costs incurred in our operations centers. Customer support and operations costs increased by \$105 million, or 11%, in 2014 compared to 2013 and by \$136 million, or 17%, in 2013 compared to 2012. The increase was predominantly related to an increase in headcount to service our growing number of active customer accounts and the growth in the number of payment transactions occurring on our Payments Platform.

Sales and marketing

Sales and marketing expenses consist primarily of customer acquisition, business development, advertising, marketing programs, and employee compensation and contractor costs to support these programs. Sales and marketing expenses increased by \$207 million, or 26%, in 2014 compared to 2013. Sales and marketing expenses

Table of Contents

increased by \$129 million, or 19%, in 2013 compared to 2012. The increase in sales and marketing expenses in 2014 and 2013 was due primarily to higher spend to support our strategic initiatives. In 2014, we redesigned our PayPal logo and made significant investments in campaigns designed to enhance our global brand recognition and drive consumer engagement.

Product development

Product development expenses consist primarily of employee compensation and contractor costs that are incurred in connection with the development of our Payments Platform, new products and the improvement of our existing products. Product development expenses exclude software and website development costs that are capitalized. The amortization of developed technology is included in depreciation and amortization expenses.

Product development expenses increased by \$163 million, or 22%, in 2014 compared to 2013 and by \$50 million, or 7%, in 2013 compared to 2012. The increase was due primarily to investments in our Payments Platform, creating new mobile experiences for our customers and supporting our strategic initiatives. The acquisition of Braintree also impacted the growth in product development expenses in 2014 compared to 2013.

General and Administrative

General and administrative expenses consist primarily of costs incurred to provide support to our business, including legal, human resources, finance, executive and other support operations. Our legal expenses, including those related to various ongoing legal proceedings, may fluctuate substantially from period to period.

These combined financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and, additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. The expenses that were incurred by eBay have been allocated to us based on direct usage or benefits where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. The corporate costs and allocation of expenses from eBay may not be indicative of the expenses that may have been incurred had we been a separate stand-alone entity during the periods presented, nor are the results stated herein indicative of the expenses we may incur in the future. Such expenses could be higher or lower. In the periods presented, a significant portion of expenses associated with these functions and allocated to us in our combined financial statements are included in general and administrative expenses.

General and administrative expenses increased \$104 million, or 28%, in 2014 compared to 2013 and \$33 million, or 10%, in 2013 compared to 2012. In 2014, \$207 million of corporate costs and expenses allocated to us were included in general and administrative expenses representing an increase of \$24 million, or 13% compared to 2013. In 2013, \$183 million of corporate costs and expenses allocated to us were included in general and administrative expenses representing an increase of \$15 million, or 9% compared to 2012. In 2014 and 2013, the remaining increase in general and administrative expenses related primarily to higher employee-related costs, including those related to the separation.

Depreciation and Amortization

The primary components of our depreciation and amortization expenses include the depreciation of software, including our technology platform, equipment used to deliver our services and the amortization of acquired intangible assets. Depreciation and amortization expenses increased \$63 million, or 14%, in 2014 compared to 2013 and \$71 million, or 19%, in 2013 compared to 2012. The increases in 2014 and 2013 were predominantly due to additional depreciation expenses associated with investments in our technology platform. Amortization expenses for intangible assets were \$84 million, \$70 million and \$67 million for the years ended December 31, 2014, 2013 and 2012 respectively. The increase in amortization expenses for intangible assets in 2014 were due primarily to our acquisition of Braintree in the fourth quarter of 2013.

Table of Contents

Income Tax Expense

Our effective tax rate was 67% in 2014 compared to 12% in 2013. The increase in our effective tax rate during 2014 compared to 2013 was due primarily to the recognition during the year of a U.S. deferred tax liability of approximately \$650 million on \$1.9 billion of undistributed foreign earnings of certain of our foreign subsidiaries for 2013 and prior years. See “Note 13—Income Taxes” to the combined financial statements included in this report for more information on our effective tax rate.

Our effective tax rate was 12% in 2013 compared to 13% in 2012. The decrease in our effective tax rate during 2013 was due primarily to re-enactment of the federal research and development credit retroactive to January 1, 2012 during the first quarter of 2013.

Financial Results—Three Months Ended March 31, 2015 and 2014

Net revenues

Net revenues analysis

The significant components of our net revenue for the three months ended March 31, 2015 and 2014:

	<u>Three Months Ended March 31,</u>		<u>Percent Increase/ (Decrease)</u>
	<u>2015</u>	<u>2014</u>	
	<i>(In millions, except percentages)</i>		
Transaction revenues	\$1,914	\$1,674	14%
Other value added services	<u>223</u>	<u>\$ 200</u>	12%
Net revenues	\$2,137	\$1,874	14%

The increase in transaction revenues in the three months ended March 31, 2015 compared to the same period of the prior year was primarily based on the growth in TPV and the total number of payment transactions on our Payments Platform.

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

	Three Months Ended March 31,		Percent Increase/ (Decrease)
	2015	2014	
(In millions, except percentages)			
Active customer accounts	165	148	11%
Number of payment transactions	1,123	918	22%
Total TPV	\$63,021	\$53,676	17%
Percent of cross-border TPV	23%	24%	**
Percent of TPV from large merchants	42%	40%	**

** Not Meaningful

The growth in TPV was driven largely by the increase in the number of payment transactions in the three months ended March 31, 2015 compared to the same period of the prior year. The growth in transaction revenues was lower than the growth in TPV and growth in payment transactions due to a higher portion of TPV generated by large merchants who generally pay lower rates on higher transaction volume. The impact of increases or decreases in prices charged to our customers did not significantly impact revenue growth in the three months ended March 31, 2015.

Table of Contents

Net revenues from other value added services increased by 12% in the three months ended March 31, 2015 compared to the same period of the prior year. The increase was primarily due to interest and fee income earned on loans receivable outstanding from consumers that used our PayPal Credit products as a funding source. The total consumer loans receivable balance as of March 31, 2015 was \$3.6 billion, reflecting a year over year increase of 27%. Net revenues from other value added services that we provide did not change significantly in the three months ended March 31, 2015 compared to the same period of the prior year.

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,		Percent Increase/ (Decrease)
	2015	2014	
	<i>(In millions, except percentages)</i>		
Transaction expense	\$ 575	\$ 514	12%
Transaction and loan losses	178	129	38%
Customer support and operations	275	255	8%
Sales and marketing	236	215	10%
Product development	224	198	13%
General and administrative	138	115	20%
Depreciation and amortization	141	130	8%
Restructuring	48	—	**
Total operating expenses	\$1,815	\$1,556	17%
Transaction expense rate ¹	0.91%	0.96%	**
Transaction and loan loss rate ²	0.28%	0.24%	**

¹ Transaction expense rate is calculated by dividing transaction expense by TPV.

² Transaction and loan loss rate is calculated by dividing transaction and loan losses by TPV.

** Not Meaningful

Transaction expense

The increase of \$61 million, or 12%, in transaction expense in the three months ended March 31, 2015 compared to the same period of the prior year was predominantly attributable to an increase in TPV, which was offset by favorable foreign currency fluctuations due to the strengthening of the U.S. dollar. Our transaction expense rates in the three months ended March 31, 2015 improved compared to the same period of the prior year due primarily to cost efficiencies from our global payments platform and a favorable funding mix. The cost of funding a transaction with a credit card is generally more costly than the cost of funding a transaction from a bank or through internal sources such as PayPal account balance or PayPal Credit. As we expand the availability of alternative funding sources to our customers, a change in funding mix can increase or decrease our transaction expense rate. Funding mix was favorably impacted during the three months ended March 31, 2015 by a higher percentage of TPV from lower-cost funding sources. For the three months ended March 31, 2015 and 2014, approximately 2% of TPV was funded with PayPal Credit. For the three months ended March 31, 2015 and 2014, approximately 46% and 48% of TPV, respectively, was generated outside of the U.S. Interest expense on borrowings incurred to finance our portfolio of loans receivable, included in transaction expense, was \$3 million and \$1 million for the three months ended March 31, 2015 and 2014, respectively.

Transaction and loan losses

The increase of \$49 million, or 38%, in transaction and loan losses in the three months ended March 31, 2015 compared to the same period of the prior year was predominantly attributable to higher TPV and an increase in loan losses. Loan losses relating to our loans receivable portfolio were \$71 million and \$49 million in the three months ended March 31, 2015 and 2014, respectively, reflecting an increase of 45%. The increase in loan losses was due to growth in the portfolio of loans receivable outstanding arising from consumers who chose PayPal Credit as a funding option, which increased by 27% year over year, and an increase in losses incurred on working

Table of Contents

capital advances to selected merchant sellers. The total consumer loans receivable balance as of March 31, 2015 and December 31, 2014 was \$3.6 billion. The following table provides information regarding the credit quality of our pool of consumer loans and interest receivable balance:

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Percentage of Loans Receivable with FICO scores > 680	52%	54%
Percentage of Loans Receivable with FICO scores < 599	11%	9%
Percent of Loans Receivable current	91%	90%
Percent of Loans Receivable > 90 days outstanding	4%	4%

Modifications to our PayPal Credit products acceptable risk parameters during those periods did not have a material impact on our loan losses.

Recoveries associated with transaction losses incurred on eligible eBay purchases during the three months ended March 31, 2015 and 2014 were \$10 million and \$12 million, respectively.

Customer support and operations

Customer support and operations costs increased by \$20 million, or 8%, in the three months ended March 31, 2015 compared to the same period of the prior year. The increase was predominantly related to an increase in headcount to service the growth in our active customer accounts and the number of payment transactions occurring on our Payments Platform, which was offset in part by favorable foreign currency fluctuations due to the strengthening of the U.S. dollar.

Sales and marketing

Sales and marketing expenses increased by \$21 million, or 10%, in the three months ended March 31, 2015 compared to the same period of the prior year. The increase in sales and marketing expenses was due primarily to an increase in expenses relating to marketing programs to promote our products and higher employee-related costs, which was offset in part by favorable foreign currency fluctuations due to the strengthening of the U.S. dollar.

Product development

Product development expenses increased by \$26 million, or 13%, in the three months ended March 31, 2015 compared to the same period of the prior year. The increase was due primarily to investments in our Payments Platform, creating new mobile experiences for our customers and supporting our strategic initiatives.

General and Administrative

General and administrative expenses increased \$23 million, or 20%, in the three months ended March 31, 2015 compared to the same period of the prior year. In the three months ended March 31, 2015, \$61 million of corporate costs and expenses allocated to us were included in general and administrative expenses representing an increase of \$1 million, or 2%, compared to the same period of the prior year. The increase in general and administrative expenses related primarily to an increase in expenses associated with regulatory matters and higher employee-related costs, including those related to our separation.

Depreciation and Amortization

Depreciation and amortization expenses increased \$11 million, or 8%, in the three months ended March 31, 2015 compared to the same period of the prior year. The increases were predominantly due to additional depreciation expenses associated with investments in our technology platforms. Amortization expenses for intangible assets were \$19 million and \$24 million during the three months ended March 31, 2015 and 2014, respectively.

Table of Contents

Restructuring

In January 2015, at a regular meeting of eBay's Board of Directors ("eBay's Board"), eBay's Board approved a plan to implement a strategic reduction of its existing global workforce. The reduction is expected to be substantially completed in the first half of 2015 and generate annual savings of more than \$130 million across the Company, primarily impacting sales and marketing and product development expenses. The savings in these line items are expected to be offset by the Company's reinvestment back into these areas of the business to drive additional growth. Restructuring expenses were \$48 million in the three months ended March 31, 2015. No restructuring expenses were recognized in the three months ended March 31, 2014.

Income Tax Expense

Our effective income tax rate was 21% and 222% for the three months ended March 31, 2015 and 2014, respectively. The decrease in our effective income tax rate for the three months ended March 31, 2015 compared to the same period of the prior year was due primarily to the prior year accrual of U.S. income and applicable foreign taxes on \$1.9 billion of undistributed foreign earnings for 2013 and prior years which were no longer considered indefinitely reinvested. Without this accrual, our effective tax rate for the three months ended March 31, 2014 would have been 14%. The additional 7% increase in our effective tax rate over the same period of the prior year was due primarily to discrete items.

Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most 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, portions of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" include 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 the Company's related financial results prepared in accordance with GAAP.

We present non-GAAP financial measures to enhance an investor's evaluation of our ongoing operating results and to facilitate meaningful comparison of our results between periods. Management uses these non-GAAP financial measures to, among other things, evaluate our ongoing 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 earnings 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 expense consists of expenses for stock options, restricted stock units, and employee stock purchases issued to our employees by eBay under eBay's equity incentive plans. We exclude stock-based compensation expense from our non-GAAP measures primarily because they are non-cash expenses that management does not believe are reflective of ongoing operating results. The related employer payroll taxes are dependent on eBay's stock price and the timing and size of exercises by our employees of their stock options and the vesting of their restricted stock units, over which management has limited to no control, and as such management does not believe it correlates directly to our operation of the business.
- *Amortization or impairment of acquired intangible assets, impairment of goodwill, significant gains or losses and transaction expenses from the acquisition or disposal of a business and certain gains or losses on investments.* We incur amortization or impairment of acquired intangible assets and goodwill in connection with acquisitions and may incur significant gains or losses from the acquisition or disposal of a business and therefore exclude these amounts from our non-GAAP measures. We also exclude certain gains and losses on investments. We exclude these items because management does not believe they correlate directly to the ongoing operating results of our business.

Table of Contents

- *Restructuring.* These charges consist of expenses for employee severance and other exit and disposal costs. We exclude restructuring charges primarily because management does not believe they are reflective of ongoing operating results.
- *Certain gains and losses on investments.* These consist of significant, one-time gains or losses as determined in accordance with GAAP that are not a recurring part of our business operations.
- *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 or be repeated in the future. We exclude these amounts from our results primarily because management does not believe they are indicative of our current or ongoing operating results. For the quarter ended March 31, 2014, this includes the recognition of a U.S. deferred tax liability of approximately \$650 million.
- *Separation.* These are significant expenses that are related to the planned separation of our business from eBay and into a separate publicly traded company. These consist primarily of third-party consulting fees, legal fees, employee retention payments and other expenses incurred to complete the separation. We exclude these items because management does not believe they correlate directly to the ongoing operating results of our business.
- *Tax effect of non-GAAP adjustments.* This amount is used 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.

Table of Contents

Years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
GAAP operating income	\$1,268	\$1,091	\$ 880
Stock-based compensation expense and related employer payroll taxes	309	269	210
Amortization of acquired intangible assets	70	55	58
Restructuring	1	(4)	19
Total non-GAAP operating income adjustments	380	320	287
Non-GAAP operating income	\$1,648	\$1,411	\$1,167
Non-GAAP operating margin	21%	21%	21%

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
GAAP income before income taxes	\$1,261	\$1,084	\$ 891
GAAP provision for income taxes	842	129	113
GAAP net income	419	955	778
Non-GAAP adjustments to net income:			
Non-GAAP operating income adjustments (see table above)	380	320	287
Amortization of intangibles of investments	4	7	—
Other certain gains and losses on investments	(4)	—	—
Other certain significant gains, losses, or charges	650	—	—
Tax effect of non-GAAP adjustments	(106)	(96)	(104)
Non-GAAP net income	\$1,343	\$1,186	\$ 961
GAAP effective tax rate	67%	12%	13%
Tax effect of non-GAAP adjustments to net income	(49)%	4%	5%
Non-GAAP effective tax rate	18%	16%	18%

In addition to the non-GAAP measures discussed above, the company also uses free cash flow to assess our operating performance. Free cash flow represents operating cash flows less purchases of property and equipment. The company considers 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, buildings, equipment and including investments in our Payments Platform, which can then be used to, among other things, invest in the company's 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 the company's cash balance for the period.

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net cash provided by operating activities	\$2,220	\$1,993	\$1,565
Less: Purchases of property and equipment	(492)	(391)	(511)
Free cash flow	\$1,728	\$1,602	\$1,054

Table of Contents

Three months ended March 31, 2015 and 2014

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
GAAP operating income	\$ 322	\$ 318
Stock-based compensation expense and related employer payroll taxes	82	73
Amortization of acquired intangible assets	16	21
Separation	5	—
Restructuring	48	—
Total non-GAAP operating income adjustments	151	94
Non-GAAP operating income	\$ 473	\$ 412
Non-GAAP operating margin	22%	22%

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
GAAP income before income taxes	\$ 321	\$ 312
GAAP provision for income taxes	66	694
GAAP net income	255	(382)
Non-GAAP adjustments to net income:		
Non-GAAP operating income adjustments (see table above)	151	94
Amortization of intangibles of investments	—	2
Other certain significant gains, losses, or charges	—	650
Tax effect of non-GAAP adjustments	(46)	(27)
Non-GAAP net income	\$ 360	\$ 337
GAAP effective tax rate	21%	222%
Tax effect of non-GAAP adjustments to net income	3%	(205)%
Non-GAAP effective tax rate	24%	17%

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net cash provided by operating activities	\$ 544	\$ 425
Less: Purchases of property and equipment	(194)	(100)
Free cash flow	\$ 350	\$ 325

Liquidity and Capital Resources

We require liquidity and access to capital to fund our global operations, customer protection programs, provide credit to customers that fund transactions using our PayPal Credit product, capital expenditures, investments in our business, potential acquisitions and current and future obligations. The following table summarizes the cash, cash equivalents and available-for-sale investment balances available as of December 31, 2014:

	December 31,	
	2014	2013
	(In millions)	
Cash, cash equivalents and available-for-sale investment securities ¹	\$2,230	\$1,975

¹ Excludes assets related to customer accounts of \$10.6 billion and \$9.3 billion at December 31, 2014 and 2013, respectively.

Table of Contents

Cash, cash equivalents and available-for-sale investments held by our foreign subsidiaries (i.e., any entities where earnings would be subject to United States tax upon repatriation) were \$2.0 billion and \$1.8 billion at December 31, 2014 and 2013, respectively, or 90% and 91% of our total cash, cash equivalents and available-for-sale investments as of such dates. During the first quarter of 2014, eBay changed its capital allocation strategy to reflect its objective of increasing its available U.S. cash, preserving its credit rating, and providing greater liquidity to meet its other cash needs in the U.S., which included, among other things and subject to market conditions and other uncertainties, merger and acquisition activity and potentially funding opportunistic share repurchases on an accelerated basis. As a result of the change in eBay's capital allocation strategy, we provided for U.S. income and applicable foreign withholding taxes on \$1.9 billion of undistributed foreign earnings of certain of our non-U.S. subsidiaries for 2013 and prior years. We have recorded a deferred tax liability of approximately \$650 million based on the estimated tax consequences of repatriating these earnings. We have not provided for U.S. federal income and foreign withholding taxes on \$2.3 billion of our non-U.S. subsidiaries' undistributed earnings as of December 31, 2014. Since we do not know the time or manner in which we would repatriate those funds, we cannot determine the impact of local taxes, withholding taxes and foreign tax credits associated with the future repatriation of such earnings and therefore cannot quantify the tax liability. We expect to receive a contribution of approximately \$3.8 billion of cash from eBay prior to the separation. This cash will be used for general corporate purposes in both our international and domestic operations.

We strive to protect consumers and merchants from fraudulent transactions. The risk of losses from these protection programs are specific to individual customers, merchants and transactions, and may also be impacted by regional variations to these programs and modifications to the program resulting from changes to regulatory requirements. For the periods presented in the combined financial statements, payments under these protections have ranged between 0.08% and 0.12% of TPV. Historical trends may not be an indication of the future. In addition, we recovered certain amounts from eBay related to our customer protection programs offered on eligible eBay purchases made with PayPal. These costs include the transaction losses associated with customer claims and are included as a reduction of transaction and loan losses. Changes in our arrangement with eBay could impact our transaction and loan losses.

We currently fund the expansion of the PayPal Credit loans receivables with international and domestic cash resources and borrowings from eBay. To the extent that our PayPal Credit products become more widely available, and as we further promote PayPal Credit, customer adoption and usage of such products may expand. Any resulting growth in the portfolio of loan receivables would increase our liquidity needs and any failure to meet those liquidity needs could adversely affect our business. In April 2015, we concluded an arrangement with certain investors under which we sold a participation interest of approximately \$700 million in a portion of our purchased consumer receivables arising from loans made by our partner chartered financial institution of individual consumers to purchase goods and services using our PayPal Credit products. We expect to continue to evaluate 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. Through these arrangements we are able to continue to expand the availability of our credit products without requiring the use of internal capital. We believe these third party sources, together with cash expected to be generated from operations, will be sufficient to fund the PayPal Credit portfolio for the foreseeable future.

Our liquidity and access to capital could be impacted by our credit rating, financial performance, and global credit market conditions. We are working with credit rating agencies to obtain separate credit ratings and believe that immediately following separation we will be rated investment grade. In addition, our liquidity and access to capital could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See "Risk Factors—Risk Factors That May Affect Our Business, Results of Operations and Financial Condition" and "Note 10—Commitments and Contingencies" to the combined financial statements for additional discussion of these and other risks facing our business.

In June 2014, we agreed, subject to certain conditions, that we, one of our affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value

Table of Contents

of the consumer loan receivables portfolio at the time of the purchase (expected to be the fourth quarter of 2016), subject to certain adjustments and exclusions. As of December 31, 2014, Synchrony had a net receivables portfolio under the credit program agreement of approximately \$1.5 billion.

We believe that our existing cash, cash equivalents, available-for-sale investments, cash expected to be generated from operations, the anticipated cash contribution to PayPal from eBay, our expected access to capital markets, together with 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 portfolio for the foreseeable future.

Three months ended March 31, 2015 and 2014

We held cash, cash equivalents and available-for-sale investment balances of \$2.4 billion as of March 31, 2015. Cash, cash equivalents and available-for-sale investments held by our foreign subsidiaries (i.e., any entities where earnings would be subject to United States tax upon repatriation) were \$2.3 billion as of March 31, 2015, or 96% of our total cash, cash equivalents and available-for-sale investments.

Cash Flows

Years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013 (In millions)	2012
Net cash provided by (used in):			
Operating activities	\$ 2,220	\$ 1,993	\$ 1,565
Investing activities	(1,546)	(1,721)	(1,526)
Financing activities	(51)	(85)	(210)
Effect of exchange rates on cash and cash equivalents	(26)	3	(1)
Net increase/(decrease) in cash and cash equivalents	<u>\$ 597</u>	<u>\$ 190</u>	<u>\$ (172)</u>

Operating Activities

We generated cash from operating activities of \$2.2 billion, \$2.0 billion and \$1.6 billion in 2014, 2013 and 2012, due primarily to operating income of \$1.3 billion, \$1.1 billion, and \$880 million, respectively. We also recorded non-cash charges in operating income related to transaction and loan losses, depreciation and amortization, and stock-based compensation that contributed to net cash provided by operating activities.

Cash paid for income taxes in 2014, 2013 and 2012 was \$47 million, \$28 million and \$38 million, respectively.

Investing Activities

The net cash used in investing activities of \$1.5 billion in 2014 was due primarily to increases in our loan receivable portfolio (net of collections) originated through our PayPal Credit products of \$1.0 billion and purchases of property and equipment of \$492 million.

The net cash used in investing activities of \$1.7 billion in 2013 was due primarily to increases in our loan receivable portfolio (net of collections) originated through our PayPal Credit products of \$793 million, cash paid for acquisitions (net of cash acquired) of \$731 million, and net cash paid for purchases and sales of investments of \$290 million.

Table of Contents

The net cash used in investing activities of \$1.5 billion in 2012 was due primarily to increases in our loan receivable portfolio (net of collections and charge-offs) originated through our PayPal Credit products of \$740 million, purchases of property and equipment, of \$511 million and net cash outflows relating to receivables from eBay of \$168 million.

Financing Activities

The net cash used in financing activities of \$51 million in 2014, \$85 million in 2013 and \$210 million in 2012 was due primarily to net cash outflows relating to repayments of borrowings from eBay.

Free Cash Flow

Management uses a free cash flow measure to evaluate the company's operating results, evaluate strategic investments and assess the company's ability and need to incur and service debt. Free cash flow is not a defined term under GAAP and it should not be inferred that the entire free cash flow amount is available for discretionary expenditures. The company defines free cash flow as net cash provided by operating activities less purchases of property and equipment, including the investment in software. Free cash flow was \$1.7 billion in 2014, an increase of \$126 million from 2013. The increase was primarily due to an increase in deferred income taxes of \$628 million, partially offset by a decrease in net income. Free cash flow was \$1.6 billion in 2013, an increase of \$548 million from 2012. The increase in 2013 was due primarily to an increase in net income of \$177 million, an increase in the accrual for transaction and loan losses of \$137 million and a decrease of \$120 million in purchases of property and equipment. The increase in free cash flow in 2014 was used to fund our increase in loans to consumers and merchants. The increase in free cash flow in 2013 was used towards the acquisition of Braintree in December of 2013.

Effect of Exchange Rates on Cash

The negative effect of currency exchange rates on cash and cash equivalents during 2014 of \$26 million was due to the strengthening of the U.S. dollar against certain foreign currencies, primarily the Euro. There was minimal impact of currency exchange rates on cash and cash equivalents during 2013 and 2012.

Three months ended March 31, 2015 and 2014

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net cash provided by (used in):		
Operating activities	\$ 544	\$ 425
Investing activities	(254)	176
Financing activities	(94)	(6)
Effect of exchange rates on cash and cash equivalents	(32)	(1)
Net increase/(decrease) in cash and cash equivalents	<u>\$ 164</u>	<u>\$ 594</u>

Operating Activities

We generated cash from operating activities of \$544 million in the three months ended March 31, 2015 due primarily to operating income of \$322 million. Adjustments for non-cash charges in operating income increased during the period ended March 31, 2015 compared to the same period of the prior year and included \$178 million related to transaction and loan losses, \$141 million related to depreciation and amortization and \$79 million related to stock-based compensation. These adjustments were offset by an increase in working capital of \$150 million.

Table of Contents

We generated cash from operating activities of \$425 million in the three months ended March 31, 2014 due primarily to operating income of \$318 million, adjusted for non-cash charges in operating income related to \$129 million in transaction and loan losses, \$130 million in depreciation and amortization, and \$68 million in stock-based compensation, offset by an increase in working capital of \$160 million.

Cash paid for income taxes in the three months ended March 31, 2015 and 2014 was \$5 million and \$11 million, respectively.

Investing Activities

The net cash used in investing activities of \$254 million in the three months ended March 31, 2015 was due primarily to purchases of property and equipment of \$194 million and net cash outflows relating to receivables from eBay of \$56 million. Purchases of property and equipment increased in the current period due in part to the anticipated separation from eBay.

The net cash provided by investing activities of \$176 million in the three months ended March 31, 2014 was due primarily to maturities and sales of investments of \$367 million, offset by purchases of property and equipment of \$100 million and net cash outflows relating to receivables from eBay of \$64 million.

Financing Activities

The net cash used in financing activities of \$94 million and \$6 million in the three months ended March 31, 2015 and 2014, respectively, was due primarily to net cash outflows relating to repayments of borrowings from eBay.

Free Cash Flow

Free cash flow was \$350 million in the three months ended March 31, 2015, an increase of \$25 million from the same period of the prior year. The increase was primarily due to an increase in cash generated from operating activities offset by an increase in purchases of property and equipment. Free cash flow generated during the three months ended March 31, 2015 was used for general business purposes and towards our acquisitions announced in March 2015.

Effect of Exchange Rates on Cash

The negative effect of currency exchange rates on cash and cash equivalents during the three months ended March 31, 2015 and 2014 of \$32 million and \$1 million, respectively, was due to the strengthening of the U.S. dollar against certain foreign currencies, primarily the Euro.

Off-Balance Sheet Arrangements

PayPal has no off-balance sheet debt, other than lease arrangements and other commitments as presented in the Future Obligations table that follows.

eBay Inc. has a cash pooling arrangement with a financial institution for cash management purposes. We participate in this arrangement, which allows for cash withdrawals from this financial institution based upon eBay's aggregate operating cash balances within the same financial institution ("Aggregate Cash Deposits"). This arrangement also allows eBay 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 eBay's net interest expense or income. As of December 31, 2014, PayPal had \$1.6 billion relating to cash subject to this pooling arrangement.

Table of Contents

Future Liquidity and Obligations

Following the separation, our capital structure and sources of liquidity will differ from our historical capital structure. Please refer to the “Unaudited Pro Forma Condensed Combined Financial Statements” included elsewhere in this information statement for discussion of the anticipated post-distribution capital structuring, including an anticipated cash contribution to PayPal from eBay. Post separation, we will no longer participate in cash management and intercompany funding arrangements with eBay. Our ability to fund our capital needs will depend on our ability to access our cash and investment portfolio, generate cash from operations, and access capital markets. The following table summarizes our obligations as of December 31, 2014 that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through our existing cash and investment portfolio and cash expected to be generated from operations.

<u>Payments Due During the Year Ending December 31,</u>	<u>Purchase Obligations</u>	<u>Operating Leases</u>	<u>Total</u>
		(In millions)	
2015	\$ 144	\$ 33	\$177
2016	42	31	73
2017	1	28	29
2018	—	26	26
2019	—	17	17
Thereafter	—	24	24
	<u>\$ 187</u>	<u>\$ 159</u>	<u>\$346</u>

The significant assumptions used in our determination of amounts presented in the above table are as follows:

- Lease amounts include minimum rental payments under our non-cancelable operating leases for office facilities, fulfillment centers, as well as computer and office equipment that we utilize under lease arrangements. The amounts presented are consistent with contractual terms and are not expected to differ significantly from actual results under our existing leases, unless a substantial change in our headcount needs requires us to expand our occupied space or exit an office facility early.
- Purchase obligation amounts include minimum purchase commitments for advertising, capital expenditures (computer equipment, software applications, engineering development services, construction contracts) and other goods and services entered into in the ordinary course of business.

In addition, in June 2014, we agreed, subject to certain conditions, that we, one of our affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value of the consumer loan receivables portfolio at the time of the purchase (expected to be the fourth quarter of 2016), subject to certain adjustments and exclusions. As of December 31, 2014, Synchrony had a net receivables portfolio under the credit program agreement of approximately \$1.5 billion.

As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits, net, the table does not include \$187 million of such non-current liabilities included in deferred and other tax liabilities recorded on our combined balance sheet as of December 31, 2014.

Seasonality

The Company does not experience meaningful seasonality. No individual quarter in 2014, 2013 or 2012 accounted for more than 30% of net revenue.

Critical Accounting Policies and Estimates

The application of U.S. GAAP requires us to make estimates and assumptions about certain items and future events that directly affect our reported financial condition. We have established detailed policies and control procedures to

Table of Contents

provide reasonable assurance that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to our financial condition. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of eBay Inc.'s board of directors. Our significant accounting policies, including recent accounting pronouncements, are described in "Note 1—Overview and Summary of Significant Accounting Policies" to the combined annual financial statements.

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity are included to allow users of this information statement to understand a general direction cause and effect of changes in the estimates and do not represent management's predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecasted, and estimates require regular review and adjustment.

Transaction and loan losses

Transaction and loan losses include the expense associated with our customer protection programs, fraud, chargebacks, and credit losses associated with our loans receivable balances. We expect our transaction and loan losses to fluctuate depending on many factors, including, the total TPV, macroeconomic conditions, the extent of our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our PayPal Credit products.

We establish allowances for estimated transaction losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery of goods or services, ACH returns, buyer protection program claims, account take overs, and debit card overdrafts. Additions to the allowance, in the form of provisions, are reflected in transaction and loan losses in our combined statements of income. The allowances, which involve the use of actuarial techniques, are monitored monthly and are updated based on actual claims data reported by our claims processors and other actual data received. The allowances are based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving loss payment patterns, and the mix of transaction and loss types.

We also establish an allowance for loans receivable which represents our estimate of probable loan losses inherent in our PayPal Credit loans receivable portfolio and is reflected in transaction and loan losses in our combined statements of income. This evaluation process is subject to numerous estimates and judgments, and is primarily based on forecasted principal balance delinquency rates ("roll rates"). Roll rates are the percentage of balances which we estimate will migrate from one stage of delinquency to the next based on our historical experience, as well as external factors such as estimated bankruptcies and levels of unemployment. Roll rates are applied to principal balances for each stage of delinquency, from current to 180 days past due, in order to estimate the principal loans which are probable to be charged off. The allowance for loss against interest receivable is primarily determined by applying historical average customer account roll rates to the interest receivable balance in each stage of delinquency to project how much will not be collectible.

We charge off loans receivable balances in the month in which the customer balance becomes 180 days past due. Bankrupt accounts are charged off within 60 days of receiving notification from the bankruptcy courts. Past due loans receivable continue to accrue interest until such time as they are charged off, with the portion of the reserve related to interest receivable balance classified as a reduction of revenue.

Determining appropriate allowances for these losses is an inherently uncertain process and is subject to numerous estimates and judgments, and ultimate losses may vary from the current estimates. We regularly update our

Table of Contents

allowance estimates as new facts become known and events occur that may impact the settlement or recovery of losses. The allowances are maintained at a level we deem appropriate to adequately provide for losses incurred at the balance sheet date. An aggregate ten percentage point increase in our transaction and loan loss rate would negatively impact transaction and loan losses by approximately \$65 million.

Accounting for Income Taxes

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective government taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is significantly affected by the tax rates that apply to our foreign earnings. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our earnings are indefinitely reinvested outside the U.S. Indefinite reinvestment is determined by management's judgment about and intentions concerning our future operations. To the extent we do not intend to repatriate these earnings to fund U.S. operations, we do not provide for U.S. federal income and foreign withholding tax on these earnings.

Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates that are based on a number of factors, including our historical experience and short range and long-range business forecasts. To the extent deferred tax assets are not expected to be realized, we record a valuation allowance.

We recognize and measure uncertain tax positions in accordance with GAAP, pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. GAAP further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes are adequate such that we reflect the benefits more likely than not to be sustained in an examination. We adjust these reserves, as well as the related interest, where appropriate in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Based on our results for the year ended December 31, 2014, a one-percentage point change in our provision for income taxes as a percentage of income before taxes would have resulted in an increase or decrease in the provision of approximately \$13 million.

Loss Contingencies

We are currently involved in various claims, legal proceedings and investigations of potential operating violations by regulatory oversight authorities. We regularly review the status of each significant matter and

Table of Contents

assess our potential financial exposure. If the potential loss from any claim, legal proceeding or potential regulatory violation is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination of whether an exposure is reasonably estimable. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims, litigation or other violation and may revise our estimates. Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes.

Revenue Recognition

Application of the various accounting principles in U.S. GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, the determination of whether we are a principal to a transaction (gross revenue) or an agent (net revenue) can require considerable judgment. Further, we provide incentive payments to consumers and merchants, which require judgment to determine whether the payments should be recorded as a reduction to gross revenue. Changes in judgments with respect to these assumptions and estimates could impact the amount of revenue recognized.

Valuation of Goodwill and Intangibles

The valuation of assets acquired in a business combination and asset impairment reviews require the use of significant estimates and assumptions. The acquisition method of accounting for business combinations requires us to estimate the fair value of assets acquired, liabilities assumed, and any non-controlling interest in the acquiree to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Impairment testing for assets, other than goodwill and indefinite-lived intangible assets, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

We evaluate goodwill and intangible assets for impairment on an annual basis or sooner if indicators of impairment exist. In the fourth quarter of 2012, the Company early adopted the Financial Accounting Standards Board ("FASB") guidance that simplifies how an entity tests indefinite-lived intangible assets for impairment, allowing a qualitative assessment to be performed, which is similar to the FASB guidance for evaluating goodwill for impairment. In performing these qualitative assessments, we consider relevant events and conditions, including but not limited to, macroeconomic trends, industry and market conditions, overall financial performance, cost factors, company-specific events, legal and regulatory factors and our market capitalization (previously assessed under eBay). If the qualitative assessments indicate that it is more likely than not that the fair value of the reporting unit or indefinite-lived intangible assets are less than their carrying amounts, we must perform a quantitative impairment test.

Under the quantitative impairment test, if the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recorded in the Combined Statements of Income. Measurement of the fair value of a reporting unit is based on one or more of the following fair value measures: amounts at which the unit as a whole could be bought or sold in a current transaction between willing parties, using present value techniques of estimated future cash flows, or using valuation techniques based on multiples of earnings or revenue, or a similar performance measure.

Table of Contents

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 from our investment portfolio and from interest-rate sensitive assets underlying the customer balances we hold on our combined balance sheet as customer accounts.

As of December 31, 2014, approximately 97% of our total cash and investment portfolio was held in cash and cash equivalents, and we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities. For additional details related to our investment activities, please see “Note 4—Investments” to the combined financial statements included in this report.

The assets underlying the customer balances we hold on our combined 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. 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 the regulatory requirements and commercial law in the jurisdictions where PayPal operates, equal to at least 100% of the aggregate amount of all customer balances. We do not pay interest on amounts due to customers.

We expect to enter into a new revolving credit facility that will bear interest at a floating rate. As a result, we will be exposed to fluctuations in interest rates to the extent of our borrowings under the revolving credit facility.

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 adverse change in interest rates would not have a material impact on the Company’s financial assets or liabilities at December 31, 2014 and 2013.

Foreign Currency Risk

We have significant operations internationally that are denominated in foreign currencies, primarily the Euro, British Pound, and Australian 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 combined cash flows and results of operations through the execution of foreign currency exchange contracts.

Table of Contents

These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our foreign currency exchange contracts, please see “Note 6—Derivative Instruments” to the combined 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, 2015 and December 31, 2014, the amount recorded in AOCI related to our foreign exchange forward contracts before tax effect would have been approximately \$269 million and \$294 million lower, respectively. If the U.S. dollar strengthened by 20% at March 31, 2015 and December 31, 2014, the amount recorded in AOCI related to our foreign exchange forward contracts before tax effect would have been approximately \$269 million and \$294 million higher, respectively.

In addition, 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 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 the assets and liabilities are recorded in “Other income (expense), net,” which are offset by the gains and losses on the foreign exchange contracts.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately \$20 million and \$32 million at March 31, 2015 and December 31, 2014, respectively, without considering the offsetting effect of hedging. Foreign exchange contracts in place as of March 31, 2015 would have resulted in an offsetting effect of approximately \$26 million, resulting in a net positive impact of approximately \$6 million. Foreign exchange contracts in place as of December 31, 2014 would have resulted in an offsetting effect of approximately \$34 million, resulting in a net positive impact of approximately \$2 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 December 31, 2014, our cost and equity method investments totaled \$31 million, which represented approximately 1% of our total cash and investment portfolio and were primarily related to equity 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/acquisitions of the securities in which we have invested and other publicly available data.

European Debt Exposures

We actively monitor our exposure to the European markets, including the impact of sovereign debt issues associated with Cyprus, Greece, Ireland, Italy, Portugal and Spain. As of December 31, 2014, we did not have any direct investments in the sovereign debt of these countries or in debt securities issued by corporations or financial institutions organized in these countries.

MANAGEMENT**Executive Officers Following the Distribution**

The following table sets forth information as of June 26, 2015 regarding the individuals who are expected to serve as executive officers of PayPal following the distribution. While some of PayPal's executive officers are currently officers and employees of eBay, after the distribution, none of these individuals will be employees or executive officers of eBay.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel H. Schulman	57	President and Chief Executive Officer
Jonathan Auerbach	52	Senior Vice President, Chief Strategy and Growth Officer
Tomer Barel	42	Senior Vice President, Chief Risk Officer
James J. Barrese	47	Chief Technology Officer and Senior Vice President, Payment Services
Patrick L. A. Dupuis	52	Senior Vice President, Interim Chief Financial Officer
Hill Ferguson	43	Senior Vice President, Consumer
Gary Marino	58	Senior Vice President, Global Credit and the Americas
Louise Pentland	43	Senior Vice President, General Counsel
William J. Ready	35	Senior Vice President, Merchant and Next Generation Commerce

Daniel H. Schulman is expected to serve as the President and Chief Executive Officer of PayPal. He has served as the President and CEO-Designee of PayPal since September 2014. From August 2010 to August 2014, Mr. Schulman served as Group President, Enterprise Group of American Express. Mr. Schulman was President, Prepaid Group of Sprint Nextel Corporation, a cellular phone service provider, from November 2009 until August 2010, when Sprint Nextel acquired Virgin Mobile, USA, a cellular phone service provider.

Jonathan Auerbach is expected to serve as Senior Vice President, Chief Strategy and Growth Officer of PayPal. Mr. Auerbach was previously the CEO of Group Digital Life at Singapore Telecommunications Limited (Singtel) from September 2014 to May 2015, where he led the company's global portfolio of digital businesses as well as its venture fund. From 1987 through 2014, Mr. Auerbach was a management consultant with McKinsey & Company. At McKinsey, he held a variety of executive roles in Asia and North America during his tenure with the Firm, including leading the Asian Telecommunications, Media and Technology Practice; the Singapore Office and the Southeast Asia Region; and the North American High Tech Practice.

Tomer Barel is expected to serve as the Senior Vice President, Chief Risk Officer of PayPal. He has served as the Chief Risk Officer of PayPal since November 2013. From April 2012 to November 2013, Mr. Barel was Vice President, Risk Management for PayPal. Mr. Barel previously served as the General Manager for PayPal Israel from June 2009 through February 2013, and as Senior Director, Advanced Risk Sciences, from June 2009 to March 2012.

James J. Barrese is expected to serve as the Chief Technology Officer and Senior Vice President, Payment Services of PayPal. Prior to the separation, Mr. Barrese was the Senior Vice President and Chief Technology Officer at PayPal from October 2013. Mr. Barrese was PayPal's Chief Technology Officer from February 2012 through October 2013, and was the Vice President of Global Product Development for PayPal from August 2011 through February 2012. Prior to that time, Mr. Barrese served in various leadership roles in the technology organization at eBay, Inc. since he began employment with the company in 2001.

Patrick L. A. Dupuis is expected to serve as the Senior Vice President, Interim Chief Financial Officer of PayPal. Mr. Dupuis joined PayPal in November 2010 as its Chief Financial Officer. Mr. Dupuis was previously the Global Chief Financial Officer of Sitel Worldwide Corporation from January 2008 to November 2010.

Hill Ferguson is expected to serve as the Senior Vice President, Consumer of PayPal. Prior to the separation, Mr. Ferguson was the Senior Vice President, Global Product, for PayPal from August 2013. From August 2011

Table of Contents

through August 2013, Mr. Ferguson was the Vice President, Global Product for PayPal. Mr. Ferguson was the Vice President of Product and Marketing at Zong, a mobile payments provider, from September 2008 through August 2011, when eBay acquired Zong.

Gary Marino is expected to serve as Senior Vice President, Global Credit and the Americas of PayPal. Mr. Marino co-founded Bill Me Later in 2001 and served as its CEO from 2001 through November 2009, when PayPal acquired Bill Me Later.

Louise Pentland is expected to serve as the Senior Vice President, General Counsel of PayPal. Ms. Pentland was previously the Executive Vice President and Chief Legal Officer at Nokia Corporation from July 2008 to July 2014. Ms. Pentland also served on the board of the Nokia Siemens Networks, a joint venture between Nokia and Siemens. Ms. Pentland was recently elected to the board of directors of Hitachi, Ltd.

William J. Ready is expected to serve as the Senior Vice President, Merchant and Next Generation Commerce of PayPal. Prior to the separation, Mr. Ready was the head of PayPal's Braintree operations from the time of its acquisition in December 2013. Mr. Ready was the CEO of Braintree, an online payments provider, from October 2011 until its acquisition by eBay in December 2013. From July 2011 through October 2011, Mr. Ready was an executive in residence at Accel Partners, a leading Silicon Valley venture capital and growth equity firm. Mr. Ready was the president of iPay Technologies, Inc., a payments services provider, from 2008 through 2011. Mr. Ready managed iPay through its successful sale to Jack Henry and Associates in 2010.

DIRECTORS**Board of Directors Following the Distribution**

The following table sets forth information as of June 26 2015 regarding those persons who are expected to serve on PayPal's board of directors following the distribution. After the distribution, none of these individuals will be employees of eBay and, other than Mr. Omidyar, none of them will be directors of eBay.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel H. Schulman	57	President and Chief Executive Officer
John J. Donahoe	55	Chairman
Jonathan Christodoro	39	Director
Scott D. Cook	62	Director
David W. Dorman	61	Director
Gail J. McGovern	63	Director
David M. Moffett	63	Director
Pierre M. Omidyar	48	Director
Frank D. Yeary	51	Director

Daniel H. Schulman's extensive industry experience and knowledge of PayPal's day-to-day operations, as well as his previous managerial experience in the payments and technology industries will enable Mr. Schulman to provide valuable perspectives on many issues facing PayPal, particularly with respect to business management and strategy. Mr. Schulman's service on the board of directors will create an important link between management and the board and will provide PayPal with decisive and effective leadership.

John J. Donahoe has served as eBay's President and Chief Executive Officer since March 2008, and as a director of eBay since January 2008. He is expected to continue in this role until the separation. From January 2012 until April 2012, Mr. Donahoe served as Interim President of PayPal. From January 2008 to March 2008, Mr. Donahoe served as CEO-designate of eBay. From March 2005 to January 2008, Mr. Donahoe served as President, eBay Marketplaces. From January 2000 to February 2005, Mr. Donahoe served as the Worldwide Managing Director of Bain & Company. Mr. Donahoe serves on the board of directors of Intel Corporation (where he currently serves as a member of the Compensation Committee and as a member of the Corporate Governance and Nominating Committee) and of Nike, Inc. (where he currently serves as a member of the Nominating and Corporate Governance Committee). Mr. Donahoe will bring extensive industry experience and deep knowledge of PayPal's day-to-day operations based on his current role as eBay's President and Chief Executive Officer and previous managerial experience as Interim President of PayPal.

Jonathan Christodoro has served as a director of eBay since 2015. Mr. Christodoro has over 15 years of extensive financial, strategic and investment experience advising and investing in public companies, including at the board level. Mr. Christodoro has served as Managing Director of Icahn Capital LP since July 2012. Mr. Christodoro is responsible for identifying, analyzing and monitoring investment opportunities and portfolio companies for Icahn Capital. Prior to joining Icahn Capital, from 2007 to 2012, Mr. Christodoro served in various investment and research roles at P2 Capital Partners, LLC, Prentice Capital Management, LP and S.A.C. Capital Advisors, LP. Mr. Christodoro currently serves on the board of directors of Enzon Pharmaceuticals, Inc. (where he currently serves as Chairman of the Board, as a member of the Governance and Nominating Committee, as a member of the Finance and Audit Committee, and as a member of the Compensation Committee), Herbalife Ltd (where he currently serves as a member of the Nominating and Governance Committee and as a member of the Compensation Committee) and Hologic, Inc. (where he currently serves as a member of the Nominating and Corporate Governance Committee and as a member of the Corporate Development Committee). Mr. Christodoro was previously a director of Talisman Energy Inc. from December 2013 to May 2015. Mr. Christodoro's leadership and investment experience as a Managing Director of Icahn Capital LP will add to the strong expertise of the board of directors.

Table of Contents

Scott D. Cook has served as a director of eBay since 1998. Mr. Cook has been a leader in the technology industry for the past 32 years. As co-founder of Intuit Inc., a global consumer-facing technology company, Mr. Cook has driven innovation and significant growth. Mr. Cook has served Intuit in various capacities since its founding, previously serving as CEO and Chairman, and has been the Chairman of the Executive Committee of the board of directors of Intuit since August 1998. Mr. Cook also serves on the board of directors of The Procter & Gamble Company (where he is Chair of the Innovation and Technology Committee and a member of the Compensation & Leadership Development Committee), and The Intuit Scholarship Foundation and Valhalla Foundation. Mr. Cook will bring strong technology leadership expertise, as well as extensive experience in product development and marketing, to the board of directors.

David W. Dorman has served as a director of eBay since 2014. Mr. Dorman has extensive experience in global telecommunications-related businesses as the former Chief Executive Officer of AT&T, as well as expertise in finance, strategic planning and public company executive compensation. Mr. Dorman has been the Non-Executive Chairman of the Board of CVS Health Corporation, a pharmacy healthcare provider since May 2011. He is also a Founding Partner of Centerview Capital, a private investment firm, since July 2013. Mr. Dorman also serves on the board of directors of Yum! Brands, Inc. and Motorola Solutions, Inc. and as a Trustee for Georgia Tech Foundation, Inc. Mr. Dorman's leadership as former Chairman and CEO of AT&T will add to the strong leadership expertise of the board of directors.

Gail J. McGovern has served as a director of eBay since 2015. Ms. McGovern is currently the President and Chief Executive Officer of the American Red Cross and has served in that position since June 2008. Ms. McGovern is also a trustee of Johns Hopkins University and Johns Hopkins Medicine, and a director of DTE Energy Company and The Weather Company. Ms. McGovern's leadership experience as President and Chief Executive Officer of the American Red Cross will add to the strong leadership expertise of the board of directors and will bring a strong perspective from the academic and nonprofit worlds. Ms. McGovern will also bring extensive executive experience in marketing and sales, customer relations, corporate finance, strategic planning and government relations and knowledge of regulatory matters.

David M. Moffett has served as a director of eBay since 2007. Mr. Moffett has more than 30 years of strategic finance, risk management, and operational experience in banking and payment processing. Mr. Moffett currently serves on the board of directors of CIT Group Inc. (where he currently serves as a member of the Compensation Committee) and of Genworth Financial, Inc. (where he currently serves as a member of the Nominating and Corporate Governance Committee and as a member of the Legal and Public Affairs Committee). He also currently serves as a Trustee for Columbia Atlantic Mutual Funds and University of Oklahoma Foundation and as a consultant to various financial services companies. Mr. Moffett will bring extensive global financial management and regulatory expertise and leadership experience as a former Chief Executive Officer and Chief Financial Officer of financial services companies. He will also bring extensive experience in the payments business as a result of his involvement with the development of U.S. Bancorp's global expansion of its merchant processing business, which is particularly relevant to our business. His deep experience in leading successful acquisitions will also be very relevant to our board of directors.

Pierre M. Omidyar has served as a director and Chairman of eBay's board of directors since eBay's incorporation in May 1996. Mr. Omidyar has extensive experience as a technologist and innovator. His industry knowledge and long history of driving innovation will provide important expertise to PayPal that is technology driven and focused on innovation. As the founder of eBay, Mr. Omidyar will bring to the board of directors a deep understanding of the business and a long-standing history as a leader within the technology industry. In addition to eBay, Mr. Omidyar has also been a founder of several other innovative businesses, including the Omidyar Network and First Look. His extensive experiences as an entrepreneur are particularly relevant to our nimble, fast-changing business.

Frank D. Yeary has served as a director of eBay since 2015. Mr. Yeary has been Executive Chairman of CamberView Partners, LLC, a corporate advisory firm, since 2012. Mr. Yeary was Vice Chancellor of the

Table of Contents

University California, Berkeley from 2008 to 2012, where he led and implemented major strategic and financial changes to the university's financial and operating strategy; from 2010 to 2011, he served as interim Chief Administrative Officer, managing a portfolio of financial and operational responsibilities and departments. Prior to 2008, Mr. Yeary spent 25 years in the finance industry, most recently as Managing Director, Global Head of Mergers and Acquisitions and a member of the Management Committee at Citigroup Investment Banking, a financial services company. Mr. Yeary currently serves on the board of directors of Intel Corporation (where he currently serves as the Chair of the Audit Committee). Mr. Yeary's extensive career in investment banking and finance will bring to the board of directors financial strategy and M&A expertise, including expertise in financial reporting and experience in assessing the efficacy of mergers and acquisitions. In addition, Mr. Yeary's experience as the former Vice Chancellor and Chief Administrative Officer of a large public research university, will add to the board's strategic and financial expertise.

At the time of the distribution, we expect that our board of directors will consist of the directors set forth above. Each of our directors will have terms expiring at the first annual meeting of stockholders following the distribution, which PayPal expects to hold within 12 months from the distribution. Commencing with this first annual meeting of stockholders, each of our directors will be elected by our stockholders to serve until the next annual meeting of our stockholders and until his or her successor is duly elected and qualifies. Holders of shares of common stock will have no right to cumulative voting in the election of directors.

Director Independence

Under the rules of The NASDAQ Stock Market, or NASDAQ, PayPal must have a board of directors with at least a majority of independent directors. These rules have both objective tests and a subjective test for determining who is an "independent director." The objective tests state, among other items, that a director is not considered independent if he or she is an employee of the company, or is a partner in, or a controlling stockholder or executive officer of, an entity to which the company made, or from which the company received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenue for that year. The subjective test requires our board to affirmatively determine that a director does not have a relationship that would interfere with the director's exercise of independent judgment in carrying out his or her responsibilities. On an annual basis, each member of our board will be required to complete a questionnaire designed to provide information to assist the board in determining whether the director is independent under the listing standards of The NASDAQ Stock Market and PayPal's Corporate Governance Guidelines to be adopted by the board (and for members of our Audit Committee and Compensation Committee, whether the director satisfies additional SEC and The NASDAQ Stock Market independence requirements). It is expected that PayPal's board will adopt guidelines setting forth certain categories of transactions, relationships, and arrangements that it has deemed immaterial for purposes of making its determination regarding a director's independence, and does not consider any such transactions, relationships, and arrangements in making its subjective determination.

It is expected that a majority of PayPal's board of directors will be comprised of directors who are "independent" as defined by the rules of The NASDAQ Stock Market and the Corporate Governance Guidelines to be adopted by the board. PayPal will seek to have its non-management directors qualify as "independent" under these standards.

The board will limit membership on the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee to independent directors. PayPal's Corporate Governance Guidelines to be adopted by the board will require any director who has previously been determined to be independent to inform the Lead Independent Director and PayPal's Corporate Secretary of any change in his or her principal occupation or status as a member of the board of any other public company, or any change in circumstance that may cause his or her status as an independent director to change.

Table of Contents

Committees of the Board of Directors

Effective upon the completion of the distribution, PayPal's board of directors expects to have the following standing committees: an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. The board of directors may determine that additional formal or informal committees may be appropriate.

Audit Committee. PayPal's board of directors will have a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Audit Committee is expected to consist of David M. Moffett, Frank D. Yeary and Gail J. McGovern. Mr. Moffett is expected to be the Audit Committee Chairman. It is expected that each of the members of the Audit Committee will be independent in accordance with the rules and regulations of The NASDAQ Stock Market and the SEC. The primary responsibilities of the Audit Committee will be set forth in the charter of the Audit Committee and are expected to consist of meeting with PayPal's independent auditors to review the results of the annual audit and to discuss PayPal's financial statements, including the independent auditors' judgment about the quality of accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in our financial statements, our internal control over financial reporting, and management's report with respect to internal control over financial reporting. Additionally, the Audit Committee is expected to meet with the independent auditors to review the interim financial statements prior to the filing of Quarterly Reports on Form 10-Q, recommend to the board of directors the independent auditors to be retained by PayPal, oversee the independence of the independent auditors, evaluate the independent auditors' performance, review and approve the fees of the independent auditors, and receive and consider the independent auditors' comments as to controls, adequacy of staff, and management performance and procedures in connection with audit and financial controls, including PayPal's system to monitor and manage business risks and legal and ethical compliance programs. The Audit Committee is expected to approve the appointment, compensation, and performance of PayPal's Vice President, Chief Audit Executive, who is expected to report directly to the committee and meet with the committee regularly without other members of management present.

The Audit Committee is also expected to prepare the Audit Committee Report for inclusion in PayPal's proxy statement, approve audit and non-audit services provided to PayPal by its independent auditors, consider conflicts of interest and review all transactions with related persons involving executive officers or board members that are reasonably expected to exceed specified thresholds, and meet with internal legal counsel to discuss our major risk exposures, including financial, operational, privacy, security, competition, and legal and regulatory risks, and will review significant legal, compliance, and regulatory matters that could have a material impact on PayPal's financial statements or business, including material notices to or inquiries received from governmental agencies. It is expected that Mr. Moffett will be determined to be an "audit committee financial expert" as defined by the SEC.

Compensation Committee. The Compensation Committee is expected to consist of David W. Dorman, Jonathan Christodoro and Scott D. Cook. Mr. Dorman is expected to be the Compensation Committee Chairman. It is expected that each of the members of the Compensation Committee will be independent in accordance with the rules and regulations of The NASDAQ Stock Market and the SEC. The Compensation Committee will assist the board of directors in carrying out the board's responsibilities relating to the compensation of PayPal's executive officers and directors. The primary responsibilities of the Compensation Committee will be set forth in the charter of the Compensation Committee and are expected to include:

- At least annually, reviewing and approving all compensation programs applicable to directors and executive officers, the overall strategy for employee compensation, and the compensation of our CEO and our other executive officers;
- Overseeing and monitoring compliance with PayPal's stock ownership guidelines applicable to directors and executive officers;
- Reviewing the Compensation Discussion and Analysis contained in PayPal's proxy statement and prepare the Compensation Committee Report for inclusion in our proxy statement; and

Table of Contents

- Reviewing and considering the results of any advisory stockholder votes on executive compensation.

Additionally, the Compensation Committee is expected to assess on an annual basis the independence of its compensation consultants, outside legal counsel, and other compensation advisers.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is expected to consist of Gail J. McGovern and Scott D. Cook. Ms. McGovern is expected to be the Corporate Governance and Nominating Committee Chair. It is expected that each of the members of the board's Compensation Committee will be independent in accordance with the rules and regulations of The NASDAQ Stock Market and the SEC.

The primary responsibilities of the Corporate Governance and Nominating Committee will be set forth in the charter of the Corporate Governance and Nominating Committee and are expected to include:

- Making recommendations to the board as to the appropriate size of the board or any board committee;
- Reviewing the qualifications of candidates for the board;
- Making recommendations to the board on potential board and board committee members (consistent with the criteria approved by PayPal's board of directors), whether as a result of vacancies, including any vacancy created by an increase in the size of the board, or as part of the annual election cycle; and
- Leading the board in its annual review of the board of directors' and senior management's performance.

The committee will consider nominee recommendations from a variety of sources, including nominees recommended by stockholders. The committee might, from time to time, retain an executive search firm to help facilitate the screening and interview process of director nominees. The committee expects that qualified candidates will have high-level managerial experience in a relatively complex organization or be accustomed to dealing with complex problems, and will be able to represent the interests of the stockholders as a whole rather than special interest groups or constituencies.

Among other factors, the Corporate Governance and Nominating Committee is expected to consider each candidate relative to the following attributes:

- character;
- integrity;
- judgment;
- skills;
- background;
- experience with complex organizations that may have a multinational reach;
- experience of particular relevance to PayPal;
- ability to work with others to solve complex problems; and
- time available to devote to board activities.

It is expected that the Corporate Governance and Nominating Committee will also consider the interplay of a candidate's background and expertise with that of other board members, and the extent to which a candidate may be a desirable addition to any committee of the board of directors. The committee also expects that it will value diversity as a factor in selecting nominees to serve on the board of directors. PayPal's Corporate Governance Guidelines are expected to provide that the committee should consider diversity (including gender and race), age, international background, and expertise in evaluating potential board members. It is expected that when searching for new directors, the Corporate Governance and Nominating Committee will actively seek out qualified women and individuals from minority groups to include in the pool from which board nominees are chosen.

Table of Contents

In addition to recommending director candidates, it is expected that the Corporate Governance and Nominating Committee will establish procedures for the oversight and evaluation of the board and management, will review correspondence received from stockholders, and will review on an annual basis PayPal's Corporate Governance Guidelines to be adopted by the board.

Compensation Committee Interlocks and Insider Participation

During PayPal's year ended December 31, 2014, PayPal was not an independent company, and did not have a compensation committee or any other committee serving a similar function. Decisions as to the compensation of those who currently serve as PayPal's executive officers were made by eBay, as described in the section of this information statement captioned "Compensation Discussion and Analysis."

Corporate Governance

Stockholder Recommendations for Director Nominees

PayPal's bylaws will contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the board of directors. PayPal will evaluate stockholder recommendations of board candidates based on the principles outlined in the section of this information statement captioned "Directors—Committees of the Board of Directors—Corporate Governance and Nominating Committee."

Leadership Structure and Lead Independent Director

PayPal's bylaws will provide that PayPal's board will elect the Chairman and the Chief Executive Officer ("CEO"). PayPal's Corporate Governance Guidelines to be adopted by the board are expected to require that the roles of Chairman and CEO be held by separate individuals. Mr. Donahoe is expected to serve as our Chairman. The separation of the offices of the Chairman and CEO is appropriate as it aids in the board's oversight of management and it allows our CEO to focus primarily on his management responsibilities.

PayPal's independent directors are also expected to designate a Lead Independent Director. Mr. Moffett is expected to be designated as the Lead Independent Director. In addition to the duties of all board members, the position of the Lead Independent Director is expected to come with significant responsibilities pursuant to PayPal's Corporate Governance Guidelines to be adopted by the board, including to:

- provide the Chairman with input as to an appropriate schedule of board meetings;
- provide the Chairman with input as to the preparation of agendas for board meetings;
- provide the Chairman with input as to the quality, quantity, and timeliness of the flow of information from PayPal's management that is necessary for the independent directors to effectively and responsibly perform their duties;
- make recommendations to the Chairman regarding the retention of consultants who report directly to the board (other than consultants who are selected by the various committees of the board);
- preside over executive sessions of the board; and
- act as a liaison between the independent directors and the Chairman and the Chief Executive Officer on sensitive issues.

Committee Responsibilities

Each committee expects to meet regularly and will have a written charter to be adopted by the board. These charters will be posted on PayPal's website in connection with the separation. In addition, at each regularly scheduled board meeting, a member of each committee will report on any significant matters addressed by the committee since the last board meeting. It is expected that each committee will perform an annual self-assessment to evaluate its effectiveness in fulfilling its obligations.

Table of Contents

Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. PayPal will face a number of risks, including economic, financial, legal and regulatory, operational, and other risks, such as the impact of competition. See the section entitled “Risk Factors.” Management is expected to be responsible for the day-to-day management of the risks that PayPal will face, while the board, as a whole and through its committees, will have the responsibility for the oversight of risk management. In its risk oversight role, the board will be responsible for satisfying itself that the risk management framework and supporting processes as implemented by management are adequate and functioning as designed. Prior to the distribution, PayPal will develop more detailed policies and responsibilities relating to risk oversight.

Corporate Hotline

PayPal will establish a corporate hotline (operated by a third party) to allow any employee to confidentially and anonymously (where legally permissible) lodge a complaint about any accounting, internal control, auditing, or other matters of concern.

Stockholder Communication

PayPal will encourage regular engagement with stockholders to seek their feedback.

The board is expected to adopt a policy permitting stockholders to communicate with the board or individual directors care of the Corporate Secretary, c/o PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131. It is expected that the primary responsibility for initial review of stockholder communications will be delegated to PayPal’s Corporate Secretary to assist the board in reviewing and responding to stockholder communications in an appropriate manner. The policy adopted by the board is expected to instruct PayPal’s Corporate Secretary to review correspondence directed to the board of directors and its principal committees and, at his or her discretion, not to forward items solely related to complaints by users with respect to ordinary course of business customer service and satisfaction issues, or that he or she deems to be of a commercial or frivolous nature or otherwise inappropriate for the board’s or its committees’ consideration.

Attendance at Annual Meetings

Absent exigent circumstances, all directors will be expected to attend PayPal’s annual meeting of stockholders in person or by telephone or video call.

Formal Closed Sessions of Outside Directors

As part of each regularly scheduled board meeting, the outside directors will have the opportunity to meet without our management or the other directors. The executive sessions will include discussions and recommendations regarding guidance to be provided to the Chief Executive Officer and such topics as the independent directors determine. The Lead Independent Director will lead such discussions.

Board Compensation

The Compensation Committee will be responsible for reviewing and making recommendations to the Board regarding compensation paid to all directors who are not employees of PayPal, or any parent, subsidiary or affiliate of PayPal, for their Board and committee services.

The 2015 compensation to non-employee directors (on an annual basis) will consist of an annual retainer of \$80,000 paid in cash in quarterly installments (or, at the non-employee director’s election, paid in part or in whole in deferred stock units or DSUs of an equivalent value). The annual retainer is pro-rated in the event that a director serves for a portion of a year. For 2016, we plan on reviewing our board compensation, including our practice of granting \$220,000 of DSUs (rounded up to the nearest whole share) at the time of our annual meeting.

Table of Contents

DSUs represent a right to receive shares of PayPal common stock on a future date. DSU awards will vest as to 100% on the first anniversary of the date of grant (or, if earlier, at the next annual meeting), provided the director continues to serve as a director or consultant of PayPal. In addition, DSUs resulting from a director's election described above are 100% vested at grant. In the event of a change in control of PayPal, any equity awards granted to our non-employee directors will become fully vested.

The expected compensation for a non-executive chair will consist of \$100,000 paid as DSUs in the same manner as for other directors and \$100,000 paid in cash (or at the non-executive chair's election, paid in part or in whole in DSUs of an equivalent value).

The following table sets forth annual retainers for our non-employee directors who serve as Lead Independent Director; the Chairs of the Audit, Compensation, and Corporate Governance and Nominating Committees; and the members of those Committees.

Role	2015 Annual Retainer
Lead Independent Director	\$25,000
Committee Chairs	
Audit	\$20,000
Compensation	\$15,000
Corporate Governance & Nominating	\$15,000
Committee Members	
Audit	\$18,000
Compensation	\$12,000
Corporate Governance & Nominating	\$10,000

Stock Ownership Guidelines

It is expected that the board will adopt stock ownership guidelines to better align the interests of our directors and executive officers with the interests of stockholders and further promote commitment to sound corporate governance. Under these guidelines, PayPal's executive officers and non-employee directors will each be required to achieve a specified guideline level of ownership of PayPal common stock.

Clawbacks

We expect that the PayPal Incentive Plan and PayPal's equity incentive plans will provide that awards made under those plans are subject to a clawback provision. The terms of the clawback will be adopted by the Compensation Committee, subject to amendment to comply with the SEC rules to be issued in accordance with the Dodd-Frank Act and any other applicable law, regulation or rule.

Outside Advisors

The board and each of its principal committees may retain outside advisors of their choosing at PayPal's expense. The board need not obtain management's consent to retain outside advisors. In addition, the principal committees need not obtain either the board's or management's consent to retain outside advisors.

Conflicts of Interest

We expect that PayPal's directors, executive officers, and other employees will conduct themselves with the highest degree of integrity, ethics, and honesty. PayPal's credibility and reputation will depend upon the good judgment, ethical standards, and personal integrity of each director, executive officer, and other employee. It is expected that PayPal's Corporate Governance Guidelines to be adopted by the board will prohibit directors from

Table of Contents

serving on the board of another company (other than eBay), or in a senior executive role of another company that would create a significant conflict of interest. It is expected that our Code of Business Conduct will require that directors, executive officers, and other employees disclose actual or potential conflicts of interest and recuse themselves from related decisions. In order to better protect PayPal and its stockholders, the board expects to regularly review its Code of Business Conduct and related policies to ensure that they provide clear guidance to our directors, executive officers, and other employees.

Board Effectiveness; Director Assessment; Board Education

It is important that the board and its committees perform effectively and in the best interest of PayPal and its stockholders. The Corporate Governance and Nominating Committee is expected to lead the board in performing an annual self-assessment to evaluate the board's effectiveness in fulfilling its obligations. As part of this annual self-assessment, directors will be able to provide feedback on the performance of other directors.

COMPENSATION DISCUSSION AND ANALYSIS**INTRODUCTION**

As discussed above, PayPal is currently part of eBay and not an independent company, and its compensation committee is not expected to begin meeting until after the spin-off of the PayPal business (the “Spin-Off”). Decisions as to the compensation of those individuals who will be appointed as executive officers of PayPal have historically been made by the Compensation Committee of the board of directors of eBay (the “eBay Compensation Committee”) and/or the CEO of eBay. This Compensation Discussion and Analysis describes the compensation practices of eBay as they relate to certain individuals who are expected to be appointed as executive officers of PayPal. It also discusses certain aspects of PayPal’s anticipated compensation structure for these executive officers following the separation. After separation, PayPal’s executive compensation program, policies, and practices for its executive officers will be subject to the review and approval of the Compensation Committee of the PayPal board of directors (the “PayPal Compensation Committee”).

For purposes of the following Compensation Discussion and Analysis and the tabular executive compensation disclosures that follow, the individuals listed below are referred to collectively as PayPal’s “named executive officers” or “NEOs.” They are PayPal’s chief executive officer, interim chief financial officer, and, of the individuals who are expected to be designated as executive officers, the three most highly compensated based on 2014 reported compensation from eBay (other than the chief executive officer and interim chief financial officer).

<u>Name</u>	<u>Position</u>
Daniel H. Schulman	President and Chief Executive Officer
James J. Barrese	Chief Technology Officer and Senior Vice President, Payment Services
Patrick L. A. Dupuis	Senior Vice President, Interim Chief Financial Officer
Hill Ferguson	Senior Vice President, Consumer
William J. Ready	Senior Vice President, Merchant and Next Generation Commerce

Additional information regarding the other members of PayPal’s management who will be designated as executive officers is set forth in the section of the information statement captioned “Management—Executive Officers Following the Distribution.”

As described below, it is expected that upon separation, PayPal’s executive compensation program, policies, and practices will be largely the same as those employed at eBay. PayPal’s Compensation Committee will review the executive compensation program, policies and practices and will make adjustments as appropriate over time in order to meet the company’s particular business needs and goals.

The following sections of this Compensation Discussion and Analysis describe eBay’s general compensation philosophy, policies and practices as they applied to PayPal’s NEOs during 2014. We have noted where certain elements of eBay’s executive compensation program did not apply to one or more of the four NEOs employed by PayPal in 2014.

OVERVIEW

This Compensation Discussion and Analysis is presented as follows:

- **Elements of the Executive Compensation Program** provides a description of eBay’s historical and PayPal’s anticipated executive compensation program, policies, and practices.
- **Compensation Decisions for 2014 and Retention Agreements** explains executive compensation decisions made by eBay in 2014 pertaining to the PayPal NEOs and retention agreements.

Table of Contents

- **2014 Business Results** highlights eBay business results that affected compensation of the PayPal NEOs.
- **Severance and Change-in-Control Arrangements with Executive Officers, and Clawbacks** covers the eBay Compensation Committee’s considerations and actions associated with the appointment of Mr. Schulman as President and CEO-designee of PayPal, severance and change-in-control arrangements, and clawbacks.
- **Further Considerations for Setting Executive Compensation** covers the role of eBay’s compensation consultants and peer group considerations.

ELEMENTS OF THE EXECUTIVE COMPENSATION PROGRAM

Historically

The eBay Compensation Committee believes that attracting and retaining superior talent—supported by a competitive compensation program that is highly performance-based—is key to delivering long-term stockholder returns. eBay’s executive compensation program was designed to:

- align compensation with its business objectives and performance;
- motivate its executive officers to enhance long-term stockholder value;
- position eBay competitively among the companies against which eBay recruits and competes for talent; and
- enable eBay to attract, retain, and reward executive officers and other key employees who contribute to its long-term success.

To achieve these objectives, eBay has structured its executive compensation program around three principal components: long-term equity compensation, an annual cash incentive, and base salary. The eBay Compensation Committee sought to ensure that total compensation for eBay’s senior executives was heavily weighted to variable, performance-based compensation by delivering a majority of compensation in the form of performance-based restricted stock units (“PBRUs”), stock options, and annual cash incentives.

The eBay Compensation Committee chose a mix of equity and cash compensation vehicles—some dependent purely on financial targets that the Committee believed correlated with operating performance and long-term eBay stock performance and others directly related to eBay’s stock price and the returns received by investors—to compensate senior management based on both long-term value drivers and returns received by eBay’s stockholders. eBay also maintained broad-based retirement and benefit programs in which the PayPal NEOs participated and provided limited perquisites to certain of the PayPal NEOs.

Table of Contents

The following table provides a snapshot of the key elements of eBay’s 2014 executive compensation program and describes the rationale for each element and the relevant equity-based awards of the PayPal NEOs. Additional information about these key elements is included in the sections following the table.

<u>Total Direct Compensation Opportunity</u>	<u>Rationale</u>
Equity Awards	
<ul style="list-style-type: none"> Performance Based Restricted Stock Units (PBRsUs) (1) Time-based Restricted Stock Units (RSUs) (2) Stock options (3) 	<ul style="list-style-type: none"> Aligned executive incentives with the long-term interests of eBay’s stockholders Positioned award guidelines at target level with the median of the market levels paid to eBay’s peer group executives Recognized individual eBay executives’ recent performance and potential future contributions Retained executives for the long term Provided a total compensation opportunity with payouts varying based on eBay’s operating and stock price performance
Annual Cash Incentive Awards	<ul style="list-style-type: none"> Aligned executive compensation with eBay’s annual performance Enabled eBay to attract, retain, and reward talented individuals who contributed to the company’s success Motivated eBay executives to enhance the value of the company
Base Salary	<ul style="list-style-type: none"> Rewarded individuals’ current contributions to eBay Reflected the scope of their roles and responsibilities Compensated for expected day-to-day performance

- (1) PBRsUs represented the right to receive shares of eBay common stock if performance requirements are met, subject to additional time-based vesting. In 2014, PBRsUs were awarded to Mr. Schulman, Mr. Dupuis, Mr. Barrese, and Mr. Ferguson for the 2014-2015 performance cycle. Mr. Ready did not receive PBRsU awards in 2014. See “Compensation Decisions for 2014 and Retention Agreements—Treatment of eBay Inc. Equity Awards” below for a description of how PBRsUs will be treated in connection with the Spin-Off.
- (2) RSUs represented the right to receive shares of eBay common stock, subject to time based vesting. All of the PayPal NEOs employed in 2014 received awards of RSUs. See “Compensation Decisions for 2014 and Retention Agreements—Treatment of eBay Inc. Equity Awards” below for a description of how RSUs will be treated in connection with the Spin-Off.
- (3) Stock options represented the right to purchase a specific number of shares of eBay common stock at a predetermined price, subject to vesting. In 2014, stock options were awarded to Mr. Schulman, Mr. Dupuis, Mr. Barrese, and Mr. Ferguson. Mr. Ready did not receive stock option awards in 2014. See “Compensation Decisions for 2014 and Retention Agreements—Treatment of eBay Inc. Equity Awards” below for a description of how stock options will be treated in connection with the Spin-Off.

Table of Contents

In making decisions regarding the amount and form of each element of compensation for senior executives, the eBay Compensation Committee took into account the size and complexity of the executive officer's job and business unit or function, including the following:

- Performance against financial performance measures for the executive's business unit or function
- Defining business unit or function strategy and roadmaps and executing against them
- Organizational development, including hiring, development, and retention of the team of each organization
- Leadership
- Improving and supporting innovation and execution for the business unit or function
- Negotiating, closing, and integrating acquisitions, dispositions, and/or strategic partnerships
- Achievement of strategic and operational objectives, and executing against budgets

The eBay Compensation Committee gave no specific weighting to these goals and it and/or the CEO of eBay evaluated individual performance in a holistic manner.

In addition, the PayPal NEOs were eligible to participate in eBay's health and welfare benefit plans, employee stock purchase plan, retirement savings plan, and deferred compensation plan, which are generally available to all of eBay's employees, and to receive certain other limited perquisites. It is anticipated that, following the separation, the PayPal NEOs will participate in comparable programs offered by PayPal.

Equity Incentive Awards

eBay has used three primary forms of equity compensation as part of its regular compensation program in 2014 for its senior executives employed in the level of senior vice president or above: PBRsUs, RSUs, and stock options.

Annual Equity Awards: Value

The value of annual equity awards was determined within guidelines that the eBay Compensation Committee annually established for each position. These guidelines were based on eBay's desired pay positioning relative to companies with which it competes for talent. The midpoint of the guidelines, or the median target award, reflects the 50th percentile of the competitive market. Individual awards were based on individual performance, potential, and the total value of unvested equity previously granted to each individual. The individual awards could be higher or lower than the median target award by an amount ranging from zero to three times the median target award.

In 2014, the eBay Compensation Committee set equity award guidelines by position based on: (a) equity compensation practices of technology companies in eBay's peer group, as disclosed in their public filings, and (b) equity compensation practices for comparable technology companies that are included in proprietary third-party surveys.

Once the value of the annual equity incentive awards had been set for each executive officer, a formula was used to allocate the annual equity awards as follows:

- 50% PBRsUs
- 30% time-based RSUs, and
- 20% stock options.

The eBay Compensation Committee may make special equity-related compensation decisions for performance, retention, acquisitions, and/or recruitment purposes (including payments for equity or other

Table of Contents

compensation awards from a former employer that an executive officer may be required to forfeit or forgo by accepting employment with the company) that cause individual equity compensation in a particular year to differ from the Committee's regular stated compensation strategy and guidelines. As discussed in more detail below, 2014 was an extraordinary year for eBay in light of the departure of PayPal's former President in June and our announcement of the planned Spin-Off in September. As a result, the Committee determined that it was necessary to make compensation decisions to help us attract and retain key executive officers deemed instrumental to the thoughtful and orderly execution of the Spin-Off and the positioning of PayPal for success as an independent, publicly-traded company. In this section we have described the general equity program design. See "Compensation Decisions for 2014 and Retention Agreements" below for decisions that were made specifically in relation to an acquisition, as a retention device following the departure of PayPal's former President, and the Spin-Off.

PBRSU Program

Design and Performance Periods . The PayPal NEOs other than Mr. Ready were eligible to receive awards of PBRsUs, which were designed to result in grants of RSUs with additional time-based vesting requirements if eBay exceeds specified financial performance criteria set by the eBay Compensation Committee. The amount and value of the award depend on eBay's performance relative to the performance goals approved by the eBay Compensation Committee at the beginning of the performance period, subject to the adjustments relating to the Spin-Off described under "Compensation Decisions for 2014 and Retention Agreements—Treatment of eBay Inc. Equity Awards." The 2014-2015 PBRsU cycle has a two-year performance period.

Under the PBRsU program, assuming above-minimum threshold performance, PBRsU recipients would receive time-based RSUs. For the 2014-2015 performance period, for all eligible PayPal NEOs, one-half of the RSUs will vest in March following the end of the performance period and the other half of the award will vest in March of the following year, more than one full year following the completion of the performance period. Beginning with the 2015-2016 performance period, 100% of any PBRsU awards granted to PayPal's CEO and CFO are expected to vest, if at all, one year after the grant of time-based RSUs is made following the end of the two-year performance period, subject to the PayPal Compensation Committee's review and approval. This vesting schedule subjects 100% of PayPal's CEO and CFO PBRsU awards to a full three years of stock price volatility before the shares vest. The eBay Compensation Committee believed that the post-performance period vesting feature of the PBRsUs provides an important mechanism that helped to retain and align their interests with long-term stockholder value.



* For the 2014-2015 PBRsU cycle, Mr. Schulman's and Mr. Dupuis' awards will vest 50% on the date of grant and 50% on the one year anniversary of the date of grant, which was the same vesting schedule for other NEOs of eBay Inc. other than its CEO and CFO.

Setting a Target Value of PBRsU Shares . As discussed above, the eBay Compensation Committee establishes a target level of total annual equity compensation for each employee at the level of senior vice president or above and awards a portion of his or her annual equity compensation in PBRsUs. If eBay's performance meets the target performance goals, the target number of PBRsUs will be granted. If eBay's performance exceeds or falls short of the target performance goals, the number of PBRsUs granted will be increased or decreased formulaically. As discussed in "Changes to PBRsU Program and Annual Cash Incentive

Table of Contents

for 2015” below, the financial measures for the 2014-2015 performance period have been adjusted for the PayPal NEOs to focus on the performance of PayPal for 2015.

Performance Measures and Rationales . The following table outlines the performance measures for the 2014-2015 performance period and the eBay Compensation Committee’s rationale for their selection:

Performance Measures for 2014-15 Performance Period

FX-neutral revenue (1)

Non-GAAP operating margin dollars (2)

Return on invested capital (modifier)

eBay Compensation Committee Rationale

The eBay Compensation Committee believes these measures are key drivers of eBay’s long-term success and stockholder value, and directly affected by the decisions of eBay’s management.

Both FX-neutral revenue and non-GAAP operating margin dollars measures are used to help ensure that leaders are accountable for driving profitable growth, and making appropriate tradeoffs between investments that increase operating expense and future growth in revenue.

The return on invested capital modifier is used to hold leaders accountable for the efficient use of capital.

(1) Calculated on a fixed foreign exchange basis (referred to as FX-neutral).

(2) Non-GAAP operating margin dollars excludes certain items, primarily stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, impairment of goodwill, separation expenses, and certain one-time gains, losses and/or expenses.

PBRU Mechanics and Targets . The two year targets are generally set at a level consistent with the one-year income target for the annual cash incentive plan and the three year targets provided to the investment community at eBay’s analyst events. To receive a PBRU grant, at least one of the FX-neutral revenue or non-GAAP operating margin dollars minimum performance thresholds must be met. Each of the minimum performance threshold for FX-neutral revenue and non-GAAP operating margin dollars is independent and, if either minimum threshold is met, the award is funded with respect to that performance measure in accordance with the percentages outlined in the table below. If the minimum performance level for either FX-neutral revenue or non-GAAP operating margin dollars is not met, then there is no funding attributable to that performance measure. For example, if the minimum FX-neutral revenue threshold is not met and performance of non-GAAP operating margin dollars is at target, the funding level is 50% of the total payout that would have been earned had the performance levels for both criteria been exactly at target, subject to the return on invested capital modifier.

The following chart shows the minimum, target, and maximum funding levels for FX-neutral revenue and non-GAAP operating margin dollars:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
FX-neutral revenue	25%	50%	100%
Non-GAAP operating margin dollars	25%	50%	100%

Table of Contents

The number of shares awarded is determined by comparing actual performance for FX-neutral revenue and non-GAAP operating margin dollars over the performance period against the minimum, target, and maximum performance levels and converting the result into a funding percentage. The FX-neutral revenue and non-GAAP operating margin dollars measures are then added together and this total is multiplied by the third measure, return on invested capital, with the modification multiplier determined in accordance with the table below:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Return on invested capital (modifier)	80%	100%	120%

The target award is multiplied by the percentage resulting from this calculation to determine the actual number of PBRsUs awarded, subject to variation approved by the eBay Compensation Committee due to material events not contemplated at the time the targets were set (such as major acquisitions) and to the eBay Compensation Committee's negative discretion. Accordingly, PBRsU awards range from 0% to 240% of the target award, based on FX-neutral revenue, non-GAAP operating margin dollars, and return on invested capital for the two-year performance period.

Annual Cash Incentive Awards

Design and Performance Period. eBay's cash incentive plan, known as the eBay Incentive Plan, or eIP, is a short-term incentive plan. The eBay Compensation Committee determined the length of the performance period for the cash incentive plan, which had historically been annual (including for 2014). The eBay Compensation Committee believed that incentive payouts should be tightly linked to eBay's performance, with individual compensation differentiated based on individual performance. When defining eBay's company performance, the eBay Compensation Committee focused primarily on financial performance metrics (FX-neutral revenue and non-GAAP net income).

To support a tight link between eBay company performance and any incentive payouts, the annual cash incentives payable for 2014 had both a minimum FX-neutral revenue threshold and a minimum non-GAAP net income threshold. Unless both of these thresholds were met, there was no incentive payout. If both thresholds were met, eBay used total non-GAAP net income as the primary determinant of the payout for the annual cash incentive plan. The amount at which the plan was funded was determined based on eBay's actual performance as measured against the targets set by the eBay Compensation Committee, with 75% of the award for the PayPal NEOs based on eBay's non-GAAP net income financial performance.

To facilitate differentiation based on individual performance, 25% of the award for the PayPal NEOs was based on individual performance. In circumstances where eBay's financial performance is above its threshold goal but below target, a modifier is applied to the individual performance component to reduce it proportionately based on eBay's financial performance component. For example, if eBay exceeded the FX-neutral revenue threshold but total non-GAAP net income was 90% of target, then the individual performance component would be calculated as follows: Target incentive amount x 25% x individual performance score x 90%.

In 2014, the annual cash incentive program also included a customer satisfaction Net Promoter Score (NPS) and employee engagement Net Promoter Score (eNPS) incentive for eBay employees at director-level and above. Each of these was tied to the achievement of a statistically significant improvement over a multi-year period, and would result in an additional payout of 5% of the incentive target if the respective performance measure was achieved. These secondary measures were included to focus employees on improving NPS and eNPS.

Table of Contents

Performance Measures and Rationale . The following table provides more information on the primary and individual performance measures set in 2014 for the PayPal NEOs and the rationale for their selection:

<u>Performance Measures (1)</u>	<u>Rationale</u>
Primary eBay financial performance measure	
Non-GAAP net income (2), subject to a Minimum	
FX-neutral revenue threshold (3)	The eBay Compensation Committee believed non-GAAP net income was the key measure of short- and intermediate-term results for eBay given that it could be directly affected by the decisions of eBay's management and provided the most widely followed measure of financial performance. The eBay Compensation Committee also believed that this primary non-GAAP net income measure should be subject to a minimum revenue threshold and should result in no cash incentive being paid when future income would be negatively impacted by insufficient revenue growth.
Individual measure	
Individual performance	The eBay Compensation Committee believed that a portion of the compensation payable under this plan should be differentiated based on individual performance for which a review was conducted at the end of the year.

- (1) Both minimum FX-neutral revenue and minimum non-GAAP net income thresholds must have been met in order for there to be any incentive payout based on eBay company performance or individual performance, with the funding level for eBay company performance based on the amount of non-GAAP net income. The incentive payouts for NPS and eNPS were independent from the payout tied to eBay's financial performance (but would only be paid in a year when eBay's minimum financial performance metrics were met).
- (2) Non-GAAP net income excluded certain items, primarily stock-based compensation expense and related employer payroll taxes, amortization of acquired intangible assets, impairment of goodwill, separation expenses, certain one-time gains, losses and/or expenses, and income taxes related to these items. Non-GAAP net income was calculated quarterly, was publicly disclosed as part of eBay's quarterly earnings releases, and was a basis of third-party analysts' estimates of eBay's results.
- (3) Calculated on a FX-neutral basis.

Annual Cash Incentive Plan Mechanics, Assessment, and Target Positioning Strategy . Each year, the eBay Compensation Committee established (1) eBay company performance measures based on business criteria and target levels of performance and (2) a formula for calculating a participant's award based on actual eBay company performance compared to the pre-established performance measures. Performance measures were based on a wide variety of business metrics. The eBay Compensation Committee chose to use non-GAAP net income as its primary measure of performance for a number of years because it was the key measure of short- and intermediate-term results for eBay given that it could be directly affected by the decisions of eBay's management and provided the most widely followed measure of financial performance. Targets were set in the first quarter of the year based primarily on eBay's board-approved budget for the year.

After the end of each year, eBay's actual performance was compared to the performance measures to determine the funding level of that portion of the annual cash incentive plan, subject to variation approved by the eBay Compensation Committee due to material events not contemplated at the time the targets were set (such as major acquisitions) and to the Committee's negative discretion. eBay's CEO presented the eBay Compensation Committee with his assessment of the individual performance of the eBay executive officers who were his direct

Table of Contents

reports, including Mr. Schulman. The eBay Compensation Committee reviewed his assessments and made a subjective determination of the level of individual performance for each of those executive officers. In making its determination of the individual performance of each executive officer, the eBay Compensation Committee did not give any specific weighting to individual goals. The President of PayPal presented to eBay's CEO his assessment of the individual performance of each of the PayPal NEOs that were not direct reports to eBay's CEO in 2014. eBay's CEO considered his own assessment of individual performance, including for the time he served as interim President of PayPal, and made a subjective determination of the level of individual performance for each of those PayPal NEOs.

Base Salary

Assessment and Target Positioning Strategy . At the beginning of each year, the eBay Compensation Committee meets to review market data and to review and approve each executive officer's base salary for the year. At these meetings, the eBay Compensation Committee assesses competitive market data on base salaries from public filings of eBay's peer group companies and general industry data for comparable technology companies that are included in proprietary third-party surveys. When considering the competitive market data, the eBay Compensation Committee also considers the fact that the data is historical and does not necessarily reflect those companies' current pay practices. The eBay Compensation Committee assesses each executive officer's base salary against the 50th percentile of the salaries paid to comparable executives at eBay peer group companies. The Committee also considers individual performance, levels of responsibility, breadth of knowledge, and prior experience in its evaluation of base salary adjustments.

Perquisites

eBay provides certain executive officers with perquisites and other personal benefits not available to all eBay employees that the eBay Compensation Committee believes are reasonable and consistent with its overall compensation program and philosophy. These benefits are provided to enable eBay to attract and retain these executive officers. The eBay Compensation Committee periodically reviews the levels of these benefits provided to its executive officers. See "Compensation Decisions for 2014 and Retention Agreements—Hiring Dan Schulman as President of PayPal and its CEO Following the Spin-Off" below for a description of the perquisites that were offered to Mr. Schulman in connection with his offer to join eBay.

Going Forward

PayPal expects that the executive compensation program that it initially adopts will be similar to the program in place at eBay immediately prior to the separation. Following the separation, PayPal's Compensation Committee will continue to consider and develop PayPal's compensation practices in order to meet and advance the company's business needs and goals.

COMPENSATION DECISIONS FOR 2014 AND RETENTION AGREEMENTS

When making compensation decisions, the eBay Compensation Committee evaluated the executives who will become the PayPal NEOs based on their leadership, competencies, innovation, and both past and expected future contributions toward PayPal's financial, strategic and other priorities, including the value of acquisitions to PayPal. In addition, the eBay Compensation Committee considered the impact of succession planning (including in connection with the announcement of the Spin-Off), individual holding power, and retention concerns, including in connection with the departure of the former President of PayPal, the announcement of the Spin-Off, and onboarding a new CEO-designee of PayPal. The eBay Compensation Committee also reviewed the total value of each NEO's unvested equity awards. Based on its assessment, the eBay Compensation Committee determined individual awards based on the factors and guidelines described above. The following sections describe the compensation decisions made by the eBay Compensation Committee for the PayPal NEOs.

Table of Contents

2014 Compensation Review, Supplemental Equity Awards Following Departure of PayPal's Former President, and Retention Awards

Each year, the eBay Compensation Committee reviews the total target equity awards, target annual cash incentive award, and salary for each employee at the level of senior vice president and above. In 2014, PBRsUs, RSUs, and stock options were the only types of equity incentive awards granted to the PayPal NEOs. Of the PayPal NEOs employed as of the time of eBay's regular 2014 annual compensation review, only Mr. Dupuis, Mr. Barrese, and Mr. Ferguson received awards of PBRsUs. For Messrs. Dupuis, Barrese, and Ferguson, PBRsU awards for the 2014-2015 performance cycle constituted 50% of the value of their target annual equity award. As described below, Mr. Ready was not eligible to participate in the company's annual focal program in 2014, and Mr. Schulman had not yet joined PayPal.

The following chart shows the compensation arrangements for Mr. Dupuis, Mr. Barrese, and Mr. Hill, effective April 1, 2014 (i.e., the Focal Date):

NAME	Target Annual	Target Percentage of Annual Salary for Annual Cash Incentive	Base Salary
	Equity Award	Award	
Patrick L. A. Dupuis	\$ 1.0 million	60%	\$525,000
James J. Barrese	\$ 1.7 million	60%	\$550,000
Hill Ferguson	\$ 1.7 million	60%	\$465,000

In addition, following the resignation of PayPal's former president in June 2014, the eBay Compensation Committee determined it was critical to ensure eBay retained key members of PayPal's senior executive team during the search for and transition to a new President of PayPal and to successfully execute PayPal's business priorities during the transition period. Recognizing that members of PayPal's senior executive team are actively recruited for senior leadership positions at other organizations from time to time, the eBay Compensation Committee approved supplemental awards of RSUs with a target grant date value of \$5 million to each of Mr. Barrese and Mr. Ferguson and a target grant date value of \$2 million to Mr. Dupuis to help ensure the continuity of PayPal's senior executive team. Because the supplemental awards were designed to ensure continued service beyond the transition to a new President of PayPal, the RSU awards vest based on continued service with PayPal over a three-year period.

In connection with Mr. Dupuis' hiring in 2010, he was eligible to receive a supplemental cash bonus of up to \$200,000, which was paid in four equal annual installments of \$50,000 from 2011 to 2014. In August 2014, when the eBay Compensation Committee approved the supplemental award of RSUs to Mr. Dupuis described above, it also approved a retention arrangement and two supplemental cash payments of \$50,000 for Mr. Dupuis to be paid in 2015 and 2016, subject to his continued employment on each payment date. In December 2014, the retention arrangement was modified to provide that in the event Mr. Dupuis remains employed by PayPal through an agreed upon date that will be no longer than 30 days after the date a new chief financial officer is appointed at PayPal, then upon separation the company will make a cash payment to Mr. Dupuis equal to the following, provided Mr. Dupuis signs and does not revoke a waiver and release of claims:

- a prorated cash incentive award for 2015 paid at target based on the portion of the fiscal year during which executive was employed;
- a cash payment in an amount equal to the sum of the executive's (1) annual base salary and (2) bonus amount (where the bonus amount equals the greater of 65% of the executive's annual base salary or target annual cash incentive award); and
- a cash payment in an amount equal to the value of any unvested equity awards that would otherwise have vested within the period ending on the later of (1) 12 months after the executive's termination date or (2) April 1, 2016.

Table of Contents

Hiring Bill Ready in Connection with the Acquisition of Braintree

In December 2013, PayPal acquired Braintree, Inc. (“Braintree”), where Mr. Ready served as chief executive officer, for total consideration of \$713 million. In connection with the acquisition, Mr. Ready received awards of RSUs from eBay in January 2014 with a target grant date value of \$30,320,000, subject to a four-year vesting schedule. At the time Mr. Ready joined PayPal in 2013 and during 2014, there were no changes to his salary or target annual cash incentive award, which were \$300,000 and 66.67%, respectively. In addition, Mr. Ready was not eligible to participate in eBay’s regular annual compensation review in 2014 and therefore did not receive any additional equity awards or adjustments to his salary or target annual cash incentive award for 2014. See also “Retention Agreements Approved in 2015 for Mr. Barrese and Mr. Ready” below.

Hiring Dan Schulman as President of PayPal and its CEO Following the Spin-Off

In connection with hiring Mr. Schulman to become the future CEO of PayPal, the eBay Compensation Committee conducted a comprehensive review of pay structures for CEOs at comparable public companies as well as internal pay at eBay. The eBay Compensation Committee concluded that it was important to provide a target total compensation opportunity competitive with the compensation of leaders at other major internet and technology companies, with an annual compensation structure consistent with eBay’s current pay for performance philosophy and weighted heavily in favor of performance-based compensation, excluding the one-time make-good awards and payments. In considering the compensation package for Mr. Schulman, the eBay Compensation Committee was mindful of the competition for talented executives in the technology and payments sectors, Mr. Schulman’s existing compensation arrangements with his then-current employer—including equity and incentive compensation that would be forfeited in connection with his departure, as well as clawback provisions that would require him to repay gains made on certain equity awards and annual incentive payments—and the demands on and responsibilities of the leader of a global organization with PayPal’s scope and stature. Overall, the eBay Compensation Committee concluded that the complexity of the PayPal business, the demands on that business as an independent publicly traded company and the competitive market data should result in a compensation arrangement substantially similar to that of Mr. Donahoe’s compensation as CEO of eBay. Accordingly, the eBay Compensation Committee approved the following compensation arrangements for Mr. Schulman in connection with his appointment as President of PayPal and its CEO following the Spin-Off:

New Hire Compensation:

- Annual Salary: \$900,000 (\$1 million effective immediately following the Spin-Off)
- Target Cash Incentive Award: 175% of annual salary (200% following the Spin-Off)
- Initial Equity Awards: Target Grant Value of \$9 million
 - Allocation: 30% PBRsUs, 50% RSUs, and 20% stock options
 - The PBRsU/RSU weighting was adjusted from the standard allocation of 50% PBRsUs, 30% RSUs, and 20% options in recognition of the fact that Mr. Schulman joined eBay in September after the 2014-2015 PBRsU performance cycle was approximately one-third completed; while the eBay Compensation Committee expected that future awards would have the standard allocation and made Mr. Schulman’s 2015 award consistent with that allocation, subsequent future awards will be subject to review and approval by the PayPal Compensation Committee

Make-Good Awards and Payments:

In connection with his prior employment, Mr. Schulman was subject to a “clawback agreement” that would require Mr. Schulman to repay his former employer for gains made on equity and incentive awards, as well as forfeited equity awards, in the event he accepted employment with a company viewed to be a strategic competitor. By accepting employment with PayPal, which was designated as a strategic competitor, Mr. Schulman was required to make repayments and forfeit vested equity with a total value in excess of \$17 million. In recognition of the clawback repayments and forfeited vested equity plus the fact that Mr. Schulman

Table of Contents

would be foregoing performance-based compensation that he had substantially earned prior to joining eBay, Mr. Schulman was granted a number of “make-good” awards, as follows:

- Payment Made for Clawback
 - Make-Good Equity and Annual Incentive Award Clawback Payment: A total payment of \$13,620,415
 - In recognition that the pre-tax income Mr. Schulman received from equity and annual incentive compensation awards that vested or were exercised during the 24 months prior to his termination of employment was required to be repaid to Mr. Schulman’s former employer (a portion of which was paid directly by eBay) pursuant to a clawback arrangement. This clawback was triggered because Mr. Schulman accepted employment with PayPal, which his former employer viewed as a strategic competitor
- Payment Made for Terminated Options
 - Vested Option Make-Good Payment: \$3,626,537
 - In recognition that Mr. Schulman’s vested options with his former employer were terminated as of the date he accepted employment with PayPal because his former employer viewed PayPal as a strategic competitor
 - Paid within two payroll periods of start date
- Equity Awards and Cash Payments for Substantially Earned Awards
 - Make-Good RSU Awards: Target Grant Value of \$8,214,932
 - Designed to make Mr. Schulman whole on equity awards granted by former employer that would have vested within approximately 16 months from date of hire and that were forfeited when he accepted employment with PayPal
 - RSUs: \$4,143,503 grant value, vesting 100% on December 24, 2014
 - RSUs: \$4,071,429 grant value, vesting 100% on January 28, 2016
- Make-Good Cash Payments:
 - Make-Good Bonus Payment: \$3,631,250
 - In recognition that Mr. Schulman forfeited his 2014 bonus from his former employer when he accepted employment with PayPal
 - Paid on December 24, 2014, subject to full or partial repayment if bonus received from his former employer
 - Make-Good Portfolio Grant Payment: \$2,600,000
 - In recognition that Mr. Schulman forfeited cash-based incentive “portfolio” awards from his former employer when he accepted employment with PayPal
 - 50% on Dec. 24, 2014, and 50% to be paid on Feb. 15, 2016

Commitment to Future Equity Awards:

eBay also agreed to the size of Mr. Schulman’s annual equity award for 2015 as well as an equity award upon the completion of the Spin-Off as follows:

- 2015 Focal (Annual) Awards: Target Grant Value of \$9 million
 - Grant date – April 1, 2015
 - Allocation: 50% PBRsUs, 30% RSUs, and 20% options

Table of Contents

- PBRSU vesting will apply the CEO vesting schedule (2015-2016 PBRSU award granted in early 2017; if performance targets are met and RSUs are granted, the RSUs will vest 100% in 2018 on the first anniversary of the date of grant)
- Spin-Off Awards: Target Grant Value of \$2 million
 - Grant date-subject to and effective immediately prior to the Spin-Off
 - Allocation: 50% PBRsUs, 30% RSUs, and 20% options
 - Vesting subject to discretion of PayPal's Compensation Committee, but full vesting is expected to be over four years from the date of grant for RSUs and stock options and the CEO vesting schedule described above for PBRsUs

Relocation:

In addition, eBay assisted Mr. Schulman with certain expenses he incurred in connection with his relocation to the San Francisco Bay Area. Mr. Schulman's relocation assistance included assistance with selected costs and expenses related to moving from New York to the San Francisco Bay Area (including temporary housing and transportation) and related tax reimbursements, consistent with eBay's existing relocation policies.

Changes to PBRSU Program and Annual Cash Incentive for 2015

For the executives who will become PayPal NEOs, the eBay Compensation Committee determined that it would make the following adjustments as a result of the Spin-Off:

Modification of existing awards for Messrs. Schulman, Dupuis, Barrese, and Ferguson:

- 2014-2015 PBRSU performance cycle: Payout will be based on aggregate eBay Inc. performance for 2014 and PayPal-specific performance measures for 2015

2015-2016 PBRSU Awards for all PayPal NEOs:

- 2015-2016 PBRSU performance cycle: Payout will be based on performance measures and results for PayPal over the two-year performance period

2015 Cash Incentive Award:

- An annual performance period will apply and performance will be based on PayPal-specific performance measures rather than aggregate eBay Inc. performance

Retention Arrangements Approved in 2015 for Mr. Barrese and Mr. Ready

In preparation of PayPal becoming an independent public company, the eBay Compensation Committee approved certain retention arrangements in 2015 for Mr. Barrese and Mr. Ready that were intended to ensure that PayPal would have a stable leadership team following the Spin-Off.

Pursuant to the retention arrangements for Mr. Barrese, if he remains employed with PayPal through April 1, 2016, he is entitled to accelerated vesting of equity that would have otherwise vested from April 2, 2016 through April 30, 2017. In addition, if Mr. Barrese remains employed with PayPal through April 1, 2016 and subsequently (i) resigns from his employment, (ii) does not qualify for the severance protection for a voluntary resignation for "Good Reason" described in the "Termination During a Change in Control Period" section below, and (iii) signs and does not revoke a waiver and release of claims, then Mr. Barrese will be eligible to receive:

- (a) a prorated cash incentive award based on company performance for the fiscal year in which employment is terminated (if performance targets are met), and

Table of Contents

- (b) a cash payment in an amount equal to the sum of his (1) annual base salary and (2) bonus amount (where the bonus amount equals the greater of 65% of his annual base salary or his target annual cash incentive award).

Pursuant to the retention arrangements for Mr. Ready, if he remains employed with PayPal through January 15, 2016, the remaining vesting schedule for the two grants of restricted stock units awarded by eBay Inc. on January 15, 2014 (the “Initial eBay RSU Awards”) will be modified to provide for monthly vesting such that 3 1/3% of the unvested RSUs will vest monthly beginning in February 2016. In addition, if Mr. Ready remains employed with PayPal through February 1, 2016 and prior to the full vesting of the Initial eBay RSU Awards he subsequently (i) resigns from his employment, (ii) does not qualify for the severance protection for a voluntary resignation for “Good Reason” described in the “Termination During a Change in Control Period” section below, and (iii) signs and does not revoke a waiver and release of claims, then Mr. Ready will be eligible to receive a cash payment equal to the value of the equity subject to the Initial eBay RSU Awards that would otherwise have vested in the six months following the effective date of his termination.

Treatment of eBay Inc. Equity Awards

As discussed in more detail in “Certain Relationships and Related Party Transactions—Employee Matters Agreement—Equity Compensation Awards,” below, subject to certain exceptions, eBay equity-based compensation awards will either continue as adjusted eBay awards or be converted into PayPal awards upon the separation, depending on which entity employs the person who holds the award. eBay equity awards held by PayPal employees will be converted into awards that relate to shares of PayPal common stock, and equity awards held by employees who will remain employed by eBay after the separation will be adjusted to reflect the separation and continue to relate to shares of eBay common stock. Specifically, outstanding equity awards held by PayPal employees, including the PayPal NEOs, are expected to be treated as shown in the table below:

<u>Award Type</u>	<u>Treatment</u>
Target PBRSU Awards	Each eBay target PBRSU award with a fiscal year 2014-2015 performance period or a fiscal year 2015-2016 performance period held by a PayPal employee (including awards granted for accounting purposes) will be converted into a PayPal target PBRSU award. The target number of PayPal shares subject to the PayPal award will be adjusted in order to preserve the aggregate intrinsic value of the original eBay target PBRSU award, as measured immediately before and immediately after the distribution date, subject to rounding.
RSUs	Each unvested award of eBay RSUs held by a PayPal employee will be converted into a PayPal RSU award that will continue to vest over the same period as the unvested award of eBay RSUs to which such award corresponds. The number of shares of PayPal common stock subject to the award will be adjusted in order to preserve the aggregate intrinsic value of the original eBay RSU award, as measured immediately before and immediately after the distribution date, subject to rounding.
Stock Options	Each outstanding eBay stock option (whether vested or unvested) held by a PayPal employee and each outstanding eBay stock option (which is vested and exercisable) held by a former PayPal employee will be converted into an option to purchase shares of PayPal common stock that will continue to vest over the same period as the unvested eBay stock option to which such PayPal option corresponds. The exercise price and number of shares subject to each such PayPal stock option will be adjusted in order to preserve the aggregate intrinsic value of the original eBay stock option, as measured immediately before and immediately after the distribution date, subject to rounding.

Table of Contents

2014 BUSINESS RESULTS

eBay's compensation programs were designed to align compensation with its business objectives and performance. The following is a summary of the business results that directly affected 2014 compensation, including performance-based equity awards and annual cash incentives.

PBRsUs

eBay's 2014 performance will impact the value of the 2014-2015 PBRsU awards to Messrs. Schulman, Dupuis, Barrese, and Ferguson. As described above, these awards have been modified for these individuals such that payouts will be based on aggregate eBay performance for 2014 and PayPal-specific performance for 2015.

Annual Cash Incentive

2014 Annual Cash Incentive Goals and Plan Performance

The following shows the goals and 2014 performance under the financial and non-financial performance components of the annual cash incentive plan:

FX-neutral revenue:

- eBay's FX-neutral revenue of \$17.95 billion exceeded the minimum threshold of \$17.21 billion

Non-GAAP net income:

- eBay's Non-GAAP net income of \$3.80 billion exceeded the minimum threshold of \$3.64 billion but failed to exceed the target threshold of \$3.83 billion

Net Promoter Score (NPS) and employee Net Promoter Score (eNPS):

- In 2014, eBay did not meet its NPS or eNPS targets, accordingly, there was no NPS or eNPS-related payout
- Because eBay expects to separate into two companies before the end of 2015, the eBay Compensation Committee eliminated the NPS and eNPS performance metrics for 2015

The funding level under the plan could range from 50% at the minimum non-GAAP net income level up to 200% at the maximum non-GAAP net income level (assuming the minimum FX-neutral revenue threshold was also met). As part of its review of eBay's performance against its targets, the eBay Compensation Committee considered whether any significant corporate events, not contemplated at the time the targets were set, should lead to an adjustment of revenue or non-GAAP net income results. The eBay Compensation Committee concluded that eBay's non-GAAP net income results should be adjusted to exclude the impact of (i) an increased tax rate driven by eBay having elected to subject more of its foreign earnings to U.S. taxation, and (ii) the interest expense associated with eBay's \$3.5 billion debt issuance in July 2014. Both of these actions resulted in an increase in eBay's available U.S. cash and enhanced its financial flexibility.

Because minimum thresholds for both eBay's company-wide FX-neutral revenue and non-GAAP net income were met in 2014, the individual performance component of the annual cash incentive plan was paid. However, eBay's non-GAAP net income for 2014 was below target, and therefore the individual performance component was modified and funded at 94% in accordance with the terms of the plan and its application to all eligible employees of eBay.

Table of Contents

Taking into account both eBay's company and individual performance, total annual cash incentive amounts under the 2014 annual cash incentive for the PayPal NEOs were paid as follows:

Name	Annual Cash Incentive	Payment as a	Size of annual cash incentive award for 2014
	Target as Percentage of Base Salary	Percentage of Target*	
Daniel H. Schulman	175	94	\$ 335,959.58
Patrick L. A. Dupuis	60	105.8	\$ 330,513.59
William J. Ready**	66.67	110.5	\$ 222,610.59
James J. Barrese	60	94	\$ 302,499.14
Hill Ferguson	60	94	\$ 259,949.86

* eBay's company performance component (75%) was paid at 94% of target. The individual performance component (25%) was based on each NEO's individual performance score, which was calculated as a percentage of target and modified down to 94% of that amount in accordance with the terms of the plan.

** At the time Mr. Ready joined PayPal in 2013, there was no change to his target annual cash incentive award.

SEVERANCE AND CHANGE-IN-CONTROL ARRANGEMENTS WITH EXECUTIVE OFFICERS, AND CLAWBACKS

When approving or establishing the severance and change-in-control arrangements described below, the eBay Compensation Committee attempted to provide severance benefits with sufficient protections and retention incentives for the executive officer and which were aligned with the interests of eBay and its stockholders. The eBay Compensation Committee believes that these protections help eBay to attract and retain highly talented employees, including the PayPal NEOs.

Severance and Change in Control Arrangements for Mr. Schulman

In connection with becoming President of PayPal and its CEO-designee, Mr. Schulman received an offer letter that included severance arrangements. Under these arrangements, Mr. Schulman is entitled to receive the following if he is terminated without cause or resigns for good reason (each as defined in the letter) and he signs and does not revoke a waiver and release of claims:

- a cash payment equal to two times the sum of (a) the greater of Mr. Schulman's annual base salary or \$1 million and (b) his bonus amount (where the bonus amount equals the greater of two times Mr. Schulman's annual base salary or the target cash incentive award for the year);
- a prorated cash incentive award based on company performance for the fiscal year in which employment is terminated (if performance targets are met);
- any make-good cash payments that have not yet been paid; and
- a cash payment equal to the value of:
 - the unvested Initial Equity Awards and Make-Good RSU Awards if his termination occurs outside a Change in Control period, provided that, if the termination occurs following the Spin-Off and outside the Change in Control period, then the cash payment shall also include the cash value of any other unvested equity awards that would otherwise have vested within 12 months of the termination date; or
 - all unvested equity awards if his termination occurs during a Change in Control Period.

In the event the Spin-Off does not occur within two years from Mr. Schulman's start date and he is terminated without cause or resigns for good reason, in addition to the cash payment equal to the value of the unvested Initial Equity Awards and Make-Good RSU awards described above, he will also be eligible to receive the cash value of any unvested equity awards not covered above that would otherwise have vested within 24 months of his termination date.

Table of Contents

The “Change in Control Period” begins 90 days before a Change in Control (as defined in eBay’s 2008 Equity Incentive Award Plan, as amended and restated) and ends 24 months after a Change in Control.

In the event Mr. Schulman’s employment terminates due to his death or permanent disability, he or his estate will receive, within 30 days of his termination date, a cash payment equal to the value of any equity awards that would have become vested within the following 24 months.

For purposes of Mr. Schulman’s offer letter, “Cause,” “Good Reason,” and “Change in Control” are summarized as follows:

- “Cause” means (a) Mr. Schulman’s failure to attempt in good faith to substantially perform his assigned duties, other than failure resulting from his death or incapacity due to physical or mental illness or impairment (subject to a notice and cure period), (b) Mr. Schulman’s indictment for, conviction of or plea of nolo contendere to any felony (or any other crime involving fraud, dishonesty or moral turpitude), or (c) Mr. Schulman’s commission of an act of fraud, embezzlement, misappropriation, willful misconduct, or breach of fiduciary duty against the company, except good faith expense account disputes.
- “Good Reason” means, without Mr. Schulman’s written consent, any of the following events (subject to a notice and cure period), after which Mr. Schulman resigns his employment within the time periods set forth in his offer letter:
 - (a) the effective date of the Spin-Off does not occur within two years following his commencement of employment with PayPal;
 - (b) following the Spin-Off, PayPal experiences a Change in Control, after which he is no longer the chief executive officer of the publicly traded company that is (or owns) PayPal; or
 - (c) (i) a material reduction in his annual base salary; (ii) a material reduction in his annual target bonus opportunity; (iii) a material reduction in his authority, duties or responsibilities (which would include a change in his direct reporting relationship); or (iv) any other material breach by the company of his offer letter.
- “Change in Control” means:
 - (a) before a Spin Off, any of the following: (i) a “Change in Control” as such term is defined in the eBay’s 2008 Equity Incentive Award Plan, as amended and restated; or (ii) a sale of PayPal by eBay to any individual, entity or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) that is not affiliated with eBay; or (iii) an announcement by eBay on a Form 8-k (or other similar filing under the Exchange Act) that eBay has abandoned its plans to separate PayPal from the eBay companies; and
 - (b) on and after the effective date of a Spin-Off, “Change in Control” as such term is defined in the PayPal equity plan (but if no such definition is contained therein, then for purposes of his offer letter, “Change in Control” will be as defined in eBay’s 2008 Equity Incentive Award Plan, as amended and restated, but with all references to eBay replaced with PayPal).

Severance Arrangement for Mr. Dupuis

As discussed in the 2014 compensation review section above, in the event Mr. Dupuis remains employed by PayPal through an agreed upon date that will be no longer than 30 days after the date a new chief financial officer is appointed at PayPal, then upon separation the company will make a cash payment to Mr. Dupuis equal to the following, provided Mr. Dupuis signs and does not revoke a waiver and release of claims:

- (a) a prorated cash incentive award for 2015 paid at target based on the portion of the fiscal year during which executive was employed;

Table of Contents

- (b) a cash payment in an amount equal to the sum of the executive's (1) annual base salary and (2) bonus amount (where the bonus amount equals the greater of 65% of the executive's annual base salary or target annual cash incentive award); and
- (c) a cash payment in an amount equal to the value of any unvested equity awards that would otherwise have vested within the period ending on the later of (1) 12 months after the executive's termination date or (2) April 1, 2016.

Severance and Change in Control Arrangements for Mr. Barrese and Mr. Ready

In addition to the retention arrangements described above, the eBay Compensation Committee approved certain severance and change in control arrangements in 2015 for Mr. Barrese and Mr. Ready. Under these arrangements, each of Mr. Barrese and Mr. Ready is entitled to receive the following if he is terminated by the company without cause (as defined in the letter and summarized below) outside of a change in control period (as described below) and signs and does not revoke a waiver and release of claims:

- (a) a prorated cash incentive award based on company performance for the fiscal year in which employment is terminated (if performance targets are met);
- (b) a cash payment in an amount equal to the sum of the executive's (1) annual base salary and (2) bonus amount (where the bonus amount equals the greater of 65% of the executive's annual base salary or target annual cash incentive award); and
- (c) a cash payment in an amount equal to the value of any unvested equity awards that would otherwise have vested within 12 months of the executive's termination date.

If Mr. Barrese or Mr. Ready is terminated without cause or resigns for good reason (each as defined in the letter and summarized below) during a change in control period and signs and does not revoke a waiver and release of claims, then he would be entitled to:

- (a) a prorated cash incentive award based on company performance for the fiscal year in which employment is terminated (if performance targets are met);
- (b) a cash payment in an amount equal to the sum of two times the sum of his (1) annual base salary and (2) bonus amount (where the bonus amount equals the greater of 65% of the executive's annual base salary or target annual cash incentive award); and
- (c) a cash payment in an amount equal to the value of all unvested equity awards as of the executive's termination date.

The "Change in Control Period" begins 90 days before a Change in Control (as defined in eBay's 2008 Equity Incentive Award Plan, as amended and restated) and ends 24 months after a Change in Control.

In the event Mr. Barrese's or Mr. Ready's employment terminates due to his death or permanent disability, he or his estate will receive, within 30 days of his termination date, a cash payment equal to the value of any equity awards that would have become vested within 24 months following such termination date.

For purposes of Mr. Barrese's and Mr. Ready's letters, the following definitions apply:

- "Cause" has the same meaning as the definition described above for Mr. Schulman.
- "Good Reason" means, without Mr. Barrese or Mr. Ready's consent, as applicable, any of the following events (subject to a notice and cure period), after which Mr. Barrese or Mr. Ready resigns employment within the time periods set forth in the executive's offer letter: (i) a material reduction in annual base salary; (ii) a material reduction in annual target bonus opportunity; (iii) on and after the Spin-Off, a material reduction in the executive's authority, duties or responsibilities; (iv) following a

Table of Contents

Change in Control, a requirement by the company that the executive relocate the primary office to a location that is more than 35 miles from the location of the executive's primary office immediately prior to the Change in Control; or (v) any other material breach by the company of the letter.

- "Change in Control" means a "Change in Control" as such term is defined in eBay's 2008 Equity Incentive Award Plan, as amended and restated, or, following the Spin-Off, as such term may be defined (if different) under any successor equity incentive plan.

Additional Severance Arrangements for an Involuntary Termination for Mr. Ready

In connection with PayPal's acquisition of Braintree in December 2013, Braintree granted RSU awards to Mr. Ready prior to closing in recognition of his significant contributions to Braintree. Upon the completion of the acquisition, eBay (as PayPal, Inc.'s parent) assumed the RSU awards granted by Braintree to Mr. Ready. Under the terms of those awards, Mr. Ready would be entitled to full acceleration of any then-unvested RSUs if his employment was terminated by Braintree without "cause" or he resigned with "good reason" (as defined in his Braintree RSU agreements).

For purposes of Mr. Ready's Braintree RSU awards, "Cause" and "Good Reason" are generally defined as follows:

- "Cause" means (i) the participant's commission of (A) an act of fraud, theft, embezzlement, misappropriation or breach of fiduciary duty against or involving the company or any of its affiliates or (B) any other crime having a material and adverse effect on the company or any of its affiliates; (ii) material and unauthorized use or disclosure by the participant of the proprietary information or trade secrets of the company or its affiliates; (iii) the participant's willful failure or refusal to perform his material job duties and responsibilities (other than refusal or failure resulting from the participant's complete incapacity due to physical or mental illness or impairment); (iv) any material breach of any written agreement between the participant and the company or any of its affiliates; (v) the participant's willful failure or refusal to comply with a material written policy or rule of the company or any of its affiliates; (vi) the participant's willful failure or refusal to cooperate with a government or internal investigation of the company or any of its affiliates, including its directors, officers or employees, if the participant's cooperation has been requested by the company or any of its affiliates; or (vii) the participant's commission of, or plea of nolo contendere to, any felony under the laws of the United States or any equivalent state or any foreign laws, subject to an opportunity to cure in the case of clauses (iii), (iv), (v) and (vi).
- "Good Reason" means the occurrence of any of the following without the written consent of the participant (subject to a notice and cure period): (i) a reduction in the participant's rate of annual base salary; (ii) a material reduction in the participant's annual target bonus opportunity; or (iii) a change in the participant's principal location of work that is in excess of thirty-five (35) miles from the participant's principal location of work as of the date of the underlying award agreement.

Change in Control

PayPal has not entered into any arrangements with any of its executive officers to provide "single trigger" severance payments upon a change in control. As described above, eBay has put change-in-control protections in place for Mr. Schulman, Mr. Barrese, and Mr. Ready. In the event that payments or benefits owed to Mr. Schulman, Mr. Barrese or Mr. Ready constitute "parachute payments" (within the meaning of Section 280G of the Code) and would be subject to the excise tax imposed by Section 4999 of the Code, such payments or benefits may be reduced to an amount that does not result in the imposition of such excise tax, if such reduction results in the executive receiving a higher net-after-tax amount than he would have absent such reduction.

eBay's equity incentive plans generally provide for the acceleration of vesting of awards granted under the plans upon a change in control (as defined in the applicable plan) only if the acquiring entity does not agree to

Table of Contents

assume or continue the awards. These provisions generally apply to all holders of awards under the equity incentive plans. See “Potential Payments upon Termination or Change in Control” below for information regarding the impact to PayPal’s NEOs in the event of termination or a change in control, assuming that their employment was terminated or a change-in-control occurred on December 31, 2014.

Other Severance Arrangements

On June 16, 2015, PayPal adopted the (i) PayPal Change in Control Severance Plan for Key Employees (the “CIC Severance Plan”), for executive officers at or above the level of Vice President and Fellows, and (ii) the PayPal SVP and Above Standard Severance Plan (the “Standard Severance Plan”) for officers at or above the level of Senior Vice President. These plans will be effective immediately following the Distribution.

Eligibility and Impact of Individual Employment Letter Agreements

Eligible employees are selected by the Compensation Committee to participate in the CIC Severance Plan and Standard Severance Plan. Unless otherwise determined by the Compensation Committee, any officer who is eligible to receive severance payments and/or benefits under an individual employment letter agreement or other agreement under circumstances that would give rise to a right to receive payments and benefits under the CIC Severance Plan or the Standard Severance Plan is not eligible to receive payments or benefits in the respective plan; except, if the officer is not subject to income tax in the USA and the present value of the payments and benefits payable under such individual arrangement is less than that payable under the respective plan, such officer will be eligible under the plan. Currently, as described above, Messrs. Schulman, Dupuis, Ready and Barrese all have arrangements that provide for severance payments and benefits and, therefore, are not expected to be eligible to participate in either of the two plans at this time.

CIC Severance Plan Benefits

The CIC Severance Plan provides eligible employees with severance payments and benefits in the event that an eligible employee’s employment with us or one of our subsidiaries, affiliates or a successor company is terminated within 90 days prior to, or within 24-months immediately following, a “change in control” of us (the “change in control period”) either (a) by the employer company for any reason other than “cause”, “disability” or death or (b) by the eligible employee for “good reason”. The severance payments and benefits to be provided, subject to the employee’s execution of a release of claims, are as follows:

- (1) A lump sum payment, in cash, of the bonus under the PayPal Employee Incentive Plan (the “EIP”) that the eligible employee would have earned assuming achievement of target individual performance, as applicable in respect of the fiscal year in which the termination occurs, assuming achievement of our target performance for the year; except, if the employee’s bonus is intended to constitute performance-based compensation within the meaning of Section 162(m) of the Code, the bonus will be paid based on actual company performance through the date of termination;
- (2) A lump sum payment, in cash, equal to the product of (a) the sum of the eligible employee’s base salary (in effect upon the occurrence of the termination event) and target bonus (for the bonus year in which the separation occurs), multiplied by (b) an “applicable multiple” (which in the case of Senior Vice Presidents who are direct reports to Mr. Schulman, would be two; for other Senior Vice Presidents and those Vice Presidents designated by the Compensation Committee, one; and for all other Vice Presidents and Fellows, 0.5);
- (3) A lump sum payment, in cash, of two times the monthly premium payable for health insurance coverage for the eligible employee and his or her covered dependents over a 24 month period (in the case of Senior Vice Presidents who are direct reports to Mr. Schulman), 12 month period (in the case of other Senior Vice Presidents and those Vice Presidents designated by the Compensation Committee) and six-month period (in the case of all other Vice Presidents and Fellows); except if the executive is employed outside of the U.S.A., he or she will only receive this payment if obligated to pay all or a portion of the premiums for such continuing health insurance coverage, and otherwise will be eligible

Table of Contents

for continued medical and dental insurance coverage for 24 months (in the case of Senior Vice Presidents who are direct reports to Mr. Schulman), 12 months (in the case of other Senior Vice Presidents and those Vice Presidents designated by the Compensation Committee) and six months (in the case of all other Vice Presidents and Fellows); and

- (4) The eligible employee's unvested time-vesting equity awards will be treated as fully vested and, if the termination occurs during a performance period with respect to an award of performance-based restricted stock units, such award will be deemed earned assuming achievement of target performance for purposes of determining the number of awards that will be treated as becoming immediately vested; except, if the employee's awards are intended to constitute performance-based compensation subject to Section 162(m) of the Code, such awards will remain outstanding and only be treated as becoming fully vested if and to the extent that they otherwise would have become earned based on actual company performance through the end of the applicable performance period. Settlement of the awards will be through either the vesting of common stock under the award or, in lieu thereof, payment in cash or a combination thereof, at our discretion. In general, if cash payment is made in lieu of vesting an award, the value of the unvested award is determined using the average closing price of our common stock for the 10 consecutive trading days ending on and including the trading day immediately prior to the date of separation or at the end of the performance period, as applicable.
- (5) Any unvested cash "make-good" awards previously granted to an eligible employee will be paid in a cash lump sum.

In addition, if an eligible employee dies or becomes disabled at any time during the change in control period, his or her unvested equity awards will also be treated as fully vested and be settled in the same manner as described in item (4) above assuming achievement of target performance, as applicable.

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

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

Standard Severance Plan Benefits

The Standard Severance Plan provides eligible employees with severance payments and benefits in the event that an eligible employee's employment with us or one of our subsidiaries, affiliates or a successor company is terminated without "cause" by us outside of the "change in control period" (as defined above). The severance payments and benefits payable under this plan, as well as the timing of and conditions for such payments and benefits, are generally the same as those under the CIC Severance Plan for, at this time, only Senior Vice Presidents who would fall into the category of employees receiving an applicable multiple of one, with the following differences:

- The bonus amount under the EIP will be based on our full year performance and pro-rated based on the period of time during the fiscal year the employee was employed with us.
- The eligible employee's unvested time-vesting equity awards will not be treated as fully vested, but instead will only be treated as becoming vested as to any such awards that would have otherwise become earned and vested within the twelve (12) months following the date of termination; and, if the termination occurs during a performance period with respect to an award of performance-based restricted stock units, then such awards (the amount of which will be as determined as described in item (4) above solely for any performance period ending within the twelve (12) months following the date of termination) will also only be treated on becoming vested up to the percentage of such awards that would otherwise have become earned and vested within the twelve (12) months following the date of termination; and

Table of Contents

- if an eligible employee dies or becomes permanently disabled, his or her unvested equity awards will only be treated as becoming vested as to any such awards that would have otherwise become earned and vested within the twenty-four (24) months following the date of termination, but otherwise payable in the same manner as described in item (4) above assuming achievement of target performance as applicable.

Definitions

For purposes of the CIC Severance Plan and Standard Severance Plan, “change in control”, “cause”, “disabled”, and (for the CIC Severance Plan only) “good reason” are each defined in the respective plans and are generally defined as summarized below:

“change in control” has the same meaning as under the PayPal Holdings, Inc. Equity Award Incentive Plan under which PayPal is then granting equity awards, as in effect from time to time.

“cause” is defined as (a) a failure to attempt in good faith to substantially perform assigned duties, other than failure resulting from death or incapacity due to physical or mental illness or impairment, which is not remedied within thirty (30) days after receipt of written notice from us specifying such failure; (b) indictment for, conviction of or plea of *nolo contendere* to any felony (or any other crime involving fraud, dishonesty or moral turpitude); or (c) commission of an act of fraud, embezzlement, misappropriation, willful misconduct, or breach of fiduciary duty against the company, except good faith expense account disputes.

“disabled” has the same meaning as under the long-term disability plan under which the eligible employee is covered as of the date of termination of employment.

“good reason” means the occurrence of any of the following without the written consent of the eligible employee (subject to notice and a cure period): (a) in the case of Senior Vice Presidents and those Vice Presidents designated by the Compensation Committee: (i) a material reduction in annual total target compensation (which is comprised of annual base salary rate and annual target bonus opportunity under PayPal’s annual incentive plan or applicable successor plan); (ii) a material reduction in reporting relationship and/or diminution in scope of responsibilities; or (iii) a relocation of the principal workplace location by more than thirty-five (35) miles; and (b) in the case of all other Vice Presidents and Fellows, (i) a material reduction in annual total target compensation (which is comprised of annual base salary rate and annual target bonus opportunity under PayPal’s annual incentive plan or applicable successor plan); or (ii) a relocation of the principal workplace location by more than thirty-five (35) miles.

Clawbacks

The eBay Compensation Committee has adopted a clawback policy that covers each officer employed as a vice president or in a more senior position, and applies to incentive compensation, which includes any cash incentive award, equity award, or equity-based award paid or awarded to any covered employee during the period in which he or she was designated as a covered employee. For all covered employees, the occurrence of either of the following events is covered: (a) an action or omission by the covered employee that constituted a material violation of eBay’s code of business conduct; or (b) an action or omission by the covered employee that resulted in material financial or reputational harm to eBay. In addition, for covered employees that were employed as a senior vice president or in a more senior position, or a vice president who was a member of the finance function, the following event is also covered: a material restatement of all or a portion of eBay’s financial statements that was the result of a supervisory or other failure by the covered employee.

Under the clawback policy, the eBay Compensation Committee has the authority and discretion to determine whether an event covered by the policy had occurred and, depending on the facts and circumstances, could (but need not) require the full or partial forfeiture and/or repayment of any incentive compensation covered by the policy that was paid or awarded to a covered employee. The forfeiture and/or repayment could include all or any portion of the following:

- Any incentive compensation that is greater than the amount that would have been paid to the covered employee had the covered event been known;

Table of Contents

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

Going Forward

PayPal expects that it will initially establish plans, agreements and policies regarding clawbacks for its NEOs that will be similar to those plans, agreements and policies in place at eBay for its named executive officers in conformance with all legal and regulatory requirements.

FURTHER CONSIDERATIONS FOR SETTING EXECUTIVE COMPENSATION

Historically

Role of Consultants in Compensation Decisions

Pay Governance LLC served as the independent compensation consultant to the eBay Compensation Committee. It provided the eBay Compensation Committee with advice and resources to help the eBay Compensation Committee assess the effectiveness of eBay's executive compensation strategy and programs. Pay Governance reported directly to the eBay Compensation Committee, and the eBay Compensation Committee had the sole power to terminate or replace Pay Governance at any time.

As part of its engagement, the eBay Compensation Committee had directed Pay Governance to work with eBay's Senior Vice President of Human Resources and other members of management to obtain information necessary for Pay Governance to form recommendations and evaluate eBay's management's recommendations to the eBay Compensation Committee. Pay Governance also met with the eBay Compensation Committee during its regular meetings, in executive session (where no members of management are present), and with the eBay Compensation Committee chair and other members of the Committee outside of the Committee's regular meetings. As part of its engagement in 2014, Pay Governance provided an environmental scan of executive compensation, evaluated eBay's peer group composition, evaluated compensation levels at the peer group companies, assessed and proposed equity and cash compensation guidelines for various executive job levels, assessed compensation for eBay's executive officers, assessed retention for PayPal's NEOs, advised on the framework for eBay's long-term incentive awards, evaluated performance-based retention strategies, evaluated clawback policies, and assessed eBay's board compensation.

In connection with the Spin-Off, Pay Governance was retained by the eBay Compensation Committee for a special assignment to form recommendations as to the compensation structures for Mr. Schulman as the CEO-designee of PayPal and other senior executives of PayPal. In connection with this special assignment, Pay Governance also formed recommendations and evaluated management's recommendations regarding the compensation arrangements for those individuals expected to serve as PayPal's executive officers following the Spin-Off, and the handling of compensation transition for eBay's plans given an expected Spin-Off date before the end of 2015. Pay Governance's fees for consulting advice to the eBay Compensation Committee for the year ended December 31, 2014 were \$548,778.77. Pay Governance did not provide any other services to eBay.

In addition, Towers Watson & Co. provided compensation advisory services to management to help it develop and execute eBay's overall compensation programs, including evaluating competitive compensation levels and programs for PayPal's executive officers and positions below executive officer, equity compensation, international compensation, and other issues as requested by eBay Human Resources.

Table of Contents

Peer Group Considerations

To set total compensation guidelines, the eBay Compensation Committee reviews market data of companies that are comparable to eBay and that it believes compete with eBay for executive talent, business, and capital. The Committee reviews both specific data from public filings from eBay peer group companies and general industry data for comparable technology companies that are included in proprietary third-party surveys. The eBay Compensation Committee believes that it is necessary to consider this market data in making compensation decisions to attract and retain talent. The Committee also recognizes that at the executive level, eBay competes for talent against larger global companies, as well as smaller, non-public companies.

In deciding whether a company should be included in the peer group, the eBay Compensation Committee generally considered the following screening criteria: revenue, market value, historical growth rates, primary line of business, whether the company had a recognizable and well-regarded brand, and whether eBay competes with the company for talent.

For each member of the eBay peer group, one or more of the factors listed above was relevant to the reason for inclusion in the group, and, similarly, one or more of these factors may not have been relevant to the reason for inclusion in the group.

For 2014, the eBay peer group consisted of the following companies: Adobe Systems Incorporated, Amazon.com, Inc., American Express Company, Capital One Financial Corp., Charles Schwab & Co., Inc., Cisco Systems, Inc. Facebook, Inc., Google Inc., Intel Corporation, Intuit Inc., MasterCard Incorporated, Microsoft Corporation, Symantec Corporation, Visa Inc. and Yahoo! Inc. To assess whether the eBay peer group continues to reflect the markets in which eBay competes for executive talent, the eBay Compensation Committee reviews the peer group each year with the assistance of its compensation consultant. For 2014, the eBay Compensation Committee removed Dell Inc. from the list of companies used in 2013 because it had become a private company and its compensation data was no longer publicly available. For 2015, the eBay Compensation Committee did not make any changes to the peer group (as a foreign registrant, compensation data for Alibaba Group Holding Limited is not available).

Going Forward

Following the separation, the PayPal Compensation Committee will need to select compensation consultants and other advisors and may initially (but is not obligated to) choose to use the same consultants and advisors as those used by the eBay Compensation Committee. In addition, the PayPal peer group will be determined by the PayPal Compensation Committee. As is the case with eBay, it is expected that the PayPal Compensation Committee will set total compensation guidelines by reviewing market data of companies that are comparable to PayPal and that it believes compete with PayPal for executive talent, business, and capital.

2014 SUMMARY COMPENSATION TABLE

The following table, footnotes, and narrative summarize the total compensation historically awarded to, earned by or paid to PayPal's named executive officers, or NEOs, for the fiscal year ended December 31, 2014. Position titles refer to each NEO's expected title at PayPal following the Spin-Off.

Name and Principal Position (a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)	Option Awards (\$)(f)	Non-Equity Incentive Plan	All Other Compensation	Total \$(i)
						Compensation (\$)(g)	(\$)(h)	
Daniel H. Schulman President and Chief Executive Officer (1)	2014	204,231	0	14,508,104	1,330,803	335,960	22,308,808	38,687,906
Patrick L. A. Dupuis Senior Vice President, Interim Chief Financial Officer	2014	520,904	50,000	2,777,670	138,930	330,514	11,208	3,829,226
William J. Ready Senior Vice President, Merchant and Next Generation Commerce	2014	302,308	0	30,840,980	0	222,611	13,036	31,378,935
James J. Barrese Chief Technology Officer and Senior Vice President, Payment Services	2014	536,346	0	6,301,753	236,170	302,499	13,081	7,389,849
Hill Ferguson Senior Vice President, Consumer	2014	460,904	0	6,301,753	236,170	259,950	11,168	7,269,945

(1) Mr. Schulman joined PayPal on September 30, 2014.

Bonus (Column (d))

The amount reported in the Bonus column for Mr. Dupuis represents the final installment of a supplemental cash bonus provided by eBay in connection with hiring Mr. Dupuis in 2010.

Stock Awards (Column (e))

The amounts reported in the Stock Awards column represent the aggregate grant date fair value of eBay time-based restricted stock units, or RSUs, and performance-based restricted stock units, or PBRsUs, granted to each of our NEOs in 2014, calculated in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 718, Compensation—Stock Compensation ("FASB ASC Topic 718"). The grant date fair value of RSUs is determined using the fair value of eBay common stock on the date of grant, and the estimated fair value of PBRsUs is calculated based on the probable outcome of the performance measures for the applicable performance period as of the date on which the PBRsUs are granted for accounting purposes. This estimated fair value for PBRsUs is different from (and lower than) the maximum value of PBRsUs set forth below.

RSUs : For 2014:

- Mr. Schulman was granted "new hire" RSUs in connection with his joining PayPal as President and CEO-designee in September. He was also granted a total of 154,544 "Make-Good RSU Awards" with an aggregate grant value of \$8,214,932, which were intended to make him whole for those equity awards granted by his former employer that would have otherwise vested within approximately 16 months from his date of hire and that he forfeited by joining PayPal.
- Mr. Ready was granted RSUs by eBay in January 2014 in connection with PayPal's acquisition of Braintree, Inc. ("Braintree") in December 2013.

Table of Contents

- Mr. Dupuis, Mr. Barrese, and Mr. Ferguson were granted RSUs in connection with eBay's annual (focal) grant in April; each of them also received a supplemental retention RSU grant in August.

PBRsUs : PBRsUs provide an opportunity for certain of our NEOs to receive grants of time-based RSUs if the performance measures for a specified time period are met. For a description of the performance measures for the 2014-2015 PBRsU awards, see "Compensation Discussion and Analysis—Elements of the Executive Compensation Program—PBRsU Program" above.

For 2014:

- Mr. Schulman was granted PBRsUs for accounting purposes in connection with his joining PayPal as President and CEO-designee in September.
- Mr. Dupuis, Mr. Barrese, and Mr. Ferguson were granted PBRsUs for accounting purposes in connection with eBay's annual (focal) grant in April.
- Mr. Ready was not granted any PBRsUs in 2014.

Assuming the highest level of performance is achieved under the applicable performance measures for the 2014-2015 PBRsU awards, the maximum possible value of the PBRsU awards allocated to our NEOs for the 2014-2015 performance period using the fair value of eBay common stock on the date that such awards were granted for accounting purposes is (a) for Mr. Schulman, \$6,124,557; (b) for Mr. Dupuis, \$1,155,993; (c) for Mr. Barrese, \$1,965,155; and (d) for Mr. Ferguson, \$1,965,155.

The value that our NEOs received in 2014 from the vesting of their eBay stock awards is reflected in the 2014 Option Exercises and Stock Vested table below. Additional information on all outstanding stock awards as of December 31, 2014 is reflected in the 2014 Outstanding Equity Awards at Fiscal Year-End table below.

Option Awards (Column (f))

The amounts reported in the Option Awards column represent the grant date fair value of eBay stock option awards granted to each of our NEOs in 2014, calculated in accordance with FASB ASC Topic 718. The estimated fair value of each eBay option award on the date of grant was calculated by using a modified Black-Scholes option pricing model. The weighted-averages of the assumptions used were: risk-free interest rate of 1.2%; expected life of 4.1 years; no dividend yield; and expected volatility of 29%. The computation of expected volatility was based on a combination of historical and market-based implied volatility from traded options on eBay common stock. The computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules, and expectations of future employee behavior. The interest rate for periods within the contractual life of the award was based on the U.S. Treasury yield curve in effect at the time of grant.

For 2014:

- Mr. Schulman was granted options in connection with his appointment as President and CEO-designee of PayPal in September.
- Mr. Dupuis, Mr. Barrese, and Mr. Ferguson were granted options as part of eBay's annual (focal) grant in April.
- Mr. Ready was not granted any stock options in 2014.

The value that our NEOs received in 2014 from the exercise of their eBay stock options is reflected in the 2014 Option Exercises and Stock Vested table below. Additional information on all outstanding option awards as of December 31, 2014 is reflected in the 2014 Outstanding Equity Awards at Fiscal Year-End table below.

Table of Contents

Non-Equity Incentive Plan Compensation (Column (g))

The amounts reported in the Non-Equity Incentive Plan Compensation column represent amounts earned by each of our NEOs under the eBay annual cash incentive plan for services they rendered in 2014. See “Compensation Discussion and Analysis—Elements of the Executive Compensation Program—Annual Cash Incentive Awards” above for more information.

All Other Compensation (Column (h))

General

The amounts reported in the All Other Compensation column include, for each of our NEOs, the sum of:

- a) the amount of the matching contributions made by eBay to eBay’s 401(k) savings plan for the benefit of Messrs. Dupuis, Ready, Barrese, and Ferguson, subject to a maximum of \$10,400 applicable to each participating employee for 2014, including our NEOs;
- b) the cost of certain information technology support services provided by eBay for computer equipment located at the residence of Mr. Schulman;
- c) the dollar value of the premiums paid by eBay for group life insurance and accidental death and dismemberment coverage for the benefit of each of our NEOs;
- d) the dollar value of the “Make-Good Cash Payments” provided to Mr. Schulman for cash payments and equity awards to the extent that Mr. Schulman forfeited or was otherwise required to repay them to his former employer as a result of his leaving his former employer to join PayPal, as described below;
- e) the cost of temporary housing for Mr. Schulman for the portion of 2014 following the date of his commencement of employment with PayPal, and the reimbursement of Mr. Schulman for the amount of income taxes relating to the temporary housing and travel-related benefits provided to him, as described below;
- f) the cost of PayPal promotional items given to Mr. Schulman, and a tax reimbursement for \$117 covering the cost of the gift; and
- g) the cost of a gift given to Mr. Ready, and a tax reimbursement for \$62 covering the cost of the gift.

Perquisites are valued at the incremental cost of providing such perquisites, net of any reimbursements provided by our NEOs.

Make-Good Cash Payments – Mr. Schulman

The 2014 amount reported for Mr. Schulman includes \$22,178,202 in “Make-Good Cash Payments” intended to make him whole for lost cash and equity awards to the extent that Mr. Schulman’s former employer caused him to forfeit or required him to repay such amounts as a result of his leaving his former employer to join PayPal:

- a) \$13,620,415 to cover the pre-tax income Mr. Schulman was required to repay to his former employer for equity and annual incentive compensation received within the last two years prior to his joining PayPal (and a portion of which was paid directly by eBay to his former employer);
- b) \$3,631,250 to make up for the 2014 annual bonus opportunity that Mr. Schulman forfeited by leaving his former employer to join PayPal;
- c) \$1,300,000 representing the portion paid in 2014 (which is 50% of the \$2,600,000 total amount to be paid to Mr. Schulman) to make up for the cash-based incentive “portfolio” awards that Mr. Schulman forfeited by leaving his former employer to join PayPal; and
- d) \$3,626,537 to make up for the vested options in his former employer’s common stock that Mr. Schulman forfeited by leaving his former employer to join PayPal.

Table of Contents

Relocation Benefits – Mr. Schulman

The 2014 amount reported for Mr. Schulman also includes the following amounts to cover certain relocation benefits as outlined below:

- a) \$68,112, representing the cost of temporary housing for Mr. Schulman in the San Francisco Bay Area for that portion of 2014 following his commencement of employment with the PayPal in September; and
- b) \$61,118, representing the cost of a tax reimbursement for the amount of income taxes relating to the temporary housing and certain travel benefits provided to him.

Table of Contents

2014 GRANTS OF PLAN-BASED AWARDS

The following table, footnotes, and narrative set forth certain information regarding grants of plan-based awards to each of our NEOs for the fiscal year ended December 31, 2014.

Name (a)	Approval Date (b)	Grant Date (c)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)(j)	All Other Option Awards: Number of Securities Underlying Options (#)(k)	Exercise or Base Price of Option Awards (\$/Sh)(l)	Grant Date Fair Value (\$)(m)
			Threshold (\$)(d)	Target (\$)(e)	Maximum (\$)(f)	Threshold (#)(g)	Target (#)(h)	Maximum (#)(i)				
Daniel H. Schulman												
Options	9/26/2014	10/15/2014	—	—	—	—	—	—	—	101,588	50.24	1,330,803
RSUs	9/26/2014	10/15/2014	—	—	—	—	—	—	84,657	—	—	4,253,168
RSUs	9/26/2014	10/15/2014	—	—	—	—	—	—	77,950	—	—	3,916,208
RSUs	9/26/2014	10/15/2014	—	—	—	—	—	—	76,594	—	—	3,848,083
eIP – company performance	N/A	N/A	134,026	268,053	536,106	—	—	—	—	—	—	—
eIP – individual performance	N/A	N/A	—	89,351	178,702	—	—	—	—	—	—	—
PBRsUs (2014-2015 performance period)	9/26/2014	10/15/2014	—	—	—	20,318	50,794	121,906	—	—	—	2,490,645
Patrick L. A. Dupuis												
Options	1/29/2014	4/1/2014	—	—	—	—	—	—	—	10,314	56.04	138,930
RSUs	1/29/2014	4/1/2014	—	—	—	—	—	—	5,157	—	—	288,998
RSUs	8/7/2014	8/15/2014	—	—	—	—	—	—	37,514	—	—	1,974,737
eIP – company performance	N/A	N/A	117,203	234,407	468,814	—	—	—	—	—	—	—
eIP – individual performance	N/A	N/A	—	78,136	156,271	—	—	—	—	—	—	—
PBRsUs (2014-2015 performance period)	1/29/2014	4/1/2014	—	—	—	3,438	8,595	20,628	—	—	—	513,935
William J. Ready												
RSUs	11/21/13	1/15/2014	—	—	—	—	—	—	472,756	—	—	25,429,545
RSUs	11/21/13	1/15/2014	—	—	—	—	—	—	100,603	—	—	5,411,435
eIP – company performance	N/A	N/A	75,581	151,162	302,323	—	—	—	—	—	—	—
eIP – individual performance	N/A	N/A	—	50,387	100,774	—	—	—	—	—	—	—
James J. Barrese												
Options	1/29/2014	4/1/2014	—	—	—	—	—	—	—	17,533	56.04	236,170
RSUs	1/29/2014	4/1/2014	—	—	—	—	—	—	8,767	—	—	491,303
RSUs	8/7/2014	8/15/2014	—	—	—	—	—	—	93,784	—	—	4,936,790
eIP – company performance	N/A	N/A	120,678	241,356	482,711	—	—	—	—	—	—	—
eIP – individual performance	N/A	N/A	—	80,452	160,904	—	—	—	—	—	—	—
PBRsUs (2014-2015 performance period)	1/29/2014	4/1/2014	—	—	—	5,845	14,611	35,067	—	—	—	873,660
Hill Ferguson												
Options	1/29/2014	4/1/2014	—	—	—	—	—	—	—	17,533	56.04	236,170
RSUs	1/29/2014	4/1/2014	—	—	—	—	—	—	8,767	—	—	491,303
RSUs	8/7/2014	8/15/2014	—	—	—	—	—	—	93,784	—	—	4,936,790
eIP – company performance	N/A	N/A	103,703	207,407	414,814	—	—	—	—	—	—	—
eIP – individual performance	N/A	N/A	—	69,136	138,271	—	—	—	—	—	—	—
PBRsUs (2014-2015 performance period)	1/29/2014	4/1/2014	—	—	—	5,845	14,611	35,067	—	—	—	873,660

Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Annual Cash Incentive Plan) (Columns (d), (e), and (f))

The amounts reported under these columns relate to the possible awards under the eBay annual cash incentive plan. For further details, see “Compensation Discussion and Analysis—Elements of the Executive Compensation Program—Annual Cash Incentive Awards” above. In 2014, the total annual target incentive amounts under the eBay annual cash incentive plan as a percentage of base salary for the NEOs were: (a) for Mr. Schulman, 175%; (b) for Mr. Dupuis, 60%; (c) for Mr. Ready, 66.67%; (d) for Mr. Barrese, 60%; and (e) for Mr. Ferguson, 60%.

The total 2014 annual target incentive amounts under the eBay annual cash incentive plan for the NEOs were allocated 75% to company (eBay) performance and 25% to individual performance. No funding occurs for the individual performance component of the eBay annual cash incentive plan unless the minimum thresholds for both FX-neutral revenue and non-GAAP net income are met; in 2014, these thresholds were met.

Actual payouts to our NEOs under the eBay annual cash incentive plan for the fiscal year ended December 31, 2014 are reflected in the Non-Equity Incentive Plan Compensation column in the 2014 Summary Compensation Table above.

eIP - Company Performance : The amounts shown in the rows entitled “eIP – company performance” reflect estimated payouts for the fiscal year ended December 31, 2014 under the annual cash incentive plan for the portion of the award payable based on company (eBay) performance, as follows:

- *Threshold*: The amounts shown in this column reflect the minimum payment levels if the minimum FX-neutral revenue and non-GAAP net income thresholds are met, which are 50% of the amounts shown under the Target column.
- *Target*: The amounts shown in this column reflect the target payment levels if target non-GAAP net income is met.
- *Maximum*: The amounts shown in this column represent the maximum amounts payable based on company performance, which are 200% of the amounts shown under the Target column.

The payout for the achievement of each of the eNPS and NPS metrics is independent from the payout tied to company financial performance (but will only be paid in a year in which the minimum thresholds for both FX neutral revenue and non-GAAP net income are met). For 2014, no payout was made for either the eNPS or NPS metric because the respective targets were not met. See “Compensation Discussion and Analysis—Elements of the Executive Compensation Program—Annual Cash Incentive Awards” above.

eIP - Individual Performance: The amounts shown in the rows entitled “eIP – individual performance” reflect estimated payouts for the fiscal year ended December 31, 2014 under the annual cash incentive plan for the portion of the award payable based on individual performance, as follows:

- *Threshold*: Although there are no thresholds under the annual cash incentive plan for individual performance, there is no payout for individual performance unless the minimum thresholds for both company-wide FX-neutral revenue and non-GAAP net income are met. In addition, in circumstances where company financial performance is above thresholds but below targets, a modifier is applied to the individual performance component to reduce it in proportion based on the company financial performance component.
- *Target*: The amounts shown in this column reflect 100% of the target award for individual performance.
- *Maximum*: The amounts shown in this column are 200% of the amounts shown under the Target column.

Table of Contents

Estimated Future Payouts Under Equity Incentive Plan Awards (PBRsUs) (Columns (g), (h), and (i))

The amounts shown reflect estimated payouts of PBRsUs for the 2014-2015 performance period, as follows:

- *Threshold:* The amounts shown in this column reflect the awards if the minimum FX-neutral revenue and non-GAAP operating margin dollar thresholds are met and the lowest return on invested capital modifier is applied, and are 40% of the amounts shown under the Target column.
- *Target:* The amounts shown in this column reflect the awards if the FX-neutral revenue and non-GAAP operating margin dollar amounts are at target, and the target return on invested capital modifier is applied.
- *Maximum:* The amounts shown in this column reflect the awards if the maximum FX-neutral revenue and non-GAAP operating margin dollar amounts are met and the maximum return on invested capital modifier is applied, and are 240% of the amounts shown under the Target column.

For further discussion of the PBRsUs, including their vesting schedules, see “Compensation Discussion and Analysis—Elements of the Executive Compensation Program—Equity Incentive Awards—PBRsU Program” above.

All Other Stock Awards: Number of Shares or Stock Units (RSUs) (Column (j))

The awards reflect the number of eBay RSUs on the grant date. For 2014:

- Mr. Schulman was granted “new hire” RSUs in connection with his joining PayPal as President and CEO-designee in September. His “new hire” RSU award vests over four years, with 25% vesting annually on each of the first four anniversaries of the date of grant. He was also granted a total of 154,544 “Make-Good RSU Awards” with an aggregate grant value of \$8,214,932, which were intended to make him whole for those equity awards granted by his former employer that would have otherwise vested within approximately 16 months from his date of hire and that he forfeited by joining PayPal. One of Mr. Schulman’s Make-Good RSU Awards vested 100% on December 24, 2014, and the other will vest 100% on January 28, 2016.
- Mr. Dupuis, Mr. Barrese, and Mr. Ferguson were granted RSUs in connection with eBay’s annual (focal) grant in April; those awards become fully vested after four years, with 25% vesting annually on each of the first four anniversaries of the date of grant. Each of them also received a supplemental retention RSU grant in August; those awards become fully vested after three years, with 33 1/3% vesting annually on each of the first three anniversaries of the date of grant.
- Mr. Ready was granted RSUs by eBay in January 2014 with an aggregate grant value of \$30,320,000 in connection with PayPal’s acquisition of Braintree in December 2013. His RSUs will become fully vested after four years, with 20% vesting on the second anniversary of the date of grant and 3 1/3% vesting monthly thereafter.

All Other Option Awards (Stock Options) (Columns (k) and (l))

The awards reflect the number of stock options on the grant date. For 2014:

- Mr. Schulman was granted options in connection with his appointment as President and CEO-designee of PayPal in September.
- Mr. Dupuis, Mr. Barrese, and Mr. Ferguson were granted options as part of eBay’s annual (focal) grant in April.

“New hire” option grants vest over four years, with 25% vesting on the first anniversary of the date of grant and 1/48th vesting monthly thereafter. Options granted in connection with eBay’s annual (focal) grant vest over four years, with 12.5% vesting on the six-month anniversary of the date of grant and 1/48th vesting monthly thereafter. The exercise price of options is the closing price of eBay common stock on the date of grant.

Grant Date Fair Value (Column (m))

The fair value of each option and RSU award was calculated using the fair value of eBay common stock on the date of grant. The estimated fair value of PBRsUs was calculated based on the probable outcome of the performance measures for the 2014-2015 performance period as of the date on which those PBRsUs were granted for accounting purposes. The estimated fair value of each eBay option award on the date of grant was calculated by using a modified Black-Scholes option pricing model. The weighted-averages of the assumptions used during 2014 were: risk-free interest rate of 1.2%; expected life of 4.1 years; no dividend yield; and expected volatility of 29%. The computation of expected volatility was based on a combination of historical and market-based implied volatility from traded options on eBay common stock. The computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules, and expectations of future employee behavior. The interest rate for periods within the contractual life of the award was based on the U.S. Treasury yield curve in effect at the time of grant.

Table of Contents

2014 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table and footnotes set forth certain information regarding outstanding equity awards for each of our NEOs as of December 31, 2014.

Name	Option Awards						Stock Awards				
	Number of Securities Underlying	Number of Securities Underlying	Equity Incentive Plan Awards: Number of	Option Exercise	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have	Market Value Shares or Units of Stock That Have Not Vested (\$)	Stock Grant Date	Equity Incentive Plan Awards: Number of Unearned	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Unexercised Options (#)	Unexercised Options (#)	Unexercised Options (#)	Price (\$)			Not Vested (#)	Not Vested (\$)		Vested (#)	Vested (\$)
Daniel H. Schulman	0	101,588 ⁽⁴⁾	0	50.24	10/15/2014	10/15/2021	84,657 ⁽⁷⁾ 76,594 ⁽⁹⁾	4,750,951 4,298,455	10/15/2014 10/15/2014		
Patrick L. A. Dupuis	314	5,034 ⁽³⁾	0	36.59	4/2/2012	4/2/2019				20,318 ⁽⁸⁾	1,140,246
	4,251	5,951 ⁽²⁾	0	55.71	4/1/2013	4/1/2020					
	1,719	8,595 ⁽²⁾	0	56.04	4/1/2014	4/1/2021					
							3,774 ⁽⁶⁾	211,797	4/2/2012		
							31,500 ⁽¹¹⁾	1,767,780	4/2/2012		
							3,825 ⁽⁵⁾	286,268	4/1/2013		
							9,013 ⁽¹⁶⁾	505,810	3/1/2014		
							5,157 ⁽⁵⁾	289,411	4/1/2014		
William J. Ready							37,514 ⁽¹⁴⁾	2,105,286	8/15/2014		
							3,656 ⁽¹⁷⁾	205,175	3/1/2014		
										3,438 ⁽⁸⁾	192,941
							28,958 ⁽¹²⁾	1,625,123	12/19/2013		
James J. Barrese							96,523 ⁽¹²⁾	5,416,871	12/19/2013		
							100,603 ⁽¹³⁾	5,645,840	1/15/2014		
							472,756 ⁽¹³⁾	26,531,067	1/15/2014		
	1,896	1,138 ⁽²⁾	0	32.29	3/1/2011	3/1/2018					
	1,031	3,300 ⁽³⁾	0	36.59	4/2/2012	4/2/2019					
	3,542	4,960 ⁽²⁾	0	55.71	4/1/2013	4/1/2020					
	2,922	14,611 ⁽²⁾	0	56.04	4/1/2014	4/1/2021					
							2,275 ⁽⁵⁾	127,673	3/1/2011		
							5,000 ⁽¹⁰⁾	280,600	3/1/2011		
							6,600 ⁽⁶⁾	370,392	4/2/2012		
Hill Ferguson							21,750 ⁽¹¹⁾	1,220,610	4/2/2012		
							8,502 ⁽⁵⁾	477,132	4/1/2013		
							8,767 ⁽⁵⁾	492,004	4/1/2014		
							93,784 ⁽¹⁴⁾	5,263,158	8/15/2014		
										5,845 ⁽⁸⁾	328,021
	4,333	867 ⁽¹⁵⁾	0	28.46	9/9/2011	9/9/2018					
	3,133	1,567 ⁽³⁾	0	36.12	4/13/2012	4/13/2019					
	2,362	3,306 ⁽²⁾	0	55.71	4/1/2013	4/1/2020					
	2,922	14,611 ⁽²⁾	0	56.04	4/1/2014	4/1/2021					
							650 ⁽⁷⁾	36,478	9/9/2011		
							5,000 ⁽¹⁰⁾	280,600	9/9/2011		
							2,024 ⁽⁶⁾	113,587	4/2/2012		
							6,750 ⁽¹¹⁾	378,810	4/2/2012		
							1,074 ⁽⁶⁾	60,273	4/13/2012		
							21,044 ⁽¹⁰⁾	1,180,989	9/14/2012		
							5,667 ⁽⁵⁾	318,032	4/1/2013		
							3,542 ⁽¹⁰⁾	198,777	4/1/2013		
							8,767 ⁽⁵⁾	492,004	4/1/2014		
							93,784 ⁽¹⁴⁾	5,263,158	8/15/2014		
										5,845 ⁽⁸⁾	328,021

Table of Contents

- (1) Market Value is calculated based on the closing price of \$56.12 of eBay common stock on December 31, 2014.
- (2) Annual option grant. Becomes fully vested after four years, with 12.5% vesting on the six-month anniversary of the date of grant, and 1/48th vesting monthly thereafter.
- (3) Annual option grant. Becomes fully vested after four years, with 12.5% vesting on the six-month anniversary of April 1st of the year when granted, and 1/48th vesting monthly thereafter.
- (4) New hire option grant. Becomes fully vested after four years, with 25% vesting on the one-year anniversary of the date of grant, and 1/48th vesting monthly thereafter.
- (5) Annual RSU grant. Becomes fully vested after four years, with 25% vesting on each of the first four anniversaries of the date of grant.
- (6) Annual RSU grant. Becomes fully vested after four years, with 25% vesting on each of the first four anniversaries of April 1st of the year when granted.
- (7) New hire RSU grant. Becomes fully vested after four years, with 25% vesting on each of the first four anniversaries of the date of grant.
- (8) In accordance with the SEC executive compensation disclosure rules, represents the estimated future award of PBRsUs at the threshold performance level under the 2014-2015 performance period based on company (eBay) performance through 2014. PBRsUs are earned based on company FX-neutral revenue and non-GAAP operating margin dollars during the performance period (with the application of a return on invested capital modifier). See “Compensation Discussion and Analysis—Elements of the Executive Compensation—PBRsU Program” above for a more detailed discussion of these awards and the related performance measures.
- (9) Make-Good RSU Award. Becomes fully vested on January 28, 2016. See “Compensation Discussion and Analysis—Compensation Decisions for 2014 and Retention Agreements—Hiring Dan Schulman as President of PayPal and its CEO Following the Spin-Off” for further discussion of this award.
- (10) Supplemental RSU grant. Becomes fully vested over four years, with 25% vesting on each of the first four anniversaries of the date of grant.
- (11) Supplemental RSU grant. Becomes fully vested over four years, with 25% vesting on each of the first four anniversaries of April 1st of the year when granted.
- (12) Assumed Braintree RSU grant. Becomes fully vested on the second anniversary of the closing of PayPal’s acquisition of Braintree, Inc., with 66 2/3% vesting on the first anniversary of the closing and 33 1/3% vesting on the second anniversary of the closing.
- (13) Acquisition-related RSU grant. Becomes fully vested after four years, with 20% vesting on the second anniversary of the date of grant, and 3 1/3% vesting monthly thereafter.
- (14) Supplemental retention RSU grant. Becomes fully vested after three years, with 33 1/3% vesting on each of the first three anniversaries of the date of grant.
- (15) Acquisition-related new hire option grant. Becomes fully vested on the fourth anniversary of the closing of PayPal’s acquisition of Zong SA, with 25% vesting on August 11, 2012, the first anniversary of the closing, and 1/48th vesting monthly thereafter.
- (16) PBRsU Award. Earned in connection with 2012-2013 performance; 50% vested on March 1, 2014, and the remaining 50% vested on March 1, 2015.
- (17) PBRsU Award. Earned in connection with 2013-2014 performance; 50% vested on March 1, 2015, and the remaining 50% vests on March 1, 2016.

2014 OPTION EXERCISES AND STOCK VESTED

The following table and footnotes set forth the number of shares acquired and the value realized upon the exercise of eBay stock options and the vesting of eBay stock awards by each of our NEOs for the fiscal year ended December 31, 2014.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized on	Number of	Value
	Acquired on	Exercise (\$)(1)	Shares Acquired	Realized on
	Exercise (#)		on Vesting (#)	Vesting (\$)(2)
Daniel H. Schulman	—	—	77,950	4,450,945
Patrick L. A. Dupuis	118,752	2,815,183	44,947	2,556,212
William J. Ready	—	—	222,008	12,308,124
James J. Barrese	9,526	208,441	26,929	1,536,183
Hill Ferguson	—	—	24,169	1,295,220

- (1) Value realized on exercise of stock options is based on the fair market value of eBay common stock on the date of exercise minus the exercise price and does not necessarily reflect proceeds actually received by the NEO.
- (2) Value realized on vesting of stock awards is based on the fair market value of eBay common stock on the vesting date and does not necessarily reflect proceeds actually received by the NEO.

2014 NONQUALIFIED DEFERRED COMPENSATION

The following table and footnotes sets forth information concerning contributions, earnings, and withdrawals/distributions during 2014 under eBay's nonqualified deferred compensation plans for each of our NEOs.

<u>Name</u>	<u>Executive Contributions in Last FY (\$)</u>	<u>Registrant's Contributions in Last FY (\$)</u>	<u>Aggregate Earnings in Last FY (\$) (1)</u>	<u>Aggregate Withdrawals/ Distributions (\$)</u>	<u>Aggregate Balance at Last FYE (\$)</u>
Daniel H. Schulman	—	—	—	—	—
Patrick L. A. Dupuis	—	—	—	—	—
William J. Ready	—	—	—	—	—
James J. Barrese (2)	280,252	—	13,852	—	391,952
Hill Ferguson	—	—	—	—	—

- (1) None of the earnings in this column are included in the 2014 Summary Compensation Table because they are not preferential or above market.
- (2) Executive contributions during 2014 consisted of contributions by Mr. Barrese of a portion of his (a) base salary for 2013 and 2014 (in each case, paid in 2014) and (b) annual cash incentive award earned in 2013 and paid in 2014.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table, footnotes, and narrative set forth our payment obligations pursuant to the compensation arrangements for each of our NEOs, under the circumstances described below, assuming that their employment was terminated or a change in control occurred on December 31, 2014.

<u>Name</u>	<u>Voluntary Termination \$(a)</u>	<u>Termination for Cause \$(b)</u>	<u>Involuntary Termination Other than for Cause \$(c)</u>	<u>Change in Control \$(d)</u>	<u>Death or Disability \$(e)</u>
Daniel H. Schulman	—	—	20,237,854	20,237,854	9,985,292
Patrick L. A. Dupuis	—	—	4,976,307	—	—
William J. Ready	—	—	7,041,994	—	—
James J. Barrese	—	—	—	—	—
Hill Ferguson	—	—	—	—	—

Involuntary Termination Other than for Cause (Column (c))

Severance Arrangements for Involuntary Termination Other than for Cause for Mr. Schulman

Mr. Schulman entered into an offer letter (the “Schulman Offer Letter”) in connection with becoming President and CEO-designee of PayPal in September 2014. Under the terms of the Schulman Offer Letter, Mr. Schulman would be entitled to the following if his employment was terminated by eBay without “cause” or if he resigned for “good reason” as of December 31, 2014 and his termination date occurred more than 90 days prior to or more than 24 months following a “change in control” (as defined in the eBay Inc. 2008 Equity Incentive Award Plan, as amended and restated, or the eBay Plan):

- a cash payment equal to two times the sum of (a) the greater of annual base salary or \$1 million, and (b) his target bonus amount (where the target bonus amount equals the greater of two times annual base salary or the target bonus amount) (“Cash Severance Payment”);
- a prorated annual cash bonus based on actual company performance and only covering the company performance component for the fiscal year in which employment is terminated (“Prorated Cash Incentive Award”);
- the unpaid portion of his Make-Good Cash Payments, which is otherwise scheduled to vest on February 15, 2016; and
- a cash payment equal to the value of the unvested Initial Equity Awards and Make-Good RSU Awards (where value is determined using the average closing price of eBay common stock for the 10 consecutive trading days ending on and including the trading day immediately prior to the termination date).

For discussion of Mr. Schulman’s severance arrangements in the event of his termination of employment without “cause” or resignation for “good reason” at or following the Spin-Off, see “Compensation Discussion and Analysis—Severance and Change-in-Control Arrangements with Executive Officers, and Clawbacks—Severance and Change-in-Control Arrangements for Mr. Schulman” above.

Severance Arrangements for an Involuntary Termination Other than for Cause for Mr. Dupuis

In December 2014, eBay modified Mr. Dupuis’ August 2014 retention arrangement to provide that Mr. Dupuis would be entitled to certain cash payments upon his separation date if he remained employed by PayPal through an agreed upon date no longer than 30 days after the date a new chief financial officer was appointed at PayPal. Under the terms of the arrangement, if Mr. Dupuis’ separation date occurred on December 31, 2014 and assuming the foregoing conditions were met, Mr. Dupuis would be entitled to receive the following.

- his annual cash incentive award for 2014 based on actual company performance and a 100% payout for the individual component;

Table of Contents

- a cash payment equal to the sum of (1) his annual base salary and (2) his bonus amount (where the bonus amount equals the greater of 65% of his annual base salary or his target annual cash incentive award); and
- a cash payment equal to the value of any unvested equity awards that would otherwise have vested within the period ending on April 1, 2016 (where value is determined using the average closing price of eBay common stock for the 10 consecutive trading days ending on and including the trading day immediately prior to the termination date).

Severance Arrangements for an Involuntary Termination Other than for Cause for Mr. Ready

In connection with PayPal's acquisition of Braintree in December 2013, Braintree granted RSU awards to Mr. Ready prior to closing in recognition of his significant contributions to Braintree. Upon the completion of the acquisition, eBay (as PayPal, Inc.'s parent) assumed the RSU awards granted by Braintree to Mr. Ready. Under the terms of those awards, Mr. Ready would be entitled to full acceleration of any then-unvested RSUs if his employment was terminated by Braintree without "cause" or he resigned with "good reason" (as defined in his Braintree RSU agreements). For these purposes, value was determined using the closing price of eBay common stock on December 31, 2014.

Change in Control (Column (d))

Severance Arrangements for an Involuntary Termination in Connection with a Change in Control for Mr. Schulman

Under the terms of the Schulman Offer Letter, Mr. Schulman would be entitled to receive the following if a "change in control" (as defined in the eBay Plan) occurred as of December 31, 2014 and his employment was terminated by eBay without "cause" or he resigned for "good reason":

- Cash Severance Payment;
- Prorated Cash Incentive Award;
- the unpaid portion of his Make-Good Cash Payments, which is otherwise scheduled to vest on February 15, 2016; and
- a cash payment equal to the value of all unvested equity awards outstanding (where value is determined using the average closing price of eBay common stock for the 10 consecutive trading days ending on and including the trading day immediately prior to the termination date).

For discussion of Mr. Schulman's severance arrangements in the event of his termination of employment without "cause" or resignation for "good reason" in connection with a "change in control" following the Spin-Off or where the Spin-Off has not occurred by the second anniversary of his start date, see "Compensation Discussion and Analysis—Severance and Change-in-Control Arrangements with Executive Officers, and Clawbacks—Severance and Change-in-Control Arrangements for Mr. Schulman" above.

Change in Control—Equity Awards

The amounts reported in the Change-in-Control column assume that, in a change-in-control transaction, the acquiring entity would assume or continue outstanding equity awards. If the acquiring entity does not assume or continue any outstanding equity awards and all the unvested and outstanding awards are fully accelerated upon a change in control, the aggregate value of accelerated vesting of such awards to each of the NEOs as of December 31, 2014, calculated based on the closing price of eBay common stock on December 31, 2014, would be as follows: (a) for Mr. Schulman, \$9,646,744; (b) for Mr. Dupuis, \$5,401,358; (c) for Mr. Ready, \$39,218,901; (d) for Mr. Barrese, \$8,326,339; and (e) for Mr. Ferguson, \$8,380,554.

The Committee has determined that the Spin-Off will not constitute a Change in Control for purposes of these protections and therefore these benefits will not be available solely as a result of the execution of the Spin-Off.

Death or Disability (Column (e))

Severance Arrangements in the Event of Death or Disability for Mr. Schulman

Under the terms of the Schulman Offer Letter, if Mr. Schulman’s employment terminates due to his death or permanent disability, he will be entitled to receive within 30 days of his termination date a cash payment equal to the value of any unvested equity awards that would have otherwise vested within 24 months of his termination date.

THE PAYPAL HOLDINGS, INC. 2015 EQUITY INCENTIVE AWARD PLAN***Summary of Plan Terms***

The following is a summary of the key provisions of the 2015 Equity Incentive Award Plan (the “2015 Plan”), which was adopted by PayPal on June 16, 2015 and will be effective as of immediately prior to the effective time. This summary is qualified in its entirety by reference to the full text of the 2015 Plan. The PayPal equity-based compensation awards into which the eBay equity-based compensation awards are converted upon the separation (see Treatment of eBay Awards held by PayPal Employees) will be issued pursuant to the 2015 Plan (the “Assumed Awards”).

Administration

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

The Compensation Committee may delegate to a committee of one or more of our directors or one or more of our officers the authority to grant or amend awards to participants other than our senior executives who are subject to Section 16 of the Exchange Act or employees who are “covered employees” within the meaning of Section 162(m) of the Code. Unless otherwise determined by the Board, the Compensation Committee will consist solely of two or more members of the Board, each of whom is an “outside director” within the meaning of Section 162 (m) of the Code, a non-employee director, and an “independent director” under the rules of the Nasdaq Global Select Market (or other principal securities market on which shares of our common stock are traded).

Eligibility

Employees of PayPal and its subsidiaries and affiliates, and consultants and non-employee members of our Board as determined by the Compensation Committee are eligible to participate in the 2015 Plan.

Limitation on Awards and Shares Available

The number of shares of common stock authorized for issuance pursuant to the 2015 Plan is 108,000,000 (which includes the aggregate number of shares subject to the Assumed Awards). The shares of common stock covered by the 2015 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market.

The 2015 Plan counts awards against the available plan reserve based on ratios tied to the expected value of the award, with full value awards counting as one 1 share for each share granted, and options and stock appreciation rights counting as 0.4123 shares for each option and stock appreciation right granted. This 0.4123 ratio equates to approximately one full value award equaling 2.43 options. “Full value awards” are defined as awards denominated in shares of our common stock, other than stock options and stock appreciation rights.

To the extent an award granted under the 2015 Plan terminates, expires, or lapses for any reason or is settled in cash without delivery of shares to the participant, any shares subject to that award may be used again for new grants under the 2015 Plan, pursuant to the terms of the 2015 Plan. However, any shares that are tendered or withheld to satisfy the grant, exercise price, or tax withholding obligation pursuant to any award may not be used again for new grants under the 2015 Plan. To the extent permitted by applicable law or any exchange rule, shares issued in the assumption of, or in the substitution for, any outstanding awards of any entity acquired in any form of combination by us or any of our subsidiaries or affiliates will not be counted against shares available for issuance under the 2015 Plan. The payment of cash dividend equivalents in conjunction with outstanding awards will not be counted against the shares available for issuance under the 2015 Plan.

Table of Contents

The maximum number of shares of our common stock that may be subject to one or more awards (other than Assumed Awards) granted to any one participant pursuant to the 2015 Plan during any calendar year is two million shares, and the maximum amount that may be paid in cash to a “covered employee” during any calendar year with respect to any performance bonus award (other than Assumed Awards) is \$3 million.

Awards

The 2015 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units (“RSUs”), performance-based restricted stock units (“PBRsUs”), stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock units (“DSUs”), other stock-based awards, and performance-bonus awards. No determination has been made as to the types or amounts of awards that will be granted in the future to specific individuals pursuant to the 2015 Plan.

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

Although we do not currently intend to grant any incentive stock options, to preserve maximum flexibility, the 2015 Plan allows us to grant incentive stock options. Incentive stock options granted to any person who owns, as of the date of grant, stock possessing more than ten percent of the total combined voting power of all classes of our stock, however, shall have an exercise price that is not less than 110% of the fair market value of the common stock on the date of grant and may not have a term extending beyond the fifth anniversary of the date of grant. The aggregate fair market value of the shares with respect to which options intended to be incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed \$100,000, or such other amount as the Code provides.

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

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

Performance-Based Restricted Stock Units . PBRsUs may be granted pursuant to the 2015 Plan. A PBRsU award provides for the issuance of common stock at a future date upon the satisfaction of specific performance conditions as set forth in the applicable award agreement. The vesting and maturity dates will be established at the time of grant and may provide for the deferral of receipt of the common stock beyond the vesting date. On the

Table of Contents

maturity date, we will transfer to the participant one unrestricted, fully transferable share of common stock for each PBRSU scheduled to be paid out on such date and not previously forfeited (subject to applicable tax withholding requirements).

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

Performance Bonus Awards . Performance bonus awards may be granted pursuant to the 2015 Plan. Performance bonus awards are cash bonuses payable upon the attainment of pre-established performance goals based on established performance criteria and are intended to be performance-based awards within the meaning of Section 162(m) of the Code. The goals are established and evaluated by the Compensation Committee and may relate to performance over any periods as determined by the Compensation Committee.

Performance-Based Awards . The following is a brief discussion of the requirements for awards, including performance bonus awards, to be treated as performance-based awards within the meaning of Section 162(m) of the Code.

The Compensation Committee may grant awards to employees who are or may be “covered employees,” as defined in Section 162(m) of the Code, that are intended to be performance-based awards within the meaning of Section 162(m) of the Code in order to preserve the deductibility of these awards for federal income tax purposes. Under the 2015 Plan, these performance-based awards may be either equity awards or performance bonus awards. Participants are entitled to receive payment for a performance-based award for any given performance period only to the extent that pre-established performance goals set by the Compensation Committee for the period are satisfied.

These pre-established performance goals are based on one or more of the following types of performance criteria:

- trading volume, gross merchandise volume, and total payment volume
- users
- revenue
- operating income, EBITDA, net earnings (either before or after interest, taxes, depreciation, and amortization), net income (either before or after taxes), earnings per share, and earnings using a non-GAAP measurement
- multiples of price-to-earnings
- multiples of price-to-earnings to growth
- return on net assets, return on gross assets, return on equity, return on invested capital, stock price appreciation, and total shareholder return
- stock price
- cash flow (including, but not limited to, operating cash flow and free cash flow)
- net margin or operating margin
- economic profit
- employee productivity
- volume

Table of Contents

- customer satisfaction metrics
- market share
- employee engagement/satisfaction metrics

Any of the above criteria may be measured with respect to us, or any subsidiary, affiliate, or other business unit of ours, either in absolute terms, terms of growth, or as compared to any incremental increase, as compared to results of a peer group and either in accordance with, or not in accordance with, GAAP. The Compensation Committee defines in an objective fashion the manner of calculating the performance criteria it selects to use for such awards, and may in its discretion provide that one or more objectively determinable adjustments shall be made to one or more of the performance criteria. With regard to a particular performance period, the Compensation Committee will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the Compensation Committee may reduce or eliminate (but not increase) the initial award. Performance-based awards are subject to the annual per-person limits described above in “Limitation on Awards and Shares Available.” Unless otherwise provided in an award agreement, a participant will have to be employed by or providing services to PayPal on the date the performance-based award is paid to be eligible for a performance-based award for any period.

Prohibition on Repricing

Except for adjustments described below in “Adjustment Provisions,” the Committee will not, without stockholder approval, authorize the amendment of any outstanding award to reduce its purchase price per share, the replacement or substitution of any award for an award having a lesser purchase price per share, or an offer to purchase any previously granted option or stock appreciation right for a payment in cash.

Vesting Limitations on Full Value Awards

Subject to the acceleration of vesting as permitted under the terms of the 2015 Plan or the applicable award agreement, including upon a change in control, full value awards (i.e. stock awards other than stock options and stock appreciation rights) that are granted to employees or consultants will become vested on one or more vesting dates over a period of at least three years (or, in the case of performance-based awards, a performance period of at least one year), except that the following awards may be granted without regard to this minimum vesting requirement: (i) awards that result in the issuance to one or more participants of up to 5% of the aggregate number of shares available under the 2015 Plan; (ii) awards granted to independent directors in lieu of cash retainers; and (iii) awards granted to participants who are subject to laws or regulations imposing certain requirements or restrictions on the compensation of such participants. Such minimum vesting requirements do not apply to the Assumed Awards.

Adjustment Provisions

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

Table of Contents

enlargement of benefits under the 2015 Plan, the Compensation Committee will equitably adjust the 2015 Plan as to the class of shares issuable and the maximum number of shares of our stock subject to the 2015 Plan, as well as the maximum number of shares that may be issued to an employee during any calendar year, and will adjust any outstanding awards as to the class, number of shares, and price per share of our stock in such manner as it may deem equitable.

Effect of Certain Corporate Transactions

Outstanding awards do not automatically terminate in the event of a change in control. A “change in control” generally means a transaction in which any person or group acquires more than 50% of our voting securities, a change in a majority of the Board over a two-year period that is not approved by at least two-thirds of the incumbent Board members, a sale or other disposition of all or substantially all of our assets, a merger or consolidation in which we are not the surviving corporation, or a reverse merger in which we are the surviving corporation but the shares of our stock outstanding immediately preceding the merger are converted by virtue of the merger into other property or a liquidation or dissolution of PayPal. In the event of a change in control, any surviving corporation or acquiring corporation must either assume or continue outstanding awards or substitute similar awards. If it does not do so, then with respect to awards held by participants whose service has not terminated, the vesting of such awards (and, if applicable, the time during which such awards may be exercised) will be accelerated in full and all forfeiture restrictions on such awards shall lapse. The unexercised portion of all outstanding awards may terminate upon the change in control.

Amendment and Termination

The Compensation Committee, subject to approval of the Board, may terminate, amend, or modify the 2015 Plan at any time; however, stockholder approval will be obtained for any amendment (1) to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, (2) to increase the number of shares available under the 2015 Plan, (3) to permit the Compensation Committee or the Board to grant options with a price below fair market value on the date of grant, or (4) to extend the exercise period for an option beyond ten years from the date of grant. In addition, absent stockholder approval, no option may be amended to reduce the per share exercise price of the shares subject to such option below the per share exercise price as of the date the option was granted and, except to the extent permitted by the 2015 Plan in connection with certain changes in capital structure, no option may be granted in exchange for, or in connection with, the cancellation or surrender of an option having a higher per share exercise price.

In no event may an award be granted pursuant to the 2015 Plan on or after the tenth anniversary of its effective date (i.e., the date PayPal’s stockholders approve the 2015 Plan).

U.S. Federal Income Tax Consequences

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

With respect to nonqualified stock options, we are generally entitled to deduct and the optionee recognizes taxable income in an amount equal to the excess of the fair market value of the purchased shares at the time of exercise over the option exercise price. A participant receiving incentive stock options will not recognize taxable income upon grant or at the time of exercise. However, the excess of the fair market value of the common stock received over the option exercise price is an item of tax preference income potentially subject to the alternative minimum tax. If stock acquired upon exercise of an incentive stock option is held for a minimum of two years

Table of Contents

from the date of grant and one year from the date of exercise, the gain or loss (in an amount equal to the difference between the fair market value on the date of sale and the exercise price) upon disposition of the stock will be treated as a long-term capital gain or loss, and we will not be entitled to any deduction. If the holding period requirements are not met, the incentive stock option will be treated as one that does not meet the requirements of the Code for incentive stock options, and in the year of the disposition the participant will recognize compensation taxable as ordinary income in an amount equal to the lesser of (1) the actual gain realized upon the disposition (i.e., the sale price minus the exercise price) or (2) the fair market value of the shares on the date of exercise over the exercise price, and we generally will be entitled to a corresponding deduction.

The current U.S. federal income tax consequences of other awards authorized under the 2015 Plan generally follow certain basic patterns: stock appreciation rights are taxed and deductible in substantially the same manner as nonqualified stock options; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value of the shares over the price paid, if any, only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); and RSUs, stock-based performance awards, dividend equivalents and other types of awards are generally subject to tax at the time of payment. Compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, we will generally have a corresponding deduction at the time the participant recognizes income, subject to Section 162(m) of the Code with respect to covered employees.

Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1 million. Certain kinds of compensation, including qualified “performance-based compensation,” are disregarded for purposes of the deduction limitation. In accordance with U.S. Treasury Regulations issued under Section 162(m), compensation attributable to stock awards will generally qualify as performance-based compensation if (1) the award is granted by a compensation committee composed solely of two or more “outside directors,” (2) the plan contains a per-employee limitation on the number of awards that may be granted during a specified period, (3) the plan is approved by the stockholders, and (4) under the terms of the award, the amount of compensation an employee could receive is based solely on an increase in the value of the stock after the date of the grant (which requires that the exercise price of the option is not less than the fair market value of the stock on the date of grant), and for awards other than options and stock appreciation rights, established performance criteria that must be met before the award actually will vest or be paid.

The 2015 Plan is intended to meet the requirements of Section 162(m) of the Code; however, full value awards granted under the 2015 Plan will be treated as qualified performance-based compensation under Section 162(m) only if the full value awards and the procedures associated with them comply with all other requirements of Section 162(m) of the Code. It is possible that compensation attributable to awards under the 2015 Plan, including the Assumed Awards, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year. We cannot assure you that compensation attributable to options, full value awards and the Assumed Awards issued under the 2015 Plan will be treated as qualified performance-based compensation under Section 162(m) of the Code and thus be deductible to us.

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

PAYPAL EMPLOYEE INCENTIVE PLAN

Summary of Plan Terms

The following is a summary of the key provisions of the PayPal Employee Incentive Plan (the “Incentive Plan”) which was adopted by PayPal on June 16, 2015 and will be effective as of immediately prior to the effective time. This summary is qualified in its entirety by reference to the full text of the Incentive Plan.

PayPal employees who were eligible to participate in the eBay Incentive Plan immediately prior to the effective time will be eligible to participate in the Incentive Plan as of the effective time in accordance with the employee matters agreement. Under the employee matters agreement, PayPal will assume all obligations with respect to incentive awards for performance periods that are pending at the time of the separation, with changes, if any, to the performance goals that were applicable to the incentive awards under the eBay Incentive Plan as may be necessary in order to reflect the PayPal business after the separation.

Administration

The Compensation Committee is responsible for administering the Incentive Plan. The members of the Compensation Committee (or the sub-committee selected to administer the Incentive Plan) must qualify as “outside directors” under Section 162(m) of the Code in order for incentive awards to “covered employees” to qualify as deductible “performance-based compensation” under the Code. The Compensation Committee has complete and absolute authority to make decisions regarding the administration of the Incentive Plan, including interpreting the terms and provisions, and establishing, adjusting, or paying incentive awards. Under the Incentive Plan, no participant may receive an award of more than \$8,000,000 (or the equivalent amount of equity, based on fair market value on the date of grant) in any calendar year.

Eligibility

All active regular full-time and part-time employees of PayPal after the effective time who are notified by us are eligible to participate in the Incentive Plan. Employees who participate in other bonus programs, such as any sales incentive plan, are not eligible to participate in the Incentive Plan unless they are specifically made eligible in writing by one of our executive officers. In addition, we may, in our sole discretion, provide for a payout under the Incentive Plan for any employee who has changed positions and, as a result, may have been eligible to participate in the Incentive Plan and another bonus program during a given performance period. The Incentive Plan contains special provisions for designating additional eligible employees (e.g., new hires) for participation in the Incentive Plan. In addition, in connection with the separation and pursuant to the terms of the employee matters agreement, each employee of PayPal who was participating in the eBay Incentive Plan as of the effective date of the Incentive Plan shall be eligible to participate in the Incentive Plan of such effective date.

Performance

Under the Incentive Plan, the Compensation Committee will determine the performance period for measuring actual performance. The Compensation Committee will establish for each performance period (1) the performance measures based on business criteria and target levels of performance; and (2) a formula for calculating a participant’s award based on actual performance compared to the pre-established performance goals.

Performance measures are based on one or more of the following types of performance criteria:

- trading volume, gross merchandise volume, and total payment volume
- users
- revenue

Table of Contents

- operating income, EBITDA, net earnings (either before or after interest, taxes, depreciation, and amortization), net income (either before or after taxes), earnings per share, and earnings using a non-GAAP measurement
- multiples of price-to-earnings
- multiples of price-to-earnings to growth
- return on net assets, return on gross assets, return on equity, return on invested capital, stock price appreciation, and total shareholder return
- cash flow criteria (including operating cash flow and free cash flow)
- net margin or operating margin
- economic profit
- employee productivity
- customer satisfaction metrics
- market share
- employee engagement/satisfaction metrics
- volume

Any of the above criteria may be measured with respect to us, or any subsidiary, affiliate or other business unit of ours, either in absolute terms, terms of growth or as compared to any incremental increase, as compared to results of a peer group and either in accordance with, or not in accordance with, generally accepted accounting principles, or GAAP. The Compensation Committee defines in an objective fashion the manner of calculating the performance criteria it selects to use for such awards.

The Compensation Committee may set performance periods and performance goals that differ from participant to participant. This may include designating performance goals on either company-wide or business unit performance, as appropriate for a participant's specific responsibilities.

Committee Certification and Determination of Incentive Awards

As soon as practicable after the end of each performance period, the Compensation Committee will certify in writing (which may include minutes of a compensation committee meeting) whether the stated performance goals have been met and will determine the amount of the incentive award to be paid to each Incentive Plan participant. The Compensation Committee may decrease (but cannot increase) an incentive award paid to a covered employee. In determining that amount, the Compensation Committee will consider the established target bonuses, the degree to which the established standards were satisfied and any other objective or subjective factors it deems appropriate and may reduce the amount of, or eliminate altogether, any incentive award that would otherwise be payable.

Payment of Incentive Awards

Following the Compensation Committee's determination of incentive awards to be paid, those incentive awards will generally be paid in cash (subject to any election made by an eligible employee to defer all or a portion of the incentive award, if permitted to do so) or equity pursuant to a PayPal equity-based award plan under which securities have been registered on Form S-8 Registration Statement.

Awards Subject to Clawback

Any incentive awards paid under the Incentive Plan are subject to forfeiture, recovery, or other action by PayPal as necessary for compliance with any company policy or as required by law.

Table of Contents

Amendment and Termination

The Compensation Committee may amend or terminate the Incentive Plan at any time and for any reason. If appropriate to maintain the Incentive Plan's qualification under Section 162(m) of the Code, material amendments of the Incentive Plan will be conditioned on stockholder approval.

Section 162(m) Considerations

The Incentive Plan is intended to meet the requirements of Section 162(m) of the Code; however, it is possible that compensation attributable to awards under the Incentive Plan, including awards for performance periods that are pending at the time of the separation, when combined with all other types of compensation received by a covered employee from us, may cause the \$1 million deduction limitation for certain compensation that is not "performance-based compensation" under Section 162(m) of the Code to be exceeded in any particular year. Consequently, we cannot assure that compensation attributable to awards issued under the Incentive Plan will be treated as qualified performance-based compensation under Section 162(m) of the Code and thus be deductible to us.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreements with eBay

Following the separation and distribution, PayPal and eBay will operate separately, each as an independent public company. PayPal has entered into a separation and distribution agreement with eBay, which is referred to in this information statement as the “separation agreement” or the “separation and distribution agreement.” In connection with the separation, PayPal will also enter into various other agreements to effect the separation and provide a framework for its relationship with eBay after the separation, such as an operating agreement, a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property matters agreement, colocation services agreements, a data sharing addendum and a product development agreement. These agreements will provide for the allocation between PayPal and eBay of eBay’s assets, employees, liabilities and obligations (including its investments, property and employee benefits and tax liabilities) attributable to periods prior to, at and after PayPal’s separation from eBay and will govern certain relationships between PayPal and eBay after the separation. The material agreements listed above, or forms of such agreements, will be filed as exhibits to the registration statement on Form 10 of which this information statement is a part.

The summaries of each of the agreements listed above are qualified in their entireties by reference to the full text of the applicable agreements, which are incorporated by reference into this information statement. When used in this section, “distribution date” refers to the date on which eBay distributes PayPal’s common stock to the holders of eBay common stock.

Separation Agreement

Transfer of Assets and Assumption of Liabilities

The separation and distribution agreement will identify the assets to be transferred, the liabilities to be assumed and the contracts to be assigned to each of PayPal and eBay as part of the separation of eBay into two companies, and it provides for when and how these transfers, assumptions and assignments will occur. In particular, the separation and distribution agreement will provide, among other things, that subject to the terms and conditions contained therein:

- Certain assets related to the PayPal business, which are referred to as the “PayPal Assets,” will be transferred to PayPal, including:
 - equity interests in PayPal, Inc. and its subsidiaries, which hold assets relating to the PayPal business;
 - certain office facilities located in San Jose, California and other locations;
 - contracts (or portions thereof) that relate to the PayPal business;
 - information, technology, software, intellectual property (including patents) and information related to the PayPal Assets, the PayPal Liabilities, or the PayPal business;
 - rights and assets expressly allocated to PayPal pursuant to the terms of the separation and distribution agreement or certain other agreements entered into in connection with the separation;
 - permits that primarily relate to the PayPal business;
 - any other assets exclusively related to the PayPal business; and
 - other assets that are included in the PayPal pro forma balance sheet included in the unaudited pro forma condensed combined financial statements of PayPal, which appear in the section entitled “Unaudited Pro Forma Condensed Combined Financial Statements.”

Table of Contents

- Certain liabilities related to the PayPal business or the PayPal Assets, which are referred to as the “PayPal Liabilities,” will be retained by or transferred to PayPal, including:
 - certain litigation matters that relate to the PayPal business;
 - 50% of certain contingent liabilities that will be equally divided between PayPal and eBay;
 - liabilities and obligations expressly allocated to PayPal pursuant to the terms of the separation and distribution agreement or certain other agreements entered into in connection with the separation; and
 - other liabilities that are included in the PayPal pro forma balance sheet included in the unaudited pro forma condensed combined financial statements of PayPal, which appear in the section entitled “Unaudited Pro Forma Condensed Combined Financial Statements.”
- All of the assets and liabilities (including whether accrued, contingent, or otherwise) other than the PayPal Assets and PayPal Liabilities (all such assets and liabilities, other than the PayPal Assets and the PayPal Liabilities, referred to as the eBay Assets and eBay Liabilities, respectively), will be retained by or transferred to eBay. This will include any and all proceeds received as a result of the sale, initial public offering, or other disposition of all or a portion of the eBay Enterprise business and any liabilities relating to, arising out of, or resulting from any such transaction.

Except as expressly set forth in the separation and distribution agreement or any ancillary agreement, neither eBay nor PayPal will make any representation or warranty as to the assets, business or liabilities transferred or assumed as part of the separation, as to any approvals or notifications required in connection with the transfers, as to the value of or the freedom from any security interests of any of the assets transferred, as to the absence or presence of any defenses or right of setoff or freedom from counterclaim with respect to any claim or other asset of either PayPal or eBay, or as to the legal sufficiency of any assignment, document or instrument delivered to convey title to any asset or thing of value to be transferred in connection with the separation. All assets will be transferred on an “as is,” “where is” basis and, subject to the provisions of the separation and distribution agreement described under “Further Assurances” below, the respective transferees will bear the economic and legal risks that any conveyance will prove to be insufficient to vest in the transferee good and marketable title, free and clear of all security interests, and that any necessary consents or governmental approvals are not obtained or that any requirements of laws, agreements, security interests, or judgments are not complied with.

Information in this information statement with respect to the assets and liabilities of the parties following the distribution is presented based on the allocation of such assets and liabilities pursuant to the separation and distribution agreement, unless the context otherwise requires. The separation and distribution agreement will provide that, in the event that the transfer or assignment of certain assets and liabilities to PayPal or eBay, as applicable, does not occur prior to the separation, then until such assets or liabilities are able to be transferred or assigned, PayPal or eBay, as applicable, will hold such assets on behalf and for the benefit of the other party and will pay, perform, and discharge such liabilities, for which the other party will reimburse PayPal or eBay, as applicable, for all commercially reasonable payments made in connection with the performance and discharge of such liabilities.

The Distribution

The separation and distribution agreement will also govern the rights and obligations of the parties regarding the distribution following the completion of the separation. On the distribution date, eBay will distribute to its stockholders that hold eBay common stock as of the record date for the distribution all of the issued and outstanding shares of PayPal’s common stock on a pro rata basis. Stockholders will receive cash in lieu of any fractional shares.

Conditions to the Distribution

The separation and distribution agreement will provide that the distribution is subject to satisfaction (or waiver by eBay) of certain conditions described under “The Separation and Distribution—Conditions to the

Table of Contents

Distribution.” eBay has the sole and absolute discretion to determine (and change) the terms of, and to determine whether to proceed with, the distribution and, to the extent it determines to so proceed, to determine the record date for the distribution, the distribution date and the distribution ratio. eBay may delay or rescind its declaration of the distribution even after the record date for the distribution, as discussed in more detail under “Risk Factors—Risks Related to the Separation—The distribution of PayPal common stock may be delayed or rescinded if certain required regulatory approvals are not obtained.”

Settlement of Accounts Between PayPal and eBay

The separation and distribution agreement will provide that all intercompany receivables and payables as to which there are no third parties and that are between PayPal or a PayPal subsidiary, on the one hand, and eBay or an eBay subsidiary, on the other hand, other than accounts related to the agreements to be entered into in connection with the separation and post-separation agreements between eBay and PayPal and other than any accrued liabilities incurred in connection with providing the services that will be memorialized by the operating agreement, in each case existing as of immediately prior to the completion of the separation, will be settled, capitalized, cancelled, assigned, or assumed by PayPal or one or more PayPal subsidiaries.

Cash Amounts

The separation and distribution agreement will provide that prior to the distribution date, eBay will transfer, or cause its subsidiaries to transfer, an aggregate amount of \$3.8 billion of cash to PayPal (including through one or more capital contributions).

Claims

In general, each party to the separation and distribution agreement will assume liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and will indemnify the other party for any liability to the extent arising out of or resulting from such assumed or retained legal matters.

Releases

In general, each party to the separation and distribution agreement will assume liability for all pending, threatened and unasserted legal matters related to its own business or its assumed or retained liabilities and will indemnify the other party for any liability to the extent arising out of or resulting from such assumed or retained legal matters.

Indemnification

In the separation and distribution agreement, PayPal will agree to indemnify, defend and hold harmless eBay, each of its affiliates and each of their respective directors, officers and employees, from and against all liabilities relating to, arising out of or resulting from:

- the PayPal Liabilities;
- the failure of PayPal or any other person to pay, perform or otherwise promptly discharge any of the PayPal Liabilities, in accordance with their respective terms, whether prior to, at or after the distribution;
- specified litigation matters that relate to the PayPal business, and fifty percent (50%) of certain shared contingent liabilities;
- any breach by PayPal of the separation and distribution agreement or certain of the ancillary agreements;
- except to the extent relating to an eBay Liability, any guarantee, indemnification or contribution obligation for the benefit of PayPal by eBay that survives the distribution; and

Table of Contents

- any untrue statement or alleged untrue statement or omission or alleged omission of material fact in the registration statement of which this information statement forms a part, or in this information statement (as amended or supplemented), other than any such statements or omissions made explicitly in eBay's name.

eBay agrees to indemnify, defend and hold harmless PayPal, each of its affiliates and each of its respective directors, officers and employees from and against all liabilities relating to, arising out of or resulting from:

- the eBay Liabilities;
- the failure of eBay or any other person to pay, perform, or otherwise promptly discharge any of the eBay Liabilities, in accordance with their respective terms whether prior to, at, or after the distribution;
- specified litigation matters that relate to the eBay business, and fifty percent (50%) of certain shared contingent liabilities;
- any breach by eBay of the separation and distribution agreement or certain of the ancillary agreements;
- except to the extent relating to a PayPal Liability, any guarantee, indemnification or contribution obligation for the benefit of eBay by PayPal that survives the distribution; and
- any untrue statement or alleged untrue statement or omission or alleged omission of a material fact made explicitly in eBay's name in the registration statement of which this information statement forms a part, or in this information statement (as amended or supplemented).

The separation and distribution agreement will also establish procedures with respect to claims subject to indemnification and related matters.

Insurance

The separation and distribution agreement will provide for the allocation between the parties of rights and obligations under existing insurance policies with respect to occurrences prior to the distribution and sets forth procedures for the administration of insured claims.

Further Assurances

In addition to the actions specifically provided for in the separation and distribution agreement, except as otherwise set forth therein or in any ancillary agreement, both PayPal and eBay will agree in the separation and distribution agreement to use reasonable best efforts, prior to, on and after the distribution date, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws, regulations and agreements to consummate and make effective the transactions contemplated by the separation and distribution agreement and the ancillary agreements.

Dispute Resolution

The separation and distribution agreement will contain provisions that govern, except as otherwise provided in any ancillary agreement, the resolution of disputes, controversies or claims that may arise between PayPal and eBay related to the separation or distribution. These provisions will contemplate that efforts will generally be made to resolve disputes, controversies and claims by escalation of the matter to executives of PayPal and eBay, then to a committee comprised of executives and directors of PayPal and eBay and then to non-binding mediation before PayPal or eBay may initiate adversarial proceedings.

Expenses

Except as expressly set forth in the separation and distribution agreement or in any ancillary agreement, all costs and expenses incurred in connection with the separation and distribution incurred prior to the distribution date, including costs and expenses relating to legal and tax counsel, financial advisors and accounting advisory work related to the separation and distribution, will be paid by the party incurring such cost and expense.

Table of Contents

Other Matters

Other matters that will be governed by the separation and distribution agreement include access to financial and other information, confidentiality, access to and provision of records and treatment of outstanding guarantees and similar credit support.

Termination

The separation and distribution agreement will provide that it may be terminated, and the separation and distribution may be modified or abandoned, at any time prior to the distribution date in the sole discretion of eBay without the approval of any person, including PayPal's or eBay stockholders. In the event of a termination of the separation and distribution agreement, no party, nor any of its directors, officers, or employees, will have any liability of any kind to the other party or any other person. After the distribution date, the separation and distribution agreement may not be terminated except by an agreement in writing signed by both PayPal and eBay.

Operating Agreement

PayPal and eBay will enter into an operating agreement that governs certain aspects of the relationship between the parties following the separation and distribution, including certain terms and conditions relating to PayPal's provision of payment processing and credit services, and other related services, to customers on eBay.com and other core eBay Marketplaces properties (including mobile applications). The agreement will not address PayPal's provision of services through eBay's other properties existing at the effective time of the distribution, such as StubHub, eBay Enterprise, Magento, Classifieds, Shopping.com, Gmarket, or Half.com, and except in certain circumstances, will not cover properties acquired or created by eBay after the effective time of the distribution. The operating agreement will be non-exclusive and will not prevent eBay from contracting with third parties for the provision of comparable or unrelated services.

Pricing for eBay Merchants

The operating agreement will require PayPal to use reasonable best efforts to offer comparable eBay merchants (determined on an aggregate or average basis) pricing for PayPal's payment processing services comparable to the pricing PayPal offers to non-eBay merchants for comparable services. Characteristics used to determine comparability may include some or all of: the mix of PayPal product(s) used by the customer, the geographic market in which the customer is located, the customer's industry, the nature of the customer's business, the total volume of transactions (by PayPal product), the average size of the customer's transactions, and whether pricing for the PayPal product used by the merchant is variable or fixed. It is expected that the PayPal rates for eBay merchants will therefore remain largely consistent with today's pricing relationship. On an annual basis, the parties will retain a third party independent auditor to conduct a market check on a jurisdiction-by-jurisdiction basis to ensure that eBay merchants are receiving pricing as required under the agreement. If the market check determines that pricing for eBay merchants in a jurisdiction is higher than what is specified in the operating agreement, then PayPal will be required to adjust its pricing for the remainder of the term of the agreement, and eBay and PayPal will cooperate in good faith to mutually agree on a remedy (such as a refund or discount) for any affected eBay merchants.

In addition, in certain jurisdictions and subject to certain exceptions, the agreement imposes certain obligations if PayPal offers to non-eBay merchants who use or access PayPal's services through websites or applications (including mobile) operated by certain competitive platform operators of eBay (as specified in the operating agreement) (a) overall economic terms that are more favorable than the terms currently offered to eBay merchants in the same jurisdiction or (b) any non-economic term that is not offered to eBay merchants in the same jurisdiction, except for any such non-economic term that is exclusive to that competitive platform operator. In either of these circumstances, PayPal will be required to offer the applicable economic or non-economic term, together with the relevant terms and conditions, to eBay for the benefit of the eBay merchants in that jurisdiction,

Table of Contents

and eBay will have an opportunity to accept these terms. If eBay accepts the terms offered by PayPal, eBay and the eBay merchants will be entitled to the benefit of such terms so long as eBay also complies with the related conditions (other than certain specified conditions with which eBay or eBay merchants are not reasonably capable of complying).

Referral Services Fees and Usage Payments

During the term of the operating agreement, PayPal will make certain payments to eBay based on certain referral services by eBay that have benefitted PayPal in the past and that the companies intend to continue following the separation and distribution. Subject to the Penetration Rate (as defined below) remaining above 60% at the beginning of each quarter, PayPal will pay a referral services fee to eBay (calculated quarterly and paid annually) in an amount to be specified in the operating agreement. It is anticipated that the number of new PayPal users who are introduced through the eBay platform will remain consistent with current experience. If the number of new users introduced to PayPal in this manner increases or decreases from the expected rate, the parties will adjust the referral services fee accordingly. In addition, PayPal will make a payment (calculated quarterly and paid annually) to eBay based on the use of PayPal Credit by eBay consumers and merchants on eBay properties equal to 0.30% of the Net TPV attributable to such transactions.

PayPal and/or eBay will also make certain payments to each other based on the usage of PayPal's payment services by eBay consumers and merchants on the core eBay Marketplaces platform. These payments are intended to provide an incentive to eBay to support the continued use of PayPal as a payment service on the core eBay Marketplaces platform (referred to as the "Penetration Rate") at current levels and to reward eBay if the Penetration Rate increases. The Penetration Rate will generally be calculated as the portion of eBay's Core GMV processed by PayPal but will exclude off platform properties, vehicles and real estate transactions worldwide, domestic trade in China and Latin America and transactions in which the seller's eBay account location is in Russia or India.

The agreement will provide for a baseline Penetration Rate of 80% (the "Baseline Rate"), which is approximately equal to the current Penetration Rate prior to the separation and distribution. The Baseline Rate will be adjusted annually to account for the impact of foreign currency exchange rates. The payments will be determined as follows:

- For each percentage point that the Penetration Rate exceeds the Baseline Rate, PayPal will make a payment to eBay at an annualized rate of \$13 million. The payment amount will be determined on a quarterly basis by multiplying (a) the amount by which the Penetration Rate exceeds the Baseline Rate for the quarter, rounded to the nearest hundredth, by (b) \$3.25 million.
- If the Penetration Rate falls below the Baseline Rate by an amount up to 5 percent, eBay will make a payment to PayPal at an annualized rate of \$13 million per percentage point decline. The payment amount will be determined on a quarterly basis by multiplying (y) the amount by which the Penetration Rate falls below Baseline Rate for the quarter, rounded to the nearest hundredth, by (z) \$3.25 million.
- If the Penetration Rate falls below the Baseline Rate by an amount in excess of 5 percent, eBay will make a payment to PayPal at an annualized rate of \$13 million per percentage point for the first 5 percentage points below the Baseline Rate, and an additional \$50 million, at an annualized rate, per percentage point (rounded to the nearest hundredth of a percent) for each additional percentage point. The payment amount will be determined on a quarterly basis according to the following formula: \$16.25 million plus ((a) \$12.5 million times (b) (the Baseline Rate minus the eBay Penetration Rate minus 5%, rounded to the nearest hundredth of a percentage point).

The payments described above will be made annually based on the sum of the calculated quarterly amounts. The agreement also provides that, for those PayPal products made available on the eBay platform, in the event that PayPal's TPV for customers other than eBay falls below established minimum thresholds, eBay would no longer be obligated to make any payments in respect of the Penetration Rates to PayPal.

Table of Contents

Merchant of Record

Subject to certain exceptions, the operating agreement will also provide that for the term of the operating agreement (but not the tail period described below), eBay will not declare itself as the single merchant of record for transactions effected through any service or offering available on the core eBay Marketplaces properties unless PayPal is acquired by certain specified competitors of eBay. For purposes of the agreement, the term “Merchant of Record” generally means the entity that PayPal holds financially liable for all full and partial returns as well as any chargebacks initiated by the customer. In the event that PayPal is acquired by certain specified competitors of eBay, eBay may elect to become a merchant of record by giving written notice to PayPal within 90 days of the consummation of such acquisition, and such election would become effective on a date specified by eBay that is between 15 and 21 months after the consummation of such acquisition.

Non-Compete

Subject to certain exceptions, eBay and its controlled affiliates will be prohibited from directly or indirectly engaging in the business of marketing, distributing, promoting or selling its own proprietary payment solutions for use on the core eBay Marketplaces properties or on properties operated by third parties in most geographic jurisdictions in which eBay Marketplaces operates, and PayPal and its controlled affiliates will be prohibited from directly or indirectly engaging in the business of marketing, distributing, promoting or selling its own proprietary marketplace offering for the sale of physical goods. These restrictions will continue for the term of the operating agreement but will not continue during the tail period described below.

Product Development

The operating agreement will provide for eBay and PayPal to enter into a product development agreement that requires eBay and PayPal to mutually discuss in good faith and agree on a product development plan for optimizing the PayPal experience on the core eBay Marketplaces properties and to invest development resources in other strategic initiatives related to the provision of payment processing and credit services by PayPal. PayPal and eBay will agree in the product development agreement to commit certain resources and development staff to the projects included in the product development plan.

Data Sharing

The operating agreement will also provide for eBay and PayPal to enter into a data sharing addendum pursuant to which eBay and its subsidiaries, on the one hand, and PayPal and its subsidiaries, on the other hand, will share information for risk, trust and fraud modeling and customer service operations in a manner consistent with current usage and in conformance with legal and regulatory requirements. Neither party will be permitted to use such data for any purpose beyond the scope of the agreement without entering into a separate, arms-length commercial arrangement that is in compliance with legal and regulatory requirements.

In the event that PayPal is acquired by certain specified competitors of eBay, eBay may elect to terminate all or any portion of the data sharing addendum by giving written notice to PayPal within 90 days of the consummation of such acquisition, and such election would become effective on a date specified by eBay. In addition, and regardless of whether eBay terminates the data sharing addendum, the operating agreement will restrict the specified competitor that consummates the acquisition and its subsidiaries and affiliates (other than PayPal and its subsidiaries) from using eBay user data for any purpose.

Term; Termination

The operating agreement will have an initial term of 5 years following the distribution date and will be renewable by mutual agreement for successive 1-year terms. At the expiration of the operating agreement, there will be a 1-year tail period during which the provisions of the agreement will continue to apply, except for eBay’s obligation to make payments in respect of the Penetration Rate, the restriction on eBay’s ability to declare

Table of Contents

itself a merchant of record, the non-compete restrictions applicable to eBay and PayPal and the parties' respective obligations under the product development agreement. During the 1-year tail period and for up to 1-year after the termination of the agreement for a material breach, the parties will use reasonable best efforts to cooperate in good faith to transition off of the services provided under the agreement, with such cooperation reimbursed by the other party at cost. During the term of the operating agreement, both parties can mutually decide to amend the agreement as appropriate. In addition, either party will be able to terminate for certain uncured material breaches so long as the parties have first gone through the dispute resolution procedures set forth below.

Dispute Resolution; Governance

The operating agreement will require the parties to generally follow the dispute resolution provisions set forth in the separation and distribution agreement. The operating agreement will also provide for regular review of the effectiveness of the parties' performance under the operating agreement and the product development agreement, the costs and benefits of the operating agreement and the product development agreement and the general relationship between the parties by members of management, including the CEOs of eBay and PayPal, as well as the respective boards of directors of eBay and PayPal.

Other Matters

The operating agreement will also include other customary terms and conditions, including the establishment of service levels to measure PayPal's performance of its payment processing and credit services as well as provisions addressing information security, data protection, disaster recovery, confidentiality, indemnification and other matters.

Transition Services Agreement

PayPal and eBay will enter into a transition services agreement prior to the distribution pursuant to which eBay and its subsidiaries and PayPal and its subsidiaries will provide, on an interim, transitional basis, various services to each other, including, but not limited to, related to human resources administrative systems and related support services, hosting services, separation of commingled information technology assets, and customer service and loyalty programs support. These services will be provided, generally for a period of up to 24 months (including extensions), on a cost-plus basis. The recipient for a particular service will generally be able to terminate that service prior to the scheduled expiration date, subject to a specified minimum notice period. Due to interdependencies between services, certain services may be extended or terminated early only if other services are likewise extended or terminated.

The cumulative liability of each party under the transition services agreement will be limited to the aggregate charges paid and payable to the provider in connection with the provision of services under the agreement, except for breaches of confidentiality obligations or in the case of gross negligence, willful misconduct or fraud. The transition services agreement will also provide that each party will not be liable to the other party for any indirect, incidental, consequential, special, punitive, exemplary, remote, speculative or similar damages, except in the case of gross negligence, willful misconduct or fraud or certain third-party claims.

Tax Matters Agreement

PayPal and eBay will enter into a tax matters agreement that will govern the parties' respective rights, responsibilities and obligations after the distribution with respect to tax matters, including responsibility for taxes, entitlement to refunds, allocation of tax attributes, preparation of tax returns, certain tax elections, control of tax contests, cooperation, and certain other tax matters.

Under the tax matters agreement, eBay generally will be responsible for all taxes (and will be entitled to all related refunds of taxes) imposed on eBay and its subsidiaries (including subsidiaries that will be transferred to PayPal pursuant to the separation) with respect to taxable periods (or portions thereof) that end on or prior to the

Table of Contents

distribution date, except that PayPal will be responsible for such taxes to the extent (i) they relate to matters with respect to which PayPal or any of its subsidiaries has reflected a FIN 48 reserve in its financial statements on the date of the distribution, (ii) they are non-income taxes incurred in the ordinary course of business that have been accrued on the financial statements of PayPal or any of its subsidiaries on the date of the distribution, or (iii) they result from any breach of any representation or covenant made by PayPal in the tax matters agreement or other separation-related agreements. eBay will also be responsible for certain taxes imposed on PayPal with respect to the 12-month period following the distribution to the extent such taxes relate to specified historic tax reporting positions taken by eBay.

The tax matters agreement will provide special rules that allocate tax liabilities in the event the distribution together with certain related transactions, fails to qualify as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code. Under the tax matters agreement, each party generally will be responsible for any taxes and related amounts imposed on eBay or PayPal that arise from the failure of the distribution, together with certain related transactions, to qualify as a transaction that is generally tax-free, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code, to the extent that the failure to so qualify is attributable to a breach of the relevant representations or covenants made by that party in the tax matters agreement or an acquisition of such party's equity securities. In addition, the tax matters agreement will impose certain restrictions on PayPal and its subsidiaries (including restrictions (subject to specified exceptions) on share issuances, business combinations, sales of assets and similar transactions) during the two-year period following the distribution that are designed to preserve the tax-free status of the distribution and certain related transactions.

Under the tax matters agreement, eBay generally will have the right to control any audits or other tax proceedings with respect to any eBay consolidated federal income tax return (or other group return that includes eBay or any of its subsidiaries and PayPal or any of its subsidiaries), provided that PayPal will have participation rights with respect to any such audit or tax proceeding that could result in additional taxes for which PayPal is liable under the tax matters agreement. PayPal will have the right to control any audits or other tax proceedings with respect to any PayPal consolidated federal income tax return or any separate tax returns of PayPal or any of its subsidiaries, provided that eBay will have participation rights with respect to any such audit or tax proceeding that could result in additional taxes for which eBay is liable under the tax matters agreement.

Employee Matters Agreement

PayPal and eBay will enter into an employee matters agreement prior to the separation to allocate liabilities and responsibilities relating to employment matters, employee compensation and benefits plans and programs and other related matters. The employee matters agreement will govern certain compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of each company.

The employee matters agreement will provide that, unless otherwise specified, eBay will be responsible for liabilities associated with employees who will be employed by eBay following the separation, former employees whose last employment was with the eBay businesses and certain specified current and former corporate employees (collectively, the "eBay allocated employees"), and PayPal will be responsible for liabilities associated with employees who will be employed by PayPal following the separation, former employees whose last employment was with the PayPal businesses and certain specified current and former corporate employees (collectively, the "PayPal allocated employees").

Employee Benefits Generally

PayPal allocated employees will be eligible to participate in PayPal benefit plans following the separation in accordance with the terms and conditions of the PayPal benefit plans as in effect from time to time. Generally, PayPal will agree to establish and maintain (i) welfare benefit arrangements that are substantially similar in the aggregate to those provided by eBay to PayPal allocated employees immediately prior to the separation, through at least December 31, 2015 and (ii) retirement benefits with terms that are substantially the same as the corresponding

Table of Contents

eBay arrangements and that provide benefits that are no less favorable than those provided by eBay to eligible PayPal allocated employees immediately prior to the separation, through at least December 31, 2015.

In general, PayPal will credit each PayPal allocated employee with his or her service with eBay prior to the separation for all purposes under the PayPal benefit plans to the same extent such service was recognized by eBay for similar purposes and so long as such crediting does not result in a duplication of benefits.

The employee matters agreement will also include provisions relating to cooperation between the two companies on matters relating to employees and employee benefits and other administrative provisions.

Retirement and Deferred Compensation Programs

On June 16, 2015, PayPal established a non-qualified deferred compensation plan effective as of immediately prior to the effective time. On June 19, 2015, PayPal established a defined contribution plan effective June 19, 2015. Each of these plans cover active PayPal allocated employees. In connection with the separation, assets, liabilities and account balances (as applicable) of PayPal allocated employees will be transferred to PayPal or PayPal plans, as applicable, and eBay or eBay plans will retain assets, liabilities and account balances (as applicable) of eBay allocated employees and former PayPal allocated employees.

Equity Compensation Awards

The employee matters agreement will provide for the adjustment of outstanding awards granted under eBay's equity compensation programs (including awards under assumed plans) to reflect the impact of the separation in accordance with the terms of such program. Generally, each employee holder of eBay equity awards (but not common stock derived from vested equity awards, which shall be treated like all other common stock) will hold equity awards only in the company that employs such employee following the separation. For example, eBay equity awards held by PayPal employees will be assumed by PayPal and converted into awards that relate to shares of PayPal common stock at the separation, and eBay equity awards held by employees who will remain employed by eBay after the separation will continue to be equity awards that relate to shares of eBay common stock, but adjusted to reflect the effect of the separation.

In addition, (1) certain previously disclosed executives of eBay who will not be employed with either eBay or PayPal after the separation ("transitioning executives") and (2) nonemployee directors of eBay, including any nonemployee director who immediately after the separation will serve on our board of directors, will receive both adjusted eBay equity awards (relating to shares of eBay common stock) and adjusted PayPal awards (relating to shares of PayPal common stock), based on the distribution ratio being applied to shares of eBay common stock held by all eBay stockholders in the distribution.

Table of Contents

Treatment of eBay Equity Awards held by PayPal Employees

Outstanding eBay equity awards held by PayPal employees are expected to be treated as shown in the table below:

<u>Award Type</u>	<u>Treatment</u>
Stock Options	Each eBay stock option held by a PayPal employee and each vested and exercisable eBay stock option held by a former PayPal employee will be converted into an option to purchase shares of PayPal common stock. The exercise price and number of shares subject to each such PayPal stock option will be adjusted as described in the employee matters agreement in order to preserve the aggregate intrinsic value of the original eBay stock option, as measured immediately before and immediately after the distribution date, subject to rounding.
Restricted Stock Units	Each award of eBay restricted stock units held by a PayPal employee will be converted into a PayPal restricted stock unit award. The number of shares of PayPal common stock subject to the award will be adjusted as described in the employee matters agreement in order to preserve the aggregate intrinsic value of the original eBay restricted stock unit award, as measured immediately before and immediately after the distribution date, subject to rounding.
Restricted Stock Awards	Each award of eBay restricted stock held by a PayPal employee will be converted into a PayPal restricted stock award. The number of shares of PayPal common stock subject to the award will be adjusted as described in the employee matters agreement in order to preserve the aggregate intrinsic value of the original eBay restricted stock award, as measured immediately before and immediately after the distribution date, subject to rounding.
Target PBRSU Awards	Each eBay target performance-based restricted stock unit award with a fiscal year 2014-2015 performance period or a fiscal year 2015-2016 performance period held by a PayPal employee (including awards granted for accounting purposes) will be converted into a PayPal performance-based restricted stock unit award, with the performance criteria for the 2014-2015 award being adjusted so that performance will be based on aggregate eBay Inc. performance for 2014 and PayPal-specific performance for 2015. The target number of PayPal shares subject to the PayPal award will be adjusted as described in the employee matters agreement in order to preserve the aggregate intrinsic value of the original eBay target performance-based restricted stock unit share award, as measured immediately before and immediately after the distribution date, subject to rounding.

Table of Contents

Awards Held by Directors

Outstanding eBay equity awards held by nonemployee directors of eBay are expected to be treated as shown in the table below:

<u>Award Type</u>	<u>Treatment</u>
Stock Options	Each eBay stock option held by a director will be converted into an adjusted eBay stock option and a PayPal stock option, as described in the employee matters agreement, based on the distribution ratio being applied to shares of eBay common stock held by all eBay stockholders in the distribution, which together are intended to preserve the aggregate intrinsic value of the original eBay stock option, as measured immediately before and immediately after the separation, subject to rounding.
Deferred Stock Units	Each award of eBay deferred stock units held by a director will generally remain in place with such director also receiving an award of deferred stock units of PayPal, as described in the employee matters agreement, based on the distribution ratio being applied to shares of eBay common stock held by all eBay stockholders in the distribution, in an amount that reflects the distribution to eBay shareholders, by applying the distribution ratio to the eBay deferred stock units as though they were unrestricted eBay shares.

In addition, upon a change in control of PayPal in the case of a director transferring to PayPal or a change in control of eBay in the case of a continuing eBay director, all adjusted equity awards held by any such director of the company experiencing the change in control will become vested.

Awards Held by Transitioning Executives

In the separation, pursuant to the eBay transition success and retention program, transitioning executives are expected to become vested in certain unvested awards, and otherwise receive both adjusted eBay equity awards (relating to shares of eBay common stock) and adjusted PayPal awards (relating to shares of PayPal common stock), based on the distribution ratio being applied to shares of eBay common stock held by all eBay stockholders in the distribution, in the same manner as the awards for the nonemployee directors of eBay as described above.

Treatment of Options under the eBay Employee Stock Purchase Plan

PayPal will be required to adopt the PayPal Employee Stock Purchase Plan, under which all outstanding options held under the eBay Employee Stock Purchase Plan by PayPal employees will be converted into options for PayPal shares under the PayPal Employee Stock Purchase Plan in the same manner as their equity awards, as described above.

Application of Foreign Laws

To the extent that the equity award adjustment and/or conversion provisions described above would be prohibited under the laws of a jurisdiction outside of the United States in which an affected eBay or PayPal employee resides, such provisions shall be modified or suspended to the extent necessary to comply with such laws.

Health and Welfare Plans

eBay will generally be responsible for medical, dental, vision, life, accidental death and dismemberment, long-term disability, and travel accident claims incurred under the eBay welfare plans prior to the effective time, whether incurred by employees who will be employed by eBay or PayPal following the effective time or by former employees. PayPal will generally be responsible for claims incurred under its welfare plans at or following the effective time. PayPal will also be responsible for all liabilities with respect to earned vacation, severance, unemployment compensation and similar categories for the PayPal employees.

Table of Contents

Intellectual Property Matters Agreement

PayPal and eBay will enter into an intellectual property matters agreement that will memorialize each of PayPal's and eBay's ownership, after the distribution, of intellectual property assets such as patents, patent applications, trademarks, domains and copyrights. The agreement will also vest in each of PayPal and eBay the sole right to prosecute, maintain, enforce and defend its interest in the intellectual property assets owned by it after the distribution, will include limited non-exclusive licenses by each of PayPal and eBay to the other to use certain software code owned by it after the distribution, and will include limited covenants not to sue by each of PayPal and eBay to the other for certain intellectual property assets owned by it after the separation. The intellectual property agreement will remain in effect until the expiration of the last to expire of the intellectual property rights licensed or for which a covenant not to sue is given thereunder, unless terminated earlier by mutual agreement of the parties.

Colocation Services Agreements

PayPal and eBay will enter into colocation services agreements provide to colocation space and related information technology services at various data center facilities. In certain locations, eBay will provide space to PayPal for the placement of PayPal data center equipment within eBay's facilities in exchange for specific quarterly charges intended to allow eBay to recover the cost of maintaining and servicing such space, and eBay will provide related services and infrastructure to PayPal on a cost-plus basis, including power distribution, fiber (internet and telecommunications) connections, HVAC and climate control, fire protection, on site security, general property management, and back up redundancy systems. In Phoenix, Arizona and Denver, Colorado, PayPal will provide space and power to eBay for the placement of eBay data center equipment within PayPal's facilities in exchange for specific quarterly charges intended to allow PayPal to recover the cost of such space, and PayPal will provide related services and infrastructure to eBay on a cost-plus basis, including power distribution, fiber (internet and telecommunications) connections, HVAC and climate control, fire protection, and back up redundancy systems. Each such agreement will have a fixed term of two years and, with respect to certain of the facilities, may be renewed by eBay or PayPal for a period of up to three additional years, as applicable, under certain circumstances.

Procedures for Approval of Related Party Transactions

It is expected that PayPal's board will adopt a written policy for the review of related party transactions other than those governed by the operating agreement. For purposes of the policy, a related party transaction will include transactions in which (1) the amount involved is more than \$120,000 in any consecutive 12-month period, (2) PayPal is a participant, and (3) any related party has a direct or indirect material interest. The policy is expected to define a "related party" to include directors, nominees for director, executive officers, holders of more than 5% of PayPal's outstanding common stock and their respective immediate family members. Pursuant to the policy, all related party transactions must be approved by the appropriate committee of PayPal's board of directors or, in the event of an inadvertent failure to bring the transaction to the committee for pre-approval, ratified by the committee. In the event that a member of the Committee has an interest in a related party transaction, the transaction must be approved or ratified by the disinterested members of the committee. In deciding whether to approve or ratify a related party transaction, the reviewing committee will consider the following factors:

- whether the terms of the transaction are (1) fair to PayPal and (2) at least as favorable to PayPal as would apply if the transaction did not involve a related party;
- whether there are demonstrable business reasons for PayPal to enter into the transaction;
- whether the transaction would impair the independence of an outside director under PayPal's director independence standards; and
- whether the transaction would present an improper conflict of interest for any director or executive officer, taking into account the size of the transaction, the overall financial position of the related party, the direct or indirect nature of the related party's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the committee deems relevant.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a discussion of material U.S. federal income tax consequences of the distribution of shares of our common stock to “U.S. Holders” (as defined below) of shares of eBay common stock. This summary is based on the Code, U.S. Treasury regulations promulgated thereunder, rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as in effect on the date of this information statement, and all of which are subject to change at any time, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. This discussion applies only to U.S. Holders of eBay common stock who hold such shares as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion is based upon the assumption that the distribution, together with certain related transactions, will be consummated in accordance with the separation documents and as described in this information statement. This summary is for general information only and is not tax advice. It does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of its particular circumstances or to holders subject to special rules under the Code (including, but not limited to, insurance companies, tax-exempt organizations, financial institutions, broker-dealers, partners in partnerships that hold our common shares, pass-through entities, traders in securities who elect to apply a mark-to-market method of accounting, stockholders who hold our common shares as part of a “hedge,” “straddle,” “conversion,” “synthetic security,” “integrated investment,” or “constructive sale transaction,” individuals who receive our common shares upon the exercise of employee stock options or otherwise as compensation, holders who are liable for the alternative minimum tax or any holders who actually or constructively own more than 5% of eBay common stock). This discussion also does not address any tax consequences arising under the unearned Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010, nor does it address any tax considerations under state, local or foreign laws or U.S. federal laws other than those pertaining to the U.S. federal income tax.

If a partnership, including for this purpose any entity or arrangement that is treated as a partnership for U.S. federal income tax purposes, holds eBay common stock, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. An investor that is a partnership and the partners in such partnership should consult their own tax advisors regarding the U.S. federal income tax consequences of the distribution.

For purposes of this discussion a “U.S. Holder” is any beneficial owner of eBay common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or entity treated as a corporation) created or organized in the United States or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; and
- a trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

THE FOLLOWING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. HOLDERS OF EBAY COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE APPLICATION AND EFFECT OF U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

Table of Contents

eBay has not sought and does not intend to seek a ruling from the IRS with respect to the treatment of the distribution and certain related transactions for U.S. federal income tax purposes and there can be no assurance that the IRS will not assert that the distribution and/or certain related transactions are taxable. It is a condition to the distribution that eBay receive an opinion of outside counsel or tax advisors regarding the qualification of the distribution, together with certain related transactions, as a transaction that is generally tax free, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code. The opinion of counsel will be based and rely on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings of eBay and PayPal (including those relating to the past and future conduct of eBay and PayPal). If any of these representations, statements or undertakings are, or become, inaccurate or incomplete, or if eBay or PayPal breach any of their respective covenants in the separation documents, the opinion of counsel may be invalid and the conclusions reached therein could be jeopardized. An opinion of counsel is not binding on the IRS or the courts.

Notwithstanding receipt by eBay of an opinion of counsel, the IRS could assert that the distribution and/or certain related transactions do not qualify for tax-free treatment for U.S. federal income tax purposes. If the IRS were successful in taking this position, eBay, PayPal and eBay stockholders could be subject to significant U.S. federal income tax liability. Please refer to “Material U.S. Federal Income Tax Consequences if the Distribution is Taxable” below.

Material U.S. Federal Income Tax Consequences if the Distribution Qualifies as a Transaction That is Generally Tax Free under Sections 368(a)(1)(D) and 355 of the Code.

Assuming the distribution, together with certain related transactions, qualifies as a transaction that is generally tax free for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code, the U.S. federal income tax consequences of the distribution are as follows: (i) the distribution will generally not result in any taxable income, gain or loss to eBay, other than taxable income or gain possibly arising out of internal reorganizations and restructurings undertaken in connection with the distribution and with respect to items required to be taken into account under U.S. Treasury regulations relating to consolidated federal income tax returns; (ii) no gain or loss will generally be recognized by (and no amount will be included in the income of) U.S. Holders of eBay common stock upon their receipt of PayPal common stock in the distribution, except with respect to any cash received in lieu of fractional shares of PayPal common stock (as described below); (iii) the aggregate tax basis of the eBay common stock and the PayPal common stock received in the distribution (including any fractional share interest in PayPal common stock for which cash is received) in the hands of each U.S. Holder of eBay common stock after the distribution will equal the aggregate basis of eBay common stock held by the U.S. Holder immediately before the distribution, allocated between the eBay common stock and the PayPal common stock (including any fractional share interest in PayPal common stock for which cash is received) in proportion to the relative fair market value of each on the date of the distribution; and (iv) the holding period of the PayPal common stock received by each U.S. Holder of eBay common stock in the distribution (including any fractional share interest in PayPal common stock for which cash is received) will generally include the holding period at the time of the distribution for the eBay common stock with respect to which the distribution is made. A U.S. Holder who receives cash in lieu of a fractional share of PayPal common stock in the distribution will be treated as having sold such fractional share for cash, and will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and such U.S. Holder’s adjusted tax basis in such fractional share. Such gain or loss will be long-term capital gain or loss if the U.S. Holder’s holding period for its eBay common stock exceeds one year at the time of the distribution.

U.S. Treasury regulations provide that if a U.S. Holder of eBay common stock holds different blocks of eBay common stock (generally shares of eBay common stock purchased or acquired on different dates or at different prices), the aggregate basis for each block of eBay common stock purchased or acquired on the same date and at the same price will be allocated, to the greatest extent possible, between the PayPal common stock received in the distribution in respect of such block of eBay common stock and such block of eBay common stock, in proportion to their respective fair market values, and the holding period of the PayPal common stock

Table of Contents

received in the distribution in respect of such block of eBay common stock will generally include the holding period of such block of eBay common stock. If a U.S. Holder of eBay common stock is not able to identify which particular shares of PayPal common stock are received in the distribution with respect to a particular block of eBay common stock, for purposes of applying the rules described above, the U.S. Holder may designate which shares of PayPal common stock are received in the distribution in respect of a particular block of eBay common stock, provided that such designation is consistent with the terms of the distribution. Holders of eBay common stock are urged to consult their own tax advisors regarding the application of these rules to their particular circumstances.

Material U.S. Federal Income Tax Consequences if the Distribution is Taxable.

As discussed above, eBay has not and does not intend to seek a ruling from the IRS with respect to the treatment of the distribution and certain related transactions for U.S. federal income tax purposes. Notwithstanding receipt by eBay of an opinion from outside counsel or tax advisors described above, the IRS could assert that the distribution does not qualify for tax-free treatment for U.S. federal income tax purposes. If the IRS were successful in taking this position, the consequences described above would not apply and eBay, PayPal and eBay stockholders could be subject to significant U.S. federal income tax liability. In addition, certain events that may or may not be within the control of eBay or PayPal, could cause the distribution and certain related transactions to fail to qualify as a transaction that is generally tax free, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code. Depending on the circumstances, PayPal may be required to indemnify eBay for taxes (and certain related losses) resulting from the distribution not qualifying as tax-free.

If the distribution fails to qualify as a transaction that is generally tax free, for U.S. federal income tax purposes, in general, eBay would recognize taxable gain as if it had sold the PayPal common stock in a taxable sale for its fair market value (unless eBay and PayPal jointly make an election under Section 336(e) of the Code with respect to the distribution, in which case, in general, (i) the eBay group would recognize taxable gain as if PayPal had sold all of its assets in a taxable sale in exchange for an amount equal to the fair market value of the PayPal common stock and the assumption of all of PayPal's liabilities and (ii) PayPal would obtain a related step up in the basis of its assets) and eBay stockholders who receive PayPal common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

In addition, even if the distribution were to otherwise qualify as tax-free under Sections 368(a)(1)(D) and 355 of the Code, it may result in taxable gain to eBay under Section 355(e) of the Code, if the distribution were later deemed to be part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, shares representing a 50% or greater interest (by vote or value) in eBay or PayPal. For this purpose, any acquisitions of eBay stock or of PayPal shares within the period beginning two years before the separation and ending two years after the separation are presumed to be part of such a plan, although eBay or PayPal may be able to rebut that presumption.

In connection with the distribution, eBay and PayPal will enter into a tax matters agreement. For a discussion of the tax matters agreement, please refer to "Certain Relationships and Related Party Transactions—The Tax Matters Agreement."

Backup Withholding and Information Reporting.

Payments of cash to a U.S. Holder of eBay common stock in lieu of fractional shares of PayPal common stock may be subject to information reporting and backup withholding (currently, at a rate of 28%), unless such U.S. Holder delivers a properly completed IRS Form W-9, certifying such U.S. Holder's correct taxpayer identification number and certain other information, or otherwise establishing a basis for exemption from backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's U.S. federal income tax liability provided that the required information is timely furnished to the IRS.

Table of Contents

U.S. Treasury regulations require certain U.S. Holders who receive shares of PayPal common stock in the distribution to attach to such U.S. Holder's U.S. federal income tax return for the year in which the distribution occurs a detailed statement setting forth certain information relating to the tax-free nature of the distribution.

THE FOREGOING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION PURPOSES ONLY. THE FOREGOING DISCUSSION DOES NOT PURPORT TO ADDRESS ALL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE DISTRIBUTION OR TAX CONSEQUENCES THAT MAY ARISE UNDER THE TAX LAWS OF OTHER JURISDICTIONS OR THAT MAY APPLY TO PARTICULAR CATEGORIES OF STOCKHOLDERS. HOLDERS OF EBAY COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE DISTRIBUTION TO THEM, INCLUDING THE APPLICATION AND EFFECT OF U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

DESCRIPTION OF MATERIAL INDEBTEDNESS

PayPal does not currently expect to incur any material indebtedness in connection with the separation and distribution, although that expectation may change.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Before the separation, all of the outstanding shares of PayPal's common stock will be owned beneficially and of record by eBay. Following the distribution, PayPal expects to have outstanding an aggregate of approximately 1.22 billion shares of common stock based upon approximately 1.22 billion shares of eBay common stock outstanding on June 1, 2015, excluding treasury shares and assuming no exercise of eBay stock options, and applying the distribution ratio.

Security Ownership of Certain Beneficial Owners

The following table reports the number of shares of PayPal common stock that PayPal expects will be beneficially owned, immediately following the completion of the distribution by each person (other than PayPal's expected executive officers and directors) who will beneficially own more than five percent of PayPal's common stock. The table is based upon information available as of June 1, 2015 as to those persons (other than PayPal's expected executive officers and directors) who beneficially own more than five percent of eBay's common stock and an assumption that, for each share of eBay common stock held by such persons, they will receive one share of PayPal common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
BlackRock, Inc. (1)	66,796,090	5.4%

(1) Based on BlackRock, Inc.'s Schedule 13G/A filed on February 6, 2015. The address for BlackRock, Inc. is 55 East 52nd Street, New York, New York 10222.

Share Ownership of Executive Officers and Directors

The following table sets forth information, immediately following the completion of the separation calculated as of June 1, 2015, based upon the distribution of one share of PayPal common stock for each share of eBay common stock, regarding (1) each expected director, director nominee and named executive officer of PayPal and (2) all of PayPal's expected directors and executive officers as a group. Unless otherwise indicated below, the address of each director, director nominee and executive officer shown in the table below is c/o PayPal Holdings, Inc., Attention: Corporate Secretary, 2211 North First Street, San Jose, California 95131.

Table of Contents

This table is based upon information supplied by officers, directors, and principal stockholders. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of June 1, 2015, and restricted stock units, or RSUs, that are scheduled to vest within 60 days of June 1, 2015, are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding those options, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The percentage of beneficial ownership is based on approximately 1.22 billion shares of common stock outstanding as of June 1, 2015.

<u>Name of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
Daniel H. Schulman	19,275	*
Jonathan Christodoro ⁽¹⁾	0	*
Scott D. Cook ⁽²⁾	204,992	*
John J. Donahoe ⁽³⁾	2,267,814	*
David W. Dorman ⁽⁴⁾	900	*
Gail J. McGovern ⁽⁵⁾	162	*
David M. Moffett ⁽⁶⁾	6,858	*
Pierre M. Omidyar ⁽⁷⁾	96,009,558	7.88%
Frank D. Yeary ⁽⁸⁾	0	*
James J. Barrese ⁽⁹⁾	10,892	*
Patrick L. A. Dupuis ⁽¹⁰⁾	90,381	*
Hill Ferguson ⁽¹¹⁾	18,060	*
William J. Ready	6,650	*
All directors and officers as a group (17 persons)	165,577,206	8.10%

* Indicates that the percentage of beneficial ownership of the director or executive officer does not exceed 1 percent of the class.

(1) The address for Mr. Christodoro is Icahn Associates, 767 Fifth Avenue, 47th Floor, New York, NY 10153.

(2) Includes 31,008 shares Mr. Cook has the right to acquire pursuant to outstanding options exercisable within 60 days of June 1, 2015. The address for Mr. Cook is Intuit Inc., 2535 Garcia Avenue, Mountain View, California 94043.

(3) Includes 1,696,139 shares Mr. Donahoe has the right to acquire pursuant to outstanding options exercisable within 60 days of June 1, 2015, and 135,363 RSUs scheduled to vest within 60 days of June 1, 2015.

(4) The address for Mr. Dorman is Knoll Ventures, Tower Place 200, Suite 1000, 3348 Peachtree Road, NE, Atlanta, Georgia 30326.

(5) The address for Ms. McGovern is American Red Cross, 430 17th Street, NW, Washington, DC 20006.

(6) The address for Mr. Moffett is 2211 North First Street, San Jose, California 95131.

(7) Includes 70,000 shares held by his spouse as to which he disclaims beneficial ownership.

(8) The address for Mr. Yeary is CamberView Partners, LLC, 2 Embarcadero Center, Suite 2150, San Francisco, California 94111.

(9) Includes 13 shares held by Mr. Barrese's children. Mr. Barrese disclaims beneficial ownership of these shares. Includes 10,879 shares Mr. Barrese has the right to acquire pursuant to outstanding options exercisable within 60 days of June 1, 2015.

(10) Includes 11,478 shares Mr. Dupuis has the right to acquire pursuant to outstanding options exercisable within 60 days of June 1, 2015.

(11) Includes 17,576 shares Mr. Ferguson has the right to acquire pursuant to outstanding options exercisable within 60 days of June 1, 2015.

DESCRIPTION OF PAYPAL'S CAPITAL STOCK

PayPal's certificate of incorporation and bylaws will be amended and restated prior to the separation. The following is a summary of the material terms of PayPal's capital stock that will be contained in the amended and restated certificate of incorporation and bylaws. The summaries and descriptions below do not purport to be complete statements of the relevant provisions of the certificate of incorporation or of the bylaws that will be in effect at the time of the distribution, which you must read for complete information on PayPal's capital stock as of the time of the distribution. The certificate of incorporation and bylaws, each in a form expected to be in effect at the time of the distribution, are included as exhibits to PayPal's registration statement on Form 10, of which this information statement forms a part. The summaries and descriptions below do not purport to be complete statements of the Delaware General Corporation Law.

General

PayPal's authorized capital stock will consist of 4 billion shares of common stock, par value \$0.0001 per share, and 100 million shares of preferred stock, par value \$0.0001 per share, all of which shares of preferred stock are undesignated. PayPal's board of directors may establish the rights and preferences of the preferred stock from time to time. Subject to the terms of an agreement entered into between eBay Inc. and the Icahn Group and filed as Exhibit 99.2 to eBay Inc.'s Current Report on Form 8-K dated January 23, 2015 (the "Icahn Agreement"), immediately following the distribution, PayPal expects that approximately 1.22 billion shares of its common stock will be issued and outstanding and that no shares of preferred stock will be issued and outstanding.

Common Stock

Each holder of PayPal common stock will be entitled to one vote for each share on all matters to be voted upon by the common stockholders, and there will be no cumulative voting rights. To be elected in an uncontested election for board members, a director nominee must receive more votes "for" than "against" by shares present in person or by proxy and entitled to vote. In a contested election for board members, the board members are elected by a plurality of shares present in person or by proxy and entitled to vote.

Subject to any preferential rights of any outstanding preferred stock, holders of PayPal common stock will be entitled to receive ratably the dividends, if any, as may be declared from time to time by its board of directors out of funds legally available for that purpose. If there is a liquidation, dissolution or winding up of PayPal, holders of its common stock would be entitled to ratable distribution of its assets remaining after the payment in full of liabilities and any preferential rights of any then outstanding preferred stock.

Holders of PayPal common stock will have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. After the distribution, all outstanding shares of PayPal common stock will be fully paid and non-assessable. The rights, preferences and privileges of the holders of PayPal common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that PayPal may designate and issue in the future.

Preferred Stock

Under the terms of PayPal's amended and restated certificate of incorporation, its board of directors will be authorized, subject to limitations prescribed by the Delaware General Corporation Law (the "DGCL"), and by its certificate of incorporation, to issue up to 100 million shares of preferred stock in one or more series without further action by the holders of its common stock. PayPal's board of directors will have the discretion, subject to limitations prescribed by the DGCL and by PayPal's certificate of incorporation, to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

Table of Contents

Corporate Governance

PayPal will institute stockholder-friendly corporate governance practices, as described below and elsewhere in this information statement. Responsible and appropriate corporate governance will ensure that PayPal's board always keeps stockholder interests top of mind when crafting value-creating strategies at all levels of the organization.

Single Class Capital Structure. PayPal will have a single class common equity capital structure with all stockholders entitled to vote for director nominees. Each holder of common stock will have one vote per share.

Annual Director Elections. Commencing with the first annual meeting of stockholders following the distribution, which will be held within twelve (12) months of the distribution date, directors will be elected at the annual meeting of stockholders and thereafter each director will serve until the next annual election and until his or her successor is duly elected and qualified, or until his or her earlier resignation or removal. At any meeting of stockholders for the election of directors at which a quorum is present, the election will be determined by a majority of the votes cast by the stockholders entitled to vote in the election, with directors not receiving a majority of the votes cast required to tender their resignations for consideration by the board, except that in the case of a contested election, the election will be determined by a plurality of the votes cast by the stockholders entitled to vote in the election.

Special Stockholder Meetings. PayPal's amended and restated certificate of incorporation will provide that special meetings of the stockholders of the corporation may only be called by (1) the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors, (2) the chairman of the board, (3) the chief executive officer, or (4) subject to certain procedures and conditions set forth therein, by PayPal's corporate secretary at the request of one or more stockholders who have held beneficial ownership of at least a twenty percent (20%) "net long position" of the outstanding common stock of PayPal for at least thirty (30) days prior to the delivery of such request. Until such time as a single stockholder, or "group" of stockholders who have filed as such under Section 13(d) of the Exchange Act with respect to their ownership of PayPal common stock, owns at least a majority of PayPal's outstanding common stock, no stockholder will be permitted to propose the removal of directors or the election of directors at stockholder-called special meetings.

Proxy Access. In recognition of the growing sentiment in the investment community that significant stockholders ought to have the opportunity to propose candidates for election as directors in the Company's proxy statement, we will provide proxy access rights in our organizational documents. PayPal's amended and restated certificate of incorporation will provide that, in certain circumstances, a stockholder or group of up to 15 stockholders may include director candidates that they have nominated in our annual meeting proxy materials. Such stockholder or group of stockholders will need to own 3% or more of PayPal's outstanding common stock continuously for at least three years. The number of stockholder-nominated candidates appearing in any of our annual meeting proxy materials will not exceed 20% of the number of directors then serving on the Board, rounded down to the nearest whole number, subject to reduction in certain circumstances, including where stockholders have nominated candidates for election at the same meeting outside the proxy access process. The nominating stockholder or group of stockholders will also be required to deliver certain information and undertakings, and each nominee will be required to meet certain qualifications, as described in more detail in the amended and restated certificate of incorporation.

No Supermajority Provisions. Other than with respect to the interested stockholder provision described below in "Anti-Takeover Effects of Various Provisions of Delaware Law and PayPal's Certificate of Incorporation and Bylaws—Interested Stockholder Provision" (which is being implemented in connection with PayPal's opting out of Section 203 of the DGCL), PayPal's amended and restated certificate of incorporation and bylaws do not have supermajority voting provisions, and stockholders can approve binding bylaw amendments with a simple majority vote.

Table of Contents

Other Expected Corporate Governance Features. Governance features related to PayPal's board of directors are set forth in the section of this information statement captioned "Directors." In addition to the foregoing, it is expected that PayPal will implement stock ownership guidelines for directors and senior executive officers, annual board performance evaluations, clawback, anti-hedging and anti-pledging policies, conflict of interest policies, risk oversight procedures and other practices and protocols.

Exclusive Forum

PayPal's amended and restated certificate of incorporation will provide that, unless PayPal consents in writing to the selection of an alternative forum, the sole and exclusive forum for (1) any derivative action or proceeding brought on behalf of the Company, (2) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company's stockholders, (3) any action asserting a claim against the Company or any director or officer or other employee of the Company arising pursuant to any provision of the DGCL or PayPal's certificate of incorporation or the bylaws (as either may be amended from time to time), or (4) any action asserting a claim against the Company or any director or officer or other employee of the Company governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware).

Limitations on Liability, Indemnification of Officers and Directors and Insurance

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, and PayPal's amended and restated certificate of incorporation will include such an exculpation provision. PayPal's amended and restated certificate of incorporation and bylaws will include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director or officer of PayPal, or for serving at PayPal's request as a director or officer or another position at another corporation or enterprise, as the case may be. PayPal's amended and restated certificate of incorporation and bylaws will also provide that PayPal must indemnify and advance reasonable expenses to its directors and officers, subject to its receipt of an undertaking from the indemnified party as may be required under the DGCL. PayPal's amended and restated certificate of incorporation will expressly authorize PayPal to carry directors' and officers' insurance to protect PayPal, its directors, officers and certain employees for some liabilities.

The limitation of liability and indemnification provisions that will be in PayPal's amended and restated certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against PayPal's directors and officers, even though such an action, if successful, might otherwise benefit PayPal and its stockholders. However, these provisions will not limit or eliminate PayPal's rights, or those of any stockholder, to seek non-monetary relief such as injunction or rescission in the event of a breach of a director's duty of care. The provisions will not alter the liability of directors under the federal securities laws. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, PayPal pays the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. There is currently no pending material litigation or proceeding against any PayPal directors, officers or employees for which indemnification is sought.

Authorized but Unissued Shares

PayPal's authorized but unissued shares of common stock and preferred stock will be available for future issuance without your approval. PayPal may use additional shares for a variety of purposes, including future public offerings to raise additional capital, to fund acquisitions and as employee compensation. Certain limitations on the use of authorized but unissued preferred stock are contained in the Icahn Agreement. Nonetheless, the existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of PayPal by means of a proxy contest, tender offer, merger or otherwise.

Anti-Takeover Effects of Various Provisions of Delaware Law and PayPal's Certificate of Incorporation and Bylaws

Provisions of the DGCL and PayPal's certificate of incorporation and bylaws could potentially impact the prospect of an acquisition of PayPal by means of a tender offer, a proxy contest or otherwise, or affect the ability to remove incumbent officers and directors. These provisions may discourage certain types of coercive takeover practices and takeover bids that PayPal's board of directors may consider inadequate and may encourage persons seeking to acquire control of PayPal to first negotiate with PayPal's board of directors. PayPal believes that the benefits of increased protection of its ability to negotiate with the proponent of an unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

Size of Board and Vacancies . PayPal's amended and restated bylaws will provide that the number of directors on its board of directors will initially be nine and thereafter shall be fixed exclusively by its board of directors. Any vacancies created in its board of directors resulting from any increase in the authorized number of directors or the death, resignation, retirement or removal from service will be filled only by a majority of the board of directors then in office, even if less than a quorum is present, or by a sole remaining director.

Interested Stockholder Provision . PayPal has elected not to be governed by Section 203 of the DGCL, an anti-takeover statute that prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the time the person became an interested stockholder, unless the business combination or the acquisition of shares that resulted in a stockholder becoming an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. PayPal's amended and restated certificate of incorporation will, however, contain a provision that generally mirrors Section 203 of the DGCL, except that an "interested shareholder" under the interested stockholder provision in the amended and restated certificate of incorporation will be defined to be a person or entity who, together with its affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) twenty percent (20%) or more of a corporation's voting stock (Section 203 of the DGCL sets this threshold at fifteen percent (15%)). The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by PayPal's board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by PayPal's stockholders.

Stockholder Action by Written Consent . PayPal's amended and restated certificate of incorporation will provide that stockholders may not act by written consent. Stockholder action must take place at the annual or a special meeting of PayPal stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals . PayPal's amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of its board of directors or a committee of its board of directors.

No Cumulative Voting . The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the company's certificate of incorporation provides otherwise. PayPal's amended and restated certificate of incorporation will not provide for cumulative voting.

Undesignated Preferred Stock . The authority that PayPal's board of directors will possess to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of PayPal through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. PayPal's board of directors may be able to issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock.

Table of Contents

Icahn Agreement

Certain of the provisions above, including under the sections entitled “Interested Stockholder Provision” in the “Anti-Takeover Effects of Various Provisions of Delaware Law and PayPal’s Certificate of Incorporation and Bylaws” section and the section entitled “Special Stockholder Meetings” in the “Corporate Governance” section, were designed to comply with the Icahn Agreement. In addition, pursuant to the Icahn Agreement, (i) the Icahn Group has agreed to specified “standstill” restrictions for a certain period of time, and (ii) PayPal will, among other things, not have a “stockholder rights plan” in effect at the time of the distribution and, until the conclusion of the standstill period, any “stockholder rights plan” adopted by PayPal will not have a threshold at or below 19.99% and will expire if not ratified by PayPal’s stockholders within 135 days of the plan taking effect.

Listing

PayPal has applied to have its common stock authorized for listing on The NASDAQ Stock Market under the symbol “PYPL.”

Sale of Unregistered Securities

On January 30, 2015, PayPal issued 1,000 shares of its common stock to eBay pursuant to Section 4(2) of the Securities Act. PayPal did not register the issuance of the issued shares under the Securities Act because such issuances did not constitute public offerings.

Transfer Agent and Registrar

After the distribution, the transfer agent and registrar for PayPal’s common stock will be Computershare Trust Company, N.A.

WHERE YOU CAN FIND MORE INFORMATION

PayPal has filed a registration statement on Form 10 with the SEC with respect to the shares of PayPal common stock being distributed as contemplated by this information statement. This information statement is a part of, and does not contain all of the information set forth in, the registration statement and the exhibits and schedules to the registration statement. For further information with respect to PayPal and its common stock, please refer to the registration statement, including its exhibits and schedules. Statements made in this information statement relating to any contract or other document filed as an exhibit to the registration statement include the material terms of such contract or other document. However, such statements are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement, including its exhibits and schedules, at the SEC's public reference room, located at 100 F Street, NE, Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 as well as on the Internet website maintained by the SEC at www.sec.gov. Information contained on any website referenced in this information statement is not incorporated by reference in this information statement.

As a result of the distribution, PayPal will become subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, will file periodic reports, proxy statements and other information with the SEC.

PayPal intends to furnish holders of its common stock with annual reports containing combined financial statements prepared in accordance with U.S. generally accepted accounting principles and audited and reported on, with an opinion expressed, by an independent registered public accounting firm.

You should rely only on the information contained in this information statement or to which this information statement has referred you. PayPal has not authorized any person to provide you with different information or to make any representation not contained in this information statement.

INDEX TO FINANCIAL STATEMENTS

	<u>Page Number</u>
<i>Combined Financial Statements:</i>	
Report of Independent Registered Public Accounting Firm	F-2
Combined Balance Sheet	F-3
Combined Statement of Income	F-4
Combined Statement of Comprehensive Income	F-5
Combined Statement of Equity	F-6
Combined Statement of Cash Flows	F-7
Notes to Combined Financial Statements	F-8
<i>Condensed Combined Financial Statements:</i>	
Condensed Combined Balance Sheet	F-41
Condensed Combined Statement of Income	F-42
Condensed Combined Statement of Comprehensive Income	F-43
Condensed Combined Statement of Cash Flows	F-44
Notes to Condensed Combined Financial Statements	F-45
<i>Financial Statement Schedule:</i>	
Schedule II—Valuation and Qualifying Accounts	F-40
All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.	

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of eBay Inc.:

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of comprehensive income, of equity, and of cash flows present fairly, in all material respects, the financial position of PayPal (the “Company”) at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined financial statements. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 25, 2015

Table of Contents

PayPal COMBINED BALANCE SHEET

	December 31, 2014	December 31, 2013
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,201	\$ 1,604
Short-term investments	29	321
Accounts receivable, net	65	52
Loans and interest receivable, net	3,586	2,789
Funds receivable and customer accounts	10,612	9,277
Notes and receivable from affiliates	694	310
Other current assets	378	267
Total current assets	<u>17,565</u>	<u>14,620</u>
Long-term investments	31	196
Property and equipment, net	922	858
Goodwill	3,189	3,187
Intangible assets, net	156	258
Other assets	54	41
Total assets	<u>\$ 21,917</u>	<u>\$ 19,160</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 115	\$ 73
Funds payable and amounts due to customers	10,612	9,277
Notes and payable to affiliates	1,093	1,103
Accrued expenses and other current liabilities	1,434	771
Income taxes payable	29	37
Total current liabilities	<u>13,283</u>	<u>11,261</u>
Long-term liabilities	<u>386</u>	<u>509</u>
Total liabilities	<u>13,669</u>	<u>11,770</u>
Commitments and contingencies (Note 10)		
Equity:		
Accumulated other comprehensive income (loss)	110	(61)
Net parent investment	<u>8,138</u>	<u>7,451</u>
Total equity	<u>8,248</u>	<u>7,390</u>
Total liabilities and equity	<u>\$ 21,917</u>	<u>\$ 19,160</u>

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

[Table of Contents](#)

PayPal
COMBINED STATEMENT OF INCOME

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Net revenues	\$8,025	\$6,727	\$5,662
Operating expenses:			
Transaction expense	2,170	1,835	1,518
Transaction and loan losses	646	502	365
Customer support and operations	1,055	950	814
Sales and marketing	998	791	662
Product development	890	727	677
General and administrative	482	378	345
Depreciation and amortization	516	453	382
Restructuring	—	—	19
Total operating expenses	<u>6,757</u>	<u>5,636</u>	<u>4,782</u>
Operating income	1,268	1,091	880
Other income (expense), net	<u>(7)</u>	<u>(7)</u>	<u>11</u>
Income before income taxes	<u>1,261</u>	<u>1,084</u>	<u>891</u>
Income tax expense	<u>842</u>	<u>129</u>	<u>113</u>
Net income	<u>\$ 419</u>	<u>\$ 955</u>	<u>\$ 778</u>

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

PayPal
COMBINED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In millions)		
Net income	\$ 419	\$ 955	\$ 778
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation	(42)	11	6
Unrealized gains on investments, net	—	—	2
Unrealized gains (losses) on hedging activities, net	217	(45)	(104)
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	(4)	2	3
Other comprehensive income (loss), net of tax	171	(32)	(93)
Comprehensive income	<u>\$ 590</u>	<u>\$ 923</u>	<u>\$ 685</u>

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

PayPal
COMBINED STATEMENT OF EQUITY

	<u>Net Parent Investment</u>	<u>Accumulated Other Comprehensive Income (Loss) (In millions)</u>	<u>Total Equity</u>
Balances at December 31, 2011	\$ 5,181	\$ 64	\$ 5,245
Net income	778	—	778
Net transfers from parent	251	—	251
Foreign currency translation	—	6	6
Unrealized gains on investments, net	—	2	2
Unrealized (losses) on hedging activities, net	—	(104)	(104)
Tax benefit on unrealized gains (losses) on hedging activities, net	—	3	3
Balances at December 31, 2012	<u>\$ 6,210</u>	<u>\$ (29)</u>	<u>\$ 6,181</u>
Net income	955	—	955
Net transfers from parent	286	—	286
Foreign currency translation	—	11	11
Unrealized (losses) on hedging activities, net	—	(45)	(45)
Tax benefit on unrealized gains (losses) on hedging activities, net	—	2	2
Balances at December 31, 2013	<u>\$ 7,451</u>	<u>\$ (61)</u>	<u>\$ 7,390</u>
Net income	419	—	419
Net transfers from parent	268	—	268
Foreign currency translation	—	(42)	(42)
Unrealized gains on hedging activities, net	—	217	217
Tax expense on unrealized gains on hedging activities, net	—	(4)	(4)
Balances at December 31, 2014	<u>\$ 8,138</u>	<u>\$ 110</u>	<u>\$ 8,248</u>

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

PayPal
COMBINED STATEMENT OF CASH FLOWS

	For Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Cash flows from operating activities:			
Net income	\$ 419	\$ 955	\$ 778
Adjustments:			
Transaction and loan losses	646	502	365
Depreciation and amortization	516	453	382
Stock-based compensation	299	253	205
Deferred income taxes	680	52	46
Excess tax benefits from stock-based compensation	(41)	(76)	(57)
Changes in assets and liabilities:			
Accounts receivable	(13)	1	(20)
Notes and receivable from affiliates, net	(24)	79	(77)
Other assets	(39)	(64)	(163)
Accounts payable	42	(13)	1
Notes payable to affiliates, net	(2)	43	20
Accrued expenses and other current liabilities	(300)	(233)	(15)
Income taxes payable and other tax liabilities	37	41	100
Net cash provided by operating activities	<u>2,220</u>	<u>1,993</u>	<u>1,565</u>
Cash flows from investing activities:			
Purchases of property and equipment	(492)	(391)	(511)
Changes in principal loans receivable, net	(1,023)	(793)	(740)
Purchases of investments	(76)	(610)	(265)
Maturities and sales of investments	409	320	180
Acquisitions, net of cash acquired	(2)	(731)	(22)
Notes and receivable from affiliates, net	(362)	484	(168)
Net cash used in investing activities	<u>(1,546)</u>	<u>(1,721)</u>	<u>(1,526)</u>
Cash flows from financing activities:			
Excess tax benefits from stock-based compensation	41	76	57
Net transfers to parent	(71)	(28)	(17)
Net (repayments) borrowings under financing arrangements	(21)	(133)	20
Banking deposits from affiliates	—	—	(270)
Funds receivable and customer accounts, net	(1,335)	(1,653)	(4,090)
Funds payable and amounts due to customers, net	1,335	1,653	4,090
Net cash used in financing activities	<u>(51)</u>	<u>(85)</u>	<u>(210)</u>
Effect of exchange rate changes on cash and cash equivalents	(26)	3	(1)
Net increase (decrease) in cash and cash equivalents	597	190	(172)
Cash and cash equivalents at beginning of period	1,604	1,414	1,586
Cash and cash equivalents at end of period	<u>\$ 2,201</u>	<u>\$ 1,604</u>	<u>\$ 1,414</u>
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 19	\$ 14	\$ 12
Cash paid for income taxes	\$ 47	\$ 28	\$ 38

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

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1—Overview and Summary of Significant Accounting Policies

Overview and Organization

On September 30, 2014, eBay Inc. (“eBay”) announced its intent to separate its payments business (the “Separation”) into an independent, publicly-traded company (the “distribution”). To accomplish the distribution, in January 2015, eBay incorporated PayPal Holdings, Inc. (“PayPal Holdings”). PayPal Holdings was formed solely in contemplation of the separation and the distribution, has not commenced operations and has no liabilities or commitments. As of March 31, 2015, PayPal Holdings had no assets other than de minimis assets incidental to its formation.

PayPal Holdings will ultimately become the parent of PayPal, Inc. and will hold directly or indirectly all of the assets and liabilities associated with PayPal, Inc. PayPal, Inc. was incorporated in Delaware in March 1999. In 2002, PayPal, Inc. was acquired by eBay. All of our operations are conducted by PayPal, Inc. and its wholly owned subsidiaries.

These combined financial statements are comprised of the payments business of eBay Inc., including PayPal, Inc. and certain other assets and liabilities that have been historically held at the eBay Inc. corporate level, but are specifically identifiable and attributable to the payments business. These combined financial statements are collectively referred to as “PayPal”. References in these combined financial statements to “we,” “our,” “us,” “the Company” or “PayPal” refer to these combined entities.

To effect the separation, eBay will make a pro rata distribution of 100% of the outstanding common stock of PayPal Holdings to eBay’s stockholders. The distribution is subject to a number of conditions, including, but not limited to, final approval of the spin-off by the board of both eBay Inc. and completion of the review of PayPal Holdings’ Registration Statement on Form 10 by the Securities and Exchange Commission (the “SEC”). Immediately following the distribution, eBay will no longer have an ownership interest in PayPal Holdings or PayPal. PayPal Holdings and eBay will enter into certain agreements providing for the separation of the companies and governing various relationships between the companies post-separation.

We are a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. We strive to increase our relevance for consumers, merchants, friends and family to access and move their money anywhere in the world, anytime, on any platform and through any device (e.g., mobile, tablets, personal computers or wearables). We provide safer and simpler ways for businesses of all sizes to accept payments from merchant websites, mobile devices and applications, and at offline retail locations through a wide range of payment solutions across our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.

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, and we are subject to regulations that affect the payments industry in the many countries in which we operate. Changes in or non-compliance with laws and regulations, changes in the interpretation of laws and regulations, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition. Therefore, we monitor these areas closely to ensure a compliant system for our customers who depend on us.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)****Significant Accounting Policies***Basis of presentation and principles of combination*

The accompanying combined financial statements have been prepared on a stand-alone basis and are derived from eBay's consolidated financial statements and records. The combined financial statements reflect our financial position, results of operations, and cash flows as we operated as part of eBay prior to the distribution, in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

These combined financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and, additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. The expenses that have been incurred by eBay are allocated to us based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The combined financial statements also include certain assets and liabilities that have historically been held at the eBay corporate level, but which are specifically identifiable and attributable to us. The combined financial position, results of operations and cash flows of PayPal may not be indicative of our results had we been a separate stand-alone entity during the periods presented, nor are the results stated herein indicative of what the Company's financial position, results of operations and cash flows may be in the future. All intra-company transactions and accounts have been eliminated.

The accompanying financial statements are combined and include the financial statements of PayPal and our wholly and majority-owned subsidiaries. Investments in entities where we hold at least a 20% ownership interest and have the ability to exercise significant influence, but not control, over the investee are accounted for using the equity method of accounting. For such investments, our share of the investees' results of operations is included in other income (expense), net and our investment balance is included in long-term investments. 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 in our combined statement of income to the extent dividends are received.

We have evaluated all subsequent events through April 9, 2015, the date the financial statements were available to be issued. We have disclosed material subsequent events in "Note 16—Subsequent Events."

Use of estimates

The preparation of combined financial statements in conformity with U.S. 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 combined financial statements and the reported amounts of revenues and expenses, including allocations from eBay, during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to transaction and loan losses, legal contingencies, income taxes, revenue recognition, stock-based compensation, goodwill and the recoverability of intangible assets. We base our estimates on historical experience and on various other assumptions which we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Cash and cash equivalents

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

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Investments

Short-term investments, which include time deposits and corporate debt securities with original maturities of greater than three months but less than one year when purchased, are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits.

Long-term investments include corporate debt securities, equity method and cost method investments. Debt securities are classified as available-for-sale and are reported at fair value using the specific identification method. Unrealized gains and losses are excluded from earnings and reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits.

We elect to account for certain assets underlying customer accounts, including foreign-currency denominated available-for-sale investments, under the fair value option. The changes in fair value related to initial measurement and subsequent changes in fair value are included in earnings as a component of other income (expense), net.

Our cost method investments consist of investments in privately held companies where we do not have the ability to exercise significant influence, or have control over the investee. These investments are recorded at cost and are subject to periodic tests for other-than-temporary impairment. Our equity method investments are investments in privately held companies where we have the ability to exercise significant influence, but not control, over the investee. Our proportionate share of the net income (loss) of our equity method investments is recognized on a one quarter lag as a component of other income (expense), net in our combined statements of income. Our share of investees' results of operations is not significant for any period presented.

We assess whether an other-than-temporary impairment loss on our investments has occurred due to declines in fair value or other market conditions. With respect to our debt securities, this assessment takes into account the severity and duration of the decline in value, our intent to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost basis, and whether we expect to recover the entire amortized cost basis of the security (that is, whether a credit loss exists).

Loans and interest receivable, net

Loans and interest receivable, net primarily represent consumer receivables originated under PayPal Credit consumer accounts. The majority of the loans on these accounts are originated by a partner chartered financial institution in the U.S. and are made to individual consumers in the U.S. using PayPal Credit as a payment method. In the United Kingdom, loans on PayPal Credit consumer accounts are currently originated by our Luxembourg bank subsidiary.

The terms of our consumer relationships require us to submit monthly bills to the consumer detailing loan repayment requirements. The terms also allow us to charge the consumer interest and fees in certain circumstances. Due to the relatively small dollar amount of individual loans and interest receivable, we do not require collateral on these balances.

In August 2013, ownership of substantially all of the existing PayPal Credit consumer accounts in the U.S. was transitioned from one partner chartered financial institution to a new partner chartered financial institution. See "Note 8—Loans and Interest Receivable, Net". As of Q4 2014, this partner financial institution owned all of the existing PayPal Credit consumer accounts in the U.S. As part of the arrangement with this new partner financial institution, we sell a participation interest in the entire pool of consumer receivables outstanding to this partner

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)**

financial institution. We apply a control-oriented, financial-components approach and account for the asset transfer as a sale and derecognize the portion of the participation interest for which control has been surrendered. 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. Participation interests that are retained are included in loans and interest receivable and are accounted for at amortized cost, net of an allowance for loan losses. We maintain the servicing rights for the entire pool of consumer receivables outstanding and receive a fee approximating the fair value of servicing the assets underlying the participation interest sold.

Allowance for loans and interest receivable

The allowance for loans and interest receivable represents management's estimate of probable losses inherent in our PayPal Credit portfolio of receivables. The evaluation process to assess the adequacy of allowances is subject to numerous estimates and judgments, primarily forecasted principal balance delinquency rates ("roll rates"). Roll rates are the percentage of balances which we estimate will migrate from one stage of delinquency to the next based on our historical experience, as well as external factors such as estimated bankruptcies and levels of unemployment. Roll rates are applied to principal balances for each stage of delinquency, from current to 180 days past due, in order to estimate the principal loans which are probable to be charged off. Increases to the allowance for loans receivable are reflected as transaction and loan losses in our combined financial statements. The allowance for loss against the interest and fees receivable is primarily determined by applying historical average customer account roll rates to the interest receivable balance in each stage of delinquency to project the value of accounts that are not collectible. Increases to the allowance for interest and fees receivable are reflected as a reduction of net revenues in our combined financial statements.

We charge off loan receivable balances in the month in which a customer balance becomes 180 days past due. Bankrupt accounts are charged off within 60 days of receiving notification from the bankruptcy courts. Past due loans receivable continue to accrue interest until such time as they are charged off. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

Customer accounts

We hold all customer balances (both in the U.S. and internationally) as direct claims against us which are reflected on our combined balance sheet as a liability classified as amounts due to customers. Further, various jurisdictions where PayPal operates require us to hold eligible liquid assets, as defined by the regulators in these jurisdictions, equal to at least 100% of the aggregate amount of all customer balances. Therefore, we use the assets underlying the customer balances to meet these regulatory requirements and separately classify the assets as customer accounts in our combined balance sheets. We do not commingle the assets underlying the customer balances with corporate funds and separately maintain these assets in interest and non-interest bearing bank deposits, time deposits and government and agency 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.

Funds receivable and funds payable

Funds receivable and funds payable arise due to the time required to clear transactions through external payment networks. When customers fund their account using their bank account or a credit card or debit card, or withdraw funds from their PayPal account to their bank account or through a debit card transaction, there is a clearing period before the cash is received or settled, usually one to three business days for U.S. transactions and generally up to five business days for international transactions.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)***Allowance for negative customer balances*

Negative customer balances occur primarily when there are insufficient funds in a customer's PayPal account to cover charges applied for Automated Clearing House ("ACH") returns, debit card transactions, chargebacks, nondelivery or unsatisfactory delivery of goods or services. Negative balances can be cured by the customer by adding funds to the account, receiving payments, or through back-up funding sources. We also utilize third party collection agents. For negative customer balances that are not expected to be cured or otherwise collected, we provide an allowance for uncollectible accounts. The allowance is estimated based on known facts and circumstances, internal factors including our experience with similar cases, and historical trends involving collection and write-off patterns. Negative customer balances are included in other current assets, net of the allowance. Adjustments to the allowance for negative customer balances are recorded as a component of transaction and loan loss. The allowance for negative customer balances was \$118 million and \$88 million at December 31, 2014 and 2013, respectively.

Property and equipment

Property and equipment consists primarily of computer equipment, software and website development costs, land and buildings and leasehold improvements. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets; generally, one to three years for computer equipment and software, including capitalized software and website development costs, three years for furniture and fixtures, up to thirty years for buildings and building improvements, and the shorter of five years or the term of the lease for leasehold improvements.

Goodwill and intangible assets

Goodwill is tested for impairment at a minimum on an annual basis. Goodwill is tested for impairment at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using income and market approaches. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The discounted cash flow method, a form of the income approach, uses expected future operating results and a market participant discount rate. The market approach uses comparable company prices and other relevant information generated by market transactions (either publicly traded entities or merger and acquisitions) to develop pricing metrics to be applied to historical and expected future operating results of the reporting unit. Failure to achieve these expected results, changes in the discount rate or market pricing metrics, may cause a future impairment of goodwill at the reporting unit. We conducted our annual impairment test of goodwill as of August 31, 2014 and 2013. We determined that no adjustment to the carrying value of goodwill of our reporting unit was required. As of December 31, 2014, we determined that no events or circumstances from August 31, 2014 through December 31, 2014 indicated that a further assessment was necessary.

Intangible assets consist of purchased customer lists and user base, marketing related intangibles, developed technologies and other intangible assets, including patents and contractual agreements. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from one to eight years. No significant residual value is estimated for intangible assets.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)***Impairment of long-lived assets*

We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate.

Allowance for transaction losses

We are exposed to transaction losses due to credit card and other payment misuse as well as nonperformance of and credit losses from sellers who accept payments through PayPal. We establish an allowance for estimated losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery of goods or services, ACH returns, buyer protection program claims, account takeovers, and debit card overdrafts. This allowance represents an accumulation of the estimated amounts necessary to provide for transaction losses incurred as of the reporting date, including those for which we have not yet identified. The allowance, which involves the use of actuarial techniques, is monitored monthly and is updated based on actual claims data reported by our claims processors and other actual data received. The allowance is based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving loss payment patterns, and the mix of transaction and loss types. Additions to the allowance are reflected as transaction and loan losses in our combined statements of income. At both December 31, 2014 and 2013, the allowance for transaction losses totaled \$48 million and is included in accrued expenses and other current liabilities.

Derivative instruments

We have significant international revenues and costs denominated in foreign currencies, subjecting our operations to foreign currency risk. We enter into foreign currency exchange contracts that qualify as cash flow hedges, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenue denominated in certain foreign currencies. All outstanding derivatives are recognized on the balance sheet at fair value. The effective portion of the designated derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and is subsequently reclassified into the financial statement line item in which the hedged item is recorded in the period the forecasted transaction affects earnings.

We also hedge our economic exposure to foreign currency denominated monetary assets and liabilities with foreign currency contracts. The gains and losses on the foreign exchange contracts economically offset transaction gains and losses on certain foreign currency denominated monetary assets and liabilities recognized in earnings. Accordingly, these outstanding non-designated derivatives are recognized on the balance sheet at fair value and changes in fair value from these contracts are recorded in other income (expense), net in the combined statement of income. Our hedging program is not designed or operated for trading or speculative purposes.

Our derivative instruments expose us to credit risk to the extent counterparties may be unable to meet the terms of the agreements. We seek to mitigate this risk by limiting counterparties to major financial institutions and by spreading the risk across several major financial institutions. In addition, the potential risk of loss with one counterparty resulting from this type of credit risk is monitored on an ongoing basis. See "Note 6—Derivative Instruments" for additional information related to the derivative instruments.

Fair value of financial instruments

Our financial assets and liabilities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). Level 1 instrument valuations are obtained from real-time quotes for transactions in active

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)**

exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs. As of December 31, 2014, and 2013 we did not have any assets or liabilities requiring measurement at fair value without observable market values that would require a high level of judgment to determine fair value (Level 3). Our financial instruments, including cash, cash equivalents, accounts receivable, loans and interest receivable, funds receivable, certain customer accounts, accounts payable, and funds payable and amounts due to customers are carried at cost, which approximates their fair value due to the short-term maturity of these instruments.

Concentrations of risk

Our cash, cash equivalents, accounts receivable, loans and interest receivable, and funds receivable and customer accounts are potentially subject to concentration of credit risk. Cash, cash equivalents and customer accounts are placed with financial institutions that management believes are of high credit quality. In addition, funds receivable are generated primarily with financial institutions or credit card companies which management believes are of high credit quality. We invest our cash and cash equivalents and customer accounts in highly liquid, highly rated instruments which are uninsured. From time to time, we may also have corporate deposit balances with financial services institutions which exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000. As part of our cash management process, we perform periodic evaluations of the relative credit standing of these financial institutions. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. Our loans and interest receivable are derived primarily from consumer financing activities for customers located in the U.S. As of December 31, 2014 no customer accounted for more than 10% of net accounts receivable or net loans receivable. As of December 31, 2013, one customer accounted for more than 13% of the net accounts receivable balance and no customer accounted for more than 10% of net loans receivable. During the years ended December 31, 2014, 2013 and 2012, no customer accounted for more than 10% of net revenues. During the years ended December 31, 2014, 2013 and 2012, we earned approximately 29%, 32% and 33% of revenue from customers on eBay's Marketplaces platform.

Revenue recognition

We earn net revenues primarily from fees charged to customers on the volume of activity processed through our Payments Platform. Net transaction revenues resulting from a payment processing transaction are recognized once the transaction is complete. Based on historical experience, specified credits are made at the time revenue is recognized and recorded as a reduction to revenue. In certain circumstances, we are required to record payments to a customer as a reduction to revenue. These payments to customers primarily originate from certain customer acquisition arrangements. Net revenues include intercompany revenue earned from eBay for payment processing services.

We also earn net revenues from other value added services, including interest and fees earned on the PayPal Credit portfolio of loans receivable, subscription fees, revenue share we earn through partnerships and other services that we provide to our consumers and merchants.

Interest and fees earned on the PayPal Credit portfolio of loans receivable are computed and recognized based on contractual interest and fee rates, and are net of any required reserves and amortization of deferred origination costs.

Net revenues earned from other value added services are recognized over the period services are performed and when amounts are deemed to be fixed or determinable.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)***Advertising expense*

We expense the cost of producing advertisements at the time production occurs and expense the cost of communicating advertisements in the period during which the advertising space or airtime is used as sales and marketing expense. Internet advertising expenses are recognized based on the terms of the individual agreements, which is generally over the greater of the ratio of the number of impressions delivered over the total number of contracted impressions, on a pay-per-click basis, or on a straight-line basis over the term of the contract. Advertising expense totaled \$272 million, \$176 million and \$193 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Internal use software and website development costs

Direct costs incurred to develop software for internal use and website development costs are capitalized and amortized over an estimated useful life of one to three years and are recorded as depreciation and amortization. PayPal capitalized \$200 million and \$146 million of internally developed software and website development costs for the years ended December 31, 2014 and 2013, respectively. Amortization expense of previously capitalized amounts was \$129 million, \$97 million and \$91 million for the years ended December 31, 2014, 2013 and 2012, respectively. Costs related to the maintenance of internal use software and website development costs are expensed as incurred.

Defined contribution savings plans

We have a defined contribution savings plan in the U.S. which qualifies under Section 401(k) of the Internal Revenue Code (the “Code”). Our non U.S. employees are covered by other savings plans. Expenses related to our defined contribution savings plans are recorded when services are rendered by our employees.

Stock-based compensation

Our employees are eligible to participate in eBay’s equity incentive plans. eBay issues two types of stock-based awards to our employees: restricted stock units (including performance-based restricted stock units) and stock options. eBay primarily issues restricted stock units. We determine compensation expense associated with restricted stock units based on the fair value of eBay’s common stock on the date of grant. We determine compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes valuation model. We generally recognize compensation expense using a straight-line amortization method over the respective vesting period for awards that are ultimately expected to vest. Accordingly, stock-based compensation expense for 2014, 2013 and 2012 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behavior of our employees as well as trends of actual option forfeitures.

Foreign currency

Most of our foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. dollars using daily exchange rates. Gains and losses resulting from the translation of our combined balance sheet are recorded as a component of accumulated other comprehensive income.

Gains and losses from foreign currency transactions are recognized as other income (expense), net.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)***Income taxes*

We account for income taxes using an asset and liability approach which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. If necessary, the measurement of deferred tax assets is reduced by the amount of any tax benefits that are not expected to be realized based on available evidence. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Recent Accounting Pronouncements

In 2013, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance clarifying the accounting for the release of a cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The adoption of this guidance did not have a material impact on our financial statements.

In 2013, the FASB issued new accounting guidance clarifying the accounting for obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. The new standard was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The adoption of this guidance did not have a material impact on our financial statements.

In 2013, the FASB issued new accounting guidance requiring the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the combined balance sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard required adoption on a prospective basis in the first quarter of 2014. The adoption of this guidance did not have a material impact on our financial statements.

In 2014, the FASB issued new guidance related to pushdown accounting. The new guidance provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments are effective on November 18, 2014. We adopted this guidance, as required, on November 18, 2014. The adoption of this guidance did not have a material impact on our financial statements.

In 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. 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. This guidance will be effective beginning January 1, 2017 and can be applied either retrospectively to each period presented or as 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.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)****Note 2—Business Combinations****2014 Acquisition and Divestiture Activity**

There were no acquisitions or divestitures completed in 2014.

2013 Acquisition and Divestiture Activity

In 2013, we completed three acquisitions, including:

Braintree

We completed the acquisition of Braintree on December 19, 2013. We acquired Braintree to accelerate PayPal's growth in mobile payments for total consideration of approximately \$713 million, consisting primarily of cash. The allocation of purchase consideration resulted in approximately \$126 million of intangible assets, net liabilities of approximately \$16 million, and initial goodwill of \$590 million, which was adjusted by \$13 million in 2014. We do not expect goodwill to be deductible for income tax purposes.

We have included the financial results of Braintree in our combined financial statements from the date of acquisition. Revenues and expenses related to Braintree for the period ending December 31, 2013 were not material.

Other

We completed two other acquisitions during 2013 for aggregate purchase consideration of approximately \$16 million, consisting primarily of cash. The allocation of the purchase consideration resulted in net liabilities of approximately \$1 million, purchased intangible assets of approximately \$5 million and goodwill of approximately \$12 million. The combined financial statements include the operating results of the acquired businesses since the respective dates of the acquisitions. Pro forma results of operations have not been presented because the effect of the acquisitions was not material to our financial results.

2012 Acquisition and Divestiture Activity

In 2012, we completed one acquisition for purchase consideration of approximately \$10 million, consisting primarily of cash. The allocation of the purchase consideration resulted in net liabilities of approximately \$1 million, purchased intangible assets of \$3 million and goodwill of \$8 million. The combined financial statements include the operating results of the acquisition from the date of acquisition. Pro forma results of operations have not been presented because the effect of this acquisition was not material to our combined results of operations.

Note 3—Goodwill and Intangible Assets**Goodwill**

The following table presents goodwill balances and adjustments to those balances for the years ended December 31, 2014 and 2013:

	<u>December 31, 2012</u>	<u>Goodwill Acquired</u>	<u>Adjustments/ Allocations</u>	<u>December 31, 2013 (In millions)</u>	<u>Goodwill Acquired</u>	<u>Adjustments/ Allocations</u>	<u>December 31, 2014</u>
Total Goodwill	\$ 2,585	\$ 602	\$ —	\$ 3,187	\$ —	\$ 2	\$ 3,189

The goodwill acquired in 2013 was due primarily to the acquisition of Braintree.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

The components of identifiable intangible assets are as follows:

	December 31, 2014				December 31, 2013			
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Weighted Average Useful Life (Years)</u> (In millions, except years)	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Weighted Average Useful Life (Years)</u>
Intangible assets:								
Customer lists and user base	\$ 520	\$ (477)	\$ 43	6	\$ 520	\$ (460)	\$ 60	6
Marketing related	181	(117)	64	5	208	(83)	125	6
Developed technologies	167	(153)	14	3	169	(136)	33	3
All other	105	(70)	35	4	101	(61)	40	4
Intangible assets, net	<u>\$ 973</u>	<u>\$ (817)</u>	<u>\$ 156</u>		<u>\$ 998</u>	<u>\$ (740)</u>	<u>\$ 258</u>	

All identifiable intangible assets are subject to amortization and no significant residual value is estimated for the intangible assets. Amortization expense for intangible assets was \$84 million, \$70 million and \$67 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Expected future intangible asset amortization as of December 31, 2014 is as follows (in millions):

Fiscal years:	
2015	\$ 70
2016	57
2017	13
2018	13
2019	3
Thereafter:	<u>—</u>
	<u>\$156</u>

Note 4—Investments

At December 31, 2014 and 2013, the estimated fair value of our short-term and long-term investments classified as available for sale, are as follows:

	December 31, 2014			
	<u>Gross Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(In millions)			
Short-term investments:				
Time Deposits	\$ 29	\$ —	\$ —	\$ 29

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

	December 31, 2013			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Short-term investments:				
Corporate debt securities	\$ 321	\$ —	\$ —	\$ 321
Long-term investments:				
Corporate debt securities	\$ 50	—	\$ —	\$ 50

We had no material short-term and long-term investments that have been in a continuous unrealized loss position for greater than 12 months as of December 31, 2014 and 2013. Amounts reclassified to earnings from unrealized gains and losses were not material in 2014 and 2013.

Equity and Cost Method Investments

We have made multiple equity and cost method investments which are reported in long-term investments on our combined balance sheet. As of December 31, 2014 and 2013, our equity and cost method investments totaled \$31 million and \$146 million, respectively. During 2014, we entered an agreement to dissolve a joint venture. As a result of the termination, we recorded an other-than-temporary impairment loss in our investment in the joint venture. Further, as part of the termination agreement, our obligation to contribute a portion of our business was terminated. This termination resulted in a reduction of our recognized liability related to this obligation. The impact of impairing our investment and de-recognizing the corresponding obligation to the joint venture was recorded as other income and expense and was not material to our results.

Note 5—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 December 31, 2014 and 2013:

Description	Balances at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents	\$ 2,201	\$ 2,201	\$ —
Short-term investments:			
Time deposits	29	—	29
Total short-term investments	29	—	29
Funds receivable and customer accounts	4,161	—	4,161
Derivatives	135	—	135
Total financial assets	\$ 6,526	\$ 2,201	\$ 4,325
Liabilities:			
Derivatives	\$ 7	\$ —	\$ 7

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Description	Balances at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)
Assets:			
Cash and cash equivalents	\$ 1,604	\$ 1,594	\$ 10
Short-term investments:			
Corporate debt securities	321	—	321
Total short-term investments	321	—	321
Funds receivable and customer accounts	3,587	—	3,587
Derivatives	28	—	28
Long-term investments:			
Corporate debt securities	50	—	50
Total long-term investments	50	—	50
Total financial assets	\$ 5,590	\$ 1,594	\$ 3,996
Liabilities:			
Derivatives	\$ 120	\$ —	\$ 120

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. The 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 equity prices, interest rate yield curves, option volatility and currency rates. 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 2014 or 2013. As of December 31, 2014 and 2013 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 or remaining maturities of three months or less when purchased and are comprised primarily of bank deposits and commercial paper. We had total funds receivable and customer accounts of \$10.6 billion and \$9.3 billion as of December 31, 2014 and 2013, respectively, of which \$4.2 billion and \$3.6 billion, respectively, was invested primarily in short-term investments. We elect to account for certain customer accounts, including foreign-currency denominated available-for-sale investments, under the fair value option. Election of the fair value option allows us to significantly reduce the accounting asymmetry that would otherwise arise when recognizing foreign exchange gains and losses relating to available-for-sale investments and the corresponding customer liabilities.

Our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility, and currency rates. Our derivative instruments are primarily short-term in nature, and are one month to eighteen months in duration. We did not have any transfers of financial instruments between valuation levels during 2014 or 2013.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Note 6—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 use foreign currency exchange contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues, expenses, assets and liabilities 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 not adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. For derivative instruments that are designated as cash flow hedges, 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. We do not use any foreign exchange contracts for trading 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. As of December 31, 2014, we estimated that \$113 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.

Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments as of December 31, 2014 and 2013 was as follows:

		December 31,	December 31,
	<u>Balance Sheet Location</u>	<u>2014</u>	<u>2013</u>
(In millions)			
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	\$ 128	\$ 15
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	7	13
Total derivative assets		\$ 135	\$ 28
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	\$ 2	\$ 106
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	5	14
Total derivative liabilities		\$ 7	\$ 120
Total fair value of derivative instruments		\$ 128	\$ (92)

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

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 December 31, 2014, the potential effect of rights of set-off associated with the above foreign exchange contracts would be an offset to both assets and liabilities by \$6 million, resulting in net derivative assets of \$129 million and net derivative liabilities of \$1 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 tables summarize the activity of derivative contracts that qualify for hedge accounting as of December 31, 2014 and 2013, and the impact of designated derivative instruments on accumulated other comprehensive income for the years ended December 31, 2014 and 2013:

	December 31, 2013	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income to net revenue (effective portion)	December 31, 2014
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	\$ (91)	181	(36)	\$ 126
	December 31, 2012	Amount of gain (loss) recognized in other comprehensive income (effective portion)	Amount of gain (loss) reclassified from accumulated other comprehensive income to net revenue (effective portion)	December 31, 2013
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	\$ (46)	(49)	(4)	\$ (91)

Effect of Derivative Contracts on Combined Statements of Income

The following table provides the location in the financial statements of the recognized gains or losses related to our derivative instruments:

	Year Ended December 31,		
	2014	2013	2012
		(In millions)	
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	\$ (36)	\$ (4)	\$ 44
Foreign exchange contracts not designated as cash flow hedges recognized in other income (expense), net	(2)	3	2
Total gain (loss) recognized from derivative contracts in the combined statement of income	\$ (38)	\$ (1)	\$ 46

Notional Amounts of Derivative Contracts

Derivative transactions are measured in terms of the notional amount, but 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

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

instruments. The notional amount is generally not exchanged, but is used only as the 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:

	December 31,	
	2014	2013
	(In millions)	
Foreign exchange contracts designated as cash flow hedges	\$1,598	\$1,963
Foreign exchange contracts not designated as hedging instruments	642	933
Total	\$2,240	\$2,896

Note 7—Property and Equipment, Net

	As of December 31,	
	2014	2013
	(In millions)	
Property and equipment, net:		
Computer equipment, software & website development costs	\$ 2,278	\$ 1,920
Land and buildings, including building improvements	162	162
Leasehold improvements	186	166
Furniture and fixtures	72	63
Development in progress and other	164	92
	<u>2,862</u>	<u>2,403</u>
Accumulated depreciation	<u>(1,940)</u>	<u>(1,545)</u>
	\$ 922	\$ 858

Depreciation expense was \$432 million in 2014, \$383 million in 2013 and \$315 million in 2012.

Note 8—Loans and Interest Receivable, Net

Loans and interest receivable primarily represent consumer receivables originated under PayPal Credit consumer accounts. The majority of the loans on these accounts are originated by a partner chartered financial institutions in the U.S. and are made to individual consumers in the U.S. using PayPal Credit as a payment method. In the United Kingdom, the loans on PayPal Credit consumer accounts are currently originated by our Luxembourg bank subsidiary. Although a partner chartered financial institution continues to own each PayPal Credit consumer account in the U.S., we own the related consumer receivable and are responsible for all servicing functions related to the customer accounts. In August 2013, ownership of substantially all of the existing customer accounts in the U.S. was transitioned from one partner chartered financial institution to a new partner chartered financial institution. As of Q4 2014, this new partner financial institution owns all of the existing PayPal Credit consumer accounts in the U.S. As part of the arrangement with this new chartered financial institution, we sell a participation interest in the entire pool of consumer receivables outstanding associated with the PayPal Credit consumer accounts to this partner financial institution. We do not sell a participating interest in loans on international PayPal Credit consumer accounts issued directly by our Luxembourg bank subsidiary.

During 2014 and 2013, we purchased approximately \$5.3 billion and \$4.1 billion, respectively, in consumer receivables. As of December 31, 2014 and 2013, the total outstanding balance of this pool of consumer

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

receivables was \$3.7 billion, and \$2.9 billion, respectively, of which we sold a participation interest to the new chartered financial institution of \$163 million or 4.4% and \$65 million or 2.2%, respectively. The chartered financial institution has no recourse related to its participation interest for failure of debtors to pay when due. The participation interest held by the chartered financial institution has the same priority to the interests held by us and is subject to the same credit, prepayment, and interest rate risk associated with this pool of consumer receivables.

Loans and interest receivable are reported at their outstanding principal balances, net of participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. We use a consumer's FICO score, among other measures, in evaluating the credit quality of our 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 generally are obtained each quarter the consumer has an outstanding consumer receivable owned by PayPal Credit. The weighted average consumer FICO score related to our loans and interest receivable balance outstanding at December 31, 2014 was 687 compared to 688 at December 31, 2013.

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

	As of December 31,	
	2014	2013
	(In millions)	
> 760	\$ 553	\$ 454
680-759	1,439	1,139
600-679	1,344	1,057
< 599	341	265
Total	\$ 3,677	\$ 2,915

The following tables presents the delinquency status of the principal amount of loans and interest receivable:

<u>December 31, 2014</u>						<u>Recorded Investment > 90 Days and Accruing</u>
<u>(In millions)</u>						
<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90-180 Days Past Due</u>	<u>Total Past Due</u>	<u>Total Financing Receivables</u>	
3,303	163	62	149	374	3,677	149

<u>December 31, 2013</u>						<u>Recorded Investment > 90 Days and Accruing</u>
(In millions)						
<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90-180 Days Past Due</u>	<u>Total Past Due</u>	<u>Total Principal Loan Receivable</u>	
2,612	143	47	113	303	2,915	113

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the activity in the allowance for loans and interest receivable:

	<u>2014</u>	<u>2013</u>
	<u>(In millions)</u>	
Balance as of January 1	\$ 146	\$ 101
Charge-offs	(297)	(232)
Recoveries	28	14
Provisions	318	263
Balance as of December 31	<u>\$ 195</u>	<u>\$ 146</u>

During 2013, we launched a program working with a chartered financial institution to offer working capital advances to select merchant sellers in the U.S. We subsequently purchase the related merchant receivable from the chartered financial institution. Under the program, participating merchants can borrow a certain percentage of their annual payment volume processed by PayPal and are charged a fixed fee for the loan. In 2014, we have extended this program to a limited number of international markets whereby we grant working capital advances to merchants directly through our Luxembourg bank subsidiary or through other PayPal affiliates. The total net receivable outstanding as of December 31, 2014 and 2013 was approximately \$99 million and \$17 million, respectively.

Note 9—Segment and Geographical Information

We determine operating segments based on how our chief operating decision maker manages the business, including making operating decisions, deciding how to allocate resources and evaluating operating performance. Our chief operating decision-maker is our Chief Executive Officer who reviews our operating results on a consolidated basis. We operate in one segment and have one reportable segment.

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

	<u>Year Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>(In millions)</u>		
Net revenues:			
U.S.	\$3,877	\$3,240	\$2,763
United Kingdom	1,155	949	789
Rest of world	2,993	2,538	2,110
Total net revenues	<u>\$8,025</u>	<u>\$6,727</u>	<u>\$5,662</u>

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
	<u>(In millions)</u>	
Long-lived assets:		
U.S.	\$3,784	\$3,820
International	401	380
Total long-lived assets	<u>\$4,185</u>	<u>\$4,200</u>

Net revenues are attributed to U.S. and international geographies primarily based upon the country in which the merchant is located, or in the case of a cross border transaction, may be earned from both countries in which the

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

consumer and merchant each reside. Net revenues earned from value added services are typically attributed to the country in which either the consumer or the merchant reside. Long-lived assets attributed to the U.S. and international geographies are based upon the country in which the asset is located or owned.

Information regarding net revenues by major products and services for 2014, 2013 and 2012, is as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In millions)		
Transaction revenues	\$7,107	\$5,992	\$5,028
Other value added services:	918	735	634
Total net revenues	<u>\$8,025</u>	<u>\$6,727</u>	<u>\$5,662</u>

Note 10—Commitments and Contingencies

Commitments

As of December 31, 2014, approximately \$20.2 billion 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 institutions that are the issuer of PayPal Credit products based on, among other things, account usage and customer creditworthiness.

In June 2014, we agreed, subject to certain conditions, that we, one of our affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value of the consumer loan receivables portfolio at the time of the purchase (expected to be fourth quarter of 2016), subject to certain adjustments and exclusions. As of December 31, 2014, Synchrony had a net receivables portfolio under the credit program agreement of approximately \$1.5 billion.

Lease Arrangements

We have lease obligations under certain noncancelable operating leases. Future minimum rental payments under noncancelable operating leases at December 31, 2014, are as follows:

	Operating Leases (In millions)
2015	\$ 33
2016	31
2017	28
2018	26
2019	17
Thereafter	24
Total minimum lease payments	<u>\$ 159</u>

Rent expense for the years ended December 31, 2014, 2013 and 2012 totaled \$43 million, \$44 million and \$39 million, respectively. The future minimum lease payments include the minimum commitments for facilities occupied by PayPal.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

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 10, we are unable to estimate the possible loss or range of losses that could potentially result from the application of such non-monetary remedies.

Amounts accrued for legal and regulatory proceedings for which we believe a loss is probable were not material for the year ended December 31, 2014. Except as otherwise noted for the proceedings described in this Note 10, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

Regulatory Proceedings

We routinely report to the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") on payments we have rejected or blocked pursuant to OFAC sanctions regulations and on any possible violations of those regulations. We have cooperated with OFAC in recent years regarding our review process over transaction monitoring and have self-reported a large number of small dollar amount transactions that could possibly be in violation of OFAC sanctions regulations. Beginning in September 2014, we have engaged in settlement discussions with OFAC regarding the possible violations arising from our practices between 2009 and 2013 as a result of which we have accrued reserves we believe are adequate to cover any findings of violation. In addition, we continue to cooperate with OFAC regarding more recent self-reported transactions that could also possibly be in violation of OFAC sanctions regulations. Such self-reported transactions could result in claims or actions against us including litigation, injunctions, damage awards or require us to change our business practices 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 August 7, 2013 and January 13, 2014, eBay, PayPal and certain wholly owned subsidiaries of PayPal received Civil Investigative Demands ("CIDs") from the Consumer Financial Protection Bureau ("CFPB") requesting that we provide testimony, produce documents and provide information relating primarily to the acquisition, management, and operation of our PayPal Credit products, including online credit products and services, advertising, loan origination, customer acquisition, servicing, debt collection, and complaints handling

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)**

practices. The CIDs could lead to an enforcement action and/or one or more significant consent orders, which may result in substantial costs, including legal fees, fines, penalties and remediation expenses. We are cooperating with the CFPB in connection with the CIDs and exploring whether we may be able to resolve these inquiries. Resolution of these inquiries could require us to make monetary payments to certain customers, pay fines and/or change the manner in which we operate the PayPal Credit products, which could adversely affect our financial results and results of operations.

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 recent 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.

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, damage awards (including statutory damages for certain causes of action in certain jurisdictions), 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

In the ordinary course of business, we include limited indemnification provisions in certain of our agreements with parties with whom we have commercial relations, including our standard marketing, promotions, and application-programming-interface license 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 applicable to our performance under the subject agreement. In a limited number of agreements, we have provided an indemnity for other types of third-party claims, which

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)**

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 provision. To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Off-Balance Sheet Arrangements

As of December 31, 2014 and 2013, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our combined financial condition, results of operations, liquidity, capital expenditures or capital resources.

eBay Inc. has a cash pooling arrangement with a financial institution for cash management purposes. We participate in this arrangement, which allows for cash withdrawals from this financial institution based upon eBay's aggregate operating cash balances within the same financial institution ("Aggregate Cash Deposits"). This arrangement also allows eBay 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 is used by the financial institution as a basis for calculating eBay's net interest expense or income. As of December 31, 2014, we had \$1.6 billion relating to cash held in this pooling arrangement.

Note 11—Related Party Transactions

In August 2009, we entered into a two-way Cash Management and Zero Balance Cash Sharing Agreement ("Cash Sharing Agreement") with eBay in which our excess U.S. funds are swept to eBay on a daily basis. The main purpose of the Cash Sharing Agreement is to implement a centralized cash management structure to effectively manage U.S. Dollar cash, to leverage administrative efficiencies, and to centralize the investment/borrowing of cash and settlement of payables and receivables at the eBay level. Since the Cash Sharing Agreement is two-way, we can receive funds back from eBay as needed. The rate earned on funds lent to eBay is the average daily LIBOR USD 1-month rate plus 20 basis points. The balance due from eBay and reported in notes and receivable from affiliates in our combined balance sheet was \$559 million and \$178 million at December 31, 2014 and 2013, respectively. Interest income earned on the arrangement was reported in other income (expense), net but was not material in any period presented.

In November 2008, we entered into an intercompany loan agreement with eBay in which the acquisition of receivables related to PayPal Credit accounts are funded through eBay's existing financing arrangements at an interest rate of 1.2% and 1.4% for December 31, 2014 and 2013, respectively. At December 31, 2014 and December 31, 2013, the loan balance included in notes and payable to affiliates in our combined balance sheet was \$809 million and \$850 million, respectively. The interest expense incurred during the year ended December 31, 2014, 2013 and 2012 was \$11 million, \$11 million and \$9 million respectively.

In May 2012, we entered into an intercompany loan agreement with eBay whereby we loaned eBay \$36 million at an interest rate of 0.6% per annum during the term of the loan. The loan was repaid on September, 2014. Interest income earned on the arrangement was reported in other income (expense), net but was not material in any period presented.

In September 2014, we entered into an intercompany loan agreement with eBay whereby we borrowed 130 million Brazilian Real for one year at an interest rate of 11% plus spread 0.5% per annum during the term of the loan. The loan is used to fund our installment payments product in Brazil. At December 31, 2014 the loan

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

balance included in notes and payable to affiliates in our combined balance sheet was \$56 million. The interest expense incurred during the year ended December 31, 2014 was \$2 million and is included in other income (expense), net.

In September 2014, we entered into an intercompany loan agreement with eBay whereby we borrowed \$10 million from eBay for 6 months at an interest rate of 1.2% per annum. The loan is included in notes and payable to affiliates on our combined balance sheet in 2014. Interest income earned on the arrangement was reported in other income (expense), net but was not material in any period presented.

In October 2014, we entered into an intercompany loan agreement with eBay whereby we loaned eBay 580 million Indian Rupee for 6 months at an interest rate of 9.4% per annum. The balance due from eBay and reported in notes and receivable from affiliates in our combined balance sheet was \$9 million at December 31, 2014. Interest income earned on the arrangement was reported in other income (expense), net but was not material in the periods presented.

In December 2014, we entered into an intercompany loan agreement with eBay whereby we loaned eBay 500 million Indian Rupee for 6 months at an interest rate of 9.0% per annum. The balance due from eBay and reported in notes and receivable from affiliates in our combined balance sheet was \$8 million at December 31, 2014. Interest income earned on the arrangement was reported in other income (expense) but was not material during the periods presented.

All other 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. There were no other material related party transactions in the periods presented. As of December 31, 2014, there were no other material amounts payable to or amounts receivable from related parties. Post separation, we will no longer participate in cash management and intercompany funding arrangements with eBay.

Net revenues include \$113 million, \$92 million and \$84 million earned from eBay and its subsidiaries for the years ended December 31, 2014, 2013 and 2012, respectively.

We recover costs from eBay relating to customer protection programs offered on qualifying eBay purchases made with PayPal. These costs include the actual transaction losses associated with customer filed claims as well as an allocation of salary related expenses for customer support teams working on customer claims and disputes related to on eBay purchases. Recoveries associated with transaction losses incurred on eligible eBay purchases during the years ended December 31, 2014, 2013 and 2012 were \$43 million, \$48 million and \$36 million, respectively, which were recorded as a reduction to transaction and loan loss. Other costs recovered from eBay related to the customer protection program for the years ended December 31, 2014, 2013 and 2012, were \$22 million, \$19 million and \$17 million, respectively, and are included as a reduction to customer support and operations and general and administrative expenses in our combined statement of income.

We incur user acquisition fees from eBay on payment volume which we process from purchases made on eBay's platform. User acquisition fees for the years ended December 31, 2014, 2013 and 2012, were \$119 million, \$109 million, and \$95 million, respectively, and are included within sales and marketing.

These combined financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and, additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. The expenses that have been allocated to us by eBay are based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The corporate costs and allocation of expenses to us from eBay included within customer support and operations, sales and marketing, product development, and general and administrative expenses were \$443 million, \$410 million and \$372 million for the years ended December 31, 2014, 2013 and 2012, respectively, of which \$207 million, \$183 million and \$168 million were included in general and administrative expenses.

Note 12—Stock-Based and Employee Savings Plans

Equity Incentive Plans

eBay has equity incentive plans under which it grants equity awards, including stock options, restricted stock units, performance-based restricted stock units and performance share units, to our directors, officers and employees. At December 31, 2014, eBay had 720 million shares authorized under its equity incentive plans and 52 million shares were available for future grant.

Stock options granted under these plans generally vest 12.5% six months from the date of grant (or 25% one year from the date of grant for grants to new employees) with the remainder vesting at a rate of 2.08% per month thereafter, and generally expire seven to ten years from the date of grant. The cost of stock options is determined using the Black-Scholes option pricing model on the date of grant.

Restricted stock units granted under eBay's equity incentive plans generally vest in equal annual installments over a period of three to five years, are subject to the employees' continuing service to us and do not have an expiration date. The cost of restricted stock units is determined using the fair value of eBay's common stock on the grant date.

Certain of our executives are eligible to receive performance-based restricted stock units. The number of restricted stock units ultimately received depends on eBay's business performance against specified performance targets set by the Compensation Committee. If the performance criteria are satisfied, the performance-based restricted stock units are granted, with one-half of the grant vesting in March following the end of the performance period and the remaining one-half vesting one year later.

Employee Stock Purchase Plan

Prior to the distribution, eligible employees may participate in eBay's employee stock purchase plan. Under this plan, shares of eBay common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last day of the six-month purchase period. Employees may purchase shares having a value not exceeding 10% of their gross compensation during an offering period but not more than the statutory limitation of \$25,000 per year. The total shares of eBay common stock purchased for the years ended December 31, 2014, 2013, 2012 our employees purchased were approximately 1.5 million shares of eBay common stock at an average purchase price of \$42.16, 1.7 million shares at an average price of \$35.29, and 1.8 million shares at an average price of \$25.88, respectively.

Employee Saving Plans

eBay has a savings plan, which qualifies under Section 401(k) of the Code. Participating employees may contribute up to 50% of their eligible compensation, but not more than statutory limits. In 2014, 2013 and 2012, we contributed one dollar for each dollar a participant contributed, with a maximum contribution of 4% of each

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

employee's salary, subject to a maximum employer contribution of, \$10,400, \$10,200 and \$10,000 respectively, per employee. Our non U.S. employees are covered by other savings plans. For the years ended December 31, 2014, 2013 and 2012, the matching contribution expense was approximately \$37 million, \$35 million and \$31 million, respectively.

Stock Option Activity

The following table summarizes stock option activity of our employees under eBay's equity incentive plans as of and for the year ended December 31, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(In thousands, except per share amounts and years)			
Outstanding at January 1, 2014	4,274	\$ 25.97	—	—
Granted and assumed	592	\$ 54.59	—	—
Exercised	(1,848)	\$ 23.45	—	—
Forfeited/expired/canceled	(609)	\$ 38.42	—	—
Outstanding at December 31, 2014	<u>2,409</u>	\$ 33.33	4.53	\$ 55,055
Expected to vest	2,286	\$ 32.79	4.44	\$ 53,366
Options exercisable	1,332	\$ 29.58	3.35	\$ 35,358

The weighted average grant date fair value of options granted to our employees during the years 2014, 2013 and 2012 was \$13.38, \$14.90 and \$11.09 respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the quoted price of eBay's common stock. During the years 2014, 2013 and 2012, the aggregate intrinsic value of options exercised under equity incentive plans was \$57 million, \$97 million and \$109 million, respectively, determined as of the date of option exercise. At December 31, 2014, 2.4 million options were in-the-money.

Restricted Stock Units Activity and Performance Based Restricted Stock Units Activity

A summary of the status of restricted stock units granted to our employees (including performance-based restricted stock units that have been earned) under eBay's equity incentive plans as of December 31, 2014 and changes during the year ended December 31, 2014 are presented below:

	Units	Weighted Average Grant-Date Fair Value (per share)
	(In thousands, except per share amounts)	
Outstanding at January 1, 2014	12,874	\$ 42.08
Awarded and assumed	9,125	\$ 54.50
Vested	(5,198)	\$ 41.45
Forfeited	(2,085)	\$ 48.24
Outstanding at December 31, 2014	<u>14,716</u>	\$ 51.10
Expected to vest at December 31, 2014	12,644	—

During the years 2014, 2013 and 2012, the aggregate intrinsic value of restricted stock units vested under equity incentive plans was \$292 million, \$303 million and \$242 million, respectively.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Stock-Based Compensation Expense

We are charged by eBay for stock-based compensation expense related to our direct employees. eBay also charges us for the allocated costs of certain employees of eBay (including stock-based compensation) who provide general and administrative services on our behalf. Information included in this note is strictly limited to stock-based compensation associated with employees wholly dedicated to PayPal. See “Note 11—Related Party Transactions” for total costs allocated to us by eBay.

The impact on our results of operations of recording stock-based compensation expense for years ended December 31, 2014, 2013 and 2012 was as follows:

	Year Ended December 31,		
	2014	2013 (In millions)	2012
Customer support and operations	\$ 63	\$ 74	\$ 49
Sales and marketing	55	46	43
Product development	109	87	60
General and administrative	55	27	38
Total stock-based compensation expense	<u>\$ 282</u>	<u>\$ 234</u>	<u>\$ 190</u>

As of December 31, 2014, there was approximately \$511 million of unearned stock-based compensation estimated to be expensed from 2015 through 2018. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase or cancel all or a portion of the remaining unearned stock-based compensation expense. Future unearned stock-based compensation will increase to the extent we grant additional equity awards, change the mix of grants between stock options and restricted stock units or assume unvested equity awards in connection with acquisitions. Total stock-based compensation costs included in capitalized software costs was \$10 million, \$10 million, and \$12 million, respectively, for the years ended December 31, 2014, 2013, and 2012.

Stock Option Valuation Assumptions

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,		
	2014	2013	2012
Risk-free interest rate	1.2%	0.6%	0.7%
Expected life (in years)	4.1	4.1	4.0
Dividend yield	— %	— %	— %
Expected volatility	29%	34%	38%

Our computation of expected volatility was based on a combination of historical and market-based implied volatility from traded options on eBay’s stock. The computation of expected life was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules, and expectations of future employee behavior. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Note 13—Income Taxes

We are a member of the eBay consolidated group and our U.S. taxable income is included in the consolidated U.S. federal income tax return of eBay as well as in returns filed by eBay with certain state and local taxing jurisdictions. Our foreign income tax returns are filed on a separate company basis. Our income tax liability has been computed and presented herein under the “separate return method,” as if we were a separate tax paying entity, as modified by the benefits-for-loss approach. Accordingly, the operating losses and other tax attributes are characterized as utilized when those attributes have been utilized by other members of the eBay consolidated group; however, the benefits-for-loss approach does not impact our tax expense. Federal and state income taxes incurred are remitted to eBay pursuant to a tax sharing agreement between the companies.

The components of pretax income (loss) are as follows (in millions):

	Year Ended December 31,		
	2014	2013	2012
United States	\$ (111)	\$ 3	\$ 12
International	1,372	1,081	879
	<u>\$ 1,261</u>	<u>\$ 1,084</u>	<u>\$ 891</u>

The provision for income taxes is composed of the following (in millions):

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ 90	\$ 45	\$ 23
State and local	13	2	—
Foreign	59	30	44
	<u>\$ 162</u>	<u>\$ 77</u>	<u>\$ 67</u>
Deferred:			
Federal	\$ 699	\$ 72	\$ 45
State and local	(3)	(3)	2
Foreign	(16)	(17)	(1)
	<u>680</u>	<u>52</u>	<u>46</u>
	<u>\$ 842</u>	<u>\$ 129</u>	<u>\$ 113</u>

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The difference between the actual provision for income taxes and the provision computed by applying the federal statutory rate of 35% to income before income taxes is primarily the result of foreign income taxed at different rates and the accrual of U.S. income tax on undistributed foreign profits previously reinvested indefinitely. The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the federal statutory rate.

	Year Ended December 31,		
	2014	2013	2012
Provision computed at federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.8%	(0.1)%	0.3%
Foreign income taxed at different rates	(22.2)%	(22.6)%	(23.1)%
Prior year foreign earnings no longer considered indefinitely reinvested	50.8%	— %	— %
Stock based compensation	1.5%	1.1%	(0.4)%
Tax credits	(0.8)%	(1.3)%	0.1%
Change in valuation allowances	— %	(0.3)%	— %
Other	1.7%	0.1%	0.8%
Effective income tax rate	<u>66.8%</u>	<u>11.9%</u>	<u>12.7%</u>

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant deferred tax assets and liabilities consist of the following (in millions):

	December 31,	
	2014	2013
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 42	\$ 76
Accruals and allowances	138	102
Stock-based compensation	60	45
Net unrealized (gains) losses	8	3
Total deferred tax assets	248	226
Valuation allowance	(8)	(8)
Net deferred tax assets	<u>\$ 240</u>	<u>\$ 218</u>
Deferred tax liabilities:		
Unremitted foreign earnings	\$ (886)	\$ (143)
Fixed assets and other intangibles	(141)	(129)
Acquired intangibles	(53)	(94)
Net unrealized losses (gains)	(1)	(5)
Total deferred tax liabilities	(1,081)	(371)
Net deferred tax assets (liabilities)	<u>\$ (841)</u>	<u>\$ (153)</u>

As of December 31, 2014 and 2013, current deferred tax assets of \$2 million and \$24 million, respectively, are included as a component of other current assets in our combined balance sheet. As of December 31, 2014 and 2013, long-term deferred tax assets of \$10 million and \$7 million, respectively, are included as a component of other assets.

PayPal**NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)**

As of December 31, 2014, a current deferred tax liability of \$708 million is included as a component of accrued expenses and other current liabilities. As of December 31, 2014 and 2013, long-term deferred tax liabilities of \$145 million and \$184 million, respectively, are included as a component of long-term liabilities on our combined balance sheet. The current and long-term deferred tax assets and current and long-term deferred tax liabilities were not netted since these items relate to different tax jurisdictions.

As of December 31, 2014, our federal, state and foreign net operating loss carryforwards for income tax purposes were approximately \$18 million, \$251 million, and \$33 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Code. If not utilized, the federal net operating loss carryforwards will begin to expire in 2018, and the state net operating loss carryforwards will begin to expire in 2015. As of December 31, 2014, our federal and state tax credit carryforwards for income tax purposes were approximately \$1 million and \$26 million, respectively. If not utilized, the federal tax credit carryforwards will begin to expire in 2027, and most of the state tax credits carry forward indefinitely.

At December 31, 2014 and 2013, we maintained a valuation allowance with respect to certain of our deferred tax assets relating primarily to operating losses in certain states that we believe are not likely to be realized.

As of December 31, 2013, we had approximately \$3.4 billion of indefinitely reinvested foreign earnings for which we had not provided U.S. income or applicable foreign withholding taxes. During the first quarter of 2014, we altered our capital allocation strategy, which included changing our intent with regard to the indefinite reinvestment of foreign earnings from certain of our foreign subsidiaries for 2013 and prior years. Accordingly, during the first quarter we determined that a portion of these foreign earnings are no longer considered indefinitely reinvested in our international operations. In connection with this change in our capital allocation strategy during the first quarter of 2014, we provided for U.S. income and applicable foreign withholding taxes on \$1.9 billion of undistributed foreign earnings of certain of our foreign subsidiaries for 2013 and prior years, and recorded a deferred tax liability of approximately \$650 million. The remaining undistributed foreign earnings of approximately \$1.5 billion for 2013 and prior years remains indefinitely reinvested in our international operations.

This change reflected our objective of increasing our available U.S. cash, preserving our credit rating and, providing greater liquidity to meet our other cash needs in the U.S., which may include, among other things and subject to market conditions and other uncertainties, merger and acquisition activity.

We have not provided for U.S. federal income and foreign withholding taxes on \$2.3 billion of our non-U.S. subsidiaries' undistributed earnings as of December 31, 2014, because such earnings are intended to be indefinitely reinvested in our international operations. We do not know the time or manner in which we would repatriate those funds. Because the time or manner of repatriation is uncertain, we cannot determine the impact of local taxes, withholding taxes and foreign tax credits associated with the future repatriation of such earnings and therefore cannot quantify the tax liability. In cases where we intend not to indefinitely reinvest a portion of our foreign subsidiaries' undistributed earnings, we provide U.S. taxes on such earnings and such taxes are included in deferred taxes or tax payable liabilities depending upon the planned timing and manner of such repatriation.

We benefit from tax rulings concluded in several different jurisdictions, most significantly Singapore and Luxembourg. These rulings provide for significantly lower rates of taxation on certain classes of income and require various thresholds of investment and employment in those jurisdictions. We evaluate compliance with our tax ruling agreements annually. These rulings resulted in tax savings of approximately \$217 million, \$211 million and \$139 million in 2014, 2013 and 2012, respectively. These tax rulings are in effect currently and expire over periods ranging from 2020 to 2021.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The following table reflects changes in unrecognized tax benefits since January 1, 2012:

	Year Ended December 31,		
	2014	2013 (In millions)	2012
Gross amounts of unrecognized tax benefits as of the beginning of the period	\$ 134	\$ 148	\$ 129
Increases related to prior period tax positions	7	20	7
Decreases related to prior period tax positions	(2)	(44)	(2)
Increases related to current period tax positions	31	10	14
Settlements	(5)	—	—
Gross amounts of unrecognized tax benefits as of the end of the period	<u>\$ 165</u>	<u>\$ 134</u>	<u>\$ 148</u>

During 2014, we increased our reserves by \$38 million for various issues that related to tax examination risks assessed during the year. In addition, we reduced our reserves by \$7 million based on audit findings and settlement of multiple uncertain tax positions. If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of \$138 million.

During all years presented, we recognized interest and penalties related to uncertain tax positions in income tax expense. In 2014, we recognized interest and penalties of \$10 million in income tax expense. The amount of interest and penalties accrued as of December 31, 2014 and 2013 was approximately \$36 million and \$27 million, respectively.

We are subject to taxation in the U.S. and various states and foreign jurisdictions. We are under examination by certain tax authorities for the 2003 to 2012 tax years. The material jurisdictions in which we are subject to examination by tax authorities for tax years after 2002 primarily include the U.S. (Federal and California), UK, Canada, France, India, Singapore and Israel. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations.

Although the timing of the resolution of these audits is uncertain, we do not expect the total amount of the unrecognized tax benefits as of December 31, 2014 will materially change in the next 12 months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

Note 14—Restructuring

In the fourth quarter of 2012, we implemented a global restructuring plan to simplify and streamline our organization and strengthen the overall competitiveness of our existing businesses. The plan included a strategic reduction of our existing global workforce by approximately 300 employees and 300 contractors. In connection with the plan, we incurred aggregate charges of approximately \$19 million as of December 31, 2012, primarily related to severance and benefits. The associated liability was \$9 million as of December 31, 2012 due to payments of and other adjustments (including foreign currency translation) in accrued expenses and other current liabilities on our combined balance sheet. As of December 31, 2013, no liability remained and all restructuring actions under the plan were substantially complete. In 2014 and 2013, restructuring charges were not material and are recorded in general and administrative expenses on the combined statement of income.

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Note 15—Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income for the year ended December 31, 2014:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation (In millions)	Estimated tax (expense) benefit	Total
Beginning balance	\$ (91)	\$ 26	\$ 4	\$(61)
Other comprehensive income before reclassifications	181	(42)	(4)	135
Amount of gain (loss) reclassified from accumulated other comprehensive income	(36)	—	—	(36)
Net current period other comprehensive income	217	(42)	(4)	171
Ending balance	<u>\$ 126</u>	<u>\$ (16)</u>	<u>\$ —</u>	<u>\$110</u>

The following table summarizes the changes in accumulated balances of other comprehensive income for the year ended December 31, 2013:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation (In millions)	Estimated tax (expense) benefit	Total
Beginning balance	\$ (46)	\$ 15	\$ 2	\$(29)
Other comprehensive income before reclassifications	(49)	11	2	(36)
Amount of gain (loss) reclassified from accumulated other comprehensive income	(4)	—	—	(4)
Net current period other comprehensive income	(45)	11	2	(32)
Ending balance	<u>\$ (91)</u>	<u>\$ 26</u>	<u>\$ 4</u>	<u>\$(61)</u>

The following table provides details about reclassifications out of accumulated other comprehensive income for the year ended December 31, 2014:

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
	2014	2013	
	(In millions)		
Gains (losses) on cash flow hedges—foreign exchange contracts	\$ (36)	\$ (4)	Net revenues
	\$ (36)	\$ (4)	Total, before income taxes
	—	—	Provision for income taxes
	\$ (36)	\$ (4)	Total, net of income taxes
Total reclassifications for the period	<u>\$ (36)</u>	<u>\$ (4)</u>	Total, net of income taxes

PayPal

NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Note 16—Subsequent Events

In January 2015, at a regular meeting of eBay’s Board of Directors (“eBay’s Board”), eBay’s Board approved a plan to implement a strategic reduction of its existing global workforce. As a result, we expect to reduce our workforce globally by approximately 1,000 positions worldwide. The reduction is expected to be substantially completed in the first half of 2015. We expect to incur pre-tax restructuring charges of approximately \$43 million primarily for employee-related costs.

PayPal

FINANCIAL STATEMENT SCHEDULE

The Financial Statement Schedule II—VALUATION AND QUALIFYING ACCOUNTS is filed as part of this information statement.

	<u>Balance at Beginning of Period</u>	<u>Charged/ (Credited) to Net Income</u>	<u>Charges Utilized/ (Write-offs)</u>	<u>Balance at End of Period</u>
	(In millions)			
Allowance for Transaction Losses				
Year Ended December 31, 2012	\$ 110	\$ 248	\$ (251)	\$ 107
Year Ended December 31, 2013	107	323	(293)	137
Year Ended December 31, 2014	\$ 137	\$ 423	\$ (394)	\$ 166
Allowance for Loans and Interest Receivable				
Year Ended December 31, 2012	\$ 59	\$ 170	\$ (128)	\$ 101
Year Ended December 31, 2013	101	263	(218)	146
Year Ended December 31, 2014	\$ 146	\$ 318	\$ (269)	\$ 195

PayPal
CONDENSED COMBINED BALANCE SHEET

	March 31,	December 31,
	2015	2014
	(In millions)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,365	\$ 2,201
Short-term investments	10	29
Accounts receivable, net	53	65
Loans and interest receivable, net	3,566	3,586
Funds receivable and customer accounts	10,945	10,612
Notes and receivable from affiliates	788	694
Other current assets	480	378
Total current assets	18,207	17,565
Long-term investments	31	31
Property and equipment, net	989	922
Goodwill	3,184	3,189
Intangible assets, net	138	156
Other assets	30	54
Total assets	\$ 22,579	\$ 21,917
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 125	\$ 115
Funds payable and amounts due to customers	10,945	10,612
Notes and payable to affiliates	868	1,093
Accrued expenses and other current liabilities	1,565	1,434
Income taxes payable	46	29
Total current liabilities	13,549	13,283
Long-term liabilities	390	386
Total liabilities	13,939	13,669
Commitments and contingencies (Note 8)		
Equity:		
Accumulated other comprehensive income	142	110
Net parent investment	8,498	8,138
Total equity	8,640	8,248
Total liabilities and equity	\$ 22,579	\$ 21,917

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

PayPal
CONDENSED COMBINED STATEMENT OF INCOME

	Three Months Ended March 31,	
	2015	2014
	(In millions) (Unaudited)	
Net revenues	\$ 2,137	\$ 1,874
Operating expenses:		
Transaction expense	575	514
Transaction and loan losses	178	129
Customer support and operations	275	255
Sales and marketing	236	215
Product development	224	198
General and administrative	138	115
Depreciation and amortization	141	130
Restructuring	48	—
Total operating expenses	<u>1,815</u>	<u>1,556</u>
Operating income	322	318
Other income (expense), net	<u>(1)</u>	<u>(6)</u>
Income before income taxes	321	312
Income tax expense	<u>66</u>	<u>694</u>
Net income/(loss)	<u><u>\$ 255</u></u>	<u><u>\$ (382)</u></u>

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

PayPal

CONDENSED COMBINED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2015	2014
	(In millions) (Unaudited)	
Net income	\$ 255	\$ (382)
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation	(33)	—
Unrealized gains (losses) on hedging activities, net	64	10
Tax (expense) benefit on unrealized gains (losses) on hedging activities, net	1	(3)
Other comprehensive income (loss), net of tax	32	7
Comprehensive income	<u>\$ 287</u>	<u>\$ (375)</u>

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

PayPal

CONDENSED COMBINED STATEMENT OF CASH FLOWS

	Three Months Ended March 31,	
	2015	2014
	(In millions) (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 255	\$ (382)
Adjustments:		
Transaction and loan losses	178	129
Depreciation and amortization	141	130
Stock-based compensation	79	68
Deferred income taxes	49	663
Excess tax benefits from stock-based compensation	(8)	(23)
Changes in assets and liabilities:		
Accounts receivable	12	4
Notes and receivable from affiliates, net	(38)	(35)
Other assets	(125)	59
Accounts payable	13	11
Notes payable to affiliates, net	(113)	(89)
Accrued expenses and other current liabilities	59	(101)
Income taxes payable and other tax liabilities	42	(9)
Net cash provided by operating activities	544	425
Cash flows from investing activities:		
Purchases of property and equipment	(194)	(100)
Changes in principal loans receivable, net	(19)	(2)
Purchases of investments	—	(24)
Maturities and sales of investments	15	367
Acquisitions, net of cash acquired	—	(1)
Notes and receivable from affiliates, net	(56)	(64)
Net cash provided by (used in) investing activities	(254)	176
Cash flows from financing activities:		
Excess tax benefits from stock-based compensation	8	23
Net transfers from parent	17	14
Net repayments under financing arrangements	(119)	(43)
Funds receivable and customer accounts, net	(333)	(387)
Funds payable and amounts due to customers, net	333	387
Net cash used in financing activities	(94)	(6)
Effect of exchange rate changes on cash and cash equivalents	(32)	(1)
Net increase in cash and cash equivalents	164	594
Cash and cash equivalents at beginning of period	2,201	1,604
Cash and cash equivalents at end of period	<u>\$ 2,365</u>	<u>\$ 2,198</u>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 7	\$ 5
Cash paid for income taxes	\$ 5	\$ 11

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

PayPal
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Overview and Summary of Significant Accounting Policies

Overview and Organization

We are a leading technology platform company that enables digital and mobile payments on behalf of consumers and merchants worldwide. We put our customers at the center of everything we do. We strive to become the most convenient and trusted way for consumers, merchants, friends and family to move and manage money anywhere in the world, anytime and through any device (e.g. mobile, tablets, personal computers or wearables). We provide safer and simpler ways for businesses of all sizes to accept payments from merchant websites, mobile devices and applications, and at offline retail locations through a wide range of payment solutions across our Payments Platform, including PayPal, PayPal Credit, Venmo and Braintree products.

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, and we are subject to regulations that affect the payments industry in the many countries in which we operate. Changes in or non-compliance with laws and regulations, changes in the interpretation of laws and regulations, and the enactment of new laws and regulations applicable to us could have a material adverse impact on our business, results of operations and financial condition. Therefore, we monitor these areas closely to ensure a compliant system for our customers who depend on us.

PayPal Holdings, Inc. and PayPal, Inc. are presented on a combined basis.

Significant Accounting Policies

Basis of Presentation and Principles of Combination

The accompanying condensed combined financial statements have been prepared on a stand-alone basis and are derived from eBay's consolidated financial statements and records. The condensed combined financial statements reflect PayPal's financial position, results of operations, and cash flows as its business was operated as part of eBay prior to the distribution, in conformity with U.S. generally accepted accounting principles (U.S. GAAP).

These condensed combined financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and, additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. The expenses that have been incurred by eBay are allocated to us based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The condensed combined financial statements also include certain assets and liabilities that have historically been held at the eBay corporate level, but which are specifically identifiable and attributable to us. The condensed combined financial position, results of operations and cash flows of PayPal may not be indicative of our results had we been a separate stand-alone entity during the periods presented, nor are the results stated herein indicative of what the Company's financial position, results of operations and cash flows may be in the future. All intra-company transactions and accounts have been eliminated.

The accompanying condensed financial statements are combined and include the financial statements of PayPal and our wholly and majority-owned subsidiaries. Investments in entities where we hold at least a 20% ownership interest and have the ability to exercise significant influence, but not control, over the investee are accounted for using the equity method of accounting. For such investments, our share of the investees' results of operations is

PayPal**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)**

included in other income (expense), net and our investment balance is included in long-term investments. 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 in our condensed combined statement of income to the extent dividends are received.

These condensed combined financial statements and accompanying notes should be read in conjunction with the audited combined financial statements and accompanying notes for the year ended December 31, 2014.

We have evaluated all subsequent events through June 1, 2015, the date the financial statements were available to be issued.

Use of Estimates

The preparation of combined condensed financial statements in conformity with U.S. 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 combined financial statements and the reported amounts of revenues and expenses, including allocations from eBay, during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for transaction losses, legal contingencies, income taxes, revenue recognition, stock-based compensation, goodwill and the recoverability of intangible assets. We base our estimates on historical experience and on various other assumptions which we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In 2014, the FASB issued new guidance related to pushdown accounting. The new guidance provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The amendments became effective on November 18, 2014. We adopted this guidance, as required, on November 18, 2014. The adoption of this guidance did not have a material impact on our financial statements.

In 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. 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. This guidance will be effective beginning January 1, 2017 and can be applied either retrospectively to each period presented or as 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 2015, the FASB issued new guidance related to extraordinary and unusual items. The new standard eliminates the concept of extraordinary items from GAAP. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The company may apply the standard prospectively or retrospectively to all periods presented. The adoption of this standard is not expected to have a material impact on our financial statements.

In 2015, the FASB issued new guidance related to consolidations. The new guidance amends the guidelines for determining whether certain legal entities should be consolidated and reduces the number of consolidation models. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

In 2015, the FASB issued new guidance related to debt issuance costs. The new guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

In 2015, the FASB issued new guidance related to accounting for fees paid in a cloud computing arrangement. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

Note 2—Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances during the three months ended March 31, 2015:

	December 31, 2014	Goodwill Acquired (In millions)	Adjustments/ Allocations	March 31, 2015
Total Goodwill	\$ 3,189	\$ —	\$ (5)	\$ 3,184

Intangible Assets

The components of identifiable intangible assets are as follows:

	March 31, 2015				December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years) (In millions, except years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
Intangible assets:								
Customer lists and user base	\$ 519	\$ (481)	\$ 38	6	\$ 520	\$ (477)	\$ 43	6
Marketing related	181	(125)	56	5	181	(117)	64	5
Developed technologies	167	(156)	11	3	167	(153)	14	3
All other	106	(73)	33	4	105	(70)	35	4
Intangible assets, net	<u>\$ 973</u>	<u>\$ (835)</u>	<u>\$ 138</u>		<u>\$ 973</u>	<u>\$ (817)</u>	<u>\$ 156</u>	

All identifiable intangible assets are subject to amortization and no significant residual value is estimated for the intangible assets. Amortization expense for intangible assets was \$19 million and \$24 million for the three months ended March 31, 2015 and 2014, respectively.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Expected future intangible asset amortization as of March 31, 2015 is as follows (in millions):

Fiscal years:	
Remaining 2015	\$ 51
2016	59
2017	13
2018	12
2019	3
Thereafter:	—
	<u>\$138</u>

Note 3—Segment and Geographical Information

We determine operating segments based on how our chief operating decision maker manages the business, including making operating decisions, deciding how to allocate resources and evaluating operating performance. Our chief operating decision-maker is our Chief Executive Officer who reviews our operating results on a consolidated basis. We operate in one segment and have one reportable segment.

The following tables summarize the allocation of net revenues based on geography:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Net revenues:		
U.S.	\$ 1,030	\$ 903
United Kingdom	277	270
Rest of world	830	701
Total net revenues	<u>\$ 2,137</u>	<u>\$ 1,874</u>
	March 31, 2015	December 31, 2014
	(In millions)	
Long-lived assets:		
U.S.	\$ 3,884	\$ 3,784
International	410	401
Total long-lived assets	<u>\$ 4,294</u>	<u>\$ 4,185</u>

Net revenues are attributed to U.S. and international geographies primarily based upon the country in which the merchant is located, or in the case of a cross border transaction, may be earned from both countries in which the consumer and merchant reside. Net revenues earned from other value added services are typically attributed to the country in which either the consumer or the merchant reside. Long-lived assets attributed to the U.S. and international geographies are based upon the country in which the asset is located or owned.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Information regarding net revenues by major products and services for March 31, 2015 and 2014 is as follows:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Transaction revenues	\$ 1,914	\$ 1,674
Other value added services	223	200
Total net revenues	<u>\$ 2,137</u>	<u>\$ 1,874</u>

Note 4—Investments

At March 31, 2015 and December 31, 2014, the estimated fair value of our short-term and long-term investments classified as available for sale are as follows:

	March 31, 2015			
	Gross Amortized	Gross Unrealized	Gross Unrealized	Estimated Fair Value
	Cost	Gains	Losses	
	(In millions)			
Short-term investments:				
Time Deposits	\$ 10	\$ —	\$ —	\$ 10
	December 31, 2014			
	Gross Amortized	Gross Unrealized	Gross Unrealized	Estimated Fair Value
	Cost	Gains	Losses	
	(In millions)			
Short-term investments:				
Time Deposits	\$ 29	\$ —	\$ —	\$ 29

We had no material short-term investments that have been in a continuous unrealized loss position for greater than 12 months as of March 31, 2015. Amounts reclassified to earnings from unrealized gains and losses were not material for the three months ended March 31, 2015 and 2014.

Equity and Cost Method Investments

We have made multiple equity and cost method investments which are reported in long-term investments on our combined balance sheet. As of March 31, 2015 and December 31, 2014, our equity and cost method investments totaled \$31 million.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Note 5—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, 2015 and December 31, 2014:

<u>Description</u>	Balances at March 31,	Quoted Prices in Active Markets for	Significant Other Observable Inputs
	<u>2015</u>	<u>Identical Assets (Level 1)</u> (In millions)	<u>(Level 2)</u>
Assets:			
Cash and cash equivalents	\$ 2,365	\$ 2,365	\$ —
Short-term investments:			
Time deposits	10	—	10
Total short-term investments	10	—	10
Funds receivable and customer accounts	3,745	—	3,745
Derivatives	200	—	200
Total financial assets	<u>\$ 6,320</u>	<u>\$ 2,365</u>	<u>\$ 3,955</u>
Liabilities:			
Derivatives	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 9</u>
<u>Description</u>	Balances at	Quoted Prices in Active Markets for	Significant Other Observable Inputs
	<u>December 31, 2014</u>	<u>Identical Assets (Level 1)</u> (In millions)	<u>(Level 2)</u>
Assets:			
Cash and cash equivalents	\$ 2,201	\$ 2,201	\$ —
Short-term investments:			
Corporate debt securities	29	—	29
Total short-term investments	29	—	29
Funds receivable and customer accounts	4,161	—	4,161
Derivatives	135	—	135
Total financial assets	<u>\$ 6,526</u>	<u>\$ 2,201</u>	<u>\$ 4,325</u>
Liabilities:			
Derivatives	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 7</u>

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. The 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 equity prices, interest rate yield curves, option volatility and currency rates. 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

PayPal**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)**

valuation levels during the first three months of 2015. As of March 31, 2015 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 or remaining maturities of three months or less when purchased and are comprised primarily of bank deposits and commercial paper. We had total funds receivable and customer accounts of \$10.9 billion and \$10.6 billion as of March 31, 2015 and December 31, 2014, respectively, of which \$3.7 billion and \$4.2 billion, respectively, was invested primarily in short-term investments.

Our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as equity prices, interest rate yield curves, option volatility, and currency rates. Our derivative instruments are primarily short-term in nature, and are one month to eighteen months in duration. We did not have any transfers of financial instruments between valuation levels during the three months ended March 31, 2015.

Note 6—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 use foreign currency exchange contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues, expenses, assets and liabilities 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 not adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. For derivative instruments that are designated as cash flow hedges, 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. We do not use any foreign exchange contracts for trading 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. As of March 31, 2015, we estimated that \$182 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.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments as of March 31, 2015 and December 31, 2014 was as follows:

		March 31,	December 31,
	<u>Balance Sheet Location</u>	<u>2015</u>	<u>2014</u>
(In millions)			
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other Current Assets	\$ 190	\$ 128
Foreign exchange contracts not designated as hedging instruments	Other Current Assets	10	7
Total derivative assets		\$ 200	\$ 135
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other Current Liabilities	\$ —	\$ 2
Foreign exchange contracts not designated as hedging instruments	Other Current Liabilities	9	5
Total derivative liabilities		\$ 9	\$ 7
Total fair value of derivative instruments		\$ 191	\$ 128

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, 2015, the potential effect of rights of set-off associated with the above foreign exchange contracts would be an offset to both assets and liabilities by \$8 million, resulting in net derivative assets of \$191 million and net derivative liabilities of less than \$1 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 tables summarize the activity of derivative contracts that qualify for hedge accounting as of March 31, 2015 and December 31, 2014, and the impact of designated derivative instruments on accumulated other comprehensive income for the three months ended March 31, 2015:

	<u>December 31,</u> <u>2014</u>	<u>Amount of gain (loss)</u> <u>recognized in other</u> <u>comprehensive income</u> <u>(effective portion)</u>	<u>Amount of gain (loss)</u> <u>reclassified from</u> <u>accumulated other</u> <u>comprehensive income</u> <u>to net revenue</u> <u>(effective portion)</u>	<u>March 31,</u> <u>2015</u>
(In millions)				
Foreign exchange contracts designated as cash flow hedges	<u>\$ 126</u>	<u>\$ 114</u>	<u>\$ 50</u>	<u>\$ 190</u>

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The following tables summarize the activity of derivative contracts that qualify for hedge accounting as of March 31, 2014 and December 31, 2013, and the impact of designated derivative instruments on accumulated other comprehensive income for the three months ended March 31, 2014:

	December 31, 2013	Amount of gain (loss) recognized in other comprehensive income (effective portion) (In millions)	Amount of gain (loss) reclassified from accumulated other comprehensive income to net revenue (effective portion)	March 31, 2014
Foreign exchange contracts designated as cash flow hedges	\$ (91)	(7)	(17)	\$ (81)

Effect of Derivative Contracts on Combined 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, (In millions)	
	2015	2014
Foreign exchange contracts designated as cash flow hedges recognized in net revenues	\$ 50	\$ (17)
Foreign exchange contracts not designated as cash flow hedges recognized in other income (expense), net	11	(4)
Total gain (loss) recognized from derivative contracts in the combined statement of income	\$ 61	\$ (21)

Notional Amounts of Derivative Contracts

Derivative transactions are measured in terms of the notional amount, but 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 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:

	Three Months Ended March 31, (In millions)	
	2015	2014
Foreign exchange contracts designated as cash flow hedges	\$ 1,551	\$ 1,560
Foreign exchange contracts not designated as hedging instruments	764	491
Total	\$ 2,315	\$ 2,051

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Note 7—Loans and Interest Receivable, Net

For the three months end March 31, 2015 and March 31, 2014, we purchased approximately \$1.4 billion and \$1.1 billion, respectively, in consumer receivables. As of March 31, 2015, the total outstanding balance of this pool of consumer receivables was \$3.6 billion of which we sold a participation interest to the new chartered financial institution of \$169 million or 5%. The chartered financial institution has no recourse related to its participation interest for failure of debtors to pay when due. The participation interest held by the chartered financial institution has the same priority to the interests held by us and is subject to the same credit, prepayment, and interest rate risk associated with this pool of consumer receivables. In April 2015, we concluded an arrangement with certain investors under which we have agreed to sell a participation interest in a portion of these consumer receivables. These investors have no recourse against us related to their participation interests for failure of debtors to pay when due. The participation interest held by these 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 the consumer receivables. As of March 31, 2015, we classified approximately \$700 million of the consumer receivables related to the participation interest we agreed to sell to investors as held for sale. The consumer receivables held for sale are recorded at the lower of cost or fair value on an aggregate portfolio basis. No adjustment to the carrying value was recorded as a result of classifying these consumer receivables as held for sale.

Loans and interest receivable are reported at their outstanding principal balances, net of participation interest sold and pro-rata allowances, including unamortized deferred origination costs and estimated collectible interest and fees. We use a consumer's FICO score, among other measures, in evaluating the credit quality of our 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 generally are obtained each quarter the consumer has an outstanding consumer receivable owned by PayPal Credit. The weighted average consumer FICO score related to our loans and interest receivable balance outstanding at March 31, 2015 was 684 compared to 687 at December 31, 2014.

As of March 31, 2015 and December 31, 2014, approximately 52.4% and 54.2%, respectively, of the pool of consumer receivables and interest receivable balance was due from consumers with FICO scores greater than 680, which is generally considered "prime" by the consumer credit industry. As of March 31, 2015 and December 31, 2014, approximately 11.0% and 9.3%, respectively, of the pool of consumer receivables and interest receivable balance was due from customers with FICO scores below 599. As of March 31, 2015 and December 31, 2014, approximately 90.9% and 89.8%, respectively, of the portfolio of consumer receivables and interest receivable was current.

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

	<u>March 31, 2015</u>	<u>December 31, 2014</u>
	(In millions)	
> 760	\$ 502	\$ 553
680 - 759	1,388	1,439
600 - 679	1,324	1,344
< 599	396	341
Total	<u>\$ 3,610</u>	<u>\$ 3,677</u>

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The following tables presents the delinquency status of the principal amount of loans and interest receivable:

March 31, 2015 (In millions)						
<u>Current</u>	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>90 - 180 Days Past Due</u>	<u>Total Past Due</u>	<u>Total Financing Receivables</u>	<u>Recorded Investment > 90 Days and Accruing</u>
3,283	147	51	129	327	3,610	129

December 31, 2014 (In millions)						
<u>Current</u>	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>90 - 180 Days Past Due</u>	<u>Total Past Due</u>	<u>Total Principal Loan Receivable</u>	<u>Recorded Investment > 90 Days and Accruing</u>
3,303	163	62	149	374	3,677	149

The following table summarizes the activity in the allowance for loans and interest receivable:

Three Months Ended March 31,		
	<u>2015</u>	<u>2014</u>
	(In millions)	
Balance as of January 1	\$ (195)	\$ (146)
Charge-offs	92	70
Recoveries	(11)	(7)
Provisions	(86)	(66)
Balance as of March 31	<u>\$ (200)</u>	<u>\$ (149)</u>

During 2013, we launched a program working with a chartered financial institution to offer working capital advances to select merchant sellers in the U.S. We subsequently purchase the related merchant receivable from the chartered financial institution. Under the program, participating merchants can borrow a certain percentage of their annual payment volume processed by PayPal and are charged a fixed fee for the loan. In 2014, we have extended this program to a limited number of international markets whereby we grant working capital advances to merchants directly through our Luxembourg bank subsidiary or through other PayPal affiliates. The total net receivable outstanding as of March 31, 2015 and December 31, 2014 was approximately \$125 million and \$99 million, respectively.

Note 8—Commitments and Contingencies

Commitments

As of March 31, 2015, approximately \$21.5 billion of unused credit was available to PayPal Credit accountholders. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit accountholders 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 institutions that are 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 remits funds to the merchant. We subsequently purchase the receivables related to the consumer loans extended by the chartered financial

PayPal**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)**

institution and, as a result of the 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 and are responsible for all servicing functions related to the account.

In June 2014, we agreed, subject to certain conditions, that we, one of our affiliates or a third party partner will purchase a portfolio of consumer loan receivables relating to the customer accounts arising out of our current credit program agreement with Synchrony (formerly GE Capital Retail Bank) for a price based on the book value of the consumer loan receivables portfolio at the time of the purchase (expected to be the fourth quarter of 2016), subject to certain adjustments and exclusions. As of March 31, 2015, Synchrony had a net receivables portfolio under the credit program agreement of approximately \$1.5 billion.

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 8, 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, 2015. Except as otherwise noted for the proceedings described in this Note 8, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

Regulatory Proceedings

We routinely report to the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) on payments we have rejected or blocked pursuant to OFAC sanctions regulations and on any possible violations of those regulations. We have cooperated with OFAC in recent years regarding our review process over transaction monitoring and have self-reported a large number of small dollar amount transactions that could possibly be in violation of OFAC sanctions regulations. In March 2015, we reached a settlement with OFAC regarding the possible violations arising from our practices between 2009 and 2013, before our implementation of real-time monitoring processes. The settlement did not have a material impact on our financial statements. In addition, we

PayPal**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)**

continue to cooperate with OFAC regarding more recent self-reported transactions that could also possibly be in violation of OFAC sanctions regulations. Such self-reported transactions could result in claims or actions against us including litigation, injunctions, damage awards or require us to change our business practices 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 August 7, 2013 and January 13, 2014, eBay, PayPal and certain wholly owned subsidiaries of PayPal received Civil Investigative Demands (CIDs) from the Consumer Financial Protection Bureau (CFPB) requesting that we provide testimony, produce documents and provide information relating primarily to the acquisition, management, and operation of our PayPal Credit products, including online credit products and services, advertising, loan origination, customer acquisition, servicing, debt collection, and complaints handling practices. The CIDs could lead to an enforcement action and/or one or more significant consent orders, which may result in substantial costs, including legal fees, fines, penalties and remediation expenses. We are cooperating with the CFPB in connection with the CIDs and are engaging in settlement discussions. The CFPB provided us with a Notice and Opportunity to Respond and Advise and indicated that a lawsuit could be filed against us as early as the second quarter of 2015. Resolution of these inquiries could require us to make monetary payments to certain customers, pay fines and/or change the manner in which we operate the PayPal Credit products, which could adversely affect our business.

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 recent 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.

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, damage awards (including statutory damages for certain causes of action in certain jurisdictions), 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.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Indemnification Provisions

In the ordinary course of business, we include limited indemnification provisions in certain of our agreements with parties with whom we have commercial relations, including our standard marketing, promotions, and application-programming-interface license 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 applicable to our performance under 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 provision. 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, 2015, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our combined financial condition, results of operations, liquidity, capital expenditures or capital resources.

Protection Programs

We provide merchants and consumers with protection programs on substantially all transactions completed through our Payments Platform, except for transactions using our gateway products. These programs protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our Buyer Protection Program provides protection to consumers for qualifying purchases by reimbursing the consumer for the full amount of the purchase if a purchased item does not arrive or does not match the seller's description. Our Seller Protection Programs provide protection to merchants against claims that a transaction was not authorized by the buyer or claims that an item was not received by covering the seller for the full amount of the payment on eligible sales.

The maximum potential exposure under our protection programs is estimated to be the portion of total eligible transaction volume (TPV) for which buyer or seller protection claims may be raised under our existing user agreements. Since eligible transactions are typically completed in a period significantly shorter than the period under which disputes may be opened, and based on our historical losses to date, we do not believe that the maximum potential exposure is representative of our actual potential exposure. The actual amount of 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, 2015 and December 31, 2014:

	Maximum potential exposure		Allowance for Transaction Losses	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
(In millions)				
Protection Programs	\$ 73,449	\$ 75,833	\$ 175	\$ 166

PayPal**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)****Note 9—Related Party Transactions**

In August 2009, we entered into a Cash Sharing Agreement with eBay in which our excess U.S. funds are swept to eBay on a daily basis. The main purpose of the Cash Sharing Agreement is to implement a centralized cash management structure to effectively manage U.S. Dollar cash, to leverage administrative efficiencies, and to centralize the investment/borrowing of cash and settlement of payables and receivables at the eBay level. Since the Cash Sharing Agreement is two-way, we can receive funds back from eBay as needed. The rate earned on funds lent to eBay is the average daily LIBOR USD 1-month rate plus 20 basis points. The balance due from eBay and reported in notes and receivable from affiliates in our condensed combined balance sheet was \$612 million and \$559 million at March 31, 2015 and December 31, 2014, respectively. Interest income earned on the arrangement was reported in other income (expense), net but was not material for the three months ended March 31, 2015 and 2014.

In November 2008, we entered into an intercompany loan agreement with eBay in which the acquisition of receivables related to PayPal Credit accounts are funded through eBay's existing financing arrangements at an interest rate of 1.2% for the three months ended March 31, 2015. At March 31, 2015 and December 31, 2014, the loan balance included in notes and payable to affiliates in our condensed combined balance sheet was \$754 million and \$809 million, respectively. The interest expense incurred during the three months ended March 31, 2015 and 2014 was \$4 million and \$2 million, respectively.

In September 2014, we entered into an intercompany loan agreement with eBay whereby we borrowed 130 million Brazilian Real for one year at an interest rate of 11% plus spread 0.5% per annum during the term of the loan. The loan is used to fund our installment payments product in Brazil. The loan was repaid in March 2015. The interest expense incurred on the arrangement was reported in other income (expense), net but was not material for the three months ended March 31, 2015 and 2014.

In September 2014, we entered into an intercompany loan agreement with eBay whereby we borrowed \$10 million from eBay for six months at an interest rate of 1.2% per annum. The loan was repaid in March 2015. Interest income earned on the arrangement was reported in other income (expense), net but was not material for the three months ended March 31, 2015.

In October 2014, we entered into an intercompany loan agreement with eBay whereby we loaned eBay 580 million Indian Rupee for six months at an interest rate of 9.4% per annum. The balance due from eBay and reported in notes and receivable from affiliates in our condensed combined balance sheet was \$9 million at March 31, 2015. Interest income earned on the arrangement was reported in other income (expense), net but was not material for the three months ended March 31, 2015.

In December 2014, we entered into an intercompany loan agreement with eBay whereby we loaned eBay 500 million Indian Rupee for six months at an interest rate of 9.0% per annum. The balance due from eBay and reported in notes and receivable from affiliates in our condensed combined balance sheet was \$8 million at March 31, 2015. Interest income earned on the arrangement was reported in other income (expense) but was not material for the three months ended March 31, 2015.

All other 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. There were no other material related party transactions in the periods presented. As of March 31, 2015, there were no other material amounts payable to or amounts receivable from related parties. Post separation, we will no longer participate in cash management and intercompany funding arrangements with eBay.

Net revenues include \$28 million earned from eBay and its subsidiaries for the three months ended March 31, 2015 and 2014.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

We recover costs from eBay relating to customer protection programs offered on qualifying eBay purchases made with PayPal. These costs include the actual transaction losses associated with customer filed claims as well as an allocation of salary related expenses for customer support teams working on customer claims and disputes related to on eBay purchases. Recoveries associated with transaction losses incurred on eligible eBay purchases during the three months ended March 31, 2015 and 2014, were \$10 million and \$12 million, respectively, which were recorded as a reduction to transaction and loan loss. Other costs recovered from eBay related to the customer protection program for the three months ended March 31, 2015 and 2014, were \$5 million in each period, and are included as a reduction to customer support and operations and general and administrative expenses in our combined statement of income.

We incur user acquisition fees from eBay on payment volume which we process from purchases made on eBay's platform. User acquisition fees for the three months ended March 31, 2015 and 2014 were \$30 million in each period and are included within sales and marketing expenses.

These combined financial statements include expenses associated with workplace resources and information technology that were previously allocated to the Payments segment of eBay, and, additional expenses related to certain corporate functions, including senior management, legal, human resources and finance. These expenses also include allocations related to share based compensation. The expenses that have been allocated to us by eBay are based on direct usage or benefit where identifiable, with the remainder allocated on a pro rata basis of revenue, headcount, or other systematic measure. We consider the expense allocation methodology and results to be reasonable for all periods presented. The corporate costs and allocation of expenses to us from eBay included within customer support and operations, sales and marketing, product development, and general and administrative expenses were \$160 million and \$136 million for the three months ended March 31, 2015 and 2014, respectively, of which \$61 million and \$60 million were included in general and administrative expenses.

Note 10—Stock-Based and Employee Savings Plans

Stock Option Activity

The following table summarizes stock option activity of our employees under eBay's equity incentive plans for the three months ended March 31, 2015:

	Options	Weighted Average Grant-Date Fair Value (per share)
	(In thousands, except per share amounts)	
Outstanding at January 1, 2015	2,409	—
Granted and assumed	5	\$ 12.82
Exercised	(262)	—
Forfeited/expired/canceled	(351)	\$ —
Outstanding at March 31, 2015	1,801	—

The weighted average exercise price of stock options granted during the period was \$56.47 per share.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Restricted Stock Units Activity and Performance Based Restricted Stock Units Activity

A summary of the status of restricted stock units granted (including performance-based restricted stock units that have been earned) under eBay's equity incentive plans for the three months ended March 31, 2015:

	Units	Weighted Average Grant-Date Fair Value (per share)
	(In thousands, except per share amounts)	
Outstanding at January 1, 2015	14,715	—
Awarded and assumed	282	\$ 54.56
Vested	(936)	—
Forfeited	(1,118)	\$ —
Outstanding at March 31, 2015	<u>12,943</u>	<u>—</u>
Expected to vest at March 31, 2015	11,279	

Stock-based Compensation Expense

We are charged by eBay for stock-based compensation expense related to our direct employees. eBay also charges us for the allocated costs of certain employees of eBay (including stock-based compensation) who provide general and administrative services on our behalf. Information included in this note is strictly limited to stock-based compensation associated with the employees wholly dedicated to PayPal (see "Note 9—Related Party Transactions" for total costs allocated to us by eBay).

The impact on our results of operations of recording stock-based compensation expense for the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended March 31,	
	2015	2014
	(In millions)	
Customer support and operations	\$ 15	\$ 16
Sales and marketing	13	12
Product development	29	24
General and administrative	18	12
Total stock-based compensation expense	<u>\$ 75</u>	<u>\$ 64</u>

Total stock-based compensation costs capitalized as part of internal use software and website development costs was \$2 million and \$1 million for the three months ended March 31, 2015 and 2014, respectively.

Note 11—Income Taxes

We are a member of the eBay consolidated group and our U.S. taxable income is included in the consolidated U.S. federal income tax return of eBay as well as in returns filed by eBay with certain state and local taxing jurisdictions. Our foreign income tax returns are filed on a separate company basis. Our income tax liability has been computed and presented herein under the "separate return method" as if it were a separate tax paying entity, as modified by the benefits-for-loss approach. Accordingly, our operating losses and other tax attributes are characterized as utilized when those attributes have been utilized by other members of the eBay consolidated group; however, the benefits-for-loss approach does not impact our tax expense. Federal and state income taxes incurred are remitted to eBay pursuant to a tax sharing agreement between the companies.

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Our effective tax rate for the three months ended March 31, 2015 was 20.6%. The difference between our effective tax rate and the U.S. federal statutory rate of 35% was primarily the result of foreign income taxed at different rates, partially offset by discrete tax adjustments.

Note 12—Restructuring

In January 2015, at a regular meeting of the eBay board of directors, the eBay's board of directors approved a plan to implement a strategic reduction of its existing global workforce. The reduction is expected to be substantially completed in the first half of 2015.

The following table summarizes the restructuring reserve activity during the three months ended March 31, 2015:

	Employee Severance and Benefits	Other Associated Costs (In millions)	Total
Accrued liability as of January 1, 2015	\$ —	\$ —	\$—
Charges (benefit)	48	—	48
Payments	(17)	—	(17)
Accrued liability as of March 31, 2015	<u>\$ 31</u>	<u>\$ —</u>	<u>\$ 31</u>

Note 13—Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2015:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation (In millions)	Estimated tax (expense) benefit	Total
Beginning balance	\$ 126	\$ (16)	\$ —	\$110
Other comprehensive income (loss) before reclassifications	114	(33)	1	82
Amount of gain reclassified from accumulated other comprehensive income	50	—	—	50
Net current period other comprehensive income	64	(33)	1	32
Ending balance	<u>\$ 190</u>	<u>\$ (49)</u>	<u>\$ 1</u>	<u>\$142</u>

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2014:

	Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation (In millions)	Estimated tax (expense) benefit	Total
Beginning balance	\$ (91)	\$ 26	\$ 4	\$(61)
Other comprehensive loss before reclassifications	(7)	—	(3)	(10)
Amount of loss reclassified from accumulated other comprehensive income	(17)	—	—	(17)
Net current period other comprehensive income	10	—	(3)	7
Ending balance	<u>\$ (81)</u>	<u>\$ 26</u>	<u>\$ 1</u>	<u>\$(54)</u>

PayPal

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2015 and 2014:

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,		
	2015	2014	
	(In millions)		
Gains (losses) on cash flow hedges-foreign exchange contracts	\$ 50	\$ (17)	Net revenues
	\$ 50	\$ (17)	Total, before income taxes
	—	—	Provision for income taxes
Total reclassifications for the period	\$ 50	\$ (17)	Total, net of income taxes

Note 14—Subsequent Events

In April 2015, we concluded an agreement with certain investors under which we have agreed to sell a participation interest of approximately \$700 million in a portion of our purchased consumer receivables arising from loans made by our partner chartered financial institution to individual consumers to purchase goods and services using PayPal Credit products; this transaction was completed in May 2015. The carrying value of such consumer receivables upon the closing and funding of this participation interest was \$708 million and differed from the carrying value at March 31, 2015 due to normal, ongoing payment and resolution activity.

In April 2015, we completed our acquisition of Paydiant, Inc. for approximately \$285 million in cash. The acquisition of Paydiant is intended to expand our capabilities in mobile payments. Using Paydiant's platform, our merchant partners can create their own branded wallets to accelerate mobile-in-store payments and drive consumer engagement through mobile payments, loyalty, offers and the prioritization of preferred payment types, such as store branded credit cards and gift cards. We are in the process of determining the purchase price allocation for this acquisition.

In April 2015, we completed our acquisition of CyActive Security, Ltd. CyActive is a cybersecurity firm that specializes in technology that predicts how malware will develop. The acquisition of CyActive is intended to further enhance our risk assessment capabilities used to protect merchants and consumers on our Payments Platform. We are in the process of determining the purchase price allocation for this acquisition.