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

FORM 10-Q

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

For the quarterly period ended March 31, 2019.

OR

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

For the Transition Period from to .

Commission file number 001-36859

PayPal Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [x] No [ ]

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of April 19, 2019, there were 1,174,933,013 shares of the registrant's common stock, $0.0001 par value, outstanding, which is the only class of common or voting stock of the registrant issued.

PayPal Holdings, Inc.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2019	December 31, 2018
	(In millions, except par value)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,515	$ 7,575
Short-term investments	3,334	1,534
Accounts receivable, net	409	313
Loans and interest receivable, net of allowances of $195 and $172 as of March 31, 2019 and December 31, 2018, respectively	2,856	2,532
Funds receivable and customer accounts	22,738	20,062
Prepaid expenses and other current assets	1,039	947
Total current assets	34,891	32,963
Long-term investments	1,695	971
Property and equipment, net	1,731	1,724
Goodwill	6,234	6,284
Intangible assets, net	750	825
Other assets	979	565
Total assets	$ 46,280	$ 43,332
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 226	$ 281
Notes payable	1,999	1,998
Funds payable and amounts due to customers	24,238	21,562
Accrued expenses and other current liabilities	2,097	2,002
Income taxes payable	75	61
Total current liabilities	28,635	25,904
Deferred tax liability and other long-term liabilities	2,488	2,042
Total liabilities	31,123	27,946
Commitments and Contingencies (Note 13)		
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,172 and 1,174 shares outstanding as of March 31, 2019 and December 31, 2018, respectively	—	—
Preferred stock, $0.0001 par value; 100 shares authorized, unissued	—	—
Treasury stock at cost, 99 and 91 shares as of March 31, 2019 and December 31, 2018, respectively	(6,216)	(5,511)
Additional paid-in-capital	14,848	14,939
Retained earnings	6,550	5,880
Accumulated other comprehensive income (loss)	(25)	78
Total equity	15,157	15,386
Total liabilities and equity	$ 46,280	$ 43,332

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

PayPal Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2019	2018
	(In millions, except per share data)	
	(Unaudited)	
Net revenues	$ 4,128	$ 3,685
Operating expenses:		
Transaction expense	1,549	1,275
Transaction and loan losses	341	305
Customer support and operations	388	342
Sales and marketing	329	281
Technology and development	511	448
General and administrative	419	347
Restructuring and other charges	73	153
Total operating expenses	3,610	3,151
Operating income	518	534
Other income (expense), net	199	14
Income before income taxes	717	548
Income tax expense	50	37
Net income	$ 667	$ 511
Net income per share:		
Basic	$ 0.57	$ 0.43
Diluted	$ 0.56	$ 0.42
Weighted average shares:		
Basic	1,171	1,192
Diluted	1,188	1,217

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2019	2018
	(In millions) (Unaudited)	
Net income	$ 667	$ 511
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation	(67)	2
Unrealized gains (losses) on investments, net	11	(15)
Tax (expense) benefit on unrealized gains (losses) on investments, net	(2)	4
Unrealized losses on hedging activities, net	(46)	(18)
Tax benefit on unrealized losses on hedging activities, net	1	—
Other comprehensive income (loss), net of tax	(103)	(27)
Comprehensive income	$ 564	$ 484

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
			(In millions)			
			(Unaudited)			
Balances at December 31, 2018	1,174	$ (5,511)	$ 14,939	$ 78	$ 5,880	$ 15,386
Adoption of leases standard	—	—	—	—	3	3
Net income	—	—	—	—	667	667
Foreign currency translation	—	—	—	(67)	—	(67)
Unrealized gains on investments, net	—	—	—	11	—	11
Tax expense on unrealized gains on investments, net	—	—	—	(2)	—	(2)
Unrealized losses on hedging activities, net	—	—	—	(46)	—	(46)
Tax benefit on unrealized losses on hedging activities, net	—	—	—	1	—	1
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	6	—	(302)	—	—	(302)
Common stock repurchased	(8)	(705)	(45)	—	—	(750)
Stock-based compensation	—	—	256	—	—	256
Balances at March 31, 2019	1,172	$ (6,216)	$ 14,848	$ (25)	$ 6,550	$ 15,157

	Common Stock Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
			(In millions)			
			(Unaudited)			
Balances at December 31, 2017	1,200	$ (2,001)	$ 14,314	$ (142)	$ 3,823	$ 15,994
Net income	—	—	—	—	511	511
Foreign currency translation	—	—	—	2	—	2
Unrealized losses on investments, net	—	—	—	(15)	—	(15)
Tax benefit on unrealized losses on investments, net	—	—	—	4	—	4
Unrealized losses on hedging activities, net	—	—	—	(18)	—	(18)
Tax benefit on unrealized losses on hedging activities, net	—	—	—	—	—	—
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	7	—	(226)	—	—	(226)
Common stock repurchased	(24)	(1,810)	(15)	—	—	(1,825)
Stock-based compensation	—	—	214	—	—	214
Balances at March 31, 2018	1,183	$ (3,811)	$ 14,287	$ (169)	$ 4,334	$ 14,641

PayPal Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 667	$ 511
Adjustments:		
Transaction and loan losses	341	305
Depreciation and amortization	230	185
Stock-based compensation	247	205
Deferred income taxes	74	91
Cost basis adjustments to loans and interest receivable held for sale	—	128
Unrealized gains on strategic investments	(180)	—
Other	(44)	(5)
Changes in assets and liabilities:		
Accounts receivable	(96)	25
Changes in loans and interest receivable held for sale, net	4	(1,291)
Accounts payable	(3)	(35)
Income taxes payable	14	—
Other assets and liabilities	(227)	(468)
Net cash provided by (used in) operating activities	1,027	(349)
Cash flows from investing activities:		
Purchases of property and equipment	(218)	(178)
Changes in principal loans receivable, net	(357)	738
Purchases of investments	(8,138)	(5,275)
Maturities and sales of investments	6,028	4,291
Funds receivable	(2,175)	429
Net cash (used in) provided by investing activities	(4,860)	5
Cash flows from financing activities:		
Proceeds from issuance of common stock	7	13
Purchases of treasury stock	(756)	(1,825)
Tax withholdings related to net share settlements of equity awards	(309)	(335)
Borrowings under financing arrangements	—	2,075
Funds payable and amounts due to customers	2,560	865
Net cash provided by financing activities	1,502	793
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1	(7)
Net change in cash, cash equivalents and restricted cash	(2,330)	442
Cash, cash equivalents and restricted cash at beginning of period	13,233	8,285
Cash, cash equivalents and restricted cash at end of period	$ 10,903	$ 8,727
Supplemental cash flow disclosures:		
Cash paid for interest	$ 20	$ 8
Cash paid (refund received) for income taxes, net	$ 22	$ (6)
The below table reconciles cash, cash equivalents and restricted cash as reported in the condensed consolidated balance sheet to the total of the same amounts shown in the condensed consolidated statement of cash flows:		
Cash and cash equivalents	$ 4,515	$ 2,879
Short term investments	15	16
Funds receivable and customer accounts	6,373	5,832
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statement of cash flows	$ 10,903	$ 8,727

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

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Overview and Summary of Significant Accounting Policies

Overview and Organization

PayPal Holdings, Inc. ("PayPal," the "Company," "we," "us," or "our") was incorporated in Delaware in January 2015 and is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. PayPal is committed to democratizing financial services and empowering people and businesses to join and thrive in the global economy. Our goal is to enable our consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform, and using any device. We also facilitate person-to-person payments through our PayPal, Venmo, and Xoom products. Our combined payment solutions, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and iZettle products, comprise our proprietary Payments Platform.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. That focus continues to become even more heightened as regulators on a global basis focus on important issues such as countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. Some of the laws and regulations to which we are subject were enacted recently, and the laws and regulations applicable to us, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including the way laws and regulations are interpreted and implemented, as well as increased penalties and enforcement actions related to non-compliance could have a material adverse impact on our business, results of operations, and financial condition. Therefore, we monitor these areas closely to design compliant solutions for our customers who depend on us.

Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The condensed consolidated financial statements include the financial statements of PayPal and our wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Investments in entities where we 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 investee's results of operations is included in other income (expense), net on our condensed consolidated statements of income and our investment balance is included in long-term investments on our condensed consolidated balance sheets. Investments in entities where we do not have the ability to exercise significant influence over the investee are accounted for at fair value or cost minus impairment, if any, adjusted for changes resulting from observable price changes, which are included in other income (expense), net on our condensed consolidated statements of income. Our investment balance is included in long-term investments on our condensed consolidated balance sheets.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K") filed with the Securities and Exchange Commission.

In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for fair statement of the condensed consolidated financial statements for interim periods. Certain amounts for prior years have been reclassified to conform to the financial statement presentation as of and for the three months ended March 31, 2019.

Reclassifications

Beginning with the first quarter of 2019, we reclassified certain operating expenses within the condensed consolidated statements of income. Prior period amounts have been reclassified to conform to this presentation. These changes have no impact on our previously reported consolidated net income for prior periods, including total operating expenses, financial position, or cash flows for any periods presented.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The classification changes relate primarily to the combination of costs incurred to develop and operate our Payments Platform into a new caption entitled technology and development. This new caption includes: (a) costs incurred in operating, maintaining, and enhancing our Payments Platform, including network and infrastructure costs, which were previously classified in the customer support and operations caption, and (b) costs incurred in developing new and improving existing products, which were previously classified in the product development caption on our consolidated statements of income. In addition, we have eliminated the presentation of depreciation and amortization expense as a separate financial statement caption by reclassifying these expenses into financial statement captions aligned with the internal organizations that are the primary beneficiaries of the depreciation and amortization of such assets.

The following table presents the effects of the changes on the presentation of these operating expenses to the previously reported condensed consolidated statements of income:

	Three Months Ended March 31, 2018 (In millions)		
	As Reported	Adjustments	Revised
Transaction expense	$ 1,275	$ —	$ 1,275
Transaction and loan losses	305	—	305
Customer support and operations	351	(9)	342
Sales and marketing	285	(4)	281
Product development	258	(258)	—
Technology and development	—	448	448
General and administrative	339	8	347
Depreciation and amortization	185	(185)	—
Restructuring and other charges	153	—	153
Total operating expenses	$ 3,151	$ —	$ 3,151

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses, during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to provisions for transaction and loan losses, loss contingencies, income taxes, revenue recognition, and the valuation of goodwill and intangible assets. We base our estimates on historical experience and various other assumptions which we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

Leases

We determine whether an arrangement is a lease for accounting purposes at contract inception. Operating leases are recorded as right-of-use ("ROU") assets, which are included in other assets, and lease liabilities, which are included in accrued expenses and other liabilities and other long-term liabilities on our condensed consolidated balance sheets. As of March 31, 2019, we had no finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Our leases do not provide an implicit rate; we use an incremental borrowing rate for specific terms on a collateralized basis based on the information available on the commencement date in determining the present value of lease payments. The ROU asset calculation includes lease payments to be made and excludes lease incentives. The ROU asset and lease liability may include amounts attributed to options to extend or terminate the lease when it is reasonably certain we will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components. We have elected to apply the practical expedient and account for the lease and non-lease components as a single lease component for all leases. In addition, we have elected the practical expedients related to lease classification, hindsight, and land easement. We apply a single portfolio approach to effectively account for the ROU assets and lease liabilities.

Recent Accounting Guidance

In 2016, the Financial Accounting Standards Board ("FASB") issued new guidance on the measurement of credit losses on financial instruments. Credit losses on loans, trade and other receivables, held-to-maturity debt securities, and other instruments will reflect our current estimate of the expected credit losses and generally will result in the earlier recognition of allowances for losses. Credit losses on available-for-sale debt securities with unrealized losses will be recognized as allowances for credit losses limited to the amount by which fair value is below amortized cost. Additional disclosures will be required, including information used to track credit quality by year of origination for most financing receivables. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We will adopt the new guidance effective January 1, 2020. We are required to apply the provisions of this guidance as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted with impairment of available-for-sale debt securities applied prospectively after adoption. We are evaluating the impact of and approach to adopting this new accounting guidance on our condensed consolidated financial statements.

Recently Adopted Accounting Guidance

In 2016, the FASB issued new accounting guidance related to accounting for leases, which requires lessees to recognize lease assets and lease liabilities on the balance sheet for the rights and obligations created by all leases with terms greater than 12 months. As we are not a lessor, other changes in the guidance applicable to lessors do not apply. Additionally, in 2018, the FASB issued codification and targeted improvements to this guidance effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. We adopted the new guidance on January 1, 2019, using a modified retrospective basis and applied the optional practical expedients related to the transition. We recorded $511 million for the ROU assets and$521 million for the lease liabilities associated with our operating leases upon adoption. The adoption of this guidance did not have a significant impact to our consolidated statements of earnings, stockholders' equity, and cash flows. For additional information, see Note 6—"Leases."

There are other new accounting pronouncements issued by the FASB that we have adopted or will adopt, as applicable, and we do not believe any of these accounting pronouncements has had, or will have, a material impact on our condensed consolidated financial statements or disclosures.

Note 2—Revenue

PayPal enables its customers to send and receive payments. We earn revenue primarily by completing payment transactions for our customers on our Payments Platform and from other value added services. Our revenues are classified into two categories, transaction revenues and revenues from other value added services.

Disaggregation of Revenue

We determine operating segments based on how our chief operating decision maker ("CODM") manages the business, makes operating decisions around the allocation of resources and evaluates operating performance. Our CODM is our Chief Executive Officer, who reviews our operating results on a consolidated basis. We operate in one segment and have one reportable segment. Based on the information provided to and reviewed by our CODM, we believe that the nature, amount, timing, and uncertainty of our revenue and cash flows and how they are affected by economic factors is most appropriately depicted through our primary geographical markets and type of revenue (transaction and other value added services) categories. Revenues recorded within these categories are earned from similar services for which the nature of associated fees and the related revenue recognition models are substantially the same.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents our revenues disaggregated by primary geographical markets and revenues by major products and services:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Primary geographical markets		
United States ("U.S.")	$ 2,187	$ 2,023
United Kingdom ("U.K.")	433	392
Other countries[1]	1,508	1,270
Total revenues[2]	$ 4,128	$ 3,685
Types of revenues		
Transaction revenues	$ 3,731	$ 3,197
Other value added services	397	488
Total revenues[2]	$ 4,128	$ 3,685

[1] No single country included in the other countries category generated more than 10% of total revenue.
[2] Total revenues include $346 million and $359 million for the three months ended March 31, 2019 and 2018, respectively, which do not represent revenues recognized in the scope of ASC Topic 606, *Revenue from contracts with customers*. These relate to interest, fees, and gains earned on loan and interest receivables, net and held for sale portfolio, as well as hedging gains or losses and interest earned on certain PayPal customer balances.

Net revenues are attributed to the country in which the merchant is located, or in the case of a cross-border transaction, may be earned from the country in which the consumer and the merchant respectively reside. Net revenues earned from other value added services are typically attributed to the country in which either the customer or partner reside.

Note 3—Net Income Per Share

Basic net income per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding for the period. The dilutive effect of outstanding equity incentive awards is reflected in diluted net income per share by application of the treasury stock method. The calculation of diluted net income per share excludes all anti-dilutive common shares.

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

	Three Months Ended March 31,	
	2019	2018
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 667	$ 511
Denominator:		
Weighted average shares of common stock - basic	1,171	1,192
Dilutive effect of equity incentive awards	17	25
Weighted average shares of common stock - diluted	1,188	1,217
Net income per share:		
Basic	$ 0.57	$ 0.43
Diluted	$ 0.56	$ 0.42
Common stock equivalents excluded from income per diluted share because their effect would have been anti-dilutive	3	—

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 4—Business Combinations

There were no acquisitions or divestitures completed in either the three months ended March 31, 2019 or 2018.

Significant Acquisitions Completed in 2018

Hyperwallet

We completed the acquisition of HWLT Holdings Inc. ("Hyperwallet") in November 2018 by acquiring all outstanding shares for a total purchase price of approximately $400 million, consisting of cash consideration. We acquired Hyperwallet to enhance our payout capabilities and improve our ability to provide an integrated suite of payment solutions to ecommerce platforms and marketplaces around the world. The allocation of purchase consideration resulted in approximately $100 million of customer-related intangible assets, approximately $30 million of developed technology intangible assets, and approximately $2 million of marketing related intangible assets with estimated useful lives ranging from 3 to 7 years, funds receivable and customer accounts of $412 million, funds payable and amounts due to customers of $412 million, net liabilities of approximately $32 million, and initial goodwill of approximately $300 million, which is attributable to the workforce of Hyperwallet and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to the allocation to certain assets, liabilities, and tax estimates may occur as additional information becomes available.

iZettle

We completed the acquisition of iZettle AB (publ) ("iZettle") in September 2018 by acquiring all outstanding shares for a total purchase price of $2.2 billion, consisting of cash consideration paid of approximately $2.1 billion (net of cash acquired of $103 million) and restricted shares of PayPal with a fair value of approximately $22 million. We acquired iZettle to expand our in-store presence and strengthen our Payments Platform to help small businesses around the world grow and thrive in an omnichannel retail environment.

The following table summarizes the preliminary allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed:

		(In millions)
Goodwill	$	1,602
Customer lists and user base		426
Marketing related		102
Developed technology		121
All other		1
Total intangibles	$	650
Cash		103
Funds receivable and customer accounts		47
Funds payable and amounts due to customers		(47)
Deferred tax liabilities, net		(118)
Other net liabilities		(55)
Total purchase consideration	$	2,182

The intangible assets acquired consists primarily of merchant relationships, trade name/trademarks, developed technology, and existing acquirer relationships with estimated useful lives ranging from 3 to 7 years. The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill, which is attributable to the workforce of iZettle and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to the allocation to certain assets, liabilities, and tax estimates may occur as additional information becomes available.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Simility

We completed the acquisition of Simility, Inc. ("Simility") in July 2018 by acquiring all outstanding shares for a total purchase price of $107 million, consisting of cash consideration. We acquired Simility to enhance our ability to deliver fraud prevention and risk management solutions to merchants globally. The allocation of purchase consideration resulted in approximately $18 million of developed technology intangible assets with an estimated useful life of 3 years, net assets of approximately $10 million, and initial goodwill of approximately $79 million, which is attributable to the workforce of Simility and the synergies expected to arise from the acquisition. We do not expect goodwill to be deductible for income tax purposes. The allocation of the purchase price for this acquisition has been prepared on a preliminary basis and changes to the allocation to certain assets, liabilities, and tax estimates may occur as additional information becomes available.

Note 5—Goodwill and Intangible Assets

Goodwill

The following table presents goodwill balances and adjustments to those balances during the three months ended March 31, 2019:

	December 31, 2018	Goodwill Acquired	Adjustments	March 31, 2019
	(In millions)			
Total goodwill	$ 6,284	$ —	$ (50)	$ 6,234

The adjustments to goodwill during the three months ended March 31, 2019 are related to foreign currency translation adjustments.

Intangible Assets

The components of identifiable intangible assets are as follows:

	March 31, 2019				December 31, 2018			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
	(In millions, except years)							
Intangible assets:								
Customer lists and user base	$ 1,121	$ (644)	$ 477	7	$ 1,134	$ (623)	$ 511	7
Marketing related	298	(215)	83	3	301	(207)	94	3
Developed technology	449	(290)	159	3	453	(269)	184	3
All other	245	(214)	31	5	245	(209)	36	5
Intangible assets, net	$ 2,113	$ (1,363)	$ 750		$ 2,133	$ (1,308)	$ 825	

Amortization expense for intangible assets was $57 million and $30 million for the three months ended March 31, 2019 and 2018, respectively.

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Expected future intangible asset amortization as of March 31, 2019 was as follows (in millions):

Fiscal years:		
Remaining 2019	$	152
2020		190
2021		137
2022		72
2023		72
Thereafter		127
	$	750

Note 6—Leases

PayPal enters into various leases, which are primarily real estate operating leases. We use these properties for executive and administrative offices, data centers, product development offices, and customer service and operations centers. Our leases have remaining lease terms of 1 year to 10 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within1 year. When we reach a decision to exercise a lease renewal or termination option, we will recognize the associated impact to the ROU asset and lease liability.

While a majority of lease payments are based on the stated rate in the lease, some lease payments are subject to annual changes based on the Consumer Price Index ("CPI") or another referenced index. While lease liabilities are not re-measured as a result of changes to the CPI, changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments is incurred. All of PayPal's variable lease payments are based on an index or rate.

The short-term lease exemption has been adopted for all leases with a duration of less than 12 months.

PayPal's lease portfolio contains a small number of subleases. A sublease situation can arise when currently leased real estate space is available and is surplus to operational requirements.

The components of lease expense were as follows:

		March 31, 2019
		(in millions, except weighted-average figures)
Lease expense		
Operating lease expense	$	34
Sublease income		(2)
Total lease expense cost	$	32
Other information:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	31
Right-of-use assets obtained in exchange for new operating lease liabilities as of January 1, 2019	$	511
Weighted-average remaining lease term - operating leases		6.3 years
Weighted-average discount rate - operating leases		4%

Future minimum lease payments for our operating leases as of March 31, 2019 were as follows:

Fiscal years:	Operating Leases (In millions)
Remaining 2019	$ 92
2020	110
2021	88
2022	69
2023	52
Thereafter	169
Total	$ 580
Less: present value discount	(82)
Lease liability	$ 498

Future minimum lease payments for our operating leases as of December 31, 2018, prior to the adoption of new lease guidance as described in Note 1—"Overview and Summary of Significant Accounting Policies," were as follows:

Fiscal years:	Operating Leases (In millions)
2019	$ 124
2020	111
2021	96
2022	81
2023	63
Thereafter	189
Total minimum lease payments	$ 664

Operating lease amounts include minimum lease payments under our non-cancelable operating leases primarily for office and data center facilities. The amounts presented are consistent with contractual terms and are not expected to differ significantly from actual results under our existing leases.

As of March 31, 2019, we have additional operating leases with minimum lease payments aggregating to $52.8 million, primarily for real estate and data centers, that have not yet commenced. These operating leases will commence between fiscal year 2019 and fiscal year 2020 with lease terms of 3 years to 7 years.

Note 7—Other Financial Statement Details

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended March 31, 2019:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax Benefit (Expense)	Total
	(In millions)				
Beginning balance	$ 182	$ (13)	$ (93)	$ 2	$ 78
Other comprehensive income (loss) before reclassifications	6	11	(67)	(1)	(51)
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	52	—	—	—	52
Net current period other comprehensive income (loss)	(46)	11	(67)	(1)	(103)
Ending balance	$ 136	$ (2)	$ (160)	$ 1	$ (25)

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The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended March 31, 2018:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated Tax Benefit	Total
			(In millions)		
Beginning balance	$ (111)	$ (12)	$ (25)	$ 6	$ (142)
Other comprehensive income (loss) before reclassifications	(62)	(16)	2	4	(72)
Less: Amount of gain (loss) reclassified from accumulated other comprehensive income	(44)	(1)	—	—	(45)
Net current period other comprehensive income (loss)	(18)	(15)	2	4	(27)
Ending balance	$ (129)	$ (27)	$ (23)	$ 10	$ (169)

The following table provides details of reclassifications from accumulated other comprehensive income (loss) for the three months ended March 31, 2019 and 2018:

Details of Accumulated Other Comprehensive Income (Loss) Components	Amount of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement of Income
	Three Months Ended March 31,		
	2019	2018	
	(In millions)		
Gains (losses) on cash flow hedges—foreign exchange contracts	$ 52	$ (44)	Net revenues
Unrealized (losses) on investments	—	(1)	Other income (expense), net
	$ 52	$ (45)	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	$ 52	$ (45)	Net income

Other Income (Expense), Net

The following table reconciles the components of other income (expense), net for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
	(In millions, except per share amounts)	
Interest income	$ 49	$ 28
Interest expense	(22)	(16)
Gains (losses) on strategic investments	180	—
Other	(8)	2
Other income (expense), net	$ 199	$ 14

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Note 8—Funds Receivable and Customer Accounts and Investments

The following table summarizes the assets underlying our funds receivable and customer accounts, short-term investments, and long-term investments as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
	(In millions)	
Funds receivable and customer accounts:		
Cash and cash equivalents	$ 6,373	$ 5,642
Time deposits	370	389
Available-for-sale debt securities	10,699	10,940
Funds receivable	5,296	3,091
Total funds receivable and customer accounts	$ 22,738	$ 20,062
Short-term investments:		
Time deposits	$ 743	$ 774
Available-for-sale debt securities	2,518	685
Restricted cash	73	75
Total short-term investments	$ 3,334	$ 1,534
Long-term investments:		
Available-for-sale debt securities	$ 451	$ 676
Restricted cash	2	2
Strategic investments	1,242	293
Total long-term investments	$ 1,695	$ 971

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As of March 31, 2019 and December 31, 2018, the estimated fair value of our available-for-sale debt securities included within funds receivable and customer accounts, short-term investments, and long-term investments was as follows:

	March 31, 2019			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Funds receivable and customer accounts:				
U.S. government and agency securities	$ 7,123	$ 5	$ —	$ 7,128
Foreign government and agency securities	788	—	—	788
Corporate debt securities	627	—	—	627
Short-term investments:				
U.S. government and agency securities	298	—	—	298
Foreign government and agency securities	26	—	—	26
Corporate debt securities	1,913	—	(3)	1,910
Long-term investments:				
Foreign government and agency securities	12	—	—	12
Corporate debt securities	433	—	(4)	429
Total available-for-sale debt securities[1]	$ 11,220	$ 5	$ (7)	$ 11,218

[1] Excludes foreign-currency denominated available-for-sale investments accounted for under the fair value option. Refer to Note 9—"Fair Value Measurement of Assets and Liabilities"

	December 31, 2018			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Funds receivable and customer accounts:				
U.S. government and agency securities	$ 6,945	$ 2	$ —	$ 6,947
Foreign government and agency securities	772	—	(1)	771
Corporate debt securities	883	—	—	883
Short-term investments:				
Corporate debt securities	393	—	(3)	390
Long-term investments:				
Foreign government and agency securities	38	—	—	38
Corporate debt securities	639	—	(11)	628
Total available-for-sale debt securities[1]	$ 9,670	$ 2	$ (15)	$ 9,657

[1] Excludes foreign-currency denominated available-for-sale investments accounted for under the fair value option. Refer to Note 9—"Fair Value Measurement of Assets and Liabilities"

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As of March 31, 2019 and December 31, 2018, the gross unrealized losses and estimated fair value of our available-for-sale debt securities included within funds receivable and customer accounts, short-term investments, and long-term investments by length of time those individual securities have been in a continuous loss position was as follows:

	March 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)					
Funds receivable and customer accounts:						
U.S. government and agency securities	$ 124	$ —	$ —	$ —	$ 124	$ —
Foreign government and agency securities	74	—	49	—	123	—
Corporate debt securities	25	—	7	—	32	—
Short-term investments:						
Foreign government and agency securities	—	—	26	—	26	—
Corporate debt securities	39	—	518	(3)	557	(3)
Long-term investments:						
Foreign government and agency securities	—	—	12	—	12	—
Corporate debt securities	18	—	395	(4)	413	(4)
Total available-for-sale debt securities	$ 280	$ —	$ 1,007	$ (7)	$ 1,287	$ (7)

— Denotes gross unrealized loss or fair value of less than $1 million in a given position.

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In millions)					
Funds receivable and customer accounts:						
U.S. government and agency securities	$ 2,419	$ —	$ 18	$ —	$ 2,437	$ —
Foreign government and agency securities	295	—	49	(1)	344	(1)
Corporate debt securities	281	—	7	—	288	—
Short-term investments:						
Corporate debt securities	57	—	333	(3)	390	(3)
Long-term investments:						
Foreign government and agency securities	10	—	28	—	38	—
Corporate debt securities	94	(2)	534	(9)	628	(11)
Total available-for-sale debt securities	$ 3,156	$ (2)	$ 969	$ (13)	$ 4,125	$ (15)

— Denotes gross unrealized loss or fair value of less than $1 million in a given position.

We believe the decline in value is due to temporary market conditions and expect to recover the entire amortized cost basis of the available-for-sale debt securities. We neither intend nor anticipate the need to sell the securities before recovery. We will continue to monitor the performance of the investment portfolio and assess market and interest rate risk when evaluating whether other-than-temporary impairment exists. Amounts reclassified to earnings from unrealized gains and losses were not material for the three months ended March 31, 2019 and 2018.

Our available-for-sale debt securities included within funds receivable and customer accounts, short-term investments, and long-term investments classified by date of contractual maturity were as follows:

	March 31, 2019	
	Amortized Cost	Fair Value
	(In millions)	(In millions)
One year or less	$ 10,746	$ 10,748
After one year through five years	468	464
After five years through ten years	6	6
Total	$ 11,220	$ 11,218

Strategic Investments

Our marketable equity securities have readily determinable fair values and are recorded as long-term investments on our condensed consolidated balance sheets at fair value with changes in fair value recorded in other income (expense), net. Marketable equity securities totaled $873 million as of March 31, 2019. We had no such securities as of December 31, 2018.

We also have non-marketable equity securities recorded in long-term investments on our condensed consolidated balance sheets. Our non-marketable equity securities do not have a readily determinable fair value, therefore we measure these equity investments at cost minus impairment, if any, and adjust for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer (the "Measurement Alternative"). All gains and losses on these investments, realized and unrealized, are recognized in other income (expense), net on our condensed consolidated statements of income. The carrying value of our non-marketable equity securities totaled $369 million and $293 million as of March 31, 2019 and December 31, 2018, respectively.

Measurement Alternative Adjustments

The adjustments to the carrying value of our non-marketable equity securities accounted for under the Measurement Alternative in thethree months ended March 31, 2019 were as follows:

	(In millions)
Carrying amount, beginning of period	$ 293
Adjustments related to non-marketable equity securities:	
Additions, net of sales	19
Gross unrealized gains	57
Gross unrealized losses and impairments	—
Carrying amount, end of period	$ 369

Cumulative gross unrealized gains and cumulative gross unrealized losses and impairment related to non-marketable equity securities accounted for under the Measurement Alternative held at March 31, 2019 were approximately $148 million and $5 million, respectively.

Gains (losses) on marketable and non-marketable equity securities

Net unrealized gains recognized in the three months ended March 31, 2019 related to marketable and non-marketable equity securities held atMarch 31, 2019 were approximately $180 million.

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Note 9—Fair Value Measurement of Assets and Liabilities

Financial Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018:

	March 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents[1]	$ 2,167	$ —	$ 2,167
Short-term investments[2]:			
U.S. government and agency securities	299	—	299
Foreign government and agency securities	287	—	287
Corporate debt securities	1,932	—	1,932
Total short-term investments	$ 2,518	$ —	$ 2,518
Funds receivable and customer accounts[3]:			
Cash and cash equivalents	1,051	—	1,051
U.S. government and agency securities	7,128	—	7,128
Foreign government and agency securities	2,316	—	2,316
Corporate debt securities	1,255	—	1,255
Total funds receivable and customer accounts	$ 11,750	$ —	$ 11,750
Derivatives	223	—	223
Long-term investments[2],[4]:			
Foreign government and agency securities	22	—	22
Corporate debt securities	429	—	429
Marketable equity securities	873	873	—
Total long-term investments	$ 1,324	$ 873	$ 451
Total financial assets	$ 17,982	$ 873	$ 17,109
Liabilities:			
Derivatives	$ 68	$ —	$ 68

[1] Excludes cash of $2.3 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $75 million and time deposits of $ 743 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $11.0 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity securities of $369 million measured using the Measurement Alternative.

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	December 31, 2018	Significant Other Observable Inputs (Level 2)
	(In millions)	
Assets:		
Cash and cash equivalents[1]	$ 3,678	$ 3,678
Short-term investments[2]:		
Foreign government and agency securities	235	235
Corporate debt securities	450	450
Total short-term investments	685	685
Funds receivable and customer accounts[3]:		
Cash and cash equivalents	605	605
U.S. government and agency securities	6,946	6,946
Foreign government and agency securities	2,434	2,434
Corporate debt securities	1,560	1,560
Total funds receivable and customer accounts	11,545	11,545
Derivatives	320	320
Long-term investments[2],[4]:		
Foreign government and agency securities	48	48
Corporate debt securities	628	628
Total long-term investments	676	676
Total financial assets	$ 16,904	$ 16,904
Liabilities:		
Derivatives	$ 67	$ 67

[1] Excludes cash of $3.9 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $77 million and time deposits of $774 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $8.5 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity investments of $293 million measured using the Measurement Alternative.

Our marketable equity securities are valued using quoted prices for identical assets in active markets (Level 1). All other financial assets and liabilities are valued using market prices on less active markets (Level 2). Level 2 instrument valuations are obtained from readily available pricing sources for comparable instruments, identical instruments in less active markets, or models using market observable inputs.

A majority of our derivative instruments are valued using pricing models that take into account the contract terms as well as multiple inputs where applicable, such as currency rates, interest rate yield curves, option volatility, and equity prices. Our derivative instruments are primarily short-term in nature, generally one month to one year in duration. Certain foreign currency contracts designated as cash flow hedges may have a duration of up to18 months.

We did not have any transfers of financial instruments between valuation levels during the three months ended March 31, 2019 and 2018. As of March 31, 2019, 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).

We elect to account for foreign currency denominated available-for-sale debt securities under the fair value option. Election of the fair value option allows us to recognize any gains and losses from fair value changes on such investments in other income (expense), net on the condensed consolidated statements of income to significantly reduce the accounting asymmetry that would otherwise arise when recognizing the corresponding foreign exchange gains and losses relating to customer liabilities. The following table summarizes the estimated fair value of our available-for-sale debt securities included within funds receivable and customer accounts, short-term investments and long-term investments under the fair value option as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
	(In millions)	
Funds receivable and customer accounts	$ 2,156	$ 2,339
Short-term investments	$ 284	$ 295
Long-term investments	$ 10	$ 10

The following table summarizes the gains (losses) from fair value changes recognized in other income (expense), net related to the available-for-sale debt securities included within funds receivable and customer accounts, short-term investments and long-term investments under the fair value option for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Funds receivable and customer accounts	$ (29)	$ 40
Short-term investments	$ —	$ 8

Financial Assets and Liabilities Measured and Recorded at Fair Value on a Non-Recurring Basis

The following table summarizes our financial assets and liabilities held as of March 31, 2019 and December 31, 2018 for which a non-recurring fair value measurement was recorded during the three months ended March 31, 2019 and the year ended December 31, 2018:

	March 31, 2019	Significant Other Observable Inputs (Level 2)
	(In millions)	
Non-marketable equity investments measured using the Measurement Alternative[1]	$ 103	103

[1] Excludes non-marketable equity investments of $266 million for which no observable price changes occurred during the three months ended March 31, 2019.

	December 31, 2018	Significant Other Observable Inputs (Level 2)
	(In millions)	
Non-marketable equity investments measured using the Measurement Alternative[1]	$ 116	116

[1] Excludes non-marketable equity investments of $177 million for which no observable price changes occurred during the year ended December 31, 2018.

We measured these non-marketable equity investments at cost minus impairment, if any, plus adjustments resulting from observable price changes in orderly transactions for an identical or a similar investment in the same issuer.

Financial Assets and Liabilities Not Measured and Recorded at Fair Value

Our financial instruments, including cash, restricted cash, time deposits, loans and interest receivable, net, certain customer accounts, notes receivable, and notes payable are carried at amortized cost, which approximates their fair value. If these financial instruments were measured at fair value in the financial statements, cash would be classified as Level 1; restricted cash, time deposits, certain customer accounts, and notes payable would be classified as Level 2; and the remaining financial instruments would be classified as Level 3 in the fair value hierarchy.

Note 10—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 and by entering into collateral security arrangements. 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 and costs denominated in foreign currencies, which subjects us to foreign currency risk. We have a foreign currency exposure management program whereby we designate certain foreign currency exchange contracts, generally with maturities of 18 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues denominated in foreign currencies. The objective of the foreign exchange contracts is to help mitigate the risk that the U.S. dollar-equivalent cash flows are adversely affected by changes in the applicable U.S. dollar/foreign currency exchange rate. These derivative instruments are designated as cash flow hedges and accordingly, the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified into revenue in the same period the forecasted transaction affects earnings. We evaluate the effectiveness of our foreign currency exchange contracts on a quarterly basis by comparing the critical terms of the derivative instruments with the critical terms of the forecasted cash flows of the hedged item; if the critical terms are the same we conclude the hedge will be perfectly effective. We did not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. We do not use any foreign exchange contracts for trading or speculative purposes.

As of March 31, 2019, we estimate that $131 million of net derivative gains related to our cash flow hedges included in accumulated other comprehensive income (loss) is expected to be reclassified into earnings within the next 12 months. During the three months ended March 31, 2019 and 2018, we did not discontinue any cash flow hedges because it was probable that the original forecasted transaction would not occur and as such, did not reclassify any gains or losses to earnings prior to the occurrence of the hedged transaction. If we elect to discontinue our cash flow hedges and it is probable that the original forecasted transaction will occur, we continue to report them in accumulated other comprehensive income (loss) until the forecasted transaction affects earnings, at which point we also reclassify the de-designated hedges into earnings. Gains and losses on derivatives held after we discontinue our cash flow hedge and gains and losses on derivative instruments that are not designated as cash flow hedges are recorded in the same financial statement line item to which the derivative relates.

We have an additional foreign currency exposure management program whereby we use foreign exchange contracts to offset the foreign exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. These contracts are not designated as hedging instruments and reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on our assets and liabilities are recorded in other income (expense), net, which is offset by the gains and losses on the foreign exchange contracts.

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Fair Value of Derivative Contracts

The fair value of our outstanding derivative instruments as of March 31, 2019 and December 31, 2018 was as follows:

	Balance Sheet Location	March 31, 2019	December 31, 2018
		(In millions)	
Derivative Assets:			
Foreign exchange contracts designated as cash flow hedges	Other current assets	$ 140	$ 170
Foreign exchange contracts designated as cash flow hedges	Other assets (non-current)	8	11
Foreign exchange contracts not designated as hedging instruments	Other current assets	75	139
Total derivative assets		$ 223	$ 320
Derivative Liabilities:			
Foreign exchange contracts designated as cash flow hedges	Other current liabilities	$ 9	$ 3
Foreign exchange contracts designated as cash flow hedges	Other long-term liabilities	3	—
Foreign exchange contracts not designated as hedging instruments	Other current liabilities	56	64
Total derivative liabilities		$ 68	$ 67

Master Netting Agreements - Rights of Setoff

Under master netting agreements with 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 condensed consolidated balance sheets. Rights of setoff associated with our foreign exchange contracts represented a potential offset to both assets and liabilities by $50 million as of March 31, 2019 and $45 million as of December 31, 2018. During the year ended December 31, 2018, we entered into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. We posted $4 million cash collateral related to our derivative liabilities as of March 31, 2019, which is recognized in other current assets on our condensed consolidated balance sheets, and is related to the right to reclaim cash collateral. We posted no cash collateral as of December 31, 2018. We received $153 million and $195 million in counterparty cash collateral related to our derivative assets as of March 31, 2019 and December 31, 2018, respectively, which is recognized in other current liabilities on our condensed consolidated balance sheets, and is related to the obligation to return cash collateral. Additionally, as of March 31, 2019 and December 31, 2018, we received nil and $6 million, respectively, in counterparty non-cash collateral in the form of debt securities.

Effect of Derivative Contracts on Accumulated Other Comprehensive Income (Loss)

The following tables summarize the activity of derivative contracts that qualify for hedge accounting as of March 31, 2019 and December 31, 2018, and the impact of designated derivative instruments on accumulated other comprehensive income (loss) for the three months ended March 31, 2019 and 2018:

	December 31, 2018	Amount of gains (losses) recognized in other comprehensive income	Less: Amount of gains (losses) reclassified from accumulated other comprehensive income to net revenue	March 31, 2019
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ 182	$ 6	$ 52	$ 136

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	December 31, 2017	Amount of gains (losses) recognized in other comprehensive income	Less: Amount of gains (losses) reclassified from accumulated other comprehensive income to net revenue	March 31, 2018
		(In millions)		
Foreign exchange contracts designated as cash flow hedges	$ (111)	$ (62)	$ (44)	$ (129)

Effect of Derivative Contracts on Condensed Consolidated Statements of Income

The following table provides the location in the condensed consolidated statements of income and amount of recognized gains or losses related to our derivative instruments designated as hedging instruments:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
	Net revenues	
Total amounts presented in the condensed consolidated statements of income in which the effects of cash flow hedges are recorded	$ 4,128	$ 3,685
Gains (losses) on foreign exchange contracts designated as cash flow hedges reclassified from accumulated other comprehensive income	$ 52	$ (44)

The following table provides the location in the condensed consolidated statements of income and amount of recognized gains or losses related to our derivative instruments not designated as hedging instruments:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Gains (losses) on foreign exchange contracts recognized in other income (expense), net	$ (10)	$ (44)
Gains (losses) on foreign exchange contracts recognized in net revenues	—	(6)
Total gains (losses) recognized from foreign exchange contracts not designated as hedging instruments	$ (10)	$ (50)

Notional Amounts of Derivative Contracts

Derivative transactions are measured in terms of the notional amount; however, this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the derivative instruments. The notional amount is generally not exchanged but is used only as the underlying basis on which the value of foreign exchange payments under these contracts is determined. The following table provides the notional amounts of our outstanding derivatives:

	March 31, 2019	December 31, 2018
	(In millions)	
Foreign exchange contracts designated as cash flow hedges	$ 3,568	$ 3,831
Foreign exchange contracts not designated as hedging instruments	11,310	10,703
Total	$ 14,878	$ 14,534

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Note 11—Loans and Interest Receivable

We offer credit products to consumers and certain small and medium-sized merchants. We work with independent chartered financial institutions that extend credit to the consumer or merchant using our credit products in the U.S. For our consumer credit products outside the U.S., we extend credit through our Luxembourg banking subsidiary. For our merchant credit products outside the U.S., we extend working capital advances in the U.K. and loans in Germany through our Luxembourg banking subsidiary, and extend working capital loans in Australia through an Australian subsidiary. Prior to July 2018, we purchased receivables related to credit extended to U.S. consumers by independent chartered financial institutions and were responsible for servicing functions related to that portfolio. Following the completion of the sale of our U.S. consumer credit receivables portfolio to Synchrony Bank in July 2018, we no longer purchase receivables related to the U.S. consumer loans, but remain responsible for the servicing functions related to the sold portfolio through a transition period. We purchase receivables related to credit extended to U.S. merchants by an independent chartered financial institution and are responsible for servicing functions related to that portfolio. During the three months ended March 31, 2019 and 2018, we purchased approximately $1.1 billion and $3.0 billion, respectively, in credit receivables. The credit receivables purchased during the three months ended March 31, 2018 include purchases associated with U.S. consumer credit receivables portfolio, which was designated as held for sale at the time and subsequently sold to Synchrony Bank.

Loans and Interest Receivable, Net

Consumer Receivables

We offer credit products to consumers who choose PayPal Credit at checkout. As of March 31, 2019 and December 31, 2018, the outstanding balance of consumer receivables, which primarily consisted of loans and interest receivable due from international consumer accounts, was $792 million and $704 million, respectively.

We closely monitor credit quality for our consumer receivables to manage and evaluate our related exposure to credit risk. Credit risk management begins with initial underwriting and continues through to full repayment of a loan. To assess a consumer who requests a loan, we use, among other indicators, internally developed risk models using detailed information from external sources such as credit bureaus where available and internal historical experience including the consumer's prior repayment history with PayPal Credit products as well as other measures. We use delinquency status and trends to assist in making new and ongoing credit decisions, to adjust our models, to plan our collection practices and strategies, and in our determination of our allowance for consumer loans and interest receivable.

The following tables present the delinquency status of the principal amount of consumer loans and interest receivable. The amounts shown below are based on the number of days past the billing date to the consumer. Current represents balances that are within 30 days of the billing date.

March 31, 2019
(In millions)

Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 180 Days Past Due	Total Past Due	Total
$ 747	$ 22	$ 8	$ 15	$ 45	$ 792
94.3%	2.8%	1.0%	1.9%	5.7%	100%

December 31, 2018
(In millions)

Current	30 - 59 Days Past Due	60 - 89 Days Past Due	90 - 180 Days Past Due	Total Past Due	Total
$ 668	$ 18	$ 6	$ 12	$ 36	$ 704
94.9%	2.5%	0.9%	1.7%	5.1%	100%

We charge off consumer loan receivable balances in the month in which a customer balance becomes 180 days past the payment due date. Bankrupt accounts are charged off within 90 days after receipt of notification of bankruptcy. Loans receivable past the payment due date continue to accrue interest until they are charged off. We record an allowance for loss against the interest and fees receivable.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The following table summarizes the activity in the allowance for consumer loans and interest receivable for the three months ended March 31, 2019 and 2018:

	March 31, 2019			March 31, 2018		
	Consumer Loans Receivable	Interest Receivable	Total Allowance	Consumer Loans Receivable	Interest Receivable	Total Allowance[1]
	(In millions)					
Beginning balance	$ 27	$ 3	$ 30	$ 57	$ 6	$ 63
Provisions	1	2	3	23	3	26
Charge-offs	(9)	(1)	(10)	(39)	(3)	(42)
Recoveries	10	—	10	—	—	—
Ending balance	$ 29	$ 4	$ 33	$ 41	$ 6	$ 47

[1] Beginning and ending balances include approximately $50 million and $31 million, respectively, of U.S. consumer receivables not designated as held for sale that are fully reserved and are expected to be charged off.

The tables above exclude receivables from other consumer credit products of $84 million and $96 million at March 31, 2019 and December 31, 2018, respectively, and allowances of $9 million and $12 million at March 31, 2019 and December 31, 2018, respectively.

The provision for loan losses relating to our consumer loans receivable portfolio is recognized in transaction and loan losses. The provision for interest receivable due to interest and fees earned on our consumer loans receivable portfolio is recognized in net revenues from other value added services as a reduction in revenue. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

Merchant Receivables

We offer business financing solutions to certain small and medium-sized merchants through our PayPal Working Capital ("PPWC") and PayPal Business Loan ("PPBL") products. As of March 31, 2019 and December 31, 2018, the total outstanding balance in our pool of merchant loans, advances, and interest and fees receivable was $2.2 billion and $1.9 billion, respectively, net of the participation interest sold to an independent chartered financial institution of $97 million and $84 million, respectively.

Through our PPWC product, merchants can borrow a certain percentage of their annual payment volume processed by PayPal and are charged a fixed fee for the loan or advance, which targets an annual percentage rate based on the overall credit assessment of the merchant. Loans and advances are repaid through a fixed percentage of the merchant's future payment volume that PayPal processes. Through our PPBL product, we provide merchants with access to short-term business financing for a fixed fee based on an evaluation of both the applying business as well as the business owner. PPBL repayments are collected by periodic payments until the balance has been satisfied.

The interest or fee is fixed at the time the loan or advance is extended and recognized as deferred revenues included in accrued expenses and other current liabilities in our condensed consolidated balance sheets. The fixed interest or fee is amortized to revenues from other value added services based on the amount repaid over the repayment period. We estimate the repayment period based on the merchant's payment processing history with PayPal, where available. For PPWC, there is a general requirement that at least 10% of the original amount of the loan or advance plus the fixed fee must be repaid every 90 days. We calculate the repayment rate of the merchant's future payment volume so that repayment of the loan or advance and fixed fee is expected to generally occur within 9 to 12 months from the date of the loan or advance. On a monthly basis, we recalculate the repayment period based on the repayment activity on the receivable. As such, actual repayment periods are dependent on actual merchant payment processing volumes. For PPBL, we receive fixed periodic payments over the contractual term of the loan which generally ranges from 3 to 12 months. We actively monitor receivables with repayment periods greater than the original expected or contractual repayment period.

PayPal Holdings, Inc.

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We closely monitor credit quality for our merchant loans and advances that we extend or purchase, so that we can evaluate, quantify, and manage our credit risk exposure. To assess a merchant seeking a business financing loan or advance, we use, among other indicators, risk models developed internally which utilize information obtained from multiple data sources, both external and internal data to predict the likelihood of timely, and satisfactory repayment by the merchant of the loan or advance amount and the related interest or fee. Primary drivers of the models include the merchant's annual payment volume, payment processing history with PayPal and prior repayment history with the PayPal products where available, elements sourced from consumer credit bureau and business credit bureau reports, and other information obtained during the application process. We use delinquency status and trends to assist in making ongoing credit decisions, to adjust our internal models, to plan our collection practices and strategies, and in our determination of our allowance for these loans and advances.

Merchant Receivables Delinquency and Allowance

The following tables present our estimate of the principal amount of merchant loans, advances, and interest and fees receivable past their original expected or contractual repayment period.

	March 31, 2019 (In millions)					
Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	90 - 180 Days Greater	180+ Days	Total Past Original Expected Repayment Period	Total
$ 1,981	$ 71	$ 42	$ 67	$ 14	$ 194	$ 2,175
91.1%	3.3%	1.9%	3.1%	0.6%	8.9%	100%

	December 31, 2018[1] (In millions)					
Within Original Expected Repayment Period	30 - 59 Days Greater	60 - 89 Days Greater	90 - 180 Days Greater	180+ Days	Total Past Original Expected Repayment Period	Total
$ 1,706	$ 66	$ 32	$ 57	$ 13	$ 168	$ 1,874
91.0%	3.6%	1.7%	3.0%	0.7%	9.0%	100%

[1] Excludes $30 million of loan receivables related to iZettle merchant receivables.

The following table summarizes the activity in the allowance for merchant loans, advances, and interest and fees receivable, for thethree months ended March 31, 2019 and 2018:

	March 31, 2019			March 31, 2018		
	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance
	(In millions)					
Beginning balance	$ 115	$ 15	$ 130	$ 52	$ 7	$ 59
Provisions	54	6	60	39	6	45
Charge-offs	(37)	(3)	(40)	(21)	(2)	(23)
Recoveries	3	—	3	2	—	2
Ending balance	$ 135	$ 18	$ 153	$ 72	$ 11	$ 83

For merchant loans and advances, the determination of delinquency, from current to 180 days past due, is based on the current expected or contractual repayment period of the loan or advance and fixed interest or fee payment as compared to the original expected or contractual repayment period. We charge off the receivables outstanding under our PPBL product when the repayments are 180 days past due. We charge off the receivables outstanding under our PPWC product when the repayments are 180 days past our expectation of repayments and the merchant has not made a payment in the last 60 days or when the repayments are 360 days past due regardless of whether the merchant has made a payment within the last 60 days. Bankrupt accounts are charged off within 60 days of receiving notification of bankruptcy. The provision for loan losses is recognized in transaction and loan losses, and the provisions for interest and fees receivable is recognized in deferred revenues included in other current liabilities in our condensed consolidated balance sheets. Charge-offs that are recovered are recorded as a reduction to our allowance for loans and interest receivable.

Note 12—Notes Payable

In the fourth quarter of 2018, we entered into an amended credit agreement ("Amended Credit Agreement") which amended and restated in its entirety the previous agreement entered into in 2017. The Amended Credit Agreement provides for an unsecured $5.0 billion, 364-day delayed-draw term loan credit facility, which was available in up to four separate borrowings up until April 6, 2019. As of March 31, 2019, $2.0 billion was outstanding under the Amended Credit Agreement at a weighted average interest rate of 3.44%. The total interest expense and fees we recorded related to the Amended Credit Agreement was approximately $20 million for the three months ended March 31, 2019. Refer to Note 18—"Subsequent Events" for additional information.

There are no significant changes or amounts outstanding related to the other credit agreements disclosed in our 2018 Form 10-K.

Note 13—Commitments and Contingencies

Commitments

As of March 31, 2019 and December 31, 2018, approximately $2.0 billion and $1.8 billion, respectively, of unused credit was available to PayPal Credit account holders. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all 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 based on, among other things, account usage and customer creditworthiness.

Prior to the completion of the sale of our U.S. consumer credit receivables portfolio in July 2018, when a consumer funded a purchase in the U.S. using a PayPal Credit product issued by a chartered financial institution, the chartered financial institution extended credit to the consumer, funded the extension of credit at the point of sale, and advanced funds to the merchant. We purchased the receivables related to the consumer loans extended by the chartered financial institution and, as a result of such purchase, bore the risk of loss in the event of loan defaults. Although the chartered financial institution continued to own each customer account, we owned the related receivable (excluding participation interests sold) and were responsible for all servicing functions related to the account. Subsequent to the completion of the sale of our U.S. consumer credit receivables portfolio, we no longer purchase the receivables related to consumer loans extended by the chartered financial institution.

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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 of losses 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 13, 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, 2019. Except as otherwise noted for the proceedings described in this Note 13, we have concluded, based on currently available information, that reasonably possible losses arising directly from the proceedings (i.e., monetary damages or amounts paid in judgment or settlement) in excess of our recorded accruals are also not material. However, legal and regulatory proceedings are inherently unpredictable and subject to significant uncertainties. If one or more matters were resolved against us in a reporting period for amounts in excess of management's expectations, the impact on our operating results or financial condition for that reporting period could be material.

Regulatory Proceedings

We are required to comply with U.S. economic and trade sanctions administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"). We have self-reported to OFAC certain transactions that were inadvertently processed but subsequently identified as possible violations of U.S. economic and trade sanctions. In March 2015, we reached a settlement with OFAC regarding possible violations arising from our sanctions compliance practices between 2009 and 2013, prior to the implementation of our real-time transaction scanning program. Subsequently, we have self-reported additional transactions as possible violations, and we have received new subpoenas from OFAC seeking additional information about certain of these transactions. Such self-reported transactions could result in claims or actions against us, including litigation, injunctions, damage awards, fines or penalties, or require us to change our business practices in a manner that could result in a material loss, require significant management time, result in the diversion of significant operational resources, or otherwise harm our business.

On March 28, 2016, we received a Civil Investigative Demand ("CID") from the Federal Trade Commission ("FTC") as part of its investigation to determine whether we, through our Venmo service, have been or are engaged in deceptive or unfair practices in violation of the Federal Trade Commission Act. The CID requested the production of documents and answers to written questions related to our Venmo service. We have cooperated with the FTC in connection with the CID. On February 27, 2018, we entered into a Consent Order with the FTC in which we settled potential allegations arising from our Venmo services between 2013 and 2017. The Consent Order does not contain a monetary penalty, but requires PayPal to make various changes to Venmo's disclosures and business practices. The FTC approved the final Consent Order on May 24, 2018. As required by the Consent Order, we are cooperating with the FTC's requirements and working to ensure compliance with the Consent Order. Any failure to comply with the Consent Order may increase the possibility of additional adverse consequences, including litigation, additional regulatory actions, injunctions, or monetary penalties, or require further changes to our business practices, significant management time, or the diversion of significant operational resources, all of which could result in a material loss or otherwise harm our business.

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Legal Proceedings

In November 2017, we announced that we had suspended the operations of TIO Networks ("TIO") as part of an ongoing investigation of security vulnerabilities of the TIO platform. On December 1, 2017, we announced that we had identified evidence of unauthorized access to TIO's network, including locations that stored personal information of some of TIO's customers and customers of TIO billers and the potential compromise of personally identifiable information for approximately 1.6 million customers. We have received a number of governmental inquiries, including from state attorneys general, and we may be subject to additional governmental inquiries and investigations in the future. In addition, on December 6, 2017, a putative class action lawsuit captioned *Sgarlata v. PayPal Holdings, Inc., et al.*, Case No. 3:17-cv-06956-EMC was filed in the U.S. District Court for the Northern District of California (the "Court") against the Company, its Chief Executive Officer, its Chief Financial Officer and Hamed Shahbazi, the former chief executive officer of TIO (the "Defendants") alleging violations of federal securities laws. The initial complaint alleged that Defendants made false or misleading statements or failed to disclose that TIO's data security program was inadequate to safeguard the personally identifiable information of its users, those vulnerabilities threatened continued operation of TIO's platform, the Company's revenues derived from TIO services were thus unsustainable, and consequently, the Company overstated the benefits of the TIO acquisition, and, as a result, the Company's public statements were materially false and misleading at all relevant times. The plaintiff who initiated the lawsuit sought to represent a class of shareholders who acquired shares of the Company's common stock between February 14, 2017 through December 1, 2017 and sought damages and attorneys' fees, among other relief. On March 16, 2018, the Court appointed two new plaintiffs, not the original plaintiff who filed the case, as interim co-lead plaintiffs in the case and appointed two law firms as interim co-lead counsel. On June 13, 2018, the interim co-lead plaintiffs filed a -first amended complaint, which named TIO Networks ULC, TIO Networks USA, Inc., and John Kunze (the Company's Vice President, Global Consumer Products and Xoom) as additional defendants. The first amended complaint was purportedly brought on behalf of all persons other than the Defendants who acquired the Company's securities between November 10, 2017 and December 1, 2017. The amended complaint alleged that the Company's and TIO's November 10, 2017 announcement of the suspension of TIO's operations was false and misleading because the announcement only disclosed security vulnerabilities on TIO's platform, rather than an actual security breach that Defendants were allegedly aware of at the time of the announcement. Defendants' filed their motion to dismiss the first amended complaint on July 13, 2018 and the Court granted the motions, without prejudice on December 13, 2018. Plaintiffs filed a second amended complaint on January 14, 2019. The second amended complaint alleges substantially the same theory of liability as the first amended complaint, but no longer names Hamed Shabazi as a defendant. The remaining Defendants filed their motion to dismiss the second amended complaint on March 15, 2019, and a hearing is scheduled for July 11, 2019. We may be subject to additional litigation relating to TIO's data security platform or the suspension of TIO's operations in the future.

General Matters

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We are subject to patent disputes and expect that we will increasingly be subject to additional patent infringement claims involving various aspects of our business as our products and services continue to expand in scope and complexity. Such claims may be brought directly or indirectly against our companies and/or against our customers (who may be entitled to contractual indemnification under their contracts with us), and we are subject to increased exposure to such claims as a result of our acquisitions, particularly in cases where we are introducing new products or services in connection with such acquisitions. We have in the past been forced to litigate such claims, and we believe that additional lawsuits alleging such claims will be filed against us. Intellectual property claims, whether meritorious or not, are time consuming and costly to defend and resolve, could require expensive changes in our methods of doing business, or could require us to enter into costly royalty or licensing agreements on unfavorable terms or make substantial payments to settle claims or to satisfy damages awarded by courts.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business, including suits by our customers (individually or as class actions) alleging, among other things, improper disclosure of our prices, rules or policies, that our practices, prices, rules, policies or customer/user agreements violate applicable law or that we have acted unfairly and/or not acted in conformity with such prices, rules, policies, or agreements. In addition to these types of disputes and regulatory inquiries, our operations are also subject to regulatory and/or legal review and/or challenges that tend to reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on our business and customers and may lead to increased costs and decreased transaction volume and revenue. Further, the number and significance of these disputes and inquiries are increasing as we have grown larger, our business has expanded in scope (both in terms of the range of products and services that we offer and our geographical operations), and our products and services have increased in complexity. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, settlement payments, damage awards (including statutory damages for certain causes of action in certain jurisdictions), fines, penalties, injunctive relief, or increased costs of doing business through adverse judgment or settlement, require us to change our business practices in expensive ways, require significant amounts of management time, result in the diversion of significant operational resources, or otherwise harm our business.

Indemnification Provisions

We entered into a separation and distribution agreement, a tax matters agreement, an operating agreement and various other agreements with eBay Inc. (“eBay”) to govern the separation of the two companies in 2015 and the relationship of the two companies going forward. These agreements provide for specific indemnity and liability obligations for both eBay and us. Disputes between eBay and us have arisen and others may arise in the future, and an adverse outcome in such matters could materially and adversely impact our business, results of operations, and financial condition. In addition, the indemnity rights we have against eBay under the agreements may not be sufficient to protect us, and our indemnity obligations to eBay may be significant.

In the ordinary course of business, we include limited indemnification provisions in certain of our agreements with parties with whom we have commercial relationships. Under these contracts, we generally indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with claims by any third party with respect to our domain names, trademarks, logos, and other branding elements to the extent that such marks are related to the subject agreement. We have provided an indemnity for other types of third-party claims, which are indemnities mainly related to intellectual property rights, confidentiality, willful misconduct, data privacy obligations, and certain breach of contract claims. We have also provided an indemnity to our payments processors in the event of card association fines against the processor arising out of conduct by us or our customers. It is not possible to determine the maximum potential loss under these indemnification provisions due to our limited history of prior indemnification claims and the unique facts and circumstances involved in each particular situation. To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

Off-Balance Sheet Arrangements

As of March 31, 2019 and December 31, 2018, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Protection Programs

We provide merchants and consumers with protection programs on most transactions completed on our Payments Platform, except for transactions using our gateway products or where our customer agreements specifically do not provide for protections. 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. These protection programs are considered assurance-type warranties for which we estimate and record associated costs in transaction and loan losses during the period the payment transaction is completed.

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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 potential exposure cannot be quantified as we are unable to determine total eligible transactions where performance by a merchant or consumer 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 shows changes in the allowance for transaction losses and negative customer balances related to our protection programs for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Beginning balance	$ 344	$ 266
Provisions, net of recoveries	286	243
Realized losses	(245)	(226)
Ending balance	$ 385	$ 283

Note 14—Stock Repurchase Programs

In February 2019, we entered into an accelerated share repurchase ("ASR") agreement with an unrelated third party financial institution to repurchase shares of our common stock. Under the terms of the ASR agreement, we made an upfront payment of $750 million to the third party financial institution and received approximately 7.7 million shares of our common stock, at an average price of $96.91 during the term of the transaction, which ended in March 2019. The total number of shares of our common stock repurchased was based on the volume-weighted average share price of our common stock during the term of the transaction, less a discount and subject to adjustments pursuant to the terms of the ASR agreement. We recorded the initial payment of $750 million as a reduction to stockholders' equity on our condensed consolidated balance sheet. All common stock received under the ASR agreement was recorded as treasury stock and the forward contract indexed to our own common stock met all applicable criteria for equity classification.

As of March 31, 2019, a total of approximately $724 million and $10 billion remained available for future repurchases of our common stock under our April 2017 and July 2018 stock repurchase programs, respectively.

Note 15—Stock-Based Plans

Stock-based Compensation Expense

We record stock-based compensation expense for our equity incentive plans in accordance with U.S. GAAP, which requires the measurement and recognition of compensation expense based on estimated fair values.

The impact on our results of operations of recording stock-based compensation expense under our equity incentive plans for the three months ended March 31, 2019 and 2018 was as follows:

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Customer support and operations	$ 48	$ 42
Sales and marketing	32	34
Technology and development	93	72
General and administrative	81	61
Total stock-based compensation expense	$ 254	$ 209
Capitalized as part of internal use software and website development costs	$ 10	$ 7

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Note 16—Income Taxes

Our effective tax rate for both the three months ended March 31, 2019 and March 31, 2018 was 7%. The difference between our effective tax rate and the U.S. federal statutory rate of 21% in both periods was primarily the result of foreign income taxed at different rates and discrete tax benefits related to stock-based compensation.

Note 17—Restructuring

During the first quarter of 2019 and 2018, management approved strategic reductions of the existing global workforce which resulted in restructuring charges of $78 million and $25 million, respectively. The approved reductions for 2019 are to better align our teams to support key business priorities and also includes the transfer of certain operational functions between geographies, as well as the impact of the transition of servicing activities provided to Synchrony, which are expected to terminate in the second quarter of 2019. We primarily incurred employee severance and benefits expenses under the 2019 strategic reduction. The cash payments associated with the 2019 restructuring are expected to be substantially completed by the end of 2019. The reduction approved in the first quarter of 2018 includes restructuring charges related to the decision to wind down TIO's operations. We incurred employee and severance benefits expenses under the 2018 strategic reduction, which was substantially completed by the end of 2018.

The following table summarizes the restructuring reserve activity during the three months ended March 31, 2019:

	Employee Severance and Benefits
	(In millions)
Accrued liability as of January 1, 2019	$ 3
Charges	78
Payments	(2)
Accrued liability as of March 31, 2019	$ 79

Note 18—Subsequent Events

On April 5, 2019, the Company drew down an additional $500 million under the Amended Credit Agreement.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). These forward-looking statements can be identified by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "strategy," "future," "opportunity," "plan," "project," "forecast," and other similar expressions. These forward-looking statements involve risks and uncertainties that could cause our actual results and financial condition to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"), as supplemented and, to the extent inconsistent, superseded (if applicable) by some of the information in the risk factors set forth below in Part II, Item 1A, Risk Factors, of this Form 10-Q, as well as in our unaudited condensed consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission ("SEC"). We do not intend, and undertake no obligation except as required by law, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company" and "PayPal" refer to PayPal Holdings and its consolidated subsidiaries.

Business Environment

We are a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide. PayPal is committed to democratizing financial services and empowering people and businesses to join and thrive in the global economy. Our goal is to enable our consumers and merchants to manage and move their money anywhere in the world, anytime, on any platform, and using any device. We also facilitate person-to-person ("P2P") payments through our PayPal, Venmo, and Xoom products. Our combined payment solutions, including our PayPal, PayPal Credit, Braintree, Venmo, Xoom, and iZettle products, comprise our proprietary Payments Platform.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened regulatory focus on all aspects of the payments industry. That focus continues to become even more heightened as regulators on a global basis focus on important issues such as countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. Some of the laws and regulations to which we are subject were enacted recently, and the laws and regulations applicable to us, including those enacted prior to the advent of digital and mobile payments, are continuing to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including the way laws and regulations are interpreted and implemented, as well as increased penalties and enforcement actions related to non-compliance, could have a material adverse impact on our business, results of operations, and financial condition. Therefore, we monitor these areas closely to design compliant solutions for our customers who depend on us.

Information security risks for global payments and technology companies like us have significantly increased in recent years. We are not immune to these risks and there can be no assurance that we will not suffer such losses in the future. For additional information regarding our information security risks, see Part I, Item 1A, Risk Factors in our 2018 Form 10-K, as supplemented and, to the extent inconsistent, superseded below in Part II, Item 1A, Risk Factors in this Form 10-Q.

The United Kingdom ("U.K.") held a referendum in June 2016 in which a majority of voters approved an exit from the European Union ("EU"), commonly referred to as "Brexit". In March 2017, the U.K. government initiated the exit process under Article 50 of the Treaty on European Union, which commenced a two-year period expiring on March 29, 2019, after which time the U.K. was expected to leave the EU. The EU subsequently extended the date to October 31, 2019 although the U.K. could leave sooner depending on political developments. There is a significant lack of clarity over the eventual date and terms of the U.K.'s exit from the EU and the terms of the U.K.'s future relationship with the EU. The U.K.'s financial service regulators are implementing Temporary Permission Regimes ("TPR") to support European Economic Area ("EEA") financial service firms in continuing to conduct business in the U.K. should the U.K. exit the EU without an agreement. The final TPR rules will come into effect if the U.K. leaves the EU without an agreement. Accordingly, we may need to adjust our business to comply with additional legal and regulatory requirements if accessing the TPR. We are currently unable to determine the impact that Brexit will have on our business, as any impact will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations. For additional information on how Brexit could affect our business, see Part I, Item 1A, Risk Factors in our 2018 Form 10-K, as supplemented and, to the extent inconsistent, superseded (if applicable) below in Part II, Item 1A, Risk Factors in this Form 10-Q.

Brexit could adversely affect U.K., regional (including European) and worldwide economic and market conditions, and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro. We have foreign exchange exposure management programs designed to help reduce the impact from foreign currency rate movements. Net revenues generated from our U.K. operations constituted approximately 10% and 11% of total net revenues for the three months ended March 31, 2019 and March 31, 2018, respectively. During each of these periods, net revenues generated from the EU (excluding the U.K.) constituted less than 20% of total net revenues. Approximately 31% of our gross loans and interest receivables as of March 31, 2019 and December 31, 2018, were generated from our U.K. operations. Approximately 6% and 7% of our gross loans and interest receivables as of March 31, 2019 and December 31, 2018, respectively, were generated from the EU (excluding the U.K.) operations.

Overview of Results of Operations

The following table provides a summary of our condensed consolidated GAAP financial measures for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2019	2018	
	(In millions, except percentages and per share data)		
Net revenues	$ 4,128	$ 3,685	12 %
Operating expenses	3,610	3,151	15 %
Operating income	$ 518	$ 534	(3)%
Operating margin	13%	14%	**
Income tax expense	$ 50	$ 37	35 %
Effective tax rate	7%	7%	**
Net income	$ 667	$ 511	31 %
Net income per diluted share	$ 0.56	$ 0.42	34 %
Net cash provided by operating activities	$ 1,027	$ (349)	**

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

Three Months Ended March 31, 2019 and 2018

Net revenues increased $443 million, or 12%, in the three months ended March 31, 2019, compared to the same period of the prior year, driven primarily by growth in TPV (as defined below under "Net Revenues") of 22%, compared to the same period of the prior year. Net revenues from acquisitions completed in 2018 collectively contributed approximately two percentage points to the growth rate in 2019. The increase was offset by a decrease in interest and fee income due to the sale of our U.S. consumer credit receivables portfolio to Synchrony Bank in July 2018, which resulted in a negative impact of approximately seven percentage points to the net revenues growth rate.

Total operating expenses increased $459 million, or 15%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to increases in transaction expense, general and administrative, and technology and development, partially offset by a decline in restructuring and other charges. Operating expenses related to acquisitions completed in 2018 collectively contributed four percentage points to the growth rate in the three months ended March 31, 2019.

Operating income decreased by $16 million, or 3%, in the three months ended March 31, 2019, compared to the same period of the prior year, due to growth in operating expenses offset by an increase in net revenues. Acquisitions completed in 2018 collectively had a negative impact of approximately eleven percentage points to the growth rate in operating income. Our operating margin was 13% and 14% in the three months ended March 31, 2019 and March 31, 2018, respectively. Operating margin for the three months ended March 31, 2019 was negatively impacted by growth in transaction expense, which increased 21% in the three months ended March 31, 2019, compared to net revenues, which increased 12% in the same period, offset by positive impacts of operating efficiencies in our business. Acquisitions completed in 2018 collectively had a negative impact of approximately two percentage points on our operating margin.

Net income increased by $156 million, or 31%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to an increase of $185 million in other income (expense), net, offset by the decrease in operating income of $16 million. Increase in other income (expense), net was driven by unrealized gains on strategic investments. Net income was further impacted by an increase in income tax expense of $13 million primarily driven by the increase in income before income taxes.

Impact of Foreign Currency Exchange Rates

We have significant international operations that are denominated in foreign currencies, primarily the British Pound, Euro, Australian Dollar, and Canadian Dollar, subjecting us to foreign currency risk which may adversely impact our financial results. The strengthening or weakening of the U.S. dollar versus the British Pound, Euro, Australian Dollar, and Canadian Dollar, as well as other currencies in which we conduct our international operations, impacts the translation of our net revenues and expenses generated in these foreign currencies into the U.S. dollar. In the three months ended March 31, 2019 and 2018, we generated approximately 47% and 45% of our net revenues from customers domiciled outside of the United States ("U.S."), respectively. Because we have generated substantial net revenues internationally in recent periods, including during the periods presented, we are subject to the risks of doing business outside of the U.S. See Part I, Item 1A, Risk Factors in our 2018 Form 10-K, as supplemented and, to the extent inconsistent, superseded (if applicable) below in Part II, Item 1A, Risk Factors in this Form 10-Q.

We calculate the year-over-year impact of foreign currency movements on our business using prior period foreign currency exchange rates applied to current period transactional currency amounts. While changes in foreign currency exchange rates affect our reported results, we have a foreign currency exchange exposure management program whereby we designate certain foreign currency exchange contracts as cash flow hedges intended to reduce the impact on earnings from foreign currency exchange rate movements. Gains and losses from these foreign currency exchange contracts are recognized as a component of transaction revenues in the same period the forecasted transactions impact earnings.

In the three months ended March 31, 2019 and March 31, 2018, year-over-year foreign currency movements relative to the U.S. dollar had the following impact on our reported results:

	Three Months Ended March 31, 2019
	(In millions)
Unfavorable impact to net revenues (exclusive of hedging impact)	$ (116)
Hedging impact	52
Unfavorable impact to net revenues	(64)
Favorable impact to operating expense	62
Net unfavorable impact to operating income	$ (2)

	Three Months Ended March 31, 2018
	(In millions)
Favorable impact to net revenues (exclusive of hedging impact)	$ 141
Hedging impact	(50)
Favorable impact to net revenues	91
Unfavorable impact to operating expense	(59)
Net favorable impact to operating income	$ 32

While we enter into foreign currency exchange contracts to help reduce the impact on earnings from foreign currency exchange rate movements, it is impossible to predict or eliminate the total effects of this exposure.

Additionally, in connection with our services that are paid for in multiple currencies, we generally set our foreign currency exchange rates daily, and may face financial exposure if we incorrectly set our foreign currency exchange rates or as a result of fluctuations in foreign currency exchange rates between the times that we set our foreign currency exchange rates. Given that we also have foreign currency exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries, we have an additional foreign currency exchange exposure management program whereby we use foreign currency exchange contracts to offset the impact of foreign currency exchange rate movements on our assets and liabilities. The foreign currency exchange gains and losses on our assets and liabilities are recorded in other income (expense), net, and are offset by the gains and losses on the foreign currency exchange contracts. These foreign currency exchange contracts reduce, but do not entirely eliminate, the impact of foreign currency exchange rate movements on our assets and liabilities.

Financial Results

Net Revenues

Our revenues are classified into the following two categories:

- *Transaction revenues*: Net transaction fees charged to merchants and consumers on a transaction basis primarily based on the volume of activity, or TPV, completed on our Payments Platform. Growth in TPV is directly impacted by the number of payment transactions that we enable on our Payments Platform. Payment transactions are the total number of payments, net of payment reversals, successfully completed through our Payments Platform or enabled by PayPal via a partner payment solution, not including gateway-exclusive transactions. We earn additional fees on transactions settled in foreign currencies when we enable cross-border transactions (i.e., transactions where the merchant or consumer are in different countries).

- *Other value added services*: Net revenues derived primarily from revenue earned through partnerships, subscription fees, gateway fees, and other services we provide to our merchants and customers. We also earn revenues from interest and fees earned primarily on our PayPal credit portfolio of loans receivable, gain on sale of participation interest in certain loans and advances, and interest earned on certain PayPal customer account balances.

Net Revenues Analysis

The components of our net revenues for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2019	2018	
	(In millions, except percentages)		
Transaction revenues	$ 3,731	$ 3,197	17 %
Other value-added services	397	488	(19)%
Net revenues	$ 4,128	$ 3,685	12 %

Transaction revenues

Transaction revenues grew by $534 million, or 17%, for the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to growth in TPV, mainly from our PayPal, Braintree, and Venmo products, and in the number of payment transactions, both of which resulted primarily from an increase in our active accounts. Acquisitions completed in 2018 contributed approximately one percentage point to the growth rate of transaction revenues in the three months ended March 31, 2019.

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

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2019	2018	
	(In millions, except percentages)		
Active accounts[1]	277	237	17%
Number of payment transactions[2]	2,838	2,214	28%
Payment transactions per active account[3]	37.9	34.7	9%
TPV[4]	$ 161,492	$ 132,364	22%
Percent of cross-border TPV	18%	21%	**

All amounts in tables are rounded to the nearest million, except as otherwise noted. As a result, certain amounts may not recalculate using the rounded amounts provided.
[1] Reflects active accounts as of the end of the applicable period. An active account is an account registered directly with PayPal or a platform access partner that has completed a transaction on our Payments Platform, not including gateway-exclusive transactions, within the past 12 months.
[2] Number of payment transactions are the total number of payments, net of payment reversals, successfully completed on our Payments Platform or enabled by PayPal via a partner payment solution, not including gateway-exclusive transactions.
[3] Number of payment transactions per active account reflects the total number of payment transactions within the previous 12 month period, divided by active accounts at the end of the period.
[4] TPV is the value of payments, net of reversals, successfully completed on our Payments Platform or enabled by PayPal via a partner payment solution, not including gateway-exclusive transactions.
** Not meaningful

Transaction revenues grew more slowly than both TPV and the number of payment transactions for thethree months ended March 31, 2019, compared to the same period in the prior year, due to a higher proportion of P2P transactions (primarily from our PayPal and Venmo products) from which we earn lower fees, and a lower proportion of cross border transactions, partially offset by foreign exchange hedging gains. Changes in prices charged to our customers did not significantly impact transaction revenue growth for the three months ended March 31, 2019.

Other value added services

For the three months ended March 31, 2019, net revenues from other value added services decreased $91 million, or 19%, compared to the same period in the prior year, due primarily to lower interest and fee income earned on our consumer loans receivable driven by the sale of our U.S. consumer credit receivables portfolio. The decline was partially offset by an increase in revenue share with Synchrony Bank, an increase of approximately $55 million due to revenue earned from transition servicing activities, which we expect to provide to Synchrony Bank through the second quarter of 2019, an increase in interest and fee income earned on our merchant loans and advances receivable, and growth in interest earned on customer balances. Acquisitions completed in 2018 contributed approximately four percentage points to the growth rate of other value added services in the three months ended March 31, 2019. The total gross consumer and merchant loans and interest receivable balance was $3.1 billion as of March 31, 2019 and $8.3 billion (including the held for sale portfolio) as ofMarch 31, 2018, respectively, reflecting a year-over-year decrease of 63% primarily driven by the sale of our U.S. consumer credit receivables portfolio.

In November 2017, we reached an agreement to sell our U.S. consumer credit receivables portfolio to Synchrony Bank to free up balance sheet capacity and cash flow for other uses and mitigate balance sheet risk. Following the closing of this transaction in July 2018, Synchrony Bank became the exclusive issuer of the PayPal Credit online consumer financing program in the U.S., and we no longer hold an ownership interest in the receivables generated through the program. Subsequent to the sale, we earn a revenue share on the portfolio of consumer receivables owned by Synchrony Bank, which is recorded in net revenues from other value-added services. We expect this transaction to negatively impact other value-added services revenue growth through the second quarter of 2019. The corresponding negative impact on the growth rate of total net revenues through the second quarter of 2019 is expected to be between 7% and 8%, although this estimate is subject to various uncertainties and the actual impact may be different.

Operating Expenses

Beginning with the first quarter of 2019, we reclassified certain operating expenses within our consolidated statements of income. Prior period amounts were reclassified to conform to this presentation. These changes have no impact on our previously reported consolidated net income for prior periods, including total operating expenses, financial position, or cash flows for any periods presented. For additional information, see Note 1—“Overview and Summary of Significant Accounting Policies” in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q. Growth rates presented below are calculated based upon the reclassified prior period amounts.

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

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2019	2018	
	(In millions, except percentages)		
Transaction expense	$ 1,549	$ 1,275	21 %
Transaction and loan losses	341	305	12 %
Customer support and operations[1]	388	342	13 %
Sales and marketing[1]	329	281	17 %
Technology and development[1]	511	448	14 %
General and administrative[1]	419	347	21 %
Restructuring and other charges	73	153	(52)%
Total operating expenses	$ 3,610	$ 3,151	15 %
Transaction expense rate[2]	0.96%	0.96%	**
Transaction and loan loss rate[3]	0.21%	0.23%	**

(1) Prior period amounts have been revised to reflect the classification changes discussed above.
(2) Transaction expense rate is calculated by dividing transaction expense by TPV.
(3) Transaction and loan loss rate is calculated by dividing transaction and loan losses by TPV.
** Not meaningful

Transaction Expense

Transaction expense increased by $274 million, or 21%, in the three months ended March 31, 2019, compared to the same period of the prior year, primarily due to the increase in TPV of 22%. The transaction expense rate for the three months ended March 31, 2019 remained consistent with the transaction expense rate for the same period of the prior year. Acquisitions completed in 2018 contributed approximately one percentage point to the growth rate of transaction expense in the three months ended March 31, 2019.

Our transaction expense rate is impacted by changes in regional and funding mix, and assessments charged by payment processors and other financial institutions when we draw funds from a customer's credit or debit card, bank account, or other funding sources. The cost of funding a transaction with a credit or debit card is generally higher than the cost of funding a transaction from a bank or through internal sources such as a PayPal account balance or PayPal Credit. For each of the three months ended March 31, 2019 and 2018, approximately 2% of TPV was funded with PayPal Credit. For the three months ended March 31, 2019 and 2018, approximately 41% and 44% of TPV, respectively, was generated outside of the U.S. As we expand the availability and presentation of alternative funding sources to our customers, our funding mix may change, which could increase or decrease our transaction expense rate.

Transaction and Loan Losses

The components of our transaction and loan losses for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31,		Percent Increase/(Decrease)
	2019	2018	
	(In millions, except percentages)		
Transaction losses	$ 286	$ 243	18 %
Loan losses	55	62	(11)%
Transaction and loan losses	$ 341	$ 305	12 %
Transaction loss rate [1]	0.18%	0.18%	

(1) Transaction loss rate is calculated by dividing transaction losses by TPV.

Transaction losses increased by $43 million, or 18%, in the three months ended March 31, 2019, compared to the same period of the prior year, primarily due to the increase in TPV. Our transaction loss rate remained flat in the three months ended March 31, 2019, compared to the same period of the prior year.

Loan losses decreased by $7 million, or 11%, in the three months ended March 31, 2019 compared to the same period of the prior year, due primarily to the recognition of losses in the three months ended March 31, 2018 associated with U.S. Consumer credit receivable balances that were not subject to the sale agreement with Synchrony, offset by an increase in loan losses resulting from the increase in our PayPal Business Loans ("PPBL"), PayPal Working Capital ("PPWC") loans, and international consumer loans receivable balances. Acquisitions completed in 2018 contributed approximately three percentage points to the growth rate of loan losses in the three months ended March 31, 2019.

The consumer loans and interest receivable balance as of March 31, 2019 and March 31, 2018 was $792 million and $403 million respectively, representing a year-over-year increase of 97% driven by growth in international markets. Approximately 93% of our consumer loans receivables outstanding as of March 31, 2019 and March 31, 2018 were due from consumers in the U.K.

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

	March 31,	
	2019	2018
Percent of consumer loans and interest receivables current	94.3%	95.3%
Percent of consumer loans and interest receivables > 90 days outstanding[1]	1.9%	1.5%
Net charge off rate[2]	3.3%	2.3%

[1] Represents percentage of balances which are 90 days past the billing date to the consumer.
[2] Net charge off rate is the annual ratio of net credit losses on consumer loans receivables as a percentage of the average daily amount of consumer loans and interest receivables balance during the period.

We offer business financing solutions to certain small and medium-sized merchants. Total merchant loans, advances, and interest and fees receivable outstanding, net of participation interest sold, as of March 31, 2019 were $2.2 billion, compared to $1.2 billion as of March 31, 2018, representing a year-over-year increase of 77%. The increase in merchant loans, advances, and interest and fees receivable outstanding was due primarily to the growth in our PPBL portfolio and an increase in the availability of our PPWC credit product. Approximately 85% and 10% of our merchant receivables outstanding as of March 31, 2019 were due from merchants in the U.S. and U.K. respectively, as compared to 85% and 12% as of March 31, 2018.

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

	March 31,	
	2019	2018
Merchant loans and advances		
Percent of merchant receivables within original expected or contractual repayment period	91.1%	90.1%
Percent of merchant receivables > 90 days outstanding after the end of original expected or contractual repayment period	3.7%	4.1%

Modifications to the acceptable risk parameters of our PayPal Credit products for the periods presented did not have a material impact on our loans and interest receivables. For additional information, see Note 11—"Loans and Interest Receivable" in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Customer Support and Operations

Customer support and operations includes: (a) costs incurred in our global customer operations centers, including costs to provide call support to our customers, and (b) costs to support our trust and security programs protecting our merchants and consumers and other costs incurred related to the delivery of our products.

Customer support and operations expenses increased by $46 million, or 13%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to an increase in employee-related expenses in our operations functions that support the growth of our active accounts and payment transactions, and an increase in depreciation and amortization expenses associated with the applications that support our customer and data operations. Acquisitions completed in 2018 collectively contributed approximately four percentage points to the growth rate of customer support and operations expenses for the three months ended March 31, 2019.

Sales and Marketing

Sales and marketing includes costs incurred for customer acquisition, business development, advertising, and marketing programs.

Sales and marketing expenses increased by $48 million, or 17%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to an increase in amortization of acquired intangibles, employee-related expenses, and higher spend on marketing programs designed to drive growth in our business. Acquisitions completed in 2018 collectively contributed approximately 14 percentage points to the growth rate of sales and marketing expenses for the three months ended March 31, 2019.

Technology and development

Technology and development includes (a) costs incurred in connection with the development of our Payments Platform, new products, and the improvement of our existing products, including the amortization of software and website development costs incurred in developing our Payments Platform, which are capitalized, and acquired developed technology, and (b) our site operations and other infrastructure costs incurred to support our Payments Platform.

Technology and development expenses increased by $63 million, or 14%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to an increase in employee-related expenses, an increase in amortization of acquired intangibles, and an increase in data centers and cloud computing services utilized in delivering our products. Acquisitions completed in 2018 collectively contributed approximately six percentage points to the growth rate of technology and development expenses for the three months ended March 31, 2019.

General and Administrative

General and administrative includes costs incurred to provide support to our business, including legal, human resources, finance, risk, compliance, executive, and other support operations.

General and administrative expenses increased by $72 million, or 21%, in the three months ended March 31, 2019, compared to the same period of the prior year, due primarily to an increase in employee-related expenses, professional service expenses incurred to support our acquisition and business development strategies, an increase in facilities costs, and an increase in depreciation and amortization associated with systems and tools used in our general and administrative functions. Acquisitions completed in 2018 contributed approximately seven percentage points to the growth rate of general and administrative expenses for the three months ended March 31, 2019.

Restructuring and Other Charges

Restructuring and other charges decreased by $80 million in the three months ended March 31, 2019, compared to the same period of the prior year. A reduction of $128 million was driven by the sale of our U.S. consumer credit receivables portfolio in July 2018, prior to which adjustments to its cost basis were recorded under restructuring and other charges. This decline was partially offset by an increase in restructuring charges of $53 million year-over-year. During the first quarters of 2019 and 2018, management approved strategic reductions of the existing global workforce which resulted in restructuring charges of $78 million and $25 million, respectively. The approved reductions for 2019 are to better align our teams to support key business priorities and also include the transfer of certain operational functions between geographies, as well as the impact of the transition of servicing activities provided to Synchrony, which are expected to terminate in the second quarter of 2019. We primarily incurred employee severance and benefits expenses under the 2019 strategic reduction, which is expected to be substantially completed by the end of 2019. The estimated annual employee related costs associated with the impacted workforce is approximately $175 million. The majority of the reduction in costs associated with the impacted workforce are expected to be reinvested in the business.

We incurred employee and severance benefits expenses, including charges related to the winding down of TIO's operations, under the 2018 strategic reduction, which was substantially completed by the end of 2018.

Other Income (Expense), Net

Other income (expense), net increased $185 million in the three months ended March 31, 2019, compared to the same period of the prior year. The increase was primarily driven by net unrealized gains on strategic investments due to favorable changes in fair value related to our marketable equity securities and the impact of observable price changes related to our non-marketable equity securities, which collectively contributed $180 million to the increase.

Income Tax Expense

Our effective income tax rate was approximately7% for both the three months ended March 31, 2019 and 2018.

Liquidity and Capital Resources

We require liquidity and access to capital to fund our global operations, including customer protection programs, our credit products, capital expenditures, investments in our business, potential acquisitions, working capital, and other cash needs. The following table summarizes the cash, cash equivalents, and investments as of March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
	(In millions)	
Cash, cash equivalents, and investments[1][2]	$ 8,227	$ 9,710

[1] Excludes assets related to funds receivable and customer accounts of $22.7 billion and $20.1 billion at March 31, 2019 and December 31, 2018, respectively.

[2] Excludes total restricted cash of $75 million and $77 million at March 31, 2019 and December 31, 2018, respectively, and strategic investments of $1.2 billion and $293 million as of March 31, 2019 and December 31, 2018, respectively.

Foreign Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments held by our foreign subsidiaries were $6.9 billion as of March 31, 2019 and $8.7 billion at December 31, 2018, or 84% and 89% of our total cash, cash equivalents, and investments as of those respective dates. At December 31, 2018, all of our cash, cash equivalents, and investments held by foreign subsidiaries were subject to U.S. taxation under Subpart F, GILTI, or the one-time transition tax. Subsequent repatriations will not be taxable from a U.S. federal tax perspective but may be subject to state or foreign withholding tax. A significant aspect of our global cash management activities involves meeting our customers' requirements to access their cash while simultaneously meeting our regulatory financial ratio commitments in various jurisdictions. Our global cash balances are required not only to provide operational liquidity to our businesses, but also to support our global regulatory requirements across our regulated subsidiaries. As such, not all of our cash is available for general corporate purposes.

Credit Facilities

In the fourth quarter of 2018, we entered into an amended credit agreement ("Amended Credit Agreement") which amended and restated in its entirety the previous agreement entered into in 2017. The Amended Credit Agreement provides for an unsecured $5.0 billion, 364-day delayed-draw term loan credit facility, which was available in up to four separate borrowings up until April 6, 2019. As of March 31, 2019, $2.0 billion was outstanding under the Amended Credit Agreement at a weighted average interest rate of 3.44%. On April 5, 2019, the Company drew down an additional $500 million under the Amended Credit Agreement. There are no significant changes or amounts outstanding related to the other credit agreements disclosed in our 2018 Form 10-K.

We have a cash pooling arrangement with a financial institution for cash management purposes. The arrangement allows for cash withdrawals from the financial institution based upon our aggregate operating cash balances held within the financial institution ("Aggregate Cash Deposits"). The arrangement also allows us to withdraw amounts exceeding the Aggregate Cash Deposits up to an agreed-upon limit. The net balance of the withdrawals and the Aggregate Cash Deposits are used by the financial institution as a basis for calculating our net interest expense or income under these arrangements. As of March 31, 2019, we had a total of $3.2 billion in cash withdrawals offsetting our $3.2 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

Liquidity for Credit Portfolio Growth

Growth in the portfolio of loan receivables increases our liquidity needs and any failure to meet those liquidity needs could adversely affect our business. We continue to evaluate partnerships and third party sources of funding of our credit portfolio. In June 2018, the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF") agreed that PayPal's management may designate up to 35% of European customer balances held in our Luxembourg banking subsidiary to be used for European and U.S. credit activities. As of March 31, 2019, the cumulative amount approved by management to be designated for credit activities aggregated to $1.5 billion and represented approximately 25% of European customer balances potentially available for corporate use by us at that date as determined by applying financial regulations maintained by the CSSF. We may periodically seek to designate additional amounts of customer balances, if necessary, based on utilization of the approved funds and anticipated credit funding requirements. Our objective is to expand the availability of our credit products with capital from external sources, although there can be no assurance that we will be successful in achieving that goal. Under certain exceptional circumstances, corporate liquidity could be called upon to meet our obligations related to our European customer balances.

Credit Ratings

As of March 31, 2019, we continue to be rated investment grade by Standard and Poor's Financial Services, LLC and Fitch Ratings, Inc. We expect that these credit rating agencies will continue to monitor our performance, including our capital structure and results of operations. Our goal is to be rated investment grade, but as circumstances change there are factors that could result in our credit ratings being downgraded or put on a watch list for possible downgrading. If that were to occur, it could increase our borrowing rates, including the interest rate on loans under our credit agreements.

Risk of Loss

The risk of losses from our buyer and seller protection programs are specific to individual customers, merchants, and transactions, and may also be impacted by regional variations in and changes or modifications to, the programs, including as a result of changes in regulatory requirements. For the periods presented in these condensed consolidated financial statements included in this report, our transaction loss rates, calculated by dividing transaction loss by TPV, were 0.18% of TPV. Historical loss rates may not be indicative of future results.

Stock Repurchases

During the three months ended March 31, 2019, we made an upfront payment of $750 million to repurchase 7.7 million shares of our common stock pursuant to the accelerated share repurchase agreement, under our stock repurchase program authorized in April 2017. As of March 31, 2019, a total of approximately $724 million and $10 billion remained available for future repurchases of our common stock under our April 2017 and July 2018 stock repurchase programs, respectively.

Other Considerations

Our liquidity, access to capital, and borrowing costs could be adversely impacted by declines in our credit rating, our financial performance, and global credit market conditions, as well as a broad range of other factors. In addition, our liquidity, access to capital, and borrowing costs could also be negatively impacted by the outcome of any of the legal or regulatory proceedings to which we are a party. See Part I, Item 1A, Risk Factors in our 2018 Form 10-K, as supplemented and, to the extent inconsistent, superseded below in Part II, Item 1A, Risk Factors in this Form 10-Q, as well as Note 13—"Commitments and Contingencies" to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional discussion of these and other risks facing our business.

We believe that our existing cash, cash equivalents, and investments, cash expected to be generated from operations, and our expected access to capital markets, together with potential external funding through third party sources, will be sufficient to fund our operating activities, anticipated capital expenditures, and our credit products for the foreseeable future. Depending on market conditions, we may from time to time issue debt, including in private or public offerings, to fund our operating activities, finance acquisitions, repurchase shares under our share repurchase programs, or reduce our cost of capital.

Cash Flows

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

	Three Months Ended March 31,	
	2019	2018
	(In millions)	
Net cash provided by (used in):		
Operating activities	$ 1,027	$ (349)
Investing activities	(4,860)	5
Financing activities	1,502	793
Effect of exchange rates on cash, cash equivalents, and restricted cash	1	(7)
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (2,330)	$ 442

Operating Activities

We generated cash from operating activities of $1.0 billion in the three months ended March 31, 2019 primarily due to operating income of $518 million, as well as adjustments for non-cash expenses of depreciation and amortization and stock-based compensation of $477 million, and expenses related to provision for transaction and loan losses of $341 million. The cash generated from operating activities was negatively impacted by unrealized gains on our strategic investments of $180 million, changes in

other assets and liabilities of $227 million, primarily related to actual cash transaction losses incurred during the period, and an increase in accounts receivable of $96 million.

The net cash used in operating activities of $349 million in the three months ended March 31, 2018 was primarily due to the $1.3 billion negative impact of changes in loans and interest receivable held for sale, net and changes in other assets and liabilities of $468 million, primarily related to actual cash transaction losses incurred during the period. These uses of cash were partially offset by operating income of $534 million, adjustments for non-cash expenses of depreciation and amortization and stock-based compensation of approximately $390 million, and expenses related to provision for transaction and loan losses of $305 million.

In the three months ended March 31, 2019, cash paid for income taxes, net was $22 million. In the three months ended March 31, 2018, we received a net cash refund of income taxes of $6 million.

Investing Activities

The net cash used in investing activities of $4.9 billion in the three months ended March 31, 2019 was due primarily to purchases of investments of $8.1 billion, changes in funds receivable from customers of $2.2 billion, changes in principal loans receivable, net of $357 million, and purchases of property and equipment of $218 million. These cash outflows were partially offset by maturities and sales of investments of $6.0 billion

We generated cash from investing activities of $5 million in the three months ended March 31, 2018 due primarily to purchases of investments of $5.3 billion and purchases of property and equipment of $178 million, offset by maturities and sales of investments of $4.3 billion, changes in principal loans receivable, net of $738 million, and changes in funds receivable from customers of $429 million.

Financing Activities

We generated cash from financing activities of $1.5 billion in the three months ended March 31, 2019 due primarily to changes in funds payable and amounts due to customers of $2.6 billion partially offset by the repurchase of $756 million of our common stock under our stock repurchase programs, and tax withholdings related to net share settlement of equity awards of $309 million.

We generated cash from financing activities of $793 million in the three months ended March 31, 2018 due primarily to borrowings on our 2017 Credit Agreement of $2.0 billion and changes in funds payable and amounts due to customers of $865 million. These net inflows were offset by the repurchase of $1.8 billion of our common stock under our stock repurchase programs and tax withholdings related to net share settlement of equity awards of $335 million.

Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash

The effect of currency exchange rates on cash, cash equivalents, and restricted cash was a $1 million positive impact and a $7 million negative impact for the three months ended March 31, 2019 and 2018, respectively.

Off-Balance Sheet Arrangements

As of March 31, 2019, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates, and investment risk. Management establishes and oversees the implementation of policies governing our investing, funding, and foreign currency derivative activities in order to mitigate market risks. We monitor risk exposures on an ongoing basis.

Interest Rate Risk

We are exposed to interest-rate risk relating to our investment portfolio and from interest-rate sensitive assets underlying the customer balances we hold on our condensed consolidated balance sheets as customer accounts.

As of March 31, 2019 and December 31, 2018, approximately 55% and 78% of our total cash, cash equivalents, and investment portfolio was held in cash and cash equivalents. The assets underlying the customer balances we hold on our condensed consolidated balance sheets as customer accounts are maintained in interest and non-interest bearing bank deposits, time deposits, U.S. and foreign government and agency securities, and corporate debt securities. We seek to preserve principal while holding eligible liquid assets, as defined by applicable regulatory requirements and commercial law in the jurisdictions where we operate, equal to at least 100% of the aggregate amount of all customer balances. We do not pay interest on amounts due to customers.

In the fourth quarter of 2018, we entered into an amended credit agreement ("Amended Credit Agreement") which amended and restated in its entirety the previous agreement entered into in 2017. The Amended Credit Agreement provides for an unsecured $5.0 billion, 364-day delayed-draw term loan credit facility, which was available in up to four separate borrowings up until April 6, 2019. As of March 31, 2019, $2.0 billion was outstanding under the Amended Credit Agreement. On April 5, 2019, the Company drew down an additional $500 million under the Amended Credit Agreement. There are no significant changes or amounts outstanding related to the other credit agreements disclosed in our 2018 Form 10-K.

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 of our credit products to us, or to lenders under mortgage, credit card, and other consumer and merchant loans, which may reduce our customers' ability to remain current on their obligations to us and therefore lead to increased delinquencies, charge-offs, and allowances for loans and interest receivable, which could have an adverse effect on our net income.

A 100 basis point increase in interest rates would not have had a material impact on our financial assets or liabilities at March 31, 2019 and December 31, 2018.

Foreign Currency Exchange Rate Risk

We have significant operations internationally that are denominated in foreign currencies, primarily the British Pound, Euro, Australian Dollar, and Canadian Dollar, subjecting us to foreign currency exchange rate risk which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues and costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services. Our cash flows, 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 currency exchange exposure management program designed to identify material foreign currency exposures, manage these exposures, and reduce the potential effects of currency fluctuations on our condensed consolidated cash flows and results of operations through the execution of foreign currency exchange contracts. These foreign currency exchange contracts are accounted for as derivative instruments; for additional details related to our foreign currency exchange contracts, please see Note 10—"Derivative Instruments" to the condensed consolidated financial statements included in this report.

We use foreign currency 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 derivative's gain or loss is initially reported as a component of accumulated other comprehensive income ("AOCI") and subsequently reclassified into the financial statement line item in which the hedged item is recorded in the same period the forecasted transaction affects earnings. If we elect to discontinue our cash flow hedges and it is probable that the original forecasted transaction will occur, we continue to report them in AOCI until the forecasted transaction affects earnings at which point we also reclassify the de-designated hedges into earnings. Gains and losses on derivatives held after we discontinue our cash flow hedges and gains and losses on derivative instruments that are not designated as cash flow hedges are recorded in the same financial statement line item to which the derivative relates.

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, 2019 and December 31, 2018, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $667 million and $707 million lower, respectively. If the U.S. dollar strengthened by 20% at March 31, 2019 and December 31, 2018, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $667 million and $707 million higher, respectively.

We have an additional foreign currency exchange management program whereby we use foreign currency exchange contracts to offset the foreign currency exchange risk on our assets and liabilities denominated in currencies other than the functional currency of our subsidiaries. These contracts are not designated as hedging instruments and reduce, but do not entirely eliminate, the impact of currency exchange rate movements on our assets and liabilities. The foreign currency exchange gains and losses on our assets and liabilities are recorded in other income (expense), net, and are offset by the gains and losses on the foreign currency exchange contracts.

Adverse changes in exchange rates of 20% for all currencies would have resulted in an adverse impact on income before income taxes of approximately $204 million and $295 million at March 31, 2019 and December 31, 2018, respectively, without considering the offsetting effect of hedging. Foreign currency exchange contracts in place as of March 31, 2019 would have positively impacted income before income taxes by approximately $204 million, resulting in a net zero impact. Foreign currency exchange contracts in place as of December 31, 2018 would have positively impacted income before income taxes by approximately $308 million, resulting in a net negative impact of approximately $13 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 Investment Risk

Our strategic investments are subject to a variety of market-related risks that could substantially reduce or increase the carrying value of our holdings. As of March 31, 2019 and December 31, 2018, our strategic investments totaled $1.2 billion and $293 million, respectively, which represented approximately 15% and 3% of our total cash and investment portfolio at those dates, respectively. Our strategic investments include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are investments in privately held companies. We are required to record all adjustments to the carrying value of these strategic investments through our condensed consolidated statements of income. As such, we anticipate volatility to our net income in future periods due to changes in fair value related to our investments in marketable equity securities and changes in observable prices related to our non-marketable equity securities. These changes could be material based on market conditions. A hypothetical adverse change in the carrying value of our strategic investments of 10%, which could be experienced in the near term, would result in a decrease of approximately $124 million to the carrying value of the portfolio. We review our non-marketable equity investments for impairment when events and circumstances indicate a decline in fair value of such assets below carrying value. Our analysis includes a review of recent operating results and trends, recent purchase and sales of the securities in which we have invested, and other publicly available data.

Item 4: Controls and Procedures

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

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

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

The information set forth under Note 13—"Commitments and Contingencies—Litigation and Regulatory Matters" to the condensed consolidated financial statements included in Part I, Item 1 of this report is incorporated herein by reference.

Item 1A: Risk Factors

We are subject to various risks and uncertainties, which could materially affect our business, results of operations, financial condition, future results, and the trading price of our common stock. You should read carefully the following information together with the information appearing in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on February 7, 2019 ("2018 Form 10-K"). The following information supplements and, to the extent inconsistent, supersedes some of the information appearing in the Risk Factors section of our 2018 Form 10-K. These risk factors, as well as our condensed consolidated financial statements and notes thereto and the other information appearing in this report, should be reviewed carefully for important information regarding risks that affect us.

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

The United Kingdom ("U.K.") held a referendum in June 2016 in which a majority of voters approved an exit from the European Union ("EU") (commonly referred to as "Brexit"). In March 2017, the U.K. government initiated the exit process under Article 50 of the Treaty on European Union. This commenced a two-year period, expiring on March 29, 2019, after which time the U.K was expected to leave the EU. The EU subsequently extended this date to October 31, 2019 although the U.K. could leave the EU sooner depending on political developments. There is a significant lack of clarity over the eventual date and terms of the U.K.'s exit from the EU and the terms of the U.K.'s future relationship with the EU. The U.K.'s financial service regulators have implemented Temporary Permission Regimes that will be in place should the U.K. exit the EU without an agreement. The regulators will use this and other powers to support European Economic Area ("EEA") financial services firms, including our EU operations, in continuing to conduct business in the U.K. in an orderly manner should the U.K. exit the EU without an agreement.

Brexit could adversely affect U.K., regional (including European), and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound and Euro, which in turn could adversely affect us or our customers and companies with which we do business, particularly in the U.K. Brexit could lead to greater restrictions on the supply and availability of goods and services between the U.K. and the EEA region, with the potential inability of U.K. companies to fulfill orders leading in turn to a risk of increased merchant defaults and buyer protection claims. Brexit could also trigger a general deterioration in credit conditions, a downturn in consumer sentiment and overall negative economic growth. Any of these scenarios could have an adverse effect on our business or our customers.

In addition, Brexit could lead to legal uncertainty and increased complexity for financial services firms as national laws and regulations in the U.K. start to diverge from EU laws and regulations. In particular, depending on the terms of Brexit, we may face new regulatory costs and challenges, including the following:

- if we are unable to utilize appropriate authorizations and regulator permissions, our EU operations could lose their ability to offer services into the U.K. market on a cross-border basis and for our U.K. based operations to offer services on a cross-border basis in the EEA markets. For example, our ability to work primarily with the Luxembourg regulator as the lead authority for various aspects of our U.K. operations may be impacted;
- we could be required to obtain additional regulatory permissions to operate in the U.K. market, adding costs and potential inconsistency to our business (and, depending on the capacity of the U.K. authorities, the criteria for obtaining permission, and any possible transitional arrangements, there is a risk that our business in the U.K. could be materially affected or disrupted);
- we could be required to comply with regulatory requirements in the U.K. that are in addition to, or inconsistent with, the regulatory requirements of the EU, leading to increased complexity and costs for our EU and UK operations; and
- our ability to attract and retain the necessary human resources in appropriate locations to support the U.K. business and the EU business of PayPal could be adversely impacted.

These and other factors related to Brexit could, individually or in the aggregate, have a material adverse impact on our business, financial condition, and results of operations.

Our business is subject to extensive government regulation and oversight. Our failure to comply with extensive, complex, overlapping, and frequently changing rules, regulations, and legal interpretations could materially harm our business.

Our business is subject to laws, rules, regulations, policies, and legal interpretations in the markets in which we operate, including, but not limited to, those governing:

- banking,
- credit,
- deposit taking,
- cross-border and domestic money transmission,
- prepaid access,
- foreign exchange,
- privacy,
- data protection,
- cybersecurity,
- banking secrecy,
- payment services (including payment processing and settlement services),
- consumer protection,
- economic and trade sanctions,
- anti-money laundering, and
- counter-terrorist financing.

Our success and increased visibility may result in increased regulatory oversight and enforcement and more restrictive rules and regulations that apply to our business.

As we expand and localize our international activities, we have become increasingly 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 the internet, mobile, and related technologies outside of the U.S. often impose different, more specific, or even conflicting obligations on us, as well as broader liability. For example, certain transactions that may be permissible in a local jurisdiction may be prohibited by regulations of U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") or U.S. anti-money laundering or counter-terrorist financing regulations.

Any failure or perceived failure to comply with existing or new laws, regulations, or orders of any governmental authority (including changes to or expansion of the interpretation of those laws, regulations, or orders), including those discussed in this risk factor, may subject us to significant fines, penalties, criminal and civil lawsuits, forfeiture of significant assets, and enforcement actions in one or more jurisdictions, result in additional compliance and licensure requirements, increase regulatory scrutiny of our business, restrict our operations, and force us to change our business practices, make product or operational changes, or delay planned product launches or improvements. Any of the foregoing could, individually or in the aggregate, harm our reputation, damage our brands and business, and adversely affect our results of operations and financial condition. The complexity of U.S. federal and state regulatory and enforcement regimes, coupled with the global scope of our operations and the evolving global regulatory environment, could result in a single event giving rise to a large number of overlapping investigations and legal and regulatory proceedings by multiple government authorities in different jurisdictions. We have implemented policies and procedures designed to help 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.

Payments Regulation

In the U.S., PayPal, Inc. has obtained licenses to operate as a money transmitter (or its equivalent) in the states where such licenses are required, as well as in the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. These licenses include not only the PayPal branded products and services in these states, but also our Braintree, Venmo, and Xoom products and services. We may also maintain such licenses for certain companies that we have recently acquired, such as Hyperwallet. As a licensed money transmitter, PayPal is subject to restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies. Accordingly, if we violate these laws or regulations, 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 required to obtain additional licenses or regulatory approvals, which could impose substantial costs.

While we currently allow our customers with payment cards to send payments from approximately 200 markets, we allow customers in only approximately half of those markets (including the U.S.) to also receive payments, in some cases with significant restrictions on the manner in which customers can withdraw funds. These limitations may adversely affect our ability to grow our business in these markets.

We principally provide our services to customers in the EU through PayPal (Europe) S.a.r.l. et Cie., SCA ("PayPal (Europe)"), our wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg. Accordingly, PayPal (Europe) is subject to significant fines or other enforcement action if it violates the disclosure, reporting, anti-money laundering, capitalization, fund management, corporate governance, privacy, data protection, information security, banking secrecy, taxation, sanctions, or other requirements imposed on Luxembourg banks. In addition, EU laws and regulations are typically subject to different and potentially inconsistent interpretations by the countries that are members of the EU, which can make compliance more costly and operationally difficult to manage. Moreover, the countries that are EU members may each have different and potentially inconsistent domestic regulations implementing European Directives, which could make compliance more costly and operationally difficult to manage. The Revised Payment Services Directive ("PSD2") took effect in Europe in 2018, with certain requirements only being applicable from 2019. The implementation of PSD2 may negatively affect our business. PSD2 seeks to enable new payment models whereby a newly formed category of regulated payment provider would be able to access bank and payment accounts (including PayPal accounts) for the purposes of accessing account information or initiating a payment on behalf of a customer. Such access could subject us to data security and other legal and financial risks and could create new competitive forces and new types of competitors in the European payments market. PSD2 seeks to regulate more online platforms that handle payments for their sellers. PayPal merchants with affected business models which are not licensed, or which do not benefit from exemptions or integrate a compliant marketplaces solution may not be able to offer PayPal products in the future. PSD2 also imposes new standards (coming into force on September 14, 2019) for payment security and strong customer authentication that may make it more difficult and time consuming to carry out a PayPal transaction, which may adversely impact PayPal's customer value proposition and its European business.

If the business activities of PayPal (Europe) exceed certain thresholds, or if the European Central Bank ("ECB") so determines, PayPal (Europe) may be deemed a significant supervised entity such that some activity of PayPal (Europe) could become directly regulated by the ECB rather than the Luxembourg regulator (the "CSSF"), as its national supervisor, which could subject us to additional requirements and would likely increase compliance costs.

In many of the other markets outside the U.S. in which we do business, we serve our customers through PayPal Pte. Ltd., our wholly-owned subsidiary based in Singapore. PayPal Pte. Ltd. is supervised by the Monetary Authority of Singapore and designated as a holder of a stored value facility, but does not hold a remittance license. As a result, PayPal Pte. Ltd. is not able to offer outbound remittance payments (including donations to charities) from Singapore, and can only offer payments for the purchase of goods and services in Singapore. In many of the markets (other than Singapore) served by PayPal Pte. Ltd., it is unclear and uncertain whether our Singapore-based service is subject only to Singapore law or, if it is subject to the application of local laws, whether such local laws would require a payment processor like us to be licensed as a payments service, bank, financial institution, or otherwise. The Payment Services Act passed into law in Singapore in January 2019 and is expected to come into effect in the second half of 2019. We currently expect that the implementation of the new legislation will increase our operating costs.

In certain markets outside the U.S. (e.g., Australia), we provide our services to customers through a local subsidiary subject to local regulatory supervision or oversight, which may be the holder of a local payment license, certification, or other authorization. In such markets, we may be subject to significant fines or other enforcement action if we violate applicable reporting, anti-money laundering, capital requirements, privacy, corporation governance, risk management, or any other applicable requirements.

We have been, and expect to continue to be, required to apply for various licenses, certifications, and regulatory approvals in a number of the jurisdictions where we provide our services, including due to changes in applicable laws and regulations or the interpretation of such laws and regulations. There can be no assurance that we will be able to (or decide to) obtain any such licenses, certifications, and approvals. In addition, there are substantial costs and potential product changes involved in maintaining and renewing such licenses, certifications, and approvals, and we could be subject to fines or other enforcement action if we are found to violate disclosure, reporting, anti-money laundering, capitalization, corporate governance, or other requirements of such licenses. These factors could impose substantial additional costs, involve considerable delay to the development or provision of our products or services, require significant and costly operational changes, or prevent us from providing our products or services in a given market.

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

Consumer Protection

We are subject to consumer protection laws and regulations in the countries in which we operate. In the U.S., we are subject to federal and state consumer protection laws and regulations applicable to our activities, including the Electronic Fund Transfer Act ("EFTA") and Regulation E as implemented by the Consumer Financial Protection Bureau ("CFPB"). These regulations require us to provide advance disclosure of changes to our services, follow specified error resolution procedures, and reimburse consumers for losses from certain transactions not authorized by the consumer. Additionally, technical violations of consumer protection laws could result in the assessment of actual damages or statutory damages or penalties of up to $1,000 in individual cases or up to $500,000 per violation in any class action and treble damages in some instances; we could also be liable for plaintiffs' attorneys' fees in such cases. We are subject to, and have paid amounts in settlement of, lawsuits containing allegations that our business violated the EFTA and Regulation E or otherwise advance claims for relief relating to our business practices (e.g., that we improperly held consumer funds or otherwise improperly limited consumer accounts).

On October 5, 2016, the CFPB issued a final rule on prepaid accounts. The rule's definition of prepaid account includes certain accounts that are capable of being loaded with funds and whose primary function is to conduct transactions with multiple, unaffiliated merchants, at ATMs and/or for person-to-person transfers, including certain digital wallets. The rule's requirements include, among other things, the disclosure of fees and other information to the consumer prior to the creation of a prepaid account; the extension of Regulation E liability limits and error-resolution requirements to all prepaid accounts; the application of Regulation Z credit card requirements to prepaid accounts with overdraft and credit features; and the submission of prepaid account agreements to the CFPB and their publication to the general public. The effective date of the final rule on prepaid accounts was April 1, 2019. We have been implementing certain changes to comply with the final rule and are making substantial changes to the design of certain U.S. consumer accounts and their operability, which could lead to customer dissatisfaction, require us to reallocate resources, and increase our costs, which could negatively affect our business.

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

PayPal (Europe) principally offers its services in EU countries (including the U.K.) through a "passport" notification process through the Luxembourg regulator to regulators in other EU member states pursuant to EU regulations. Regulators in these countries could notify PayPal (Europe) of local consumer protection laws that apply to its business, in addition to Luxembourg consumer protection law, and could also seek to persuade the Luxembourg regulator to order PayPal (Europe) to conduct its or the PayPal group's activities in the local country directly or through a branch office. These or similar actions by these regulators could increase the cost of, or delay, our plans to expand our business in EU countries.

Economic and Trade Sanctions

We are required to comply with economic and trade sanctions administered by the United States, the European Union,relevant EU member states, and other jurisdictions in which we operate. We have self-reported to OFAC certain transactions that were inadvertently processed but subsequently identified as possible violations of U.S. economic and trade sanctions. In March 2015, we reached a settlement with OFAC regarding possible violations arising from our sanctions compliance practices between 2009 and 2013, prior to the implementation of our real-time transaction scanning program. Subsequently, we have self-reported additional transactions as possible violations, and we have received new subpoenas from OFAC seeking additional information about certain of these transactions. Such self-reported transactions could result in claims or actions against us, including litigation, injunctions, damage awards, fines or penalties, or require us to change our business practices in a manner that could result in a material loss, require significant management time, result in the diversion of significant operational resources, or otherwise harm our business.

Anti-Money Laundering and Counter-Terrorist Financing

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. Regulators in the U.S. and other regulators globally continue to increase 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. Many countries in which we operate also have anti-money laundering and counter-terrorist financing laws and regulations, and we have been and will continue to be required to make changes to our compliance program in various jurisdictions 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. In the EU, the implementation of the so-called Fourth and Fifth Anti-Money Laundering Directives and the regulation on information accompanying transfer of funds (commonly known as the Revised Wire Transfer Regulation) may make compliance more costly and operationally difficult to manage, lead to increased friction for customers, and result in a decrease in business. Penalties for non-compliance with the revised Anti-Money Laundering Directive could include fines of up to 10% of PayPal (Europe)'s total annual turnover.

Privacy and Protection of User Data

We are subject to a number of laws, rules, directives, and regulations (which we refer to as "privacy laws") relating to the collection, use, retention, security, processing, and transfer (which we collectively refer to as "processing") of personally identifiable information about our customers and employees (which we refer to as "personal data") in the countries where we operate. Our business relies on the processing of data in many jurisdictions and the movement of data across national borders. As a result, much of the personal data that we process, especially financial information, is regulated by multiple privacy laws and, in some cases, the privacy laws of multiple jurisdictions. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among us, our subsidiaries, and other parties with which we have commercial relationships.

Regulatory scrutiny of privacy, data protection, and the collection, storage, use, and sharing of personal data is increasing around the world. There is uncertainty associated with the legal and regulatory environment relating to privacy and data protection laws, which continue to develop in ways we cannot predict, including with respect to evolving technologies such as cloud computing, artificial intelligence, and blockchain technology.

Any failure, or perceived failure, by us to comply with our privacy policies as communicated to users prior to our collection, use, storage and transfer, and disclosure of their personal data, with applicable industry data protection or security standards, with any applicable regulatory requirements or orders, or with privacy, data protection, information security, or consumer protection-related laws and regulations in one or more jurisdictions could result in proceedings or actions against us by data protection authorities (which we refer to as "supervisory authorities"), governmental entities or others, including class action privacy litigation in certain jurisdictions, would subject us to significant awards, fines, penalties, judgments, and negative publicity arising from any financial or non-financial damages suffered by any individuals. This could, individually or in the aggregate, materially harm our business. Specifically, this would likely require us to change our business practices, and would increase the costs and complexity of compliance. In addition, compliance with inconsistent privacy laws may restrict our ability to provide products and services to our customers.

PayPal relies on a variety of compliance methods to transfer personal data of EEA individuals to the U.S., including reliance on Binding Corporate Rules ("BCRs") for internal transfers of certain types of personal data and Standard Contractual Clauses ("SCCs") as approved by the European Commission for transfers to and from third parties. PayPal must also ensure that third parties processing personal data of PayPal's EEA customers and/or employees outside of the EEA have compliant transfer mechanisms. In October 2015, the European Court of Justice invalidated U.S.-EU Safe Harbor framework clauses that were previously relied upon by some PayPal vendors to lawfully transfer personal data of EU citizens to U.S. companies, and PayPal entered into SCCs with those third parties who had previously relied on the U.S.-EU Safe Harbor framework. In July 2016, the U.S. and EU authorities agreed on a replacement for Safe Harbor known as "Privacy Shield." Both the Privacy Shield framework and SCCs are facing legal challenges in the European justice system. To the extent that the Privacy Shield or SCCs are invalidated, PayPal's ability to process EEA personal data with third parties outside of the EEA and intra-group with its U.S. affiliates could be jeopardized.

In 2016, the EU adopted the General Data Protection Regulation ("GDPR"), which became effective in May 2018. The EU data protection regime expands the scope of the EEA data protection law to all foreign companies processing personal data of EEA residents, imposes more stringent data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover or €20 million, and includes new rights such as the "portability" of personal data. Although the GDPR applies across the EU without need for local implementing legislation, each EU member state has the ability to interpret the GDPR opening clauses which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis. Implementation of the GDPR has required us to change our business practices and increased the costs and complexity of compliance.

PayPal also faces additional potential challenges from local supervisory authorities (as defined under the GDPR). Because PayPal (Europe) is headquartered in Luxembourg and subject to regulation as a bank in that jurisdiction, we have relied on the "one-stop-shop" concept under which Luxembourg has been our lead supervisory authority in the EU. However, a 2015 European Court of Justice ruling (Weltimmo) affecting companies that do business in the EU potentially could make us subject to the local data protection laws or regulatory enforcement activities of the various EU member states in which we have established legal entities and which apply privacy laws that are different than, and may conflict with, Luxembourg privacy laws.

In addition, because of the large number of text messages, emails, phone calls, and other communications we send or make to our customers for various business purposes, communication-related privacy laws that provide a specified monetary damage award or fine for each violation could result in particularly significant damage awards or fines. For example, under the Telephone Consumer Protection Act ("TCPA"), in the U.S., plaintiffs may seek actual monetary loss or statutory damages of $500 per violation, whichever is greater, and courts may triple the damage award for willful or knowing violations. We have been, and may continue to be subject to lawsuits (including class-action lawsuits) containing allegations that our business violated the TCPA. These lawsuits seek damages (including statutory damages) and injunctive relief, among other remedies. Given the large number of communications we send to our customers, a determination that there have been violations of the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

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

Acquisitions, joint ventures, strategic investments, and other strategic transactions are important elements of our overall corporate strategy. We expect to continue to evaluate and consider a wide array of potential strategic transactions as part of our overall business strategy, including business combinations, acquisitions, and dispositions of certain businesses, technologies, services, products, and other assets, as well as joint ventures, strategic investments, and commercial and strategic partnerships. These transactions may involve significant challenges, uncertainties, 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;
- difficulty making strategic hires of new employees, declining employee morale, and retention issues affecting employees (particularly the potential loss of key personnel) of companies that we acquire or dispose of, which may result from changes in compensation, management, reporting relationships, future prospects, or the direction of the acquired or disposed business;
- diversion of management time and focus;
- inability to realize synergies expected to result from an acquisition;
- the need to and difficulty of integrating the operations, systems (including accounting, compliance, management, information, human resource, and other administrative systems), technologies, data assets, products, and personnel of each acquired company, which is an inherently risky and potentially lengthy and costly process;
- the need to and difficulty of implementing and/or enhancing controls, procedures, and policies appropriate for a larger public company at acquired companies which, prior to the acquisition, may have lacked such controls, procedures, and policies or whose controls, procedures, and policies did not meet applicable legal and regulatory standards;
- the inefficiencies and lack of control that may result if integration of acquired companies is delayed or not implemented, and unforeseen difficulties and costs that may arise as a result;
- potential exposure to new or increased regulatory oversight and regulatory obligations associated with new products and services or entry into new markets;
- risks associated with our expansion into new international markets;
- unidentified issues discovered in our due diligence process, including product or service quality issues, intellectual property issues, and legal contingencies;
- risks associated with the complexity of entering into and effectively managing joint ventures, strategic investments, and other strategic partnerships;

- risks associated with undetected cyberattacks or security breaches at companies that we acquire or with which we may combine or partner;
- lawsuits or regulatory actions resulting from the transaction;
- liability for activities or conduct of an acquired company before the acquisition, including legal and regulatory claims or disputes, violations of laws and regulations, commercial disputes, tax liabilities, and other known and unknown liabilities;
- the acquisition of new customer and employee personal information, which in and of itself may require regulatory approval and/or additional controls, policies, and procedures, and subject us to additional exposure and additional complexity and costs of compliance; and
- our dependence on the accounting, financial reporting, operating metrics and similar systems, controls and processes of acquired businesses, and the risk that errors or irregularities in those systems, controls, and processes will lead to errors in our financial statements or make it more difficult to manage the acquired business.

At any given time, we may be engaged in discussions or negotiations with respect to one or more of these or other types of transactions, any of which could, individually or in the aggregate, be material to our financial condition and results of operations. There can be no assurance that we will be successful in identifying, negotiating, and consummating favorable transaction opportunities. It may take us longer than expected to fully realize the anticipated benefits of these transactions, and those benefits may ultimately be smaller than anticipated or may not be realized at all, which could adversely affect our business and operating results. Because acquisitions are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. Any acquisitions, dispositions, or investments may also require us to issue additional equity securities, spend our cash, or incur debt (and increased interest expense), recognize liabilities, and record gains or losses (realized or unrealized) and amortization expenses related to intangible assets or write-offs of goodwill or intangibles, which could dilute the economic and voting rights of our stockholders and adversely affect our results of operations and the interests of holders of our indebtedness, as applicable.

We completed our acquisition of iZettle AB (publ) ("iZettle") on September 20, 2018. Prior to the closing of the acquisition, the UK Competition and Markets Authority ("CMA") initiated a review of the transaction. On December 5, 2018, the CMA referred the acquisition for a Phase 2 investigation and on December 24, 2018, directed PayPal to appoint a monitoring trustee. The deadline for the final decision is May 21, 2019. PayPal is working cooperatively with the CMA and has agreed to hold parts of the PayPal and iZettle businesses separate as agreed with the CMA, pending completion of the CMA's investigation. Our ability to successfully and timely integrate iZettle's business and operations with ours and realize the potential synergies and anticipated benefits from the acquisition is subject to the timing and possible outcome of the CMA's review. The CMA has broad discretion and may impose requirements, limitations or costs, mandate remedies, such as divestitures of certain business assets, or place additional restrictions on the conduct of our businesses, to ensure sufficient competition in the U.K. market. No assurance can be given as to the ultimate impact and outcome of the CMA review, that approval from the CMA will be obtained, or the terms and conditions of such approval.

Joint ventures and strategic investments where we have a minority ownership stake inherently involve a lesser degree of influence over business operations, thereby potentially increasing the financial, legal, operational, and/or compliance risks associated with the joint venture or strategic investment. In addition, we may be dependent on joint venture partners, controlling shareholders, management or other persons or entities who control them and who may have business interests, strategies or goals that are inconsistent with ours. Business decisions or other actions or omissions of the joint venture partners, controlling shareholders, management or other persons or entities who control joint ventures or companies in which we invest may adversely affect the value of our investment, result in litigation or regulatory action against us, and otherwise damage our reputation and brand.

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

Repurchases of Equity Securities

In April 2017, our Board of Directors authorized a stock repurchase program that provides for the repurchase of up to $5 billion of our common stock, with no expiration from the date of authorization. In July 2018, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to $10 billion of our common stock, with no expiration from the date of authorization. This program will become effective upon completion of the April 2017 stock repurchase program. Our stock repurchase programs are intended to offset the impact of dilution from our equity compensation programs and, subject to market conditions and other factors, may also be used to make opportunistic repurchases of our common stock to reduce outstanding share count. Any share repurchases under our stock repurchase programs may be made through open market transactions, block trades, privately negotiated transactions including accelerated share repurchase agreements or other means at times and in such amounts as management deems appropriate and will be funded from our working capital or other financing alternatives. Moreover, any stock repurchases are subject to market conditions and other uncertainties and we cannot predict if or when any stock repurchases will be made. We may terminate our stock repurchase programs at any time without notice.

In February 2019, we entered into an accelerated share repurchase ("ASR") agreement with an unrelated third party financial institution to repurchase shares of our common stock. Under the terms of the ASR agreement, we made an upfront payment of $750 million to the third party financial institution and received approximately 7.7 million shares of our common stock during the term of the transaction, which ended in March 2019. The total number of shares of our common stock repurchased was based on the volume-weighted average share price of our common stock during the term of the transaction, less a discount and subject to adjustments pursuant to the terms of the ASR agreement.

The stock repurchase activity under our stock repurchase programs during the three months ended March 31, 2019 is summarized below:

	Total number of shares purchased	Average price paid per share[1]	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
		(In millions, except per share amounts)		
Balance as of January 1, 2019				$ 11,474
January 1, 2019 through January 31, 2019	—	—	—	11,474
February 1, 2019 through February 28, 2019	—	$ —	—	11,474
February 1, 2019 through February 28, 2019 (ASR agreement)[1]	7.1	$ 96.91	7.1	10,724
March 1, 2019 through March 31, 2019	—	$ —	—	10,724
March 1, 2019 through March 31, 2019 (ASR agreement)[1]	0.6	$ 96.91	0.6	10,724
Balance as of March 31, 2019	7.7		7.7	$ 10,724

[1] Average price paid per share represents the volume-weighted average share price, less a discount and adjustments pursuant to the terms of the ASR agreement.

No activity has occurred to date under the July 2018 stock repurchase program.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6: Exhibits

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

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		Filed Herewith
		Form	Date Filed	
3.01	PayPal Holdings, Inc. Restated Certificate of Incorporation	10-Q	7/27/2017	
3.02	PayPal Holdings, Inc. Amended and Restated Bylaws, effective January 17, 2019	8-K	1/18/2019	
10.01+	Letter Agreement effective February 20, 2019 between Mark Britto and PayPal Holdings, Inc.	-	-	X
10.02+	Letter Agreement dated December 22, 2018 between Allison Johnson and PayPal Holdings, Inc.	-	-	X
31.01*	Certification of Registrant's Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	X
31.02*	Certification of Registrant's Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.	-	-	X
32.01*	Certification of Registrant's Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.	-	-	X
32.02*	Certification of Registrant's Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.	-	-	X
101.INS	XBRL Instance Document	-	-	X
101.SCH	XBRL Taxonomy Extension Schema Document	-	-	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	-	-	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	-	-	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	-	-	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	-	-	X

* The certifications furnished in Exhibits 32.01 and 32.02 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
+ Management contract or compensatory plan or arrangement.

SIGNATURES

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

PayPal Holdings, Inc.
Principal Executive Officer:

By: */s/ Daniel H. Schulman*

Daniel H. Schulman

President and Chief Executive Officer

Date: April 25, 2019

Principal Financial Officer:

By: */s/ John D. Rainey*

John D. Rainey

Chief Financial Officer and Executive Vice President, Global Customer Operations

Date: April 25, 2019

Principal Accounting Officer:

By: */s/ Aaron A. Anderson*

Aaron A. Anderson

Vice President, Chief Accounting Officer

Date: April 25, 2019

[Mark Britto Letter Agreement]

Dear Mark,

This has been an another excellent year for PayPal. As a member of our top leadership team, I hope you feel a sense of pride for what we achieved in 2018 for our customers, our shareholders and our employees. We continued to collaborate closely with a unified approach to our thinking, problem-solving and planning, which helped us grow stronger across the many dimensions of our business. Your leadership has helped us successfully navigate an ongoing journey of growth and transformation at PayPal. As we look forward, I believe our future has never looked brighter.

First, I want to congratulate you on your promotion to Executive Vice President, Sales! This is a very special career milestone, and one I hope you celebrate proudly with your friends, family and colleagues. I want to personally express my gratitude for your hard work, commitment and passion throughout the years at PayPal.

2019 Base Salary and AIP Target

As part of your promotion, you have been awarded a salary increase of 18%, which will result in a new annual salary of USD 650,000, subject to Compensation Committee of the Board of Directors of PayPal's approval. Your new bonus target is 100% and your new Total Target Compensation is USD 1,300,000, which represents an increase of 35%.

2019 Equity

It will also be recommended to the Compensation Committee of the Board of Directors of PayPal or its delegate, if applicable, that you be awarded PayPal equity with an estimated value of USD 6,000,000. This equity grant will be based on an equity mix of 50% time-based RSUs (vesting 1/3 per year over 3 years), and 50% performance based RSUs or "PBRSUs" (cliff vesting if earned, on March 1, 2022).

Retention Bonuses

In addition, we will provide two retention bonuses subject to your active continued employment through the applicable payment dates:

(i) $2,500,000, payable in the payroll following December 31, 2019, less applicable deductions and tax withholdings (the "2019 Retention Bonus"). This bonus (i) will be subject to repayment if you terminate from PayPal prior to December 31, 2020, and;

(ii) $5,000,000, payable in the payroll following December 31, 2020, less applicable deductions and tax withholdings (the "2020 Retention Bonus")

Both retention bonuses are subject to repayment in their entirety if your employment ceases for reasons of Cause. You further authorize PayPal to withhold from any compensation otherwise owed to you at the time of termination amounts necessary to satisfy your repayment obligations, other than those exempt from attachment under federal and state laws.

For purposes of this letter agreement, “Cause” shall be defined as (i) your failure to attempt in good faith to substantially perform your assigned duties, other than failure resulting from your 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 PayPal specifying such failure; (ii) your indictment for, conviction of or plea of nolo contendere to any felony (or any other
crime involving fraud, dishonesty or moral turpitude); or (iii) your commission of an act of fraud, embezzlement, misappropriation, willful misconduct, or breach of fiduciary duty against PayPal, except good faith expense account disputes.

2018 AIP

In terms of the 2018 results under the 2018 AIP, 75% of your annual bonus is based on the company’s financial performance. On February 15, 2018, you were granted a performance-based restricted stock unit award (“AIP Shares”) of 3,530 shares with a target value of $281,250. As PayPal exceeded its 2018 company performance targets, your AIP Shares will be adjusted using a 2018 company score of 130%, and 4,589 shares will vest on February 15, 2019, subject to the terms and conditions of the 2018 AIP. Assuming a stock price of $94, the value of your 2018 AIP Shares is $431,366.

Under the 2018 AIP, 25% is based on your individual performance, payable in cash. I am pleased to inform you that your individual bonus payout percentage for 2018 is 130%, resulting in a cash payout on or around February 22, 2019 of $134,063, subject to the terms and conditions of the 2018 AIP.

Your combined total bonus value for 2018 (including AIP Shares and cash), is $565,429, assuming a stock price of $94. All payments and equity vests are subject to applicable taxes and withholdings.

Thank you again for your leadership during another year of significant achievement and progress in service to our mission. By virtually every metric and measurement, we made tremendous strides forward as a company and I’m proud of the central role our leadership team played in making that happen. I look forward to building on our successes and working together to make 2019 another fantastic year and ensuring that PayPal fulfills its unlimited potential as a great and enduring customer champion company.

Best,



Dan Schulman
President and CEO, PayPal



2211 North First Street San Jose, CA 95131 paypal.com

December 22, 2018 (via e-mail – hard copy to follow) Allison Johnson
[address]

Dear Allison:

PayPal Holding, Inc. ("PayPal" or the "Company") is pleased to offer you the exempt position of Executive Vice President, Chief Marketing Officer at a bi-weekly salary of $25,000, which is equivalent to an annualized salary of $650,000.

You will be eligible to participate in the Annual Incentive Plan ("AIP") with an annual bonus based on individual achievement as well as company performance. Your target bonus for the AIP is 100% of your annual base salary. Your bonus will be based on your hire date and days of service during the AIP bonus period, which is January 1 – December 31. There is no guarantee any AIP bonus will be paid and any actual bonus will be determined after the end of the annual bonus period pursuant to the terms of the AIP. To be eligible to receive any AIP bonus, you must be employed on or before the first business day of the fourth quarter and you must be employed on the date the bonus is paid. The payment of any bonus is at PayPal's sole and absolute discretion and subject to the terms and conditions of the AIP. PayPal reserves the right, in its sole discretion, to amend, change or cancel the AIP at any time.

You may be eligible to receive equity grants each year beginning in 2020, depending on your performance as assessed by your manager and subject to approval by the Compensation Committee of the Board of Directors of PayPal Holdings, Inc. (together with its delegate, as applicable, referred to herein as the "Committee"). Annual equity grant ranges are reviewed each year to ensure we remain competitive to the market.

To welcome you to PayPal, it will be recommended to the Committee that you be granted the following:

Grant	Value	Vesting Schedule
Restricted Stock Units ("RSUs")	USD $3,000,000	The value of these equity awards will be converted into the number of shares to be granted, as determined based on company policies at the time of grant. One-third (1/3) of the shares subject to the RSU awards will vest (conditioned upon your continued employment with a PayPal company) on each anniversary of the grant date, less applicable taxes and withholdings.
Performance-based Restricted Stock Units ("PBRSUs")	Target value of USD $1,000,000	The target value of these equity awards will be converted into the number of shares to be granted, as determined based on company policies. Any PBRSUs earned based on PayPal Holdings' performance over the three-year period commencing from January 1, 2019 through December 31, 2021 will be vested and settled in early 2022, conditioned upon your continued employment with a PayPal company, less applicable taxes and withholdings.

Please note: The above is a summary of the RSUs and PBRSUs. Once your grant is approved and processed (subject to the approval of the Committee, the grant date is generally on or around the 15th of the month following the month of your first day of employment), you will be notified by E*TRADE to set up your account, and will be prompted to accept your grant on-line. The equity award and other related agreements set forth the terms and conditions that govern your awards.

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

You will also receive benefits from PayPal. Please refer to the benefit plan documents for more details, including eligibility. Details about company benefits, including the Employee Stock Purchase Program, 401(k), Sabbatical Program, and Tracking-Free Vacation, are available here: https://www.paypalbenefits.com.

The above is just an overview. For more details and plan limitations, please review the Summary Plan Descriptions, plan documents, program summaries or grant agreements. You'll see that we're serious about offering a generous benefits package. PayPal reserves the right, in its sole discretion, to amend, change or cancel the benefits at any time.

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

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

All of us at PayPal are very excited about you joining our team and look forward to a beneficial and fruitful relationship. However, should any dispute arise with respect to your employment or the termination of that employment, we both agree that such dispute shall be conclusively resolved by final, binding and confidential arbitration rather than by a jury court or administrative agency.

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

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

Proprietary Information and Inventions Agreement, and the Insider Trading Agreement certification.

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

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

Very truly yours,

/s/ Dan Schulman

Dan Schulman
President and Chief Executive Officer

ACCEPTED:

/s/ Allison Johnson

Allison Johnson

Date: December 31, 2018 Anticipated Start Date: January 7, 2019 **

** Subject to successful background check, and termination of other contractual obligations.



Exhibit 31.01

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

I, Daniel H. Schulman, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Daniel H. Schulman

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

Date: April 25, 2019

Exhibit 31.02

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

I, John D. Rainey, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ *John D. Rainey*

John D. Rainey

Chief Financial Officer and Executive Vice President, Global Customer Operations

(Principal Financial Officer)

Date: April 25, 2019

Exhibit 32.01

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

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

(i) The accompanying quarterly report on Form 10-Q for the quarter ended March 31, 2019 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

/s/ Daniel H. Schulman

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

Date: April 25, 2019

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

Exhibit 32.02

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

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

(i) The accompanying quarterly report on Form 10-Q for the quarter ended March 31, 2019 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

/s/ John D. Rainey

John D. Rainey

Chief Financial Officer and Executive Vice President, Global Customer Operations

(Principal Financial Officer)

Date: April 25, 2019

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