

PayPal Holdings, Inc.
Form 10-Q
April 28, 2016

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, 2016.

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 (I.R.S. Employer
Incorporation or Organization) Identification No.)

2211 North First Street 95131
San Jose, California
(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 No

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 22, 2016, there were 1,212,026,663 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.

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

PayPal Holdings, Inc.

CONDENSED COMBINED AND CONSOLIDATED BALANCE SHEET

	March 31, December 31, 2016 2015	
	(In millions, except par value)	
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,583	\$ 1,393
Short-term investments	2,184	2,018
Accounts receivable, net	159	137
Loans and interest receivable, net of allowances of \$257 in 2016 and \$233 in 2015	4,224	4,184
Funds receivable and customer accounts	12,232	12,261
Prepaid expenses and other current assets	586	655
Total current assets	21,968	20,648
Long-term investments	1,661	2,348
Property and equipment, net	1,345	1,344
Goodwill	4,071	4,069
Intangible assets, net	320	358
Other assets	105	114
Total assets	\$29,470	\$ 28,881
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$158	\$ 145
Funds payable and amounts due to customers	13,032	12,261
Accrued expenses and other current liabilities	1,145	1,179
Income taxes payable	27	32
Total current liabilities	14,362	13,617
Deferred tax liability and other long-term liabilities	1,510	1,505
Total liabilities	15,872	15,122
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.0001 par value; 4,000 shares authorized; 1,208 and 1,224 outstanding	—	—
Treasury stock at cost, 17 shares as of March 31, 2016	(596))
Additional paid-in-capital	13,188	13,100
Retained earnings	1,033	668
Accumulated other comprehensive loss	(27)) (9)
Total equity	13,598	13,759
Total liabilities and equity	\$29,470	\$ 28,881

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

PayPal Holdings, Inc.

CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended March 31, 2016 2015 (In millions, except per share data) (Unaudited)	
Net revenues	\$2,544	\$2,137
Operating expenses:		
Transaction expense	752	575
Transaction and loan losses	255	178
Customer support and operations	296	249
Sales and marketing	233	222
Product development	195	185
General and administrative	231	217
Depreciation and amortization	175	141
Restructuring	—	48
Total operating expenses	2,137	1,815
Operating income	407	322
Other income (expense), net	15	(1)
Income before income taxes	422	321
Income tax expense	57	66
Net income	\$365	\$255
Net income per share:		
Basic	\$0.30	\$0.21
Diluted	\$0.30	\$0.21
Weighted average shares:		
Basic	1,216	1,218
Diluted	1,225	1,224

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

PayPal Holdings, Inc.

CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2016 2015 (In millions) (Unaudited)	
Net income	\$365	\$255
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation	8	(33)
Unrealized gains on investments, net	12	—
Tax expense on unrealized gains on investments, net	(2)	—
Unrealized gains (losses) on hedging activities, net	(36)	64
Tax expense on unrealized gains (losses) on hedging activities, net	—	1
Other comprehensive income (loss), net of tax	(18)	32
Comprehensive income	\$347	\$287

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

PayPal Holdings, Inc.

CONDENSED COMBINED AND CONSOLIDATED STATEMENT OF CASH FLOWS

Three
Months
Ended
March 31,
2016 2015
(In
millions)
(Unaudited)

Cash flows from operating activities:

Net income \$365 \$255