Case Prompt

It is 6:00 AM on **Tuesday, August 8th, 2023**. PayPal CEO Dan Schulman, announced last week that the company's adjusted operating margins have declined as low-margin businesses like Braintree have shown strong growth and higher-margin businesses such as the PayPal-branded checkout platform have seen slower growth. As a result, Intuit CEO Sasan Goodarzi seeing the long-term potential and uncertain leadership plan of PayPal, determined it was in an ideal position to be acquired. In conducting his analysis, Goodarzi had realized that with PayPal shares down 40% from its 52-week high, PayPal could be an attractive buying opportunity.

CEO of Intuit, Sasan Goodarzi immediately calls you and your team. He asks for **your team to deliver a presentation** to him and Intuit executives this evening on the group's thoughts about the acquisition idea. His concerns are as follows:

- Does it make sense for Intuit to acquire PayPal?
- At what price could Intuit justify an acquisition to shareholders?
- How would this acquisition set up Intuit for growth and innovation within the FinTech industry?
- Is this deal worth pursuing given the regulatory concerns and potential negative publicity?

You and your team must put together a presentation for this evening's discussion that should include as much of the following that you feel is relevant:

- ✓ An executive summary of your recommendation
- ✓ A situation overview
- ✓ An industry overview
- ✓ Any relevant M&A trends, deals, or cases
- ✓ A thorough business analysis of PayPal
- ✓ How PayPal fits (or doesn't) with Intuit
- ✓ Any synergies that can be realized by a potential merger
- ✓ A Valuation of PayPal
    - Comparable Companies
    - DCF
    - Precedent Transactions
    - DCF with synergies
    - Others?
- ✓ How a potential deal would be financed, and how the merger would impact pro forma earnings
- ✓ Any relevant integration concerns (i.e. antitrust, pro forma management and operations, etc.)
- ✓ Risks associated with your recommendation that Intuit should be aware of
- ✓ A conclusion summarizing your analysis and recommendation
- ✓ An appendix that includes backups of your analysis and support for any questions you may be asked

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

FORM 10-K

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

For the fiscal year ended December 31, 2022.

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)

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

Title of each class	*Trading Symbol(s)*	*Name of each exchange on which registered*
Common stock, $0.0001 par value per share	**PYPL**	**NASDAQ Global Select Market**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ☐

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 ☒ 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.

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 June 30, 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $80.7 billion based on the closing sale price as reported on the NASDAQ Global Select Market.

As of February 3, 2023, there were 1,131,373,298 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2023 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2022.

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Trademarks, Trade Names and Service Marks

PayPal owns or has rights to use the trademarks, service marks, and trade names that it uses in conjunction with the operation of its business. Some of the more important trademarks that PayPal owns or has rights to use that appear in this Annual Report on Form 10-K include: PayPal®, PayPal Credit®, Braintree, Venmo, Xoom, Zettle, Hyperwallet, Honey, and Paidy, which may be registered or trademarked in the United States and other jurisdictions. PayPal's rights to some of these trademarks may be limited to select markets. This report contains additional trade names and trademarks of other companies. The use or display of other companies' trade names or trademarks does not imply our endorsement or sponsorship of, or a relationship with these companies.

PART I

FORWARD-LOOKING STATEMENTS

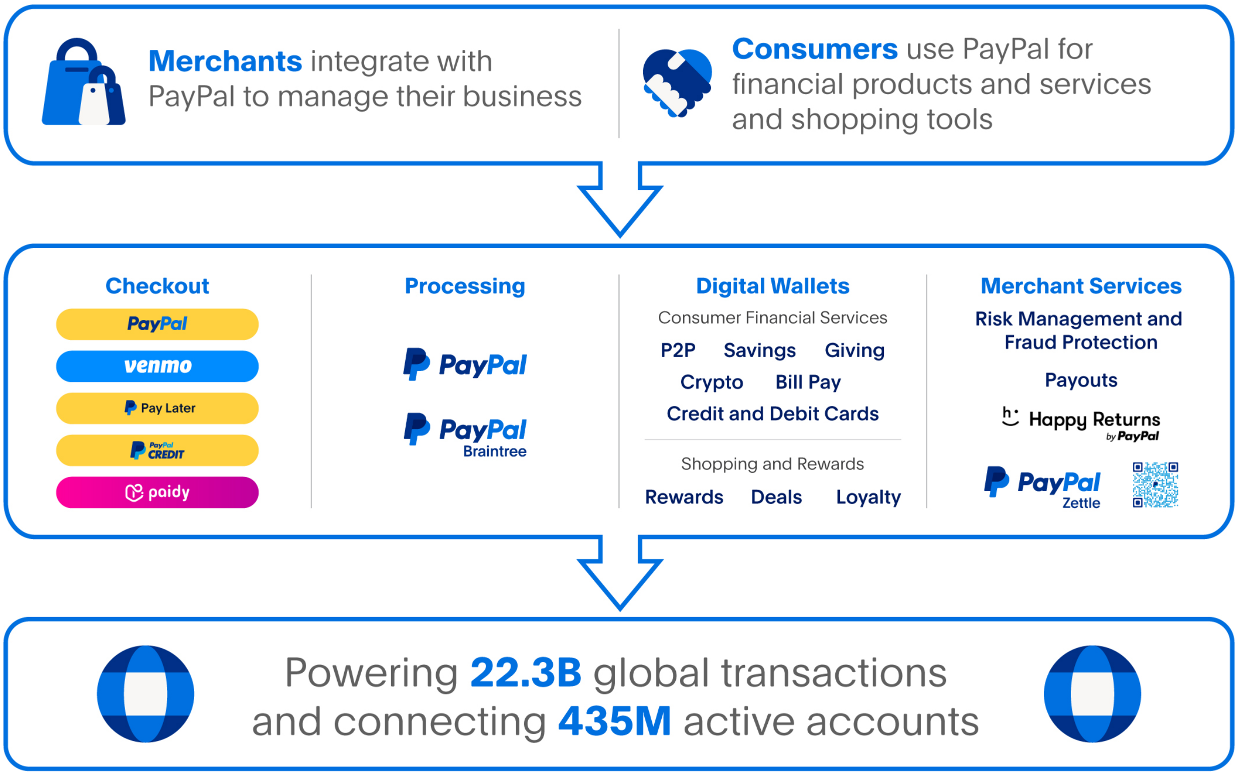
This Annual Report on Form 10-K ("Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, mergers or acquisitions, or management strategies). These forward-looking statements can be identified by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue," "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 "Item 1A. Risk Factors" of this Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing 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, new information, 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 information in this report in conjunction with the audited consolidated financial statements and the related notes that appear in this report.

ITEM 1. BUSINESS

OVERVIEW

PayPal Holdings, Inc. was incorporated in Delaware in January 2015 and is a leading technology platform that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers worldwide. PayPal is committed to democratizing financial services to help improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. Our goal is to enable our merchants and consumers to manage and move their money anywhere in the world in the markets we serve, anytime, on any platform, and using any device when sending payments or getting paid, including person-to-person ("P2P") payments. Our core values of Inclusion, Innovation, Collaboration, and Wellness, reflected in our leadership principles, are the driving forces behind our mission and form the foundation of our operating philosophy. We believe that our core values help stimulate the creativity and engagement of our global workforce to deliver products and services designed to meet the diverse needs of our customers. We also believe that effective management of environmental, social, and governance ("ESG") risks and opportunities is essential to deliver on our mission and strategy. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company," or "PayPal" refer to PayPal Holdings, Inc. and its consolidated subsidiaries.

PayPal's Payment Solutions

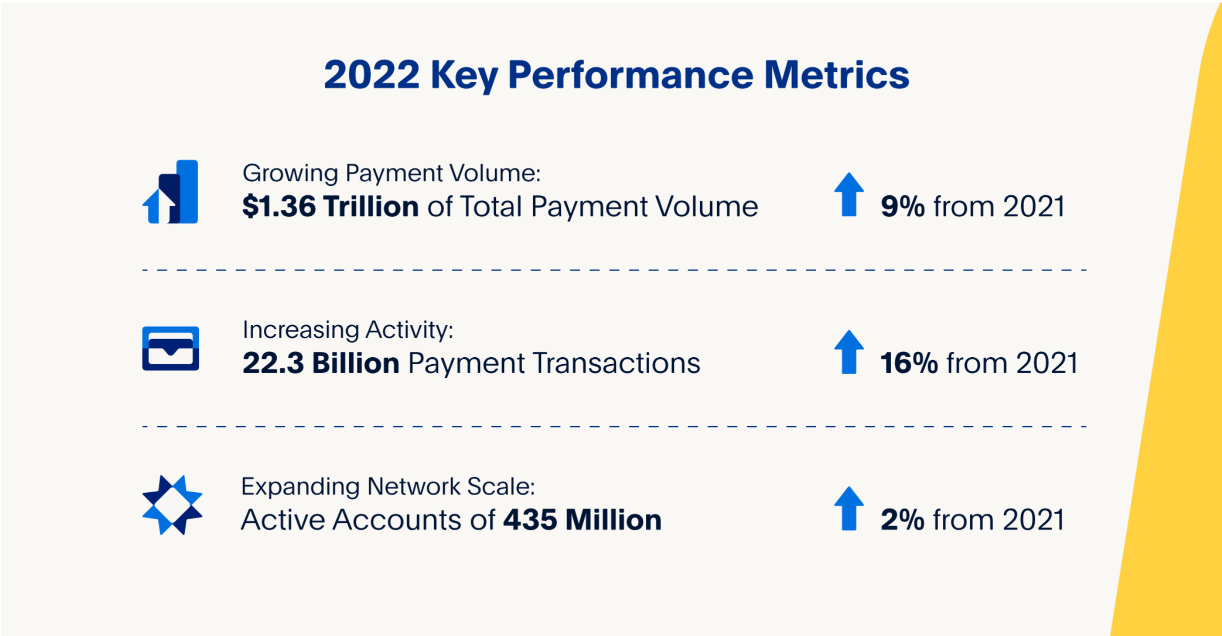


PayPal's payment solutions enable our customers to connect, transact, and send and receive payments, whether they are online or in person. We provide proprietary payment solutions accepted by merchants that enable the completion of payments on our platform on behalf of our customers. We operate a global, two-sided network at scale that connects merchants and consumers with 435 million active accounts (consisting of 400 million consumer active accounts and 35 million merchant active accounts) across more than 200 markets as of December 31, 2022.

We offer our customers the flexibility to use their PayPal or Venmo accounts to purchase and receive payments for goods and services, as well as the ability to transfer and withdraw funds. We enable consumers to exchange funds more safely with merchants using a variety of funding sources, which may include a bank account, a PayPal or Venmo account balance, PayPal and Venmo branded credit products including our installment products, a credit card, a debit card, certain cryptocurrencies, or other stored value products such as gift cards, and eligible rewards. Our PayPal, Venmo, and Xoom products also make it safer and simpler for friends and family to transfer funds to each other. We offer merchants an end-to-end payments solution that provides authorization and settlement capabilities, as well as instant access to funds and payouts. We also help merchants connect with their customers, process exchanges and returns, and manage risk. We help reduce the friction typically involved in cross-border commerce by offering consumers a simple payment experience and by enabling merchants to extend their reach to consumers in the global markets in which our services are available.

We earn revenues primarily by charging fees for completing payment transactions for our customers and other payment-related services, which are typically based on the volume of activity processed on our payments platform. We also generate revenue from customers on fees charged for foreign currency conversion, for instant transfers from their PayPal or Venmo account to their bank account or debit card, and to facilitate the purchase and sale of cryptocurrencies; however, we generally do not charge customers to fund or draw from their accounts. We also earn revenue by providing other value added services, which are comprised primarily of revenue earned through partnerships, interest and fees from our merchant and consumer credit products, interest earned on certain assets underlying customer balances, referral fees, subscription fees, and gateway services.

KEY PERFORMANCE METRICS



We measure the scale of our platform and the relevance of our products and services to our customers through certain metrics, including total payment volume, payment transactions, and active accounts:

Total payment volume ("TPV") is the value 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.

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.

An *active account* is an account registered directly with PayPal or a platform access partner that has completed a transaction on our platform, not including gateway-exclusive transactions, within the past 12 months. A platform access partner is a third party whose customers are provided access to PayPal's platform or services through such third-party's login credentials, including individuals and entities that utilize Hyperwallet's payout capabilities. A user may register on our platform to access different products and may register more than one account to access a product. Accordingly, a user may have more than one active account. The number of active accounts provides management with additional perspective on the overall scale of our platform, but may not have a direct relationship to our operating results.

OUR STRENGTHS

Our business is built on a strong foundation designed to drive growth and differentiate us from our competitors. A critical element of our overall growth strategy involves increasing the engagement of our active accounts, which we expect will contribute to growth in payment transactions, total payment volume, and net revenues. We believe that our competitive strengths include the following:

- *Two-sided network*—our payments platform connecting merchants and consumers enables PayPal to offer unique end-to-end product experiences while gaining valuable insights into how our customers use our platform. Our payments platform provides for digital and in-store (at the point of sale) transactions while being both technology and platform agnostic.

- *Merchant and consumer choice*—our branded and unbranded card processing payment solutions support an open ecosystem that provides choice to both merchants and consumers, enabling flexibility to make and receive payments using a wide variety of different funding options and digital wallet solutions.

- *Scale*—our global scale helps us to drive organic growth. As of December 31, 2022, we had 435 million active accounts, consisting of 400 million consumer active accounts and 35 million merchant active accounts in more than 200 markets around the world. A market is a geographic area or political jurisdiction, such as a country, territory, or protectorate, in which we offer some or all of our products and services. A country, territory, or protectorate is identified by a distinct set of laws and regulations. In 2022, we processed $1.36 trillion of TPV.

- *Trusted brands*—we have built and strengthened well-recognized and trusted brands, including PayPal, Braintree, Venmo, Xoom, Hyperwallet, PayPal Zettle, PayPal Honey, and Paidy. Our communications and marketing efforts across multiple geographies and demographic groups play an important role in building brand visibility, usage, and overall preference among customers.

- *Risk and compliance management*—our enterprise risk and compliance management program is designed to help secure customer information and to help ensure we process legitimate transactions around the world, while identifying and minimizing illegal, high-risk, or fraudulent transactions.

- *Regulatory licenses*—we believe that our regulatory licenses, which enable us to operate in markets around the world, are a distinct advantage and help support business growth.

MERCHANT AND CONSUMER PAYMENT SOLUTIONS

During 2022, we reorganized our product organization to better align with merchants and consumers to help simplify decision making and enable our teams to innovate and launch new products and features more quickly and efficiently.

Merchant value proposition

We partner with our merchants to help grow and expand their businesses by providing global reach and powering all aspects of digital checkout. We offer alternative payment methods (including access to credit solutions), provide fraud prevention and risk management solutions, reduce merchant losses through proprietary protection programs, and offer tools and insights for utilizing data analytics to attract and engage customers and improve sales conversion. We employ a technology and platform agnostic approach intended to enable merchants of all sizes to quickly and easily provide digital checkout online, including through PayPal-branded checkout and unbranded card processing (primarily consisting of Braintree), as well as in-store at the point of sale, across all platforms and devices, and to securely and simply receive payments from their customers.

PayPal's payments platform enables merchants to accept all types of online and offline payments, including those made with the PayPal and Venmo digital wallets, our consumer credit products, credit cards and debit cards, and competing digital wallets, as well as other popular local payment methods. Our diversified suite of products and services is tailored to meet the needs of merchants regardless of their size or business complexity. We have expanded our merchant value proposition to enable payment acceptance at the point of sale through our PayPal and Venmo digital wallets and our PayPal Zettle point of sale solutions. We aim to offer a seamless, omni-channel solution that helps merchants manage and grow their business. Through our consumer-focused offerings, we provide simplified and personalized shopping experiences for consumers, including easier exchanges and returns, to help merchants drive increased conversion through higher consumer engagement.

We offer access to merchant finance products for certain small and medium-sized businesses through the PayPal Working Capital and PayPal Business Loan products, which we collectively refer to as our merchant finance offerings. The PayPal Working Capital product allows businesses to access a loan or cash advance for a fixed fee and based on their annual payment volume processed by PayPal. The PayPal Business Loan product provides businesses with short-term financing for a fixed fee based on an evaluation of both the applying business as well as the business owner. In the United States ("U.S."), these products are provided under a program agreement with an independent chartered financial institution. We believe that our merchant finance offerings enable us to deepen our engagement with our existing small and medium-sized merchants and expand services to new merchants by providing access to capital that may not be available from traditional banks or other lending providers.

We generate revenues from merchants primarily by charging fees for completing their payment transactions and other payment-related services. We also earn revenues from interest and fees earned on our merchant loans receivables.

Consumer value proposition

We focus on providing affordable, convenient, and secure consumer financial products and services intended to democratize the management and movement of money. We provide consumers with a digital wallet that enables them to send payments to merchants more safely using a variety of funding sources, which may include a bank account, a PayPal or Venmo account balance, our consumer credit products, a credit card, a debit card, certain cryptocurrencies, or other stored value products such as gift cards, and eligible rewards. Our goal is to create the simplest checkout experience possible for consumers both online and on mobile devices.

We also offer consumers P2P payment solutions through our PayPal, Venmo, and Xoom products and services. We enable both domestic and international P2P transfers across our payments platform. Our Venmo digital wallet in the U.S. is a leading mobile application used to move money between our customers and to make purchases at select merchants. Our Xoom international money transfer service enables our customers to send money to people around the world in a secure, fast, and cost-effective way. P2P is an important source of customer engagement and also serves as a customer acquisition channel that facilitates organic growth by enabling potential users to establish active accounts with PayPal or Venmo at the time they make or receive a P2P payment. We also focus on simplifying and personalizing shopping experiences for our consumers by offering tools for product discovery, price tracking, offers, convenient tracking and redemption options for their shopping rewards, and easier exchanges and returns, which help our merchants to increase consumer engagement and sales conversion.

We offer credit products to consumers in certain markets as a funding source at checkout, subject to approval of credit for the account holder. Our consumer credit offerings include our buy now, pay later products in the U.S., United Kingdom ("U.K."), France, and Germany, among others, and in Japan through Paidy. A key attribute of our buy now, pay later products is the absence of interest or consumer late fees for missed payments in most of the geographies where we offer them. Further, we offer consumer interest-bearing installment products for consumers in the U.S., issued by an independent chartered financial institution, and in Germany. In the U.S., consumers may apply for our PayPal- and Venmo-branded consumer credit cards and our PayPal Credit revolving consumer credit product, which are offered through a partnership with an independent chartered financial institution. We offer a PayPal-issued PayPal Credit product in the U.K. We believe that our consumer credit products help enable us to increase engagement with consumers and merchants on our two-sided network.

We have expanded our consumer value proposition through enhancements to the PayPal and Venmo digital wallets, which provide functionality to enable consumers to more easily checkout, explore deals and offers, track and redeem rewards, and to transact with cryptocurrencies, including buying, holding, selling, sending, and receiving them in certain markets. Our goal is to drive increased consumer engagement by providing consumers with a comprehensive set of services to manage their finances and enhance their ability to shop online and in person.

We generate revenue from consumers on: fees charged for foreign currency conversion, instant transfers from their PayPal or Venmo account to their bank account or debit card, and to facilitate the purchase and sale of cryptocurrencies; interest, fees, or other revenue from our credit products; and other miscellaneous fees.

PROTECTING MERCHANTS AND CONSUMERS

Protecting merchants and consumers on our payments platform from financial and fraud loss is important to successfully competing and sustainably growing our business. Fraudulent activities, such as account takeover, identity theft (including stolen financial information), and malicious activities by counterparties, represent a significant risk to merchants and consumers, as well as their payment partners. We provide merchants and consumers with protection programs for certain purchase transactions completed on our payments platform. We believe that these programs, which help protect both merchants and consumers from financial loss resulting from fraud and counterparty non-performance, are generally consistent with or broader than protections provided by other participants in the payments industry. Our protection programs are designed to promote confidence on both the part of consumers, who will only be required to pay in certain circumstances, such as receiving their purchased item in the condition significantly as described, and merchants, who will receive payment for delivering an item to the customer.

Our ability to help protect both merchants and consumers is based largely on our proprietary, end-to-end payments platform and our ability to utilize the data from both sides of transactions on our two-sided network, specifically from buyers and sellers and from senders and receivers of payments. Our ongoing investment in systems and processes is designed to enhance the safety and security of our products and reflects our goal of having PayPal recognized as one of the world's most trusted payments brands.

COMPETITION

The global payments industry is highly competitive, dynamic, highly innovative, and increasingly subject to regulatory scrutiny and oversight. Many of the areas in which we compete evolve rapidly with innovative and disruptive technologies, shifting user preferences and needs, price sensitivity of merchants and consumers, and frequent introductions of new products and services. Competition also may intensify as new competitors emerge, businesses enter into business combinations and partnerships, and established companies in other segments expand to become competitive with various aspects of our business.

We compete with a wide range of businesses. Some of our current and potential competitors are or may be larger than we are, have larger customer bases, greater brand recognition, longer operating histories, a dominant or more secure position, broader geographic scope, volume, scale, resources, and market share than we do, or offer products and services that we do not offer. Other competitors are or may be smaller or younger companies that may be more agile in responding to regulatory and technological changes and customer preferences.

We differentiate ourselves to merchants through our ability to innovate and develop products and services that offer new payment experiences for our merchants, demonstrate that they may achieve incremental sales by using and offering our services to consumers, support transactions on our payments platform across varied technologies and payment methods, through the simplicity and transparency of our fee structure, our seller protection programs, analytics, and risk management, as well as other merchant services. In addition, we differentiate ourselves to consumers through the ability to use our products and services across multiple commerce channels, including e-commerce, mobile, and payments at the point of sale, and without sharing their financial information with the merchant or any other party they are paying; our customer service, dispute resolution, and purchase protection programs; and our ability to simplify and personalize shopping experiences. We invest resources towards improving our products and services, offering choice in payment options, providing excellent customer service, and building brands that merchants and consumers trust.

Our business faces competition from a wide range of businesses and from all forms of physical and electronic payments. We face competition from banks and financial institutions, which provide traditional payment methods (particularly credit cards and debit cards (collectively, “payment cards”), electronic bank transfers, and credit), payment networks that facilitate payments for payment cards or proprietary retail networks, payment card processors, and “card on file” services. We also face competition from providers offering a variety of payment products and services, including tokenized and contactless payment cards, digital wallets and mobile payments solutions, credit, installment or other buy now pay later methods, real-time payment systems, P2P payments and money remittance services, card readers and other devices or technologies for payment at point of sale, virtual currencies and distributed ledger technologies, and tools that simplify and personalize shopping experiences for consumers and merchants. Our products and services face competition from all forms of payments, which include paper-based payments (primarily cash and checks), credit cards, debit cards, electronic bank transfers, account-to-account payments, credit, installment methods, digital wallets and mobile payment solutions, contactless payments (including contactless cards, tokenized cards, Near Field Communication (NFC) based solutions, and Quick Response (QR) code-based solutions), and virtual currencies, such as cryptocurrencies and stablecoins.

In addition to the discussion in this section, see “Item 1A. Risk Factors” under the caption “*We face substantial and increasingly intense competition worldwide in the global payments industry”* for further discussion of the potential impact of competition on our business.

STRATEGY

Our ability to grow revenue is affected by, among other things, the macroeconomic environment and its impact on consumer spending patterns, merchant and consumer adoption of digital payment methods, the expansion of multiple commerce channels, the growth of mobile devices and merchant and consumer applications on those devices, the growth of consumers globally with internet and mobile access, the pace of transition from cash and checks to digital forms of payment, our share of the digital payments market, and our ability to innovate and introduce new products, services, and features that merchants and consumers value. Our strategy to drive growth in our business includes the following:

- *Growing our core business*: through expanding our global capabilities, customer base and scale, increasing our customers’ engagement and use of our products and services by better addressing their everyday needs to access, manage, and move money, creating seamless checkout experiences, and expanding the adoption of our solutions by merchants and consumers;

- *Expanding our value proposition for merchants and consumers*: by being technology and platform agnostic, partnering with our merchants to grow and expand their business online and in-store, and providing consumers with simple, secure, and flexible ways to manage and move money across different markets, merchants, and platforms, and simplifying their shopping experiences;

- *Forming and expanding strategic partnerships*: by building new strategic partnerships and deepening existing ones to provide better experiences for our customers, offer greater choice and flexibility, acquire new customers, and reinforce our role in the payments ecosystem; and

- *Seeking new areas of growth*: organically and through acquisitions and strategic investments in our existing and new international markets and focusing on innovation in both the digital and physical world.

ESG MANAGEMENT

PayPal is committed to creating a more inclusive global economy and advancing our core values of Inclusion, Innovation, Collaboration, and Wellness across our communities, workforce, and strategies. We manage priority ESG risks and opportunities organized across four key pillars: (1) employees and culture, (2) social innovation, (3) environmental sustainability, and (4) responsible business practices. We believe this integrated, enterprise-wide approach to managing our global business responsibly helps to enable us to create value for all our stakeholders, including our stockholders, employees, partners, and communities. We continue to advance and prioritize efforts to manage key non-financial factors critical to our long-term business, including progress on our science-based approach to reducing our climate change impacts, targeted investments and partnerships to address the racial wealth gap and empower underserved communities and businesses, ongoing programmatic development intended to foster an inclusive culture across the employee experience, and further enhancements to support the safety and security of our products and platform. We take this commitment seriously and endeavor to provide transparent disclosures on our progress through our annual Global Impact Report and other communications.

TECHNOLOGY

Our payments platform utilizes a combination of proprietary and third-party technologies and services intended to facilitate transactions efficiently and securely between millions of merchants and consumers worldwide across different channels, markets, and networks. Our payments platform connects with financial service providers around the world and allows consumers to make purchases using a wide range of payment methods, regardless of where a merchant is located. Consumers who use our payments platform can send payments in more than 200 markets around the world and in nearly 150 currencies, withdraw funds to their bank accounts in 56 currencies, and hold balances in their PayPal accounts in 25 currencies.

We have developed intuitive user interfaces, customer tools, transaction management databases, and payment network integrations on our platform designed to enable our customers to utilize our suite of products and services. Our payments platform, open application programming interfaces, and developer tools are designed to enable developers to innovate with ease and offer robust solutions to our global ecosystem of merchants and consumers, while at the same time helping to maintain the security of our customers' information.

The technology infrastructure supporting our payments platform is designed to simplify the storage and processing of large amounts of data and facilitate the deployment and operation of large-scale global products and services in both our own data centers and when hosted by third-party cloud service providers. Our technology infrastructure is designed around industry best practices intended to reduce downtime and help ensure the resiliency of our payments platform in the event of outages or catastrophic occurrences. Our payments platform incorporates multiple layers of protection for business continuity and system redundancy purposes and to help mitigate cybersecurity risks. We have a comprehensive cybersecurity program designed to protect our technology infrastructure and payments platform against cybersecurity threats, which includes regularly testing our systems to identify and address potential vulnerabilities. We strive to continually improve our technology infrastructure and payments platform to enhance the customer experience and to increase efficiency, scalability, and security.

For additional information regarding risks relating to our technology infrastructure and cybersecurity, see the information in "Item 1A. Risk Factors" under the captions "*Cyberattacks and security vulnerabilities could result in serious harm to our reputation, business, and financial condition*" and "*Business interruptions or systems failures may impair the availability of our websites, applications, products or services, or otherwise harm our business*."

RESEARCH AND DEVELOPMENT

Our total research and development expense was $1.7 billion, $1.6 billion, and $1.4 billion in 2022, 2021, and 2020, respectively.

INTELLECTUAL PROPERTY

The protection of our intellectual property, including our trademarks, copyrights, domain names, trade dress, patents, and trade secrets, is important to the success of our business. We seek to protect our intellectual property rights by relying on applicable laws, regulations, and administrative procedures in the U.S. and internationally. We have registered our core brands as domain names and as trademarks in the U.S. and many international jurisdictions. We also have an active program to secure and enforce trademarks and domain names that correspond to our brands in markets of interest. We have filed and continue to file patent applications in the U.S. and in international jurisdictions covering certain aspects of our proprietary technology and new innovations. We also rely on contractual restrictions to protect our proprietary rights when offering or procuring products and services. We routinely enter into confidentiality and invention assignment agreements with our employees and contractors, and non-disclosure agreements with parties with whom we conduct business to control access to, and use and disclosure of, our proprietary information.

For additional information regarding risks relating to our intellectual property, see the information in "Item 1A. Risk Factors" under the captions "*Third parties may allege that we are infringing their patents and other intellectual property rights*" and "*We may be unable to protect or enforce our intellectual property*."

GOVERNMENT REGULATION

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened focus by regulators globally on all aspects of the payments industry, including countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. The laws and regulations applicable to us, including those enacted prior to the advent of digital payments, continue to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including changes to their interpretation and implementation, 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. We monitor these areas closely and are focused on designing compliant solutions for our customers.

Government regulation impacts key aspects of our business. We are subject to the laws and regulations applicable to the payments industry in the markets we operate, which are subject to interpretation and change.

Payments regulation. Various laws and regulations govern the payments industry in the U.S. and internationally. In the U.S., PayPal, Inc. (a wholly-owned subsidiary) holds 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 and certain territories. These licenses include not only the PayPal-branded products and services offered in these locations, but also our Venmo, Hyperwallet, and Xoom products and services to the extent offered in these locations. As a licensed money transmitter, PayPal is subject to, among other requirements, restrictions with respect to the investment of customer funds, reporting requirements, bonding requirements, and inspection by state regulatory agencies. In certain cases, these licenses also generally cover PayPal's service enabling customers to buy, hold, transfer, and sell cryptocurrency directly from their PayPal or Venmo account. In the State of New York, PayPal holds a full Bitlicense issued by the New York Department of Financial Services to offer cryptocurrency services in the state.

Outside the U.S., we provide similar services customized for various countries and foreign jurisdictions through our foreign subsidiaries. The activities of those non-U.S. entities are, or may be, supervised by a financial regulatory authority in the jurisdictions in which they operate. Among other regulatory authorities, the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF"), the U.K. Financial Conduct Authority ("FCA"), the Australian Prudential Regulation Authority, the People's Bank of China, the Monetary Authority of Singapore, the Reserve Bank of India, the Central Bank of Russia, and the Central Bank of Brazil have asserted jurisdiction over some or all of our activities in their respective jurisdictions. This list is not exhaustive, and there are numerous other regulatory agencies which have asserted or may assert jurisdiction over our activities.

In addition, financial services regulators in various jurisdictions, including the U.S. and the European Union ("EU"), have implemented authentication requirements for banks and payment processors intended to reduce online fraud, which could impose significant costs, make it more difficult for new customers to open PayPal accounts, and reduce the ease of use of our products.

Banking agency supervision. We serve our customers in the EU and U.K. through PayPal (Europe) S.à.r.l. et Cie, S.C.A. ("PayPal (Europe)"), a wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg by the CSSF. Under the U.K.'s Temporary Permissions Regime, PayPal is deemed to be authorized and regulated by the U.K. FCA as a result of Brexit. Consequently, we must comply with rules and regulations of the European banking industry, including those related to capitalization, funds management, corporate governance, anti-money laundering, disclosure, reporting, and inspection. We are, or may be, subject to banking-related regulations in other countries now or in the future related to our role in the financial industry. In addition, based on our relationships with our partner financial institutions, we are, or may be, subject to indirect regulation and examination by the regulators of these partner financial institutions.

Lending regulation. Our U.S. consumer short-term, interest-free, installment product is subject to federal and state laws governing consumer credit and debt collection. PayPal holds multiple state licenses as the lender of this product. Paidy, Inc. holds multiple licenses for the issuance of its consumer installment products in Japan and is registered with the Ministry of Economy, Trade and Industry as a Comprehensive Credit Purchase Intermediary. In Australia, PayPal Credit Pty Limited offers a consumer short-term, interest-free, installment product that is exempt from regulation by the primary consumer credit legislation, but is subject to other laws which cover the provision of financial services, credit reporting, debt collection, and privacy. PayPal's consumer short-term, interest-free, installment products in the U.K., France, Germany, Spain, and Italy are generally exempt from primary consumer credit legislation; however, certain consumer lending laws, consumer protection, and banking transparency regulations apply to this activity.

Our U.S. consumer interest-bearing installment product is subject to federal and state laws and is offered by an independent chartered financial institution. PayPal's interest-bearing installment product for consumers in Germany is subject to applicable local laws such as consumer (lending) laws, consumer protection, or banking transparency regulations. These loans are originated by PayPal (Europe).

PayPal and Venmo co-branded consumer credit cards and the PayPal Credit revolving consumer credit product are issued by an independent chartered financial institution in the U.S., and are subject to laws and regulations governing these programs. PayPal Credit in the U.K. is a regulated, revolving consumer credit product subject to applicable local laws and regulations.

Our U.S. merchant lending products are subject to federal and state regulations and are offered by an independent chartered financial institution. Our merchant lending products offered in Germany, France and the Netherlands are subject to the laws of Luxembourg and certain local laws, and our merchant lending product offered in the U.K. is subject to U.K. regulation. The loans offered to European and U.K. merchants are originated by PayPal (Europe). Our merchant lending product in Australia is subject to the laws of Australia and originated by PayPal Credit Pty Limited.

Consumer Financial Protection Bureau ("CFPB"). The CFPB has significant authority to regulate consumer financial products in the U.S., including consumer credit, deposits, payments, and similar products. As a large market participant of remittance transfers, the CFPB has direct supervisory authority over our business. The CFPB and similar regulatory agencies in other jurisdictions may have broad consumer protection mandates that could result in the promulgation and interpretation of rules and regulations that may affect our business.

Anti-money laundering, counter-terrorist financing, and sanctions. PayPal is subject to anti-money laundering ("AML") laws and regulations in the U.S. and other jurisdictions, as well as laws designed to prevent the use of the financial systems to facilitate terrorist activities. Our AML program is designed to prevent our payments platform from being used to facilitate money laundering, terrorist financing, and other illicit activities, or to do business in countries or with persons and entities included on designated country or person lists promulgated by the U.S. Department of the Treasury's Office of Foreign Assets Controls and equivalent authorities in other countries. Our AML and sanctions compliance programs, overseen by our AML/Bank Secrecy Act Officer, are composed of policies, procedures, and internal controls, and are designed to address these legal and regulatory requirements and assist in managing money laundering and terrorist financing risks.

Interchange fees. Interchange fees associated with four-party payments systems are being reviewed or challenged in various jurisdictions. For example, in the EU, the Multilateral Interchange Fee Regulation caps interchange fees for credit and debit card payments and provides for business rules to be complied with by any company dealing with payment card transactions, including PayPal. As a result, the fees that we collect in certain jurisdictions may become the subject of regulatory challenge.

Data protection and privacy. We are subject to a number of laws, rules, directives, and regulations ("privacy and data protection laws") relating to the collection, use, retention, security, processing, and transfer (collectively, "processing") of personally identifiable information about our customers, our merchants' customers, and employees ("personal data") in the countries where we operate. Our business relies on the processing of personal data in many jurisdictions and the movement of data across national borders. As a result, much of the personal data that we process, which may include certain financial information associated with individuals, is subject to one or more privacy and data protection laws in one or more 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, cybersecurity practices, and the processing of personal data is increasing around the world. Regulatory authorities are continuously considering numerous legislative and regulatory proposals and interpretive guidelines that may contain additional privacy and data protection obligations. Many jurisdictions in which we operate have adopted, or are in the process of adopting, or amending data privacy legislation or regulation aimed at creating and enhancing individual privacy rights. In addition, the interpretation and application of these privacy and data protection laws in the U.S., Europe, and elsewhere are subject to change and may subject us to increased regulatory scrutiny and business costs.

Anti-corruption. PayPal is subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, and similar laws in the jurisdictions in which we operate. Anti-corruption laws generally prohibit offering, promising, giving, accepting, or authorizing others to provide anything of value, either directly or indirectly, to or from a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. We have implemented policies, procedures, and internal controls that are designed to comply with these laws and regulations.

Additional regulatory developments. Various regulatory agencies continue to examine and implement laws governing a wide variety of issues, including virtual currencies, identity theft, account management guidelines, disclosure rules, cybersecurity, competition, and marketing, which may impact PayPal's business. Certain governments around the world are adopting laws and regulations pertaining to ESG performance, transparency, and reporting, including those related to general corporate ESG disclosures (e.g., the EU Corporate Sustainability Reporting Directive) as well as topical reporting and risk management requirements, such as obligations related to the management of climate-related risks.

For an additional discussion on governmental regulation affecting our business, please see "Item 1A. Risk Factors" and "Item 3. Legal Proceedings" included in this Form 10-K.

HUMAN CAPITAL

At PayPal, we consider the management of our global talent (human capital) to be essential to the ongoing success of our business. As of December 31, 2022, we employed approximately 29,900 people globally, with 44% in the Americas, 43% in Asia-Pacific, and 13% in Europe and the Middle East. Our global employees work predominantly full-time and represent nearly 150 nationalities, across 27 countries, including approximately 11,800 located in the U.S.

Attracting, recruiting, developing, and retaining diverse talent enables us to provide our customers with products and services that help them to thrive in the global economy, and serve our other stakeholders. In 2022, we developed 12 leadership principles based on our four core values that establish a common set of expectations for all employees. We began integrating these principles across our global talent strategy to help shape our programs throughout the employee lifecycle and achieve key business priorities. We also remain focused on promoting the physical, mental, and financial wellness of our employees, particularly as our workforce continues to navigate changes in where and how we work.

Employee engagement

We use employee feedback to directly inform the ongoing development of our employee programs. In addition to administering an annual survey to gather input from our global workforce, we also conducted specific surveys to gather direct employee feedback on our internal communications approach and evolving workplace preferences. For our 2022 annual employee survey, we heard from 83% of our global employees. Our engagement score, which reflects employees that would recommend PayPal to their peers and/or are happy at PayPal was 79%. Our score measuring intent to stay was 78%, which reflects an employee's expectation to remain employed with the company in two years. Additionally, we observed improvements in employee scores regarding collaboration and manager support. In 2022, we enhanced our survey to incorporate viewpoints on the employee experience, diversity, inclusion, equity, and belonging ("DIE&B") efforts, and our leadership principles, including specific questions on working style and strategic direction. The detailed scores are shared across the organization and analyzed to understand differences by geography, demographics, business function, and job level, and to help identify opportunities for further improvement.

Talent acquisition, development, and retention

As a leading technology platform that enables digital payments and simplifies commerce experiences, we compete for top global talent around the world. We believe that a strong culture focused on employee experiences that enables advancement, learning, and individual career insights is essential to the successful acquisition, development, and retention of diverse talent. Accordingly, we have implemented programs focused on inclusive hiring practices and extending our talent pipeline through targeted partnerships, reimagined our career development program for individuals and managers, extended individual coaching and mentorship programs (particularly for underrepresented and technical talent), and advanced efforts for employees to grow through self-paced and community learning experiences.

Employee wellness

We remain focused on promoting the holistic well-being of our employees, including resources, programs, and services to support our employees' physical, mental, and financial wellness. In 2022, our initiatives included extending our Global Wellness Days for all employees to take time to rest and recharge, providing resources, trainings, and workshops to foster emotional well-being, preserving workplace flexibility through Crisis Leave and other programs, and strategically extending employee benefits to additional global markets. We also continued our efforts to strengthen employee financial wellness, including offering individual employee financial coaching, promoting the prioritization of employee financial health across the private sector through the Worker Financial Wellness Initiative, and improving our internal measurement and evaluation approaches to identify targeted opportunities for further enhancements. Through our global community impact program, we support our employees' individual passions and communities by matching eligible employee donations and volunteer time with non-profit organizations up to $2,500 annually per employee.

Diversity, inclusion, equity, and belonging

We believe that fostering DIE&B is critical to our global talent strategy and pivotal to building a culture that embraces individual characteristics, values diversity, minimizes barriers, and enhances feelings of security and support across the workplace. We are committed to equal pay for equal work, promoting enterprise-wide inclusive learning opportunities, and partnering with leading organizations to embed DIE&B considerations into our talent strategy. We believe that our strong commitment to DIE&B is evident at all levels of the organization from our Board of Directors to our executive leadership team to our global workforce. As of December 31, 2022, 50% of our Board and 64% of our senior leadership team identified as women and/or from a diverse ethnic group. Across our workforce, we reached 56% overall diverse workforce representation, including 44% global gender diversity (inclusive of self-identified women and non-binary employees), and 54% U.S. ethnic diversity, as of December 31, 2022. Additional U.S. workforce diversity metrics can be found in our public EEO-1 reports and annual Global Impact Report available at https://about.pypl.com/values-in-action/reporting/default.aspx.

Workforce representation is only one aspect of our broader DIE&B strategy. Through the leadership of our Global Head of DIE&B and dedicated DIE&B team, along with functional collaboration and accountability, we are focused on strengthening existing efforts and piloting new initiatives to promote an inclusive culture. In 2022, we continued our support for underrepresented communities and employees through activities such as enhanced strategic partnerships, new learning modules to promote effective sponsorship and inclusive performance management, and new tools and resources to incorporate DIE&B considerations across the business. We continue to evaluate DIE&B progress across the company and as part of the individual performance assessment under our 2022 annual incentive plan for our senior executives. In addition, we empower eight employee resource groups to promote community and belonging for employees that identify as Black, Latinx/Hispanic, women, interfaith, veterans, LGBTQ+, Asian, and disabled persons and their allies. These groups drive ongoing employee engagement around the world for all employees, regardless of background, to support and champion their peers and related causes.

Our evolving workplace

We remain focused on creating a culture of flexibility and community by designing ways to collaborate across diverse workplace models, whether working virtually, on-site, or using a hybrid approach. We empower functional leadership to determine the most appropriate workplace strategy for their teams to optimize employee productivity and engagement and deliver on business priorities. Across PayPal, we are focused on providing tools and resources to support our diverse and distributed teams. We believe this flexible approach has broadened our potential global talent pools.

As part of our annual ESG reporting, we provide additional information on our global talent strategy, including detailed representation metrics, in our Global Impact Report.

AVAILABLE INFORMATION

The address of our principal executive offices is PayPal Holdings, Inc., 2211 North First Street, San Jose, California 95131. Our website is located at www.paypal.com, and our investor relations website is located at https://investor.pypl.com. From time to time, we may use our investor relations site and other online and social media channels, including the PayPal Newsroom (https://newsroom.paypal-corp.com/), Twitter handles (@PayPal and @PayPalNews), LinkedIn page (https://www.linkedin.com/company/paypal), Facebook page (https://www.facebook.com/PayPalUSA/), YouTube channel (https://www.youtube.com/paypal), Dan Schulman’s LinkedIn profile (https://www.linkedin.com/in/dan-schulman/), Gabrielle Rabinovitch’s LinkedIn profile (https://www.linkedin.com/in/gabriellerabinovitch/), Dan Schulman’s Facebook page (https://www.facebook.com/DanSchulmanPayPal/), and Dan Schulman’s Instagram page (https://www.instagram.com/dan_schulman/) as a means of disclosing information about the Company, including information which could be deemed to be material to investors. Our Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge on our investor relations website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. The content of our websites and information we may post on, provide to, or accessible through online and social media channels, including those mentioned above, are not incorporated by reference into this Form 10-K or in any other report or document we file with the SEC, and any references to our websites or online and social media channels are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below, in addition to other information appearing in this Form 10-K, including our consolidated financial statements and related notes, for important information regarding risks and uncertainties that could affect us. These risk factors do not identify all risks we face, and additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations, future prospects, and the trading price of our common stock could be materially and adversely affected.

CYBERSECURITY AND TECHNOLOGY RISKS

Cyberattacks and security vulnerabilities could result in serious harm to our reputation, business, and financial condition.

The techniques used to attempt to obtain unauthorized or illegal access to systems and information (including customers' personal data), disable or degrade service, exploit vulnerabilities, or sabotage systems are constantly evolving. In some circumstances, these attempts may not be recognized or detected until after they have been launched against a target. Unauthorized parties will continue to attempt to gain access to our systems or facilities through various means, including through hacking into our systems or facilities or those of our customers, partners, or vendors, and attempting to fraudulently induce users of our systems (including employees, vendor and partner personnel and customers) into disclosing user names, passwords, payment card information, multi-factor authentication application access or other sensitive information used to gain access to such systems or facilities. This information may, in turn, be used to access our customers' confidential personal or proprietary information and financial instrument data that are stored on or accessible through our information technology systems and those of third parties with whom we partner. This information may also be used to execute fraudulent transactions or otherwise engage in fraudulent actions. Numerous and evolving cybersecurity threats, including advanced and persisting cyberattacks, cyberextortion, distributed denial-of-service attacks, ransomware, spear phishing and social engineering schemes, the introduction of computer viruses or other malware, and the physical destruction of all or portions of our information technology and infrastructure and those of third parties with whom we partner, are becoming increasingly sophisticated and complex, may be difficult to detect, and could compromise the confidentiality, availability, and integrity of the data in our systems, as well as the systems themselves.

We believe that cybercriminals may target PayPal due to our name, brand recognition, types of data (including sensitive payments- and identity-related data) that customers provide to us, and the widespread adoption and use of our products and services. We have experienced from time to time, and may experience in the future, breaches of our security measures due to human error, deception, malfeasance, insider threats, system errors, defects, vulnerabilities, or other irregularities. For example, in November 2017, we suspended the operations of TIO Networks ("TIO") (acquired in July 2017) as part of an investigation of security vulnerabilities of the TIO platform, and in December 2017, we announced that we had identified evidence of unauthorized access to TIO's network and the potential compromise of personally identifiable information for approximately 1.6 million TIO customers.

Any cyberattacks or data security breaches affecting the information technology or infrastructure of companies we acquire or of our customers, partners, or vendors (including data center and cloud computing providers) could have similar negative effects.

Under payment card network rules and our contracts with our payment processors, if there is a breach of payment card information stored by us or our direct payment card processing vendors, we could be liable to the payment card issuing banks, including for their cost of issuing new cards and related expenses. Cybersecurity breaches and other exploited security vulnerabilities could subject us to significant costs and third-party liabilities, result in improper disclosure of data and violations of applicable privacy and other laws, require us to change our business practices, cause us to incur significant remediation costs, lead to loss of customer confidence in, or decreased use of, our products and services, damage our reputation and brands, divert the attention of management from the operation of our business, result in significant compensation or contractual penalties from us to our customers and their business partners as a result of losses to or claims by them, or expose us to litigation, regulatory investigations, and significant fines and penalties. While we maintain insurance policies intended to help offset the financial impact we may experience from these risks, our coverage may be insufficient to compensate us for all losses caused by security breaches and other damage to or unavailability of our systems.

Business interruptions or systems failures may impair the availability of our websites, applications, products or services, or otherwise harm our business.

Our systems and operations and those of our service providers and partners have experienced from time to time, and may experience in the future, business interruptions or degradation of service because of distributed denial-of-service and other cyberattacks, insider threats, hardware and software defects or malfunctions, human error, earthquakes, hurricanes, floods, fires, and other natural disasters, public health crises (including pandemics), power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer viruses or other malware, or other events. The frequency and intensity of weather events related to climate change are increasing, which could increase the likelihood and severity of such disasters as well as related damage and business interruption. Our corporate headquarters are located in the San Francisco Bay Area, a seismically active region in California. A catastrophic event that could lead to a disruption or failure of our systems or operations could result in significant losses and require substantial recovery time and significant expenditures to resume or maintain operations. Further, some of our systems, including those of companies that we have acquired, are not fully redundant and any failure of these acquired systems, including due to a catastrophic event, may lead to operational outages or delays. While we engage in disaster recovery planning and testing intended to mitigate risks from outages or delays, our planning and testing may not be sufficient for all possible outcomes or events. As a provider of payments solutions, we are also subject to heightened scrutiny by regulators that may require specific business continuity, resiliency and disaster recovery plans, and rigorous testing of such plans, which may be costly and time-consuming to implement, and may divert our resources from other business priorities. Any of the foregoing risks could have a material adverse impact on our business, financial condition, and results of operations.

We have experienced, and expect to continue to experience, system failures, cyberattacks, unplanned outages, and other events or conditions from time to time that have and may interrupt the availability, or reduce or adversely affect the speed or functionality, of our products and services and result in loss of revenue. A prolonged interruption of, or reduction in, the availability, speed, or functionality of our products and services could materially harm our business. Frequent or persistent interruptions in our services could permanently harm our relationship with our customers and partners and our reputation. If any system failure or similar event results in damage to our customers or their business partners, they could seek significant compensation or contractual penalties from us for their losses. These claims, even if unsuccessful, would likely be time-consuming and costly for us to address.

We continue to undertake system upgrades and re-platforming efforts designed to improve the availability, reliability, resiliency, and speed of our payments platform. These efforts are costly and time-consuming, involve significant technical complexity and risk, may divert our resources from new features and products, and may ultimately not be effective. Frequent or persistent site interruptions could lead to regulatory scrutiny, significant fines and penalties, and mandatory and costly changes to our business practices, and ultimately could cause us to lose existing licenses that we need to operate or prevent or delay us from obtaining additional licenses that may be required for our business.

We also rely on facilities, components, applications, software, and services supplied by third parties, including data center facilities and cloud data storage and processing services. From time to time, we have experienced interruptions in the provision of such facilities and services provided by these third parties. If these third parties experience operational interference or disruptions (including a cybersecurity incident), fail to perform their obligations, or breach their agreements with us, our operations could be disrupted or otherwise negatively affected, which could result in customer dissatisfaction, regulatory scrutiny, and damage to our reputation and brands, and materially and adversely affect our business. While we maintain insurance policies intended to help offset the financial impact we may experience from these risks, our coverage may be insufficient to compensate us for all losses caused by interruptions in our service due to systems failures and similar events.

In addition, any failure to successfully implement new information systems and technologies, or improvements or upgrades to existing information systems and technologies in a timely manner could adversely impact our business, internal controls, results of operations, and financial condition.

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

Rapid, significant, and disruptive technological changes impact the industries in which we operate, including payment technologies (including real-time payments, payment card tokenization, virtual currencies, distributed ledger and blockchain technologies, and proximity payment technology such as Near Field Communication and other contactless payments); internet browser technologies, that enable users to easily store their payment card information for use on any retail or e-commerce website; artificial intelligence and machine learning; developments in technologies supporting our regulatory and compliance obligations; and in-store, digital, and social commerce.

We expect that new technologies applicable to the industries in which we operate will continue to emerge and may be superior to, or render obsolete, the technologies we currently use in our products and services. We cannot predict the effects of technological changes on our business, which technological developments or innovations will become widely adopted, and how those technologies may be regulated. Developing and incorporating new technologies into new and existing products and services may require significant investment, take considerable time, and may not ultimately be successful. We rely in part on third parties, including some of our competitors, for the development of and access to new or evolving technologies. These third parties may restrict or prevent our access to, or utilization of, those technologies, as well as their platforms or products. Our ability to develop, provide or incorporate new technologies and adapt our existing products and services or develop future and new products and services using new technologies may be limited or restricted by industry-wide standards, platform providers, payments networks, changes to laws and regulations, changing customer expectations, third-party intellectual property rights, and other factors. If we are unable to develop and incorporate new technologies and adapt to technological changes and evolving industry standards in a timely or cost-effective manner, our business could be harmed.

LEGAL, REGULATORY AND COMPLIANCE RISKS

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 complex and changing laws, rules, regulations, policies, and legal interpretations in the markets in which we offer services directly or through partners, including those governing: banking, credit, deposit taking, cross-border and domestic money transmission, prepaid access, foreign currency exchange, privacy, data protection, data governance, cybersecurity, banking secrecy, digital payments, cryptocurrency, payment services (including payment processing and settlement services), fraud detection, consumer protection, antitrust and competition, economic and trade sanctions, anti-money laundering, and counter-terrorist financing.

Regulators globally are increasingly exercising regulatory authority, oversight, and enforcement in a manner that impacts our business. Further, as we introduce new products and services and expand into new markets (including through acquisitions) and expand and localize our international activities, we expect to become subject to additional regulations, restrictions, and licensing requirements. In addition, because 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, which may impose different, more specific, or conflicting obligations on us, as well as broader liability.

Any failure or alleged failure to comply with existing or new laws, regulations, or orders of any government authority (including changes to their interpretation) may subject us to significant fines and penalties, criminal and civil lawsuits, forfeiture of significant assets, and enforcement actions; result in additional compliance and licensure requirements; cause us to lose existing licenses or prevent or delay us from obtaining additional licenses that may be required for our business; increase regulatory scrutiny of our business; restrict or cease our operations; force us to make changes to our business practices, products or operations; lead to increased friction for customers; require us to engage in remediation activities; delay planned transactions, product launches or other activities, or divert management's time and attention from our business. The complexity of United States ("U.S.") federal and state and international regulatory and enforcement regimes, coupled with the global scope of our operations and the evolving global regulatory environment, could result in one or more events prompting a large number of overlapping investigations and legal and regulatory proceedings by multiple government authorities in different jurisdictions. While we have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors, and agents will not violate such laws and regulations. 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.

Payments Regulation

In the U.S., PayPal, Inc. (a wholly-owned subsidiary) holds 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 and certain territories. If we fail to comply with applicable laws or regulations required to maintain our licenses, we could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states or territories, forced to change our business practices, or required to obtain additional licenses or regulatory approvals, which could impose substantial costs and harm our business.

While we currently allow our customers 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 hold balances or withdraw funds. These restrictions may limit our ability to grow our business.

Outside of the U.S., we principally provide our services to customers in the European Economic Area ("EEA") and the United Kingdom ("U.K.") through PayPal (Europe), our wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg. PayPal (Europe) may be subject to enforcement actions and significant fines if it violates applicable requirements. Additionally, compliance with applicable laws and regulations could become more costly and operationally difficult to manage due to potentially inconsistent interpretations and domestic regulations by various countries in the region. Applicable regulation relating to payments, anti-money laundering and digital services, which are key focus areas of regulators and subject to extensive new regulation, could subject us to additional and complex obligations, risks and associated costs. 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 and certain activities of PayPal (Europe) would become directly supervised by the ECB, rather than by the Luxembourg Commission de Surveillance du Secteur Financier, which could subject us to additional requirements and would likely increase compliance costs. PayPal (Europe) is also subject to regulation by the ECB under the oversight framework for electronic payment instruments, schemes and arrangements (PISA), which may also lead to increased compliance obligations and 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 ("MAS"). The Payment Services Act came into effect in Singapore in January 2020. PayPal Pte. Ltd. has submitted an application for a Major Payment Institution license to the MAS to continue to provide payments services, and is operating under an exemption from holding a license within a statutory transition period while the application is pending. Upon PayPal Pte. Ltd. obtaining this license, we will be required to comply with new regulatory requirements, which will result in increased operational complexity and costs for our Singapore and international operations.

In many of the markets outside the U.S. (other than Singapore) served by PayPal Pte. Ltd. or by local branches or subsidiaries subject to local regulatory supervision or oversight, as the case may be, there may be uncertainty whether our Singapore-based service is subject only to Singapore law or also to other local laws, and whether such local laws might require a payment processor like us to be licensed as a payments service, bank, financial institution, or otherwise.

There are substantial costs and potential product and operational changes involved in maintaining and renewing licenses, certifications, and approvals, and we could be subject to enforcement actions, fines, and litigation if we are found to violate any of these requirements. There can be no assurance that we will be able to (or decide to) continue to apply for or obtain any licenses, renewals, certifications, and approvals in any jurisdiction. In certain markets, we may need to rely on local banks or other partners to process payments and conduct foreign currency exchange transactions in local currency, and local regulators may use their authority over such local partners to prohibit, restrict, or limit us from doing business. Any of the foregoing could, individually or in the aggregate, result in substantial additional costs, delay or preclude planned transactions, product launches or improvements, require significant and costly operational changes, impose restrictions, limitations, or additional requirements on our business, products and services, or prevent or limit us from providing our products or services in a given market.

Cryptocurrency Regulation and Related Risks

Our current and planned customer cryptocurrency offerings could subject us to additional regulations, licensing requirements, or other obligations. Within the U.S., we are regulated by the New York Department of Financial Services as a virtual currency business, which does not qualify us to engage in securities brokerage or dealing activities. The regulatory status of particular cryptocurrencies is unclear under existing law. For example, if the SEC were to assert that any of the cryptocurrencies we support are securities, the SEC could assert that our activities involving that cryptocurrency require securities broker-dealer registration or other obligations under the federal securities laws. The rapidly evolving regulatory landscape with respect to cryptocurrency may subject us to additional licensing and regulatory obligations or to inquiries or investigations from the SEC, other regulators and governmental authorities, and require us to make product changes, restrict or discontinue product offerings, implement additional and potentially costly controls, or take other actions. If we fail to comply with regulations, requirements, prohibitions or other obligations applicable to us, we could face regulatory or other enforcement actions, potential fines, and other consequences.

We hold our customers' cryptocurrency assets through a third-party custodian. Financial and third-party risks related to our customer cryptocurrency offerings, such as inappropriate access to, theft, or destruction of cryptocurrency assets held by our custodian, insufficient insurance coverage by the custodian to reimburse us for all such losses, the custodian's failure to maintain effective controls over the custody and settlement services provided to us, the custodian's inability to purchase or liquidate cryptocurrency holdings, and defaults on financial or performance obligations by the custodian, or counterparty financial institutions, could expose our customers and us to loss, and therefore significantly harm our business, financial performance, and reputation.

We have selected a custodian partner, and may in the future select additional custodian partners, that are subject to regulatory oversight, capital requirements, maintenance of audit and compliance industry certifications, and cybersecurity procedures and policies. Nevertheless, operational disruptions at any such custodian, or such custodian's failure to safeguard cryptocurrency holdings could result in losses of customer assets, expose us to customer claims, reduce consumer confidence and materially impact our operating results and our cryptocurrency product offerings.

Custodial arrangements to safeguard cryptocurrency assets involve unique risks and uncertainties in the event of the custodian's bankruptcy. While other types of assets and some custodied cryptocurrencies have been deemed not to be part of the custodian's bankruptcy estate under various regulatory regimes, bankruptcy courts have not yet definitively determined the appropriate treatment of custodial holdings of digital assets in a bankruptcy proceeding. In the event of our custodian's bankruptcy, the lack of precedent and the highly fact-dependent nature of the determination could delay or preclude the return of custodied cryptocurrency assets to us or to our customers. Although, we contractually require our custodian to segregate our customer assets and not commingle them with proprietary or other assets, we cannot be certain that these contractual obligations, even if duly observed by the custodian, will be effective in preventing such assets from being treated as part of the custodian's estate under bankruptcy or other insolvency law. In that event, our claim on behalf of such customers against the custodian's estate for our customers' cryptocurrency assets could be treated as a general unsecured claim against the custodian, in which case our customers could seek to hold us liable for any resulting losses.

In addition, our cryptocurrency product offerings could have the effect of heightening or exacerbating many of the risk factors described in this "Risk Factors" section.

Lending Regulation

We hold a number of U.S. state lending licenses for our U.S. consumer short-term installment loan product, which is subject to federal and state laws governing consumer credit and debt collection. While the consumer short-term installment loan products that we offer outside the U.S. are generally exempt from primary consumer credit legislation, certain consumer lending laws, consumer protection or banking transparency regulations continue to apply to these products. Increased global regulatory focus on short-term installment products and consumer credit more broadly could result in laws or regulations requiring changes to our policies, procedures, operations, and product offerings, and restrict or limit our ability to offer credit products, and we could be subject to enforcement action, fines, and litigation if we are found to violate any aspects of applicable law or regulations.

Consumer Protection

Violations of federal and state consumer protection laws and regulations, including the Electronic Fund Transfer Act ("EFTA") and Regulation E as implemented by the Consumer Financial Protection Bureau ("CFPB"), could result in the assessment of significant actual damages or statutory damages or penalties (including treble damages in some instances) and plaintiffs' attorneys' fees. 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).

In addition, the CFPB, pursuant to its market-monitoring authority, may require us to provide extensive information on our products and offerings from time to time. In 2021, we received separate orders from the CFPB pursuant to such market-monitoring authority requiring us to provide, among other items, extensive information on our payment products, including with respect to the collection, use of, and access to data and consumer protections, as well as our Buy Now, Pay Later offerings.

PayPal principally offers its services in the EEA countries through a "passport" notification process through PayPal (Europe)'s Luxembourg regulator to regulators in other EEA member states in accordance with European Union ("EU") regulations, as well as in the U.K. through the Temporary Permissions Regime. Regulators in these countries could notify us of and seek to enforce local consumer protection laws that apply to our business, in addition to Luxembourg consumer protection laws, or seek to persuade the local regulator to order PayPal to conduct its activities in the local country directly or through a branch office. These or similar actions by these regulators could impose additional obligations and costs and impact our ability to expand our business in Europe and the U.K.

Anti-Money Laundering and Counter-Terrorist Financing; Economic and Trade Sanctions

Regulators globally continue to increase standards and expectations regarding anti-money laundering and counter-terrorist financing, and to expand the scope of existing laws and regulations to emerging products and markets, which may require us to further revise or expand our compliance program globally and/or in specific jurisdictions, including the procedures we use to verify the identity of our customers and to monitor international and domestic transactions. Such changes could have the effect of making compliance more costly and operationally difficult to manage, lead to increased friction for customers, and result in a decrease in business. Regulators regularly re-examine the transaction volume thresholds at which we must obtain and keep applicable records or the circumstances in which we must verify identities of customers, and any change to such obligations could result in greater compliance costs and impact our business. We are also required to comply with economic and trade sanctions administered by the U.S., the EU and its member states, the U.K., and other jurisdictions in which we operate. Non-compliance with anti-money laundering laws and regulations or economic and trade sanctions may subject us to significant fines, penalties, lawsuits, and enforcement actions, result in regulatory sanctions and additional compliance requirements, increase regulatory scrutiny of our business, restrict our operations, and damage our reputation and brands. Our compliance history may be considered by OFAC and other regulators as part of any potential future investigation of our sanctions regulation.

Privacy and Protection of Customer Data

The legal and regulatory environment relating to privacy and data protection laws continues to develop and evolve in ways we cannot predict, including with respect to technologies such as cloud computing, artificial intelligence, machine learning, cryptocurrency, and blockchain technology. Any failure or alleged failure by us to comply with our privacy policies as communicated to customers or with privacy and data protection laws could result in proceedings or actions against us by data protection authorities, other government agencies, or others, which could subject us to significant fines, penalties, judgments, and negative publicity, require us to change our business practices, increase the costs and complexity of compliance, result in reputational harm, and materially harm our business. Compliance with inconsistent privacy and data protection laws may also restrict or limit 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 Binding Corporate Rules 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. In June 2021, the European Commission imposed new SCC requirements which impose certain contract and operational requirements on PayPal, its merchants, and vendors to adhere to certain affirmative duties, including requirements related to government access transparency, enhanced data subject rights, and broader third-party assessments to ensure safeguards necessary to protect personal data exported from PayPal's EEA customers and/or employees to countries outside the EEA. To the extent we rely on SCCs, we will potentially need to enter into new contractual arrangements reflecting the updated SCC requirements to avoid limitations on PayPal's ability to process EEA data in countries outside of the EEA.

Many jurisdictions in which we operate globally have enacted, or are in the process of enacting, data privacy legislation or regulations aimed at creating and enhancing individual privacy rights. For example, numerous U.S. states have enacted or are in the process of enacting state level data privacy laws and regulations governing the collection, use, and retention of their residents' personal information. The continued proliferation of privacy laws in the jurisdictions in which we operate is likely to result in a disparate array of privacy rules with unaligned or conflicting provisions, accountability requirements, individual rights, and national or local enforcement powers, which may subject us to increased regulatory scrutiny and business costs, and could lead to unintended consumer confusion.

We are subject to regulatory scrutiny and may be subject to legal proceedings under antitrust and competition laws.

We are subject to scrutiny by various government agencies regarding antitrust and competition laws and regulations in the U.S. and internationally, including in connection with proposed or implemented business combinations, acquisitions, investments, partnerships, commercial agreements and business practices. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anticompetitive conduct. Companies and government agencies have in the past alleged, and may in the future allege, that our actions violate the antitrust or competition laws in the U.S. or other jurisdictions in which we operate or otherwise constitute unfair competition, or that our products and services are used so broadly that otherwise uncontroversial business practices could be deemed anticompetitive. Any claims or investigations, even if without merit, may be costly to defend or respond to, involve negative publicity, and cause substantial diversion of management's time and effort, and could result in reputational harm, significant judgments, fines and other remedial actions against us, require us to change our business practices, make product or operational changes, or delay or preclude planned transactions, product launches or improvements.

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

We are regularly subject to claims, individual and class action lawsuits, arbitration proceedings, government and regulatory investigations, inquiries, actions or requests, and other proceedings alleging violations of laws, rules, and regulations with respect to competition, antitrust, intellectual property, privacy, data protection, information security, anti-money laundering, counter-terrorist financing, sanctions, anti-bribery, anti-corruption, consumer protection (including unfair, deceptive, or abusive acts or practices), fraud, accessibility, securities, tax, labor and employment, commercial disputes, services, charitable fundraising, contract disputes, escheatment of unclaimed or abandoned property, product liability, use of our services for illegal purposes, the matters described in "Note 13—Commitments and Contingencies—Litigation and Regulatory Matters—General Matters" to our consolidated financial statements, and other matters. The number and significance of these disputes and inquiries is expected to continue to increase as our products, services, and business expand in complexity, scale, scope, and geographic reach, including through acquisitions of businesses and technology. Investigations and legal proceedings are inherently uncertain, expensive and disruptive to our operations, and could result in substantial judgments, fines, penalties or settlements, negative publicity, substantial diversion of management's time and effort, reputational harm, criminal sanctions, or orders that prevent or limit us from offering certain products or services; require us to change our business practices in costly ways, develop non-infringing or otherwise altered products or technologies, or pay substantial royalty or licensing fees; or delay or preclude planned transactions or product launches or improvements. Determining legal reserves or possible losses from such matters involves significant estimates and judgments and may not reflect the full range of uncertainties and unpredictable outcomes. We may be exposed to losses in excess of the amount recorded, and such amounts could be material. If any of our estimates and assumptions change or prove to have been incorrect, this could have a material adverse effect on our business, financial position, results of operations, or cash flows.

Third parties may allege that we are infringing their patents and other intellectual property rights.

We are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. Intellectual property infringement claims against us may result from, among other things, our expansion into new business areas, including through acquisitions of businesses and technology, or new or expanded products and services and their convergence with technologies not previously associated with areas related to our business, products, and services. The ultimate outcome of any allegation or claim is often uncertain and any such claim, with or without merit, may be time-consuming to defend, result in costly litigation, divert management's time and attention from our business, result in reputational harm, and require us to, among other things, redesign or stop providing our products or services, pay substantial amounts to settle claims or lawsuits, satisfy judgments, or pay substantial royalty or licensing fees.

We may be unable to protect or enforce our intellectual property.

The protection of our proprietary rights, including our trademarks, copyrights, domain names, trade dress, patents and trade secrets, is important to the success of our business. Effective protection of our proprietary rights may not be available in every jurisdiction in which we offer our products and services. Although we have generally taken measures to protect our intellectual property, there can be no assurance that we will be successful in protecting or enforcing our rights in every jurisdiction, that our contractual arrangements will prevent or deter third parties from infringing or misappropriating our intellectual property, or that third parties will not independently develop equivalent or superior intellectual property rights. We may be required to expend significant time and resources to prevent infringement and enforce our rights, and we may be unable to discover or determine the extent of any unauthorized use of our proprietary rights. If we are unable to prevent third parties from infringing or otherwise violating our proprietary rights, the uniqueness and value of our products and services could be adversely affected, the value of our brands could be diminished, and our business could be adversely affected. We expect to continue to license in the future certain of our proprietary rights, such as trademarks or copyrighted material, to others. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation. Any failure to adequately protect or enforce our proprietary rights, or significant costs incurred in doing so, could diminish the value of our intangible assets and materially harm our business.

BUSINESS AND OPERATIONS RISKS

We face substantial and increasingly intense competition worldwide in the global payments industry.

The global payments industry is highly competitive, dynamic, highly innovative, and increasingly subject to regulatory scrutiny and oversight. Many of the areas in which we compete evolve rapidly with innovative and disruptive technologies, shifting user preferences and needs, price sensitivity of merchants and consumers, and frequent introductions of new products and services. Competition also may intensify as new competitors emerge, businesses enter into business combinations and partnerships, and established companies in other segments expand to become competitive with various aspects of our business.

We compete with a wide range of businesses in every aspect of our business. Some of our current and potential competitors are or may be larger than we are, have larger customer bases, greater brand recognition, longer operating histories, a dominant or more secure position, broader geographic scope, volume, scale, resources, and market share than we do, or offer products and services that we do not offer. Other competitors are or may be smaller or younger companies that may be more agile in responding to regulatory and technological changes and customer preferences. Our competitors may devote greater resources to the development, promotion, and sale of products and services, and/or offer lower prices or more effectively offer their own innovative programs, products, and services. We often partner with other businesses, and the ability to continue establishing these partnerships is important to our business. Competition for relationships with these partners is intense, and there can be no assurance that we will be able to continue to establish, grow, or maintain these partner relationships. If we are unable to differentiate our products and services from those of our competitors, drive value for our customers, or effectively and efficiently align our resources with our goals and objectives, we may not be able to compete effectively. See "Item 1. Business—Competition" of this Form 10-K for further discussion of the competitive environment in the markets where we operate.

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

To process certain transactions, we must comply with applicable payment card, bank or other network (collectively, "network") rules. The rules govern all aspects of a transaction on the networks, including fees and other practices. From time to time, the networks have increased the fees and assessments that they charge for transactions that access their networks. Certain networks have also imposed special fees or assessments for transactions that are executed through a digital wallet such as the one that PayPal offers. Our payment processors may have the right to pass any increases in fees and assessments on to us and to increase their own fees for processing. Any increase in interchange fees, special fees, or assessments for transactions that we pay to the networks or our payment processors could make our pricing less competitive, increase our operating costs, and reduce our operating income, which could materially harm our business, financial condition, and results of operations.

In some jurisdictions, government regulations have required payment card networks to reduce or cap interchange fees. Any changes in interchange fee rates or limitations, or their applicability to PayPal, could adversely affect our competitive position against payment card service providers and the revenue we earn from our branded card programs, require us to change our business practices, and harm our business.

We may also be subject to fines and other penalties assessed by networks resulting from any rule violations by us or our merchants. The networks set and interpret their rules and have alleged from time to time that various aspects of our business model violate these rules. Such allegations may result in significant fines, penalties, damages, or other liabilities or require changes in our business practices that may be costly and adversely affect our business, results of operations and financial condition. The network rules may also increase the cost of, impose restrictions on, or otherwise impact the development of, our products which may negatively affect product deployment and adoption. The networks could adopt new operating rules or interpret or re-interpret existing rules that we or our payment processors might find difficult or impractical to follow, or costly to implement, which could require us to make significant changes to our products, increase our operational costs, and negatively impact our business. If we become unable or limited in our ability to accept certain payment types such as debit or credit cards, our business would be materially and adversely affected.

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

We pay transaction fees when consumers fund payment transactions using credit cards, lower fees when consumers fund payments with debit cards, and nominal fees when consumers fund payment transactions by electronic transfer of funds from bank accounts, from an existing PayPal account balance or Venmo account balance, or through our PayPal branded consumer credit products. Our financial performance is sensitive to changes in the rate at which our consumers fund payments using payment cards, which can significantly increase our costs. Although we provide consumers in certain markets with the opportunity to use their existing PayPal account balance or Venmo account balance to fund payment transactions, some of our consumers may prefer to use payment cards, which may offer features and benefits not provided as part of their PayPal accounts. Any increase in the portion of our payment volume funded using payment cards or in fees associated with our funding mix, or other events or developments that make it more difficult or costly for us to fund transactions with lower-cost funding options, could materially and adversely affect our financial performance and significantly harm our business.

Our ability to receive the benefit of U.S. merchant financing offerings and certain U.S. installment loan products may be subject to challenge.

Merchant loans under our U.S. PayPal Working Capital ("PPWC") and PayPal Business Loan ("PPBL") products and certain U.S. installment loan products are provided by a state-chartered industrial bank under a program agreement with us, and we acquire the receivables generated by those loans from the state-chartered bank after origination. In June 2020, the Federal Deposit Insurance Corporation ("FDIC") approved a final rule clarifying that loans validly originated by state-chartered banks or insured branches of foreign banks remain valid throughout the lifetime of the loan, reflecting a similar rule finalized by the Office of the Comptroller of Currency ("OCC") in May 2020 for nationally chartered banks. The final rule reaffirms and codifies the so-called “valid-when-made doctrine,” which provides that the permissibility of an interest rate for a loan is determined when the loan is made and will not be affected by subsequent events such as sale, assignment, or other transfer. While a number of state attorneys general have unsuccessfully challenged these FDIC and OCC rules, there remains some uncertainty whether non-bank entities purchasing loan receivables originated by FDIC-insured, state-chartered banks may rely on federal preemption of state usury laws and other state laws. An adverse outcome of these or similar challenges, or changes to applicable laws and regulations or regulatory policy, could materially impact our U.S. PPWC, PPBL, certain installment products, and our business.

Our credit products expose us to additional risks.

We offer credit products to a wide range of consumers and merchants in the U.S. and various international markets. The financial success of these products depends largely on the effective management of related risk. The credit decision-making process for our consumer credit products uses proprietary methodologies and credit algorithms and other analytical techniques designed to analyze the credit risk of specific consumers based on, among other factors, their past purchase and transaction history with PayPal or Venmo and their credit scores. Similarly, proprietary risk models and other indicators are applied to assess merchants who desire to use our merchant financing offerings to help predict their ability to repay. These risk models may not accurately predict the creditworthiness of a consumer or merchant due to inaccurate assumptions, including those related to the particular consumer or merchant, market conditions, economic environment, or limited transaction history or other data. The accuracy of these risk models and the ability to manage credit risk related to our credit products may also be affected by legal or regulatory requirements, changes in consumer behavior, changes in the economic environment, issuing bank policies, and other factors.

We generally rely on the activities and charters of unaffiliated financial institutions to provide PayPal and Venmo branded consumer credit and merchant financing offerings to our U.S. customers. As a service provider to these unaffiliated financial institutions, which are federally supervised U.S. financial institutions, we are subject from time to time to examination by their federal banking regulators. In the event of any termination or interruption in a partner bank’s ability or willingness to lend, our ability to offer consumer credit and merchant financing products could be interrupted or limited, which could materially and adversely affect our business. We may be unable to reach a similar arrangement with another unaffiliated financial institution on favorable terms or at all. Obtaining and maintaining the lending licenses required for us to originate such loans ourselves would be a costly, time-consuming and uncertain process, and would subject us to additional laws and regulatory requirements, which could significantly increase our costs and compliance obligations and require us to change our business practices.

We are subject to the risk that account holders who use our credit products will default on their payment obligations, creating the risk of potential charge-offs or negatively impacting the revenue share arrangement with an independent chartered financial institution with respect to our U.S. consumer credit product. The non-payment rate among account holders may increase due to, among other factors, changes to underwriting standards, risk models not accurately predicting the creditworthiness of a user, worsening economic conditions, such as a recession or government austerity programs, increases in prevailing interest rates, and high unemployment rates. Account holders who miss payments often fail to repay their loans, and account holders who file for protection under the bankruptcy laws generally do not repay their loans.

We currently purchase receivables related to our U.S. PayPal-branded merchant financing offerings and certain U.S. consumer installment loan products and extend credit for our consumer and merchant products outside the U.S. through our international subsidiaries. If we are unable to fund our credit products or the purchase of the receivables related to our credit products and offerings adequately or in a cost-effective manner, the growth of our credit products could be negatively impacted.

We rely on third parties in many aspects of our business, which creates additional risk.

We rely on third parties in many aspects of our business, including networks, banks, payment processors, and payment gateways that link us to the payment card and bank clearing networks to process transactions; unaffiliated third-party lenders to originate our U.S. credit products to consumers, U.S. merchant financing, and branded credit card products; branded debit card and savings products issued by unaffiliated banks; cryptocurrency custodial service providers; and external business partners and contractors who provide key functions (e.g., outsourced customer support and product development functions; facilities; information technology, data center facilities and cloud computing). We are subject to additional risks inherent in engaging and relying upon third-party providers, including legal, regulatory, information security, reputational and operational risks. We are undertaking efforts to diversify our reliance on a small number of third-party payment processors in various markets. We are working with our primary payment processor in the U.S. to facilitate the migration of our arrangements to other payment processors over a transition period in connection with the wind-down of our agreement; however, if we are unable to timely and efficiently migrate our business to other payment processors or experience disruptions in connection with this transition, our business could be harmed. If we are unable to effectively manage our third-party relationships, these third parties are unable to meet their obligations to us, or we experience substantial disruptions in these relationships, our operations, results of operations, and financial results could be adversely impacted. Additionally, our relationships with third parties inherently involve a lesser degree of control over business operations, governance, and compliance, which potentially increases our financial, legal, reputational, and operational risk.

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

Cross-border trade (i.e., transactions where the merchant and consumer are in different countries) is an important source of our revenues and profits. Cross-border transactions generally provide higher revenues and operating income than similar transactions that take place within a single country or market. In certain markets, cross-border trade represents our primary (and in some instances our only) presence.

Cross-border trade may be negatively impacted by various factors including foreign currency exchange rate fluctuations, tariffs, trade barriers or restrictions, sanctions, import or export controls, and the interpretation and application of laws of multiple jurisdictions in the context of cross-border trade and foreign exchange. Any factors that increase the costs of cross-border trade for us or our customers or that restrict, delay, or make cross-border trade more difficult or impractical could reduce our cross-border transactions and volume, negatively impact our revenues and profits, and harm our business.

Failure to deal effectively with fraud, abusive behaviors, bad transactions, and negative customer experiences may increase our loss rate and could negatively impact our business and severely diminish merchant and consumer confidence in and use of our services.

We expect that third parties will continue to attempt to abuse access to and misuse our payments services to commit fraud by, among other things, creating fictitious PayPal accounts using stolen or synthetic identities or personal information, making transactions with stolen financial instruments, abusing or misusing our services for financial gain, or fraudulently inducing users of our systems into engaging in fraudulent transactions. Due to the nature of PayPal's digital payments services, third parties may seek to engage in abusive schemes or fraud attacks that are often difficult to detect and may be deployed at a scale that would otherwise not be possible in physical transactions. Measures to detect and reduce the risk of fraud and abusive behavior are complex, require continuous improvement, and may not be effective in detecting and preventing fraud, particularly new and continually evolving forms of fraud or in connection with new or expanded product offerings. If these measures are not effective, our business could be negatively impacted. We also incur substantial losses from erroneous transactions and situations where funding instruments used for legitimate transactions are closed or have insufficient funds to satisfy payments, or the payment is initiated to an unintended recipient in error. Numerous and evolving fraud schemes and misuse of our payments services could subject us to significant costs and liabilities, require us to change our business practices, cause us to incur significant remediation costs, lead to loss of customer confidence in, or decreased use of, our products and services, damage our reputation and brands, divert the attention of management from the operation of our business, and result in significant compensation or contractual penalties from us to our customers and their business partners as a result of losses or claims.

Our Purchase and Seller Protection Programs ("protection programs") are intended to reduce the likelihood of losses for consumers and merchants from unauthorized and fraudulent transactions. The Purchase Protection Program also protects consumers who do not receive the item ordered or who receive an item that is significantly different from its description. We incur substantial losses from our protection programs as a result of disputes filed by our customers. We seek to recover losses from our protection programs from the merchant, but may not be able to fully recover our losses (for example, if the merchant is unwilling or unable to pay, the transaction involves a fraudulent merchant, or the merchant provides sufficient evidence that the item was delivered).

In addition, consumers who pay through PayPal or Venmo may have reimbursement rights from their payment card issuer, which in turn will seek recovery from us. If losses incurred by us related to payment card transactions become excessive, we could lose the ability to accept payment cards for payment, which would negatively impact our business. Regulators and card networks may also adapt error resolution and chargeback requirements to account for evolving forms of fraud, which could increase PayPal's exposure to fraud losses and impact the scope of coverage of our protection programs. Increases in our loss rate, including as a result of changes to the scope of transactions covered by our protection programs, could negatively impact our business. See "Note 13—Commitments and Contingencies—Protection Programs" to our consolidated financial statements.

Failure to effectively monitor and evaluate the financial condition of our merchants may expose PayPal to losses. In the event of the bankruptcy, insolvency, business failure, or other business interruption of a merchant that sells goods or services in advance of the date of their delivery or use (e.g., airline, cruise, or concert tickets, custom-made goods, and subscriptions), we could be liable to the buyers of such goods or services, including through our Purchase Protection Program or through chargebacks on payment cards used by customers to fund their purchase. Allowances for transaction losses that we have established may be insufficient to cover incurred losses.

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

We expect that users will continue to attempt to use our payments platform for illegal activities or improper uses, including money laundering, terrorist financing, sanctions evasion, illegal online gambling, fraudulent sales of goods or services, illegal telemarketing activities, illegal sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted, trademarked or digital goods, bank fraud, child pornography, human trafficking, prohibited sales of alcoholic beverages or tobacco products, securities fraud, pyramid or Ponzi schemes, or the facilitation of other illegal or improper activity. Moreover, certain activity that may be legal in one jurisdiction may be illegal in another jurisdiction, and a merchant may be found responsible for intentionally or inadvertently importing or exporting illegal goods, resulting in liability for us. Owners of intellectual property rights or government authorities may seek to bring legal action against providers of payments solutions, including PayPal, that are peripherally involved in the sale of infringing or allegedly infringing items by a user. While we invest in measures intended to prevent and detect illegal activities that may occur on our payments platform, these measures require continuous improvement and may not be effective in detecting and preventing illegal activity or improper uses.

Any illegal or improper uses of our payments platform or failure by us to detect or prevent illegal or improper activity by our users may subject us to claims, individual and class action lawsuits, and government and regulatory requests, inquiries, or investigations that could result in liability, restrict our operations, impose additional restrictions or limitations on our business or require us to change our business practices, harm our reputation, increase our costs, and negatively impact our business.

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

We expect to continue to consider and evaluate 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; strategic investments; and commercial and strategic partnerships (collectively, “strategic transactions”). At any given time, we may be engaged in discussions or negotiations with respect to one or more strategic 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, consummating and integrating favorable transaction opportunities. Strategic transactions may involve additional significant challenges, uncertainties, and risks, including challenges of integrating new employees, products, systems, technologies, operations, and business cultures; challenges associated with operating acquired businesses in markets or business areas in which we may have limited or no experience; disruption of our ongoing operations and diversion of our management’s attention; inadequate data security, cybersecurity, or operational and information technology resilience; failure to identify, or our underestimation of, commitments, liabilities, deficiencies and other risks associated with acquired businesses or assets; potential exposure to new or incremental risks associated with acquired businesses and entities, strategic investments and other strategic transactions, including potential new or increased regulatory oversight and uncertain or evolving legal, regulatory, and compliance requirements, particularly with respect to companies in new or developing businesses or industries; failure of the transaction to advance our business strategy or for its anticipated benefits to materialize; potential impairment of goodwill or other acquisition-related intangible assets; and the potential for our acquisitions to result in dilutive issuances of our equity securities or the incurrence of significant additional debt. Strategic transactions are inherently risky, may not be successful, and may harm our business, results of operations, and financial condition.

Strategic investments in which we have a minority ownership stake inherently involve a lesser degree of influence over business operations. The success of our strategic investments may be dependent on controlling shareholders, management, or other persons or entities that may have business interests, strategies, or goals that are inconsistent with ours. Business decisions or other actions or omissions of the controlling shareholders, management, or other persons or entities who control companies in which we invest may adversely affect the value of our investment, result in litigation or regulatory action against us, and damage our reputation.

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

Our international operations generate roughly one-half of our net revenues. Our international operations subject us to significant challenges, uncertainties, and risks, including local regulatory, licensing, reporting, and legal obligations; costs and challenges associated with operating in markets in which we may have limited or no experience, including effectively localizing our products and services and adapting them to local preferences; difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences and in light of varying laws, regulations, and customs; differing employment practices and the existence of works councils; difficulties in recruiting and retaining qualified employees and maintaining our company culture; fluctuations in foreign currency exchange rates; exchange control regulations; profit repatriation restrictions; potential tariffs, sanctions, fines, or other trade barriers or restrictions; import or export regulations; compliance with U.S. and foreign anti-bribery, anti-corruption, sanctions, anti-money laundering and counter-terrorist financing laws and regulations; the interpretation and application of laws of multiple jurisdictions; and national or regional political, economic, or social instability.

Our international operations also may heighten many of the other risks described in this “Risk Factors” section. Any violations of the complex foreign and U.S. laws, rules and regulations that may apply to our international operations may result in lawsuits, enforcement actions, criminal actions, or sanctions against us and, our directors, officers, and employees; prohibit or require us to change our business practices; and damage our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks are inherent in our international operations, may increase our costs of doing business internationally, and could materially and adversely affect our business.

Global and regional economic conditions could harm our business.

Adverse global and regional economic conditions such as turmoil affecting the banking system or financial markets, including, but not limited to, tightening in the credit markets, extreme volatility or distress in the financial markets (including the fixed income, credit, currency, equity, and commodity markets), higher unemployment, high consumer debt levels, recessionary or inflationary pressures, supply chain issues, reduced consumer confidence or economic activity, government fiscal and tax policies, U.S. and international trade relationships, agreements, treaties, tariffs and restrictive actions, the inability of a government to enact a budget in a fiscal year, government shutdowns, government austerity programs, and other negative financial news or macroeconomic developments could have a material adverse impact on the demand for our products and services, including a reduction in the volume and size of transactions on our payments platform. Additionally, any inability to access the capital markets when needed due to volatility or illiquidity in the markets or increased regulatory liquidity and capital requirements may strain our liquidity position. Such conditions may also expose us to fluctuations in foreign currency exchange rates or interest rates that could materially and adversely affect our financial results.

If our reputation or our brands are damaged, our business and operating results may be harmed.

Our reputation and brands are globally recognized, important to our business, and affect our ability to attract and retain our customers. There are numerous ways our reputation or brands could be damaged. We may experience scrutiny or backlash from customers, partners, employees, government entities, media, advocacy groups, and other influencers or stakeholders that disagree with, among other things, our product offering decisions or public policy positions. Damage to our reputation or our brands may result from, among other things, new features, products, services, operational efforts, or terms of service (or changes to the same), or our decisions regarding user privacy, data practices, or information security. The proliferation of social media may increase and compound the likelihood, speed, magnitude, and unpredictability of negative brand events. If our brands or reputation are damaged, our business and operating results may be adversely impacted.

Brexit: The U.K.'s departure from the EU could harm our business, financial condition, and results of operations.

Following the departure of the U.K. from the EU and the EEA on January 31, 2020 (commonly referred to as “Brexit”) and the expiration of the transition period on December 31, 2020, there continues to be uncertainty over the practical consequences of Brexit, including the potential for greater restrictions on the supply and availability of goods and services between the U.K. and EEA region, and a general deterioration in consumer sentiment and credit conditions leading to overall negative economic growth and increased risk of merchant default.

The consequences of Brexit have brought legal uncertainty and increased complexity for financial services firms, which could continue as national laws and regulations in the U.K. differ from EU laws and regulations and additional authorization requirements come into effect. These developments have led and could lead in the future to additional regulatory costs and challenges for us. Specifically, PayPal (Europe) currently operates in the U.K. within the scope of its passport permissions (as they existed at the end of the transition period) pursuant to the Temporary Permissions Regime pending the grant of new authorizations by the U.K. financial regulators. If we are unable to obtain the required authorizations before the expiry of the longstop dates set by the U.K. regulators under the Temporary Permissions Regime, our European operations could lose their ability to offer services within the U.K. market, or into the U.K. market on a cross-border basis. Our European operations may also be required to comply with legal and regulatory requirements in the U.K. that may be in addition to, or inconsistent with, those of the EEA, in each case, leading to increased complexity and costs.

Real or perceived inaccuracies in our key metrics may harm our reputation and negatively affect our business.

Our key metrics are calculated using internal company data based on the activity we measure on our payments platform and compiled from multiple systems, including systems that are internally developed or acquired through business combinations. While the measurement of our key metrics is based on what we believe to be reasonable methodologies and estimates, there are inherent challenges and limitations in measuring our key metrics globally at scale. The methodologies used to calculate our key metrics require judgment.

We regularly review our processes for calculating these key metrics, and from time to time we may make adjustments to improve the accuracy or relevance of our metrics. For example, we continuously apply models, processes and practices designed to detect and prevent fraudulent account creation on our platforms, and work to improve and enhance those capabilities. When we detect a significant volume of illegitimate activity, we generally remove the activity identified from our key metrics. Although such adjustments may impact key metrics reported in prior periods, we generally do not update previously reported key metrics to reflect these subsequent adjustments unless the retrospective impact of process improvements or enhancements is determined by management to be material. Further, as our business develops, we may revise or cease reporting metrics if we determine that such metrics are no longer appropriate measures of our performance. If investors, analysts, or customers do not consider our reported measures to be sufficient or to accurately reflect our business, we may receive negative publicity, our reputation may be harmed, and our business may be adversely impacted.

Environmental, social and governance ("ESG") issues may have an adverse effect on our business, financial condition and results of operations and damage our reputation.

Customers, investors, employees and other stakeholders are increasingly focused on ESG practices, including with respect to global talent, cybersecurity, data privacy and protection and climate change. If we do not adapt to and comply with new laws and regulations or changes to legal or regulatory requirements concerning ESG matters, or fail to meet rapidly evolving investor, industry or stakeholder expectations and standards, our reputation may be harmed, customers may choose to refrain from using our products and services, and our business or financial condition may be adversely affected. Further, we may experience additional scrutiny or backlash from customers, partners, media, government entities, and other stakeholders that disagree if they perceive PayPal to not have responded appropriately with respect to ESG matters.

We specifically recognize the inherent physical climate-related risks wherever business is conducted. Our primary locations may be vulnerable to the adverse effects of climate change. For example, California, where our headquarters are located, has historically experienced, and is projected to continue to experience, climate-related events more frequently, including drought, water scarcity, flooding, heat waves, wildfires and resultant air quality impacts, and power shutoffs associated with wildfire prevention. These extreme weather conditions may disrupt our business and may cause us to experience additional costs to maintain or resume operations and higher attrition. In addition, current and emerging legal and regulatory requirements with respect to climate change (e.g., carbon pricing) and other aspects of ESG (e.g., disclosure requirements) may result in increased compliance requirements on our business and supply chain, which may increase our operating costs and cause disruptions in our operations.

If one or more of our counterparty financial institutions default on their financial or performance obligations to us or fail, we may incur significant losses.

We have significant amounts of cash, cash equivalents, receivables outstanding, and other investments on deposit or in accounts with banks or other financial institutions in the U.S. and international jurisdictions. As part of our foreign currency hedging activities, we regularly enter into transactions involving derivative financial instruments with various financial institutions. Certain banks and other financial institutions are also lenders under our credit facilities. We regularly monitor our exposure to counterparty credit risk, and actively manage this exposure to mitigate the associated risk. Despite these efforts, we may be exposed to the risk of default on obligations by, or deteriorating operating results or financial condition or failure of, these counterparty financial institutions. If one of our counterparty financial institutions were to become insolvent, placed into receivership, or file for bankruptcy, our ability to recover losses incurred as a result of default or to access or recover our assets that are deposited, held in accounts with, or otherwise due from, such counterparty may be limited due to the insufficiency of the failed institutions' estate to satisfy all claims in full or the applicable laws or regulations governing the insolvency, bankruptcy, or resolution proceedings. In the event of default on obligations by, or the failure of, one or more of these counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

There are risks associated with our indebtedness.

We have incurred indebtedness, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations and generate sufficient cash flows to service such debt. Our outstanding indebtedness and any additional indebtedness we incur may have significant consequences, including the need to use a significant portion of our cash flow from operations and other available cash to service our indebtedness, thereby reducing the funds available for other purposes, including capital expenditures, acquisitions, strategic investments, and share repurchases; the reduction of our flexibility in planning for or reacting to changes in our business, competitive pressures and market conditions; and limits on our ability to obtain additional financing for working capital, capital expenditures, acquisitions, strategic investments, share repurchases, or other general corporate purposes.

Our revolving credit facilities and the indentures for our senior unsecured notes pursuant to which certain of our outstanding debt securities were issued contain financial and other covenants that restrict or could restrict, among other things, our business and operations. If we fail to pay amounts due under a debt instrument or breach any of its covenants, the lenders or noteholders would typically have the right to demand immediate repayment of all borrowings thereunder (subject in certain cases to a grace or cure period). Moreover, any such acceleration and required repayment of, or default in respect of, our indebtedness could, in turn, constitute an event of default under other debt instruments, thereby resulting in the acceleration and required repayment of our indebtedness. Any of these events could materially adversely affect our liquidity and financial condition.

Changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities and increase our borrowing costs. If our credit ratings are downgraded or other negative action is taken, the interest rates payable by us under our indebtedness may increase, and our ability to obtain additional financing in the future on favorable terms or at all could be adversely affected.

Changes in tax laws, exposure to unanticipated additional tax liabilities, or implementation of reporting or record-keeping obligations could have a material adverse effect on our business.

An increasing number of U.S. states, the U.S. federal government, and governments of foreign jurisdictions, such as the EU Commission, as well as international organizations, such as the Organization for Economic Co-operation and Development, are focused on tax reform and other legislative or regulatory action to increase tax revenue. For example, various countries have proposed or enacted digital services taxes. These actions may materially affect our effective tax rate.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations for which the ultimate tax determination is uncertain. We are currently undergoing a number of investigations, audits, and reviews by tax authorities in multiple U.S. and foreign tax jurisdictions. Any adverse outcome of any such audit or review could result in unforeseen tax-related liabilities that differ from the amounts recorded in our financial statements, which may, individually or in the aggregate, materially affect our financial results in the periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

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

A number of U.S. states, the U.S. federal government, and foreign jurisdictions have implemented and may impose reporting or record-keeping obligations on companies that engage in or facilitate e-commerce to improve tax compliance. A number of jurisdictions are also reviewing whether payment service providers and other intermediaries could be deemed to be the legal agent of merchants for certain tax purposes. We have modified our systems to meet applicable requirements and expect that further modifications will be required to comply with future requirements, which may negatively impact our customer experience and increase operational costs. Any failure by us to comply with these and similar reporting and record-keeping obligations could result in substantial monetary penalties and other sanctions, adversely impact our ability to do business in certain jurisdictions, and harm our business.

We may be unable to attract, retain, and develop the highly skilled employees we need to support our business.

Competition for key and other highly skilled personnel is intense, especially for executive talent, software engineers, and other technology talent. We may be limited in our ability to recruit or hire internationally, including due to restrictive laws or policies on immigration, travel, or availability of visas for skilled workers. The loss of the services of any of our key personnel, or our inability to attract, hire, develop, motivate and retain key and other highly qualified and diverse talent, whether in a remote or in-office environment, or protect the safety, health and productivity of our workforce could harm our overall business and results of operations.

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

We may be subject to claims relating to information disseminated through our online services, including claims alleging defamation, libel, harassment, hate speech, breach of contract, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through the services, among other things. We invest in measures intended to detect and block activities that may occur on our payments platform in violation of our policies and applicable laws. These measures require continuous improvement and may not be sufficiently effective in detecting and preventing the exchange of information in violation of our policies and applicable laws. If these measures are not sufficiently effective, our business could be negatively impacted. If the laws or regulations that provide protections for online dissemination of information are invalidated or are modified to reduce protections available to us and we become liable for information provided by our customers and carried on our products and services, we could be directly harmed and we may be forced to implement new measures to reduce our exposure, including expending substantial resources or discontinuing certain product or service offerings, which could harm our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own and lease various properties in the United States ("U.S.") and other countries around the world. We use these properties for executive and administrative offices, customer services and operations centers, product development offices, warehouses, and data centers. As of December 31, 2022, our owned and leased properties provided us with aggregate square footage as follows:

	United States	Other Countries	Total
		(In millions)	
Owned facilities	1.0	0.1	1.1
Leased facilities	2.2	2.0	4.2
Total facilities	3.2	2.1	5.3

We own a total of approximately 106 acres of land, with approximately 85 acres in the U.S. Our corporate headquarters are located in San Jose, California and occupy approximately 0.7 million of owned square feet.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under "Note 13—Commitments and Contingencies—Litigation and Regulatory Matters" to the consolidated financial statements included in Part IV, Item 15 of this Form 10-K is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK

PayPal common stock is quoted on the NASDAQ Global Select Market under the ticker symbol "PYPL."

As of February 3, 2023, there were 4,123 holders of record of our common stock. The actual number of stockholders is significantly greater than this number of record holders, and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

DIVIDEND POLICY

We have never paid any cash dividends and we currently do not anticipate paying any cash dividends in the foreseeable future.

STOCK REPURCHASE ACTIVITY

In July 2018, our Board of Directors authorized a 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. In June 2022, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to $15 billion of our common stock, with no expiration from the date of authorization. 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 prior notice.

The stock repurchase activity under our stock repurchase programs during the three months ended December 31, 2022 is summarized as follows:

	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 September 30, 2022				$ 16,871
October 1, 2022 through October 31, 2022	8.2	$ 85.81	8.2	16,167
November 1, 2022 through November 30, 2022	3.6	$ 85.42	3.6	15,861
December 1, 2022 through December 31, 2022	—	$ —	—	15,861
Balance as of December 31, 2022	11.8		11.8	$ 15,861

(1) Average price paid per share for open market purchases includes broker commissions.

ITEM 6. REMOVED AND RESERVED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-K 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, mergers or acquisitions, or management strategies). These forward-looking statements can be identified by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue," "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 "Item 1A. Risk Factors" of this Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing 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, new information, 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 audited consolidated financial statements and the related notes that appear 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, Inc. and its consolidated subsidiaries.

This Management's Discussion and Analysis of Financial Condition and Results of Operations focuses on a discussion of 2022 results as compared to 2021 results. For a discussion of 2021 results as compared to 2020 results, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" within our Form 10-K for the year ended December 31, 2021 filed with the SEC on February 3, 2022.

BUSINESS ENVIRONMENT

THE COMPANY

We are a leading technology platform that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers worldwide. PayPal is committed to democratizing financial services to help improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. Our goal is to enable our merchants and consumers to manage and move their money anywhere in the world in the markets we serve, anytime, on any platform, and using any device when sending payments or getting paid, including person-to-person payments.

Regulatory environment

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened focus by regulators globally on all aspects of the payments industry, including countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. The laws and regulations applicable to us, including those enacted prior to the advent of digital payments, continue to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including changes to their interpretation and implementation, 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. We monitor these areas closely and are focused on designing compliant solutions for our customers.

Information security

Information security risks for global payments and technology companies like us have increased significantly in recent years. Although we have developed systems and processes designed to protect the data we manage, prevent data loss and other security incidents, and effectively respond to known and potential risks, and expect to continue to expend significant resources to bolster these protections, we remain subject to these risks and there can be no assurance that our security measures will provide sufficient security or prevent breaches or attacks. For additional information regarding our information security risks, see "Item 1A. Risk Factors—*Cyberattacks and security vulnerabilities could result in serious harm to our reputation, business, and financial condition.*"

RUSSIA AND UKRAINE CONFLICT

With respect to the military hostilities commenced by Russia in Ukraine in February 2022, our priority is the safety and well-being of our PayPal employee community impacted by these events. We continue to take actions to comply with all applicable restrictions and sanctions that may impact our operations. In March 2022, we suspended our transactional services in Russia. We are unable to reasonably estimate the total potential financial impact that may ultimately result from this situation. In the years ended December 31, 2022 and 2021, our total net revenues related to Russia and Ukraine were not material.

BREXIT

The United Kingdom ("U.K.") formally exited the European Union ("EU") and the European Economic Area ("EEA") on January 31, 2020 (commonly referred to as "Brexit") with the expiration of the transition period on December 31, 2020. PayPal (Europe) S.à.r.l. et Cie, SCA ("PayPal (Europe)") operates in the U.K. within the scope of its passport permissions (as they stood at the end of the transition period) under the Temporary Permissions Regime pending the grant of new U.K. authorizations by the U.K. financial regulators. We are currently unable to determine the longer-term impact that Brexit will have on our business, which will depend, in part, on the implications of new tariff, trade, and regulatory frameworks that now govern the provision of cross-border goods and services between the U.K. and the EEA, as well as the financial and operational consequences of the requirement for PayPal (Europe) to obtain new U.K. authorizations to operate its business longer-term within the U.K. market. For additional information on how Brexit could affect our business, see "Item 1A. Risk Factors—*Brexit: The U.K.'s departure from the EU could harm our business, financial condition, and results of operations*."

Brexit may contribute to instability in financial, stock, and foreign currency exchange markets, including volatility in the value of the British Pound and Euro. We have foreign currency exchange exposure management programs designed to help reduce the impact from foreign currency exchange rate movements. The tables below provide the percentage of our total net revenues and gross loans and interest receivable from the U.K. and EU for the periods presented:

	Year Ended December 31,		
	2022	**2021**	**2020**
Net revenues generated from the U.K.	8 %	9 %	11 %
Net revenues generated from the EU	17 %	19 %	19 %

	December 31, 2022	**December 31, 2021**
Gross loans and interest receivable due from customers in the U.K.	29 %	40 %
Gross loans and interest receivable due from customers in the EU	28 %	21 %

The change in the percentage of gross loans and interest receivable due from customers in the U.K. and EU year over year was primarily attributable to expansion of our installment credit products in the EU, particularly in Germany where we have increased our product offerings.

MACROECONOMIC ENVIRONMENT

The broader implications of the macroeconomic environment, including uncertainty around the duration and severity of the coronavirus pandemic ("COVID-19"), the Russia and Ukraine conflict, supply chain shortages, a recession globally or in markets in which we operate, higher inflation rates, higher interest rates, and other related global economic conditions, remain unknown. A deterioration in macroeconomic conditions could increase the risk of lower consumer spending, merchant and consumer bankruptcy, insolvency, business failure, higher credit losses, foreign currency exchange fluctuations, or other business interruption, which may adversely impact our business. If these conditions continue or worsen, they could adversely impact our future operating results.

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OVERVIEW OF RESULTS OF OPERATIONS

The following table provides a summary of our consolidated financial results for the years ended December 31, 2022, 2021, and 2020:

	Year Ended December 31,			Percent Increase/(Decrease)	
	2022	2021	2020	2022	2021
	(In millions, except percentages and per share amounts)				
Net revenues	$ 27,518	$ 25,371	$ 21,454	8 %	18 %
Operating expenses	23,681	21,109	18,165	12 %	16 %
Operating income	3,837	4,262	3,289	(10)%	30 %
Operating margin	14 %	17 %	15 %	**	**
Other income (expense), net	(471)	(163)	1,776	189 %	(109)%
Income tax expense (benefit)	947	(70)	863	**	(108)%
Effective tax rate	28 %	(2)%	17 %	**	**
Net income (loss)	$ 2,419	$ 4,169	$ 4,202	(42)%	(1)%
Net income (loss) per diluted share	$ 2.09	$ 3.52	$ 3.54	(41)%	(1)%
Net cash provided by operating activities[(1)]	$ 5,813	$ 5,797	$ 6,219	— %	(7)%

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)] Prior period amounts have been revised to conform to the current period presentation. Refer to "Note 1—Overview and Summary of Significant Accounting Policies" to our consolidated financial statements included in this Form 10-K for additional information.

** Not meaningful.

Net revenues increased $2.1 billion, or 8%, in 2022 compared to 2021 driven primarily by growth in total payment volume ("TPV", as defined below under "Key Metrics") of 9%.

Total operating expenses increased $2.6 billion, or 12%, in 2022 compared to 2021 due primarily to an increase in transaction expense, and to a lesser extent, increases in transaction and credit losses, technology and development expenses, and restructuring and other charges, partially offset by a decline in sales and marketing expenses.

Operating income decreased $425 million, or 10%, in 2022 compared to 2021 due to growth in operating expenses exceeding growth in net revenues. Our operating margin was 14% and 17% in 2022 and 2021, respectively. Operating margin for 2022 was negatively impacted primarily by increases in transaction expense and transaction and credit losses.

Net income decreased by $1.8 billion, or 42%, in 2022 as compared to 2021 due to the previously discussed decrease in operating income of $425 million, higher expense of $308 million in other income (expense), net, driven primarily by losses on strategic investments, and an increase in income tax expense of $1.0 billion primarily related to lower benefits associated with stock-based compensation deductions, and higher expense related to intra-group transfers of intellectual property.

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 exchange risk which may adversely impact our financial results. The strengthening or weakening of the United States ("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 2022, 2021, and 2020, we generated approximately 43%, 46%, and 49% of our net revenues from customers domiciled outside of the U.S., respectively. Because we generate substantial net revenues internationally, we are subject to the risks of doing business outside of the U.S., including those discussed under "Item 1A. Risk Factors."

We calculate the year-over-year impact of foreign currency exchange 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 in which we use foreign currency exchange contracts, designated 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 years ended December 31, 2022 and 2021, the year-over-year foreign currency exchange rate movements relative to the U.S. dollar had the following impact on our reported results:

	Year Ended December 31,	
	2022	2021
	(In millions)	
(Unfavorable) favorable impact to net revenues (exclusive of hedging impact)	$ (949)	$ 440
Hedging impact	462	(190)
(Unfavorable) favorable impact to net revenues	(487)	250
Favorable (unfavorable) impact to operating expense	492	(181)
Net favorable impact to operating income	$ 5	$ 69

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.

We also use foreign currency exchange contracts, designated as net investment hedges, to reduce the foreign currency exchange risk related to our investment in certain foreign subsidiaries. Gains and losses associated with these instruments will remain in accumulated other comprehensive income (loss) until the underlying foreign subsidiaries are sold or substantially liquidated.

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 in which 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.

Additionally, in connection with transactions occurring in multiple currencies on our payments platform, 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 and when transactions occur.

KEY METRICS AND FINANCIAL RESULTS

KEY METRICS

TPV, number of payment transactions, active accounts, and number of payment transactions per active account are key non-financial performance metrics ("key metrics") that management uses to measure the scale of our platform and the relevance of our products and services to our customers, and are defined as follows:

- *TPV* is the value 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.

- *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.

- An *active account* is an account registered directly with PayPal or a platform access partner that has completed a transaction on our platform, not including gateway-exclusive transactions, within the past 12 months. A platform access partner is a third party whose customers are provided access to PayPal's platform or services through such third-party's login credentials, including individuals and entities that utilize Hyperwallet's payout capabilities. A user may register on our platform to access different products and may register more than one account to access a product. Accordingly, a user may have more than one active account. The number of active accounts provides management with additional perspective on the overall scale of our platform, but may not have a direct relationship to our operating results.

- *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. The number of payment transactions per active account provides management with insight into the average number of times an account engages in payments activity on our payments platform in a given period. The number of times a consumer account or a merchant account transacts on our platform may vary significantly from the average number of payment transactions per active account.

As our transaction revenue is typically correlated with TPV growth and the number of payment transactions completed on our payments platform, management uses these metrics to gain insights into the scale and strength of our payments platform, the engagement level of our customers, and underlying activity and trends which may be indicators of current and future performance. We present these key metrics to enhance investors' evaluation of the performance of our business and operating results.

Our key metrics are calculated using internal company data based on the activity we measure on our payments platform and compiled from multiple systems, including systems that are internally developed or acquired through business combinations. While the measurement of our key metrics is based on what we believe to be reasonable methodologies and estimates, there are inherent challenges and limitations in measuring our key metrics globally at our scale. The methodologies used to calculate our key metrics require judgment.

We regularly review our processes for calculating these key metrics, and from time to time we may make adjustments to improve the accuracy or relevance of our metrics. For example, we continuously apply models, processes, and practices designed to detect and prevent fraudulent account creation on our platforms, and work to improve and enhance those capabilities. When we detect a significant volume of illegitimate activity, we generally remove the activity identified from our key metrics. Although such adjustments may impact key metrics reported in prior periods, we generally do not update previously reported key metrics to reflect these subsequent adjustments unless the retrospective impact of process improvements or enhancements is determined by management to be material.

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 based on the 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. We earn additional fees from merchants and consumers: on transactions where we perform currency conversion, when we enable cross-border transactions (i.e., transactions where the merchant and consumer are in different countries), to facilitate the instant transfer of funds for our customers from their PayPal or Venmo account to their bank account or debit card, to facilitate the purchase and sale of cryptocurrencies, as contractual compensation from sellers that violate our contractual terms (for example, through fraud or counterfeiting), and other miscellaneous fees.

- *Revenues from other value added services:* Net revenues derived primarily from revenue earned through partnerships, referral fees, subscription fees, gateway fees, and other services we provide to our merchants and consumers. We also earn revenues from interest and fees earned on our portfolio of loans receivable, and interest earned on certain assets underlying customer balances.

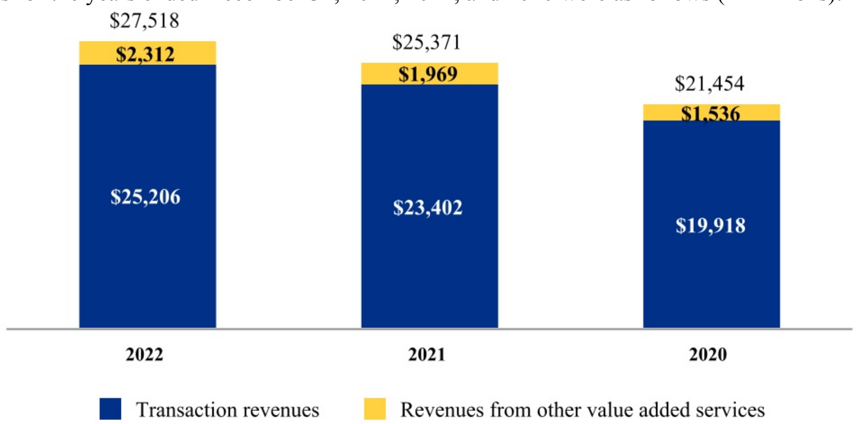
Our revenues can be significantly impacted by a number of factors, including the following:

- The mix of merchants, products, and services;
- The mix between domestic and cross-border transactions;
- The geographic region or country in which a transaction occurs; and
- The amount of our loans receivable outstanding with merchants and consumers.

Refer to "Part I, Item 1A, Risk Factors" in this Form 10-K for further discussion on factors that may impact our revenue.

Net revenue analysis

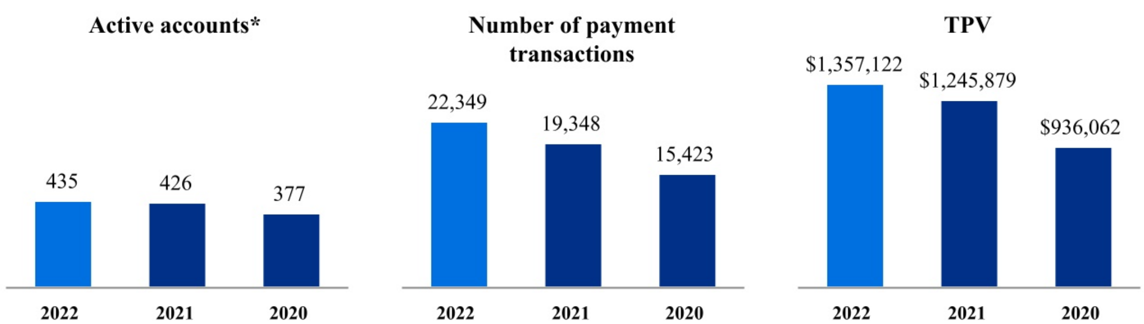
The components of our net revenues for the years ended December 31, 2022, 2021, and 2020 were as follows (in millions):



Transaction revenues

Transaction revenues grew by $1.8 billion, or 8%, in 2022 compared to 2021 driven primarily by growth in our unbranded card processing volume, which consists primarily of our Braintree products and services, and to a lesser extent, Venmo products and services, in each case driven by growth in TPV and the number of payment transactions on our payments platform. This growth in transaction revenues was partially offset by a decline in TPV and revenue generated from our core PayPal products and services, including foreign currency exchange fees revenue, due primarily to a decrease in revenue earned on eBay's marketplace platform. Additionally, for the year ended December 31, 2022, transaction revenues included $190 million in contractual compensation from sellers that violated our contractual terms, compared to $82 million in the year ended December 31, 2021. This contractual compensation and the year-over-year increase are predominantly attributable to activity in international markets.

The graphs below present the respective key metrics (in millions) for the years ended December 31, 2022, 2021, and 2020:



*Reflects active accounts at the end of the applicable period. Active accounts as of December 31, 2021 include 3.2 million active accounts contributed by Paidy, Inc. ("Paidy") on the date of acquisition in October 2021.

The following table provides a summary of related metrics:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2022	2021	2020	2022	2021
Number of payment transactions per active account	51.4	45.4	40.9	13 %	11 %
Percent of cross-border TPV	13 %	16 %	17 %	**	**

** Not meaningful

We had active accounts of 435 million and 426 million as of December 31, 2022 and 2021, respectively, an increase of 2%. Number of payment transactions was 22.3 billion and 19.3 billion as of December 31, 2022 and 2021, respectively, an increase of 16%. TPV was $1.36 trillion and $1.25 trillion as of December 31, 2022 and 2021, respectively, an increase of 9%.

Transaction revenues grew more slowly than TPV and the number of payment transactions in 2022 due primarily to declines in foreign currency exchange fees, TPV attributable to eBay's marketplace (where we had historically earned higher rates), and a decline in revenues from core PayPal products and services, partially offset by a favorable impact from hedging and an increase in revenue from our Venmo products and services.

Revenues from other value added services

Revenues from other value added services increased by $343 million, or 17%, in 2022 compared to 2021 due primarily to an increase in interest earned on certain assets underlying customer account balances resulting from higher interest rates, our revenue share earned from an independent chartered financial institution ("partner institution"), and interest and fee revenue on our merchant loans receivable portfolio. Growth in revenues from other value added services in the current period was partially offset by the impact of revenue earned from the servicing of loans facilitated under the U.S. Government's Paycheck Protection Program in 2021 of $157 million, for which revenue was de minimis in the current period.

Consumers that have outstanding loans and interest receivable due to the partner institution may experience hardships that result in losses recognized by the partner institution, which may result in a decrease in our revenue share earned in future periods. In the event the overall return on the PayPal branded credit programs funded by the partner institution does not meet a minimum rate of return ("minimum return threshold") in a particular quarter, our revenue share for that period would be zero. Further, in the event the overall return on the PayPal branded credit programs managed by the partner institution does not meet the minimum return threshold as measured over four consecutive quarters and in the following quarter, we would be required to make a payment to the partner institution, subject to certain limitations. Through December 31, 2022, the overall return on the PayPal branded credit programs funded by the partner institution exceeded the minimum return threshold.

Seasonality

The Company does not experience meaningful seasonality with respect to net revenues. No individual quarter in 2022, 2021, or 2020 accounted for more than 30% of annual net revenue.

OPERATING EXPENSES

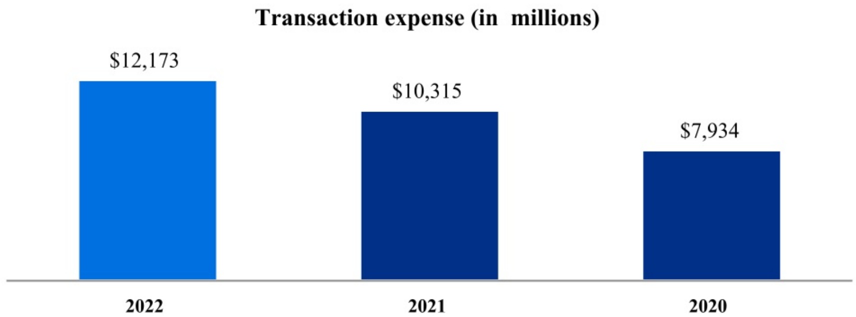
The following table summarizes our operating expenses and related metrics we use to assess the trends in each:

	Year Ended December 31,			Percent Increase/ (Decrease)	
	2022	2021	2020	2022	2021
	(In millions, except percentages)				
Transaction expense	$ 12,173	$ 10,315	$ 7,934	18 %	30 %
Transaction and credit losses	1,572	1,060	1,741	48 %	(39)%
Customer support and operations	2,120	2,075	1,778	2 %	17 %
Sales and marketing	2,257	2,445	1,861	(8)%	31 %
Technology and development	3,253	3,038	2,642	7 %	15 %
General and administrative	2,099	2,114	2,070	(1)%	2 %
Restructuring and other charges	207	62	139	234 %	(55)%
Total operating expenses	$ 23,681	$ 21,109	$ 18,165	12 %	16 %
Transaction expense rate[(1)]	0.90 %	0.83 %	0.85 %	**	**
Transaction and credit loss rate[(2)]	0.12 %	0.09 %	0.19 %	**	**

(1) Transaction expense rate is calculated by dividing transaction expense by TPV.
(2) Transaction and credit loss rate is calculated by dividing transaction and credit losses by TPV.
** Not meaningful.

Transaction expense

Transaction expense is primarily composed of the costs we incur to accept a customer's funding source of payment. These costs include fees paid to payment processors and other financial institutions when we draw funds from a customer's credit or debit card, bank account, or other funding source they have stored in their digital wallet. We refer to the allocation of funding sources used by our consumers as our "funding mix." The cost of funding a transaction with a credit or debit card is generally higher than the cost of funding a transaction from a bank or through internal sources such as a PayPal or Venmo account balance or our consumer credit products. 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. The cost of funding a transaction is also impacted by the geographic region or country in which a transaction occurs, as we generally pay lower rates for transactions funded with credit or debit cards outside the U.S. Our transaction expense rate is impacted by changes in product mix, merchant mix, regional mix, funding mix, and fees paid to payment processors and other financial institutions. Macroeconomic environment changes may also result in behavioral shifts in consumer spending patterns affecting the type of funding source they use, which could also impact the funding mix.

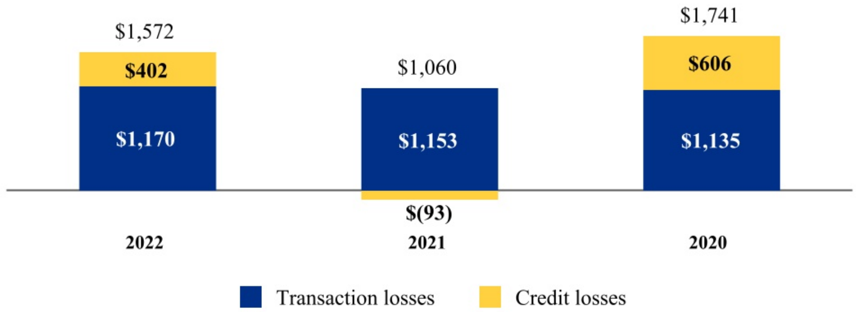


Transaction expense increased by $1.9 billion, or 18%, in 2022 compared to 2021 due primarily to an increase in TPV of 9% and unfavorable changes in product mix. The increase in transaction expense rate in 2022 compared to 2021 was also attributable to unfavorable changes in product mix with a higher proportion of TPV from unbranded card processing volume, which generally has higher expense rates than other products and services. For the years ended December 31, 2022, 2021, and 2020, approximately 35%, 39%, and 40% of TPV, respectively, was generated outside of the U.S.

Transaction and credit losses

Transaction losses include the expense associated with our customer protection programs, fraud, and chargebacks. Credit losses include the current expected credit losses associated with our merchant and consumer loans receivable portfolio. Our transaction and credit losses fluctuate depending on many factors, including TPV, product mix, current and projected macroeconomic conditions such as unemployment rates, retail e-commerce sales and household disposable income, merchant insolvency events, changes to and usage of our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our credit products for consumers and loans and advances to merchants. Estimating our current expected credit loss allowances for our loans receivable portfolios is an inherently uncertain process and the ultimate losses we incur may vary from the current estimates. We regularly update our allowance estimates as new facts become known and events occur that may impact the ultimate losses incurred. A deterioration in macroeconomic conditions or other factors beyond those considered in our estimates could result in credit losses that exceed our current estimated credit losses and adversely impact our future operating results.

The components of our transaction and credit losses for the years ended December 31, 2022, 2021, and 2020 were as follows (in millions):



Transaction and credit losses increased by $512 million, or 48%, in 2022 compared to 2021.

Transaction losses were approximately $1.2 billion for both 2022 and 2021, reflecting an increase of $17 million, or 1%. Transaction loss rate (transaction losses divided by TPV) was 0.09%, 0.09%, and 0.12% for the years ended December 31, 2022, 2021, and 2020, respectively. The increase in transaction losses in 2022 was attributable to an increase in losses related to our Venmo products and services resulting from fraud schemes, an increase in goods and services transactions which are now eligible for coverage by our protection programs, and a loss related to a merchant insolvency proceeding, which was offset by recoveries attributable to enhancements in our fraud recoupment capabilities and benefits from continued risk mitigation strategies. In the second quarter of 2022, we recorded a $114 million estimated loss related to the above mentioned merchant insolvency proceeding, and in the fourth quarter of 2022, this estimated loss was reduced by approximately $75 million to account for recoveries and changes in our estimated loss reserve.

Credit losses increased by $495 million in 2022 compared to 2021. The components of credit losses for the years ended December 31, 2022, 2021, and 2020 were as follows (in millions):

	Year Ended December 31,		
	2022	2021	2020
Net charge-offs[1]	$ 267	$ 219	$ 310
Reserve build (release)[2]	135	(312)	296
Credit losses	$ 402	$ (93)	$ 606

[1] Net charge-offs includes principal charge-offs partially offset by recoveries for consumer and merchant receivables.
[2] Reserve build (release) represents change in allowance for principal receivables excluding foreign currency remeasurement and, for 2020, impact of adoption of the current expected credit loss accounting standard.

The provision for the year ended December 31, 2022 was primarily attributable to loan originations during the period and a slight deterioration in the credit quality of loans outstanding. The benefit for the year ended December 31, 2021 was attributable to a reduction of our allowance for loans and interest receivable due primarily to improvements in both current and projected macroeconomic conditions at that point in time and the credit quality of loans outstanding, partially offset by an increase in the allowance due to originations. During 2022 and 2021, allowances for our merchant and consumer portfolios included qualitative adjustments that took into account uncertainty with respect to macroeconomic conditions, and uncertainty around the financial health of our borrowers and effectiveness of loan modification programs made available to merchants.

The consumer loans and interest receivable balance as of December 31, 2022 and 2021 was $5.9 billion and $3.8 billion, respectively, net of participation interest sold, representing a year-over-year increase of 53% driven by the expansion of our installment credit products. Approximately 37% and 53% of our consumer loans receivable outstanding as of December 31, 2022 and 2021, respectively, were due from consumers in the U.K. The decline in the percentage of consumer loans receivable outstanding in the U.K. at December 31, 2022 compared to December 31, 2021 was due to overall growth in the consumer loan portfolio, particularly from installment credit products in other markets including Germany, the U.S., and Japan.

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

	December 31, 2022	December 31, 2021
Percent of consumer loans and interest receivable current	97.1 %	97.0 %
Percent of consumer loans and interest receivable > 90 days outstanding[(1)]	1.4 %	1.5 %
Net charge-off rate[(2)]	4.5 %	4.3 %

[(1)] Represents percentage of balances which are 90 days past the billing date or contractual repayment date, as applicable.
[(2)] Net charge-off rate is the annual ratio of net credit losses, excluding fraud losses, on consumer loans as a percentage of the average daily amount of consumer loans and interest receivable balance during the period.

We offer access to merchant finance products for certain small and medium-sized businesses, which we refer to as our merchant finance offerings. Total merchant loans, advances, and interest and fees receivable outstanding, net of participation interest sold, as of December 31, 2022 was $2.1 billion compared to $1.4 billion as of December 31, 2021, representing a year-over-year increase of 48%. The increase in merchant loans, advances and interest and fees receivable outstanding was due primarily to growth in our PayPal Business Loan products in the U.S. Approximately 86% and 5% of our merchant receivables outstanding as of December 31, 2022 were due from merchants in the U.S. and U.K., as compared to approximately 82% and 8% as of December 31, 2021, respectively.

The following table provides information regarding the credit quality of our merchant loans, advances, and interest and fees receivable balance:

	December 31, 2022	December 31, 2021
Percent of merchant loans, advances, and interest and fees receivable current	90.7 %	91.8 %
Percent of merchant loans, advances, and interest and fees receivable > 90 days outstanding[(1)]	3.7 %	3.1 %
Net charge-off rate [(2)]	4.5 %	4.7 %

[(1)] Represents percentage of balances which are 90 days past the original expected or contractual repayment period, as applicable.
[(2)] Net charge-off rate is the annual ratio of net credit losses, excluding fraud losses, on merchant loans and advances as a percentage of the average daily amount of merchant loans, advances, and interest and fees receivable balance during the period.

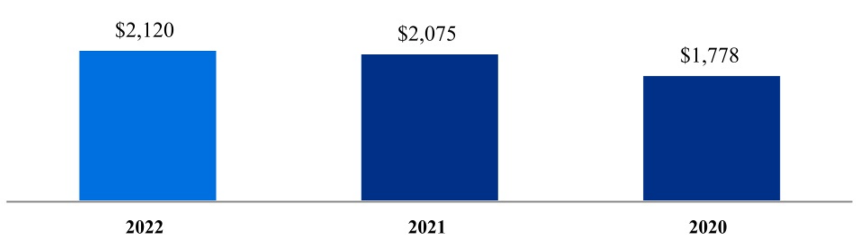
We continue to evaluate and modify our acceptable risk parameters in response to the changing macroeconomic environment. Following a reduction in originations in merchant loans and advances in 2020 due to the COVID-19 pandemic, changes to our acceptable risk parameters in 2021 and 2022 resulted in a gradual increase in originations, and thus a higher merchant receivable balance as of December 31, 2022 as compared to December 31, 2021. Modifications to the acceptable risk parameters for our consumer credit products did not have a material impact on our consumer loans in the periods presented.

For additional information, see "Note 11—Loans and Interest Receivable" in the notes to the consolidated financial statements, and "Item 1A. Risk Factors—*Our credit products expose us to additional risks*" included in this Form 10-K.

Customer support and operations

Customer support and operations includes costs incurred in our global customer operations centers, including costs to provide call support to our customers, costs to support our trust and security programs protecting our merchants and consumers, and other costs incurred related to the delivery of our products, including payment devices, card production, and customer onboarding and compliance costs.

Customer support and operations (in millions)

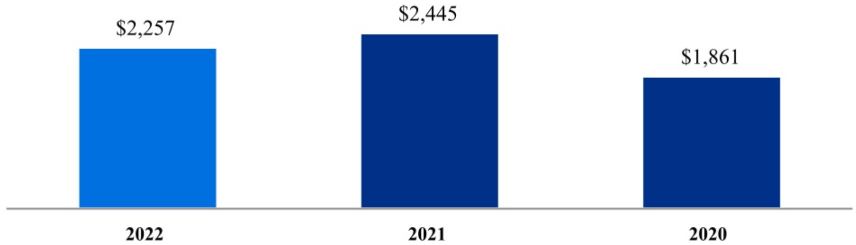


Customer support and operations costs increased $45 million, or 2%, in 2022 compared to 2021. The increase in 2022 was primarily attributable to increases in expenses related to software that supports our consumer loan products, customer onboarding and compliance costs, other operating charges, and costs associated with the production of PayPal and Venmo branded debit and credit cards, partially offset by a decline in contractors and consulting costs.

Sales and marketing

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

Sales and marketing (in millions)

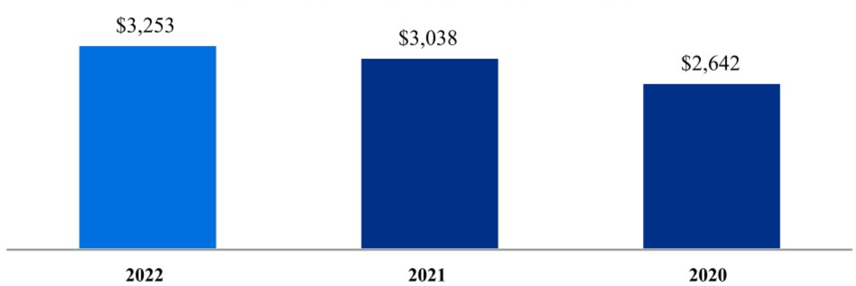


Sales and marketing expenses decreased $188 million, or 8%, in 2022 compared to 2021 due primarily to lower spending on marketing campaigns compared to the prior year and declines in employee-related and consulting costs, partially offset by an increase in amortization of acquired intangibles and payments made to our channel partners.

Technology and development

Technology and development includes 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. It also includes acquired developed technology and our site operations and other infrastructure costs incurred to support our payments platform.

Technology and development (in millions)

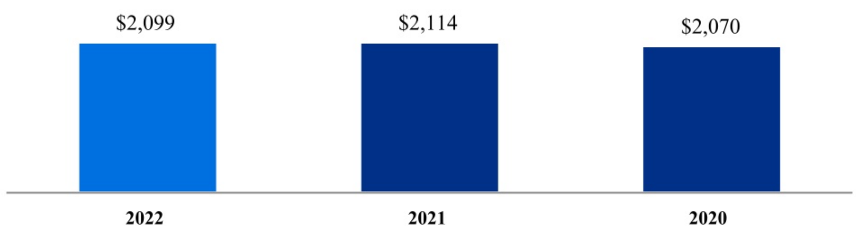


Technology and development expenses increased $215 million, or 7%, in 2022 compared to 2021 due primarily to increases in employee-related expenses and cloud computing services utilized in delivering our products and services, partially offset by a decline in costs related to contractors and consultants.

General and administrative

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

General and administrative (in millions)



General and administrative expenses decreased $15 million, or 1%, in 2022 compared to 2021 due primarily to declines in professional services and employee-related expenses due in part to a decline in stock-based compensation expense, partially offset by an increase in costs associated with enterprise software services.

Restructuring and other charges

Restructuring and other charges primarily consist of restructuring expenses and asset impairment charges.

Restructuring and other charges (in millions)

Restructuring and other charges increased by $145 million in 2022 compared to 2021.

During the first quarter of 2022, management initiated a strategic reduction of the existing global workforce intended to streamline and optimize our global operations to enhance operating efficiency. This effort focused on reducing redundant operations and simplifying our organizational structure. The associated restructuring charges during the year ended December 31, 2022 were $121 million. We primarily incurred employee severance and benefits costs, as well as associated consulting costs. The strategic actions associated with this plan were substantially completed by the fourth quarter of 2022. The estimated reduction in annualized employee-related costs associated with the impacted workforce was approximately $265 million, including approximately $100 million in stock-based compensation. A portion of the reduction in annual costs associated with the impacted workforce was reinvested in the business to drive additional growth.

During the first quarter of 2020, management approved a strategic reduction of the existing global workforce as part of a multiphase process to reorganize our workforce concurrently with the redesign of our operating structure, which spanned multiple quarters. During the year ended December 31, 2021, the associated restructuring charges were $27 million. We primarily incurred employee severance and benefits costs, as well as associated consulting costs under the 2020 strategic reduction, which was substantially completed in 2021.

For information on the associated restructuring liability, see “Note 17—Restructuring and Other Charges” in the notes to the consolidated financial statements included in this Form 10-K.

Additionally, we are continuing to review our real estate and facility capacity requirements due to our new and evolving work models. We incurred asset impairment charges of $81 million and $26 million, respectively, due to exiting certain leased properties which resulted in a reduction of right-of-use lease assets and related leasehold improvements.

Other income (expense), net

Other income (expense), net of $(471) million in 2022 increased $308 million as compared to $(163) million in 2021 due primarily to net losses and impairments on strategic investments incurred in the period compared to net gains in the prior period and, to a lesser extent, an increase in interest expense due in part to incremental expense from our May 2022 fixed rate debt, partially offset by an increase in interest income due to an increase in interest rates.

Income tax expense (benefit)

Our effective income tax rate was 28% in 2022 and (2)% in 2021. The increase in our effective income tax rate in 2022 compared to 2021 was primarily attributable to a decrease in discrete tax benefits associated with stock-based compensation deductions and an increase in tax expense related to the intra-group transfer of intellectual property. See “Note 16—Income Taxes” to the consolidated financial statements included in this Form 10-K for more information on our effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

We require liquidity and access to capital to fund our global operations, including our customer protection programs, credit products, capital expenditures, investments in our business, potential acquisitions and strategic investments, working capital, and other cash needs. 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 meet our cash requirements within the next 12 months and beyond.

SOURCES OF LIQUIDITY

Cash, cash equivalents, and investments

The following table summarizes our cash, cash equivalents, and investments as of December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
	(In millions)	
Cash, cash equivalents, and investments[1][2]	$ 13,723	$ 12,981

[1] Excludes assets related to funds receivable and customer accounts of $36.4 billion and $36.1 billion as of December 31, 2022 and 2021, respectively.

[2] Excludes total restricted cash of $17 million and $109 million at December 31, 2022 and 2021, respectively, and strategic investments of $2.1 billion and $3.2 billion at December 31, 2022 and 2021, respectively.

Cash, cash equivalents, and investments held by our foreign subsidiaries were $8.6 billion at December 31, 2022 and $7.4 billion at December 31, 2021, or 62% and 57%, of our total cash, cash equivalents, and investments as of those respective dates. At December 31, 2022, all of our cash, cash equivalents, and investments held by foreign subsidiaries were subject to U.S. taxation under Subpart F, Global Intangible Low Taxed Income (“GILTI”) or the one-time transition tax under the Tax Cuts and Jobs Act of 2017 (“Tax Act”). Subsequent repatriations to the U.S. will not be taxable from a U.S. federal tax perspective, but may be subject to state income 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. Accordingly, not all of our cash is available for general corporate purposes.

Cash flows

The following table summarizes our consolidated statements of cash flows:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Net cash provided by (used in):			
Operating activities[1]	$ 5,813	$ 5,797	$ 6,219
Investing activities[1]	(3,421)	(5,149)	(16,545)
Financing activities[1]	(1,110)	(557)	12,454
Effect of exchange rates on cash, cash equivalents, and restricted cash	(155)	(102)	169
Net increase (decrease) in cash, cash equivalents, and restricted cash	$ 1,127	$ (11)	$ 2,297

[1] Prior period amounts have been revised to conform to the current period presentation. Refer to "Note 1—Overview and Summary of Significant Accounting Policies" to our consolidated financial statements included in this Form 10-K for additional information.

Operating activities

Cash flows from operating activities includes net income adjusted for certain non-cash expenses, timing differences between expenses recognized for provision for transaction and credit losses and actual cash transaction losses incurred, and changes in other assets and liabilities. Significant non-cash expenses for the period include depreciation and amortization and stock-based compensation. The cash impact from actual transaction losses incurred during a period is reflected as changes in other assets and liabilities. The expenses recognized during the period for provision for credit losses are estimates of current expected credit losses on our merchant and consumer credit products. Actual charge-offs of receivables related to our merchants and consumer credit products have no impact on cash from operating activities.

The net cash generated from operating activities of $5.8 billion in 2022 was due primarily to operating income of $3.8 billion, as well as adjustments for non-cash expenses including provision for transaction and credit losses of $1.6 billion, depreciation and amortization of $1.3 billion, and stock-based compensation of $1.3 billion. Cash flows from operating activities was also impacted by changes in income taxes payable of $373 million, net losses on our strategic investments of $304 million, and an increase in other liabilities of $483 million. These changes, which favorably impacted cash generated from operations, were partially offset by actual cash transaction losses incurred during the period of $1.2 billion and changes in deferred income taxes of $811 million.

The net cash generated from operating activities of $5.8 billion in 2021 was due primarily to operating income of $4.3 billion, as well as adjustments for non-cash expenses including stock-based compensation of $1.4 billion, depreciation and amortization of $1.3 billion, and provision for transaction and credit losses of $1.1 billion. Cash flows from operating activities was also impacted by actual cash transaction losses incurred during the period of $1.2 billion, changes in deferred income taxes of $482 million, an increase in accounts receivable of $222 million, and changes in other assets and liabilities of $287 million.

The net cash generated from operating activities of $6.2 billion in 2020 was due primarily to operating income of $3.3 billion, as well as adjustments for non-cash expenses including provision for transaction and credit losses of $1.7 billion, stock-based compensation of $1.4 billion, and depreciation and amortization of $1.2 billion. Cash flows from operating activities was also impacted by net gains on our strategic investments of $1.9 billion and actual cash transaction losses incurred during the period of $1.1 billion, partially offset by increase in other liabilities of $1.0 billion.

Cash paid for income taxes, net in 2022, 2021, and 2020 was $878 million, $474 million, and $565 million, respectively.

Investing activities

Cash flows from investing activities includes purchases, maturities and sales of investments, cash paid for acquisitions and strategic investments, purchases and sales of property and equipment, purchases, originations, and principal repayment of loans receivable, changes in funds receivable, and changes in collateral posted related to derivative instruments, net.

The net cash used in investing activities of $3.4 billion in 2022 was due primarily to purchases and originations of loans receivable of $28.2 billion, purchases of investments of $20.2 billion, changes in funds receivable from customers of $2.8 billion, and purchases of property and equipment of $706 million. These cash outflows were partially offset by principal repayment of loans receivable of $24.9 billion and maturities and sales of investments of $23.4 billion.

The net cash used in investing activities of $5.1 billion in 2021 was due primarily to purchases of investments of $40.1 billion, purchases and originations of loans receivable of $13.4 billion, acquisitions (net of cash acquired) of $2.8 billion, and purchases of property and equipment of $908 million. These cash outflows were partially offset by maturities and sales of investments of $39.7 billion, principal repayment of loans receivable of $11.8 billion, changes in collateral posted related to derivative instruments, net of $336 million, and changes in funds receivable from customers of $193 million.

The net cash used in investing activities of $16.5 billion in 2020 was due primarily to purchases of investments of $41.5 billion, purchases and originations of loans receivable of $6.1 billion, acquisitions (net of cash acquired) of $3.6 billion, changes in funds receivable from customers of $1.6 billion, purchases of property and equipment of $866 million, and changes in collateral posted related to derivative instruments, net of $327 million. These cash outflows were partially offset by maturities and sales of investments of $30.9 billion, principal repayment of loans receivable of $6.4 billion and proceeds from the sale of property and equipment of $120 million.

Financing activities

Cash flows from financing activities includes proceeds from issuance of common stock, purchases of treasury stock, tax withholdings related to net share settlements of equity awards, borrowings and repayments under financing arrangements, changes in funds payable and amounts due to customers, and changes in collateral received related to derivative instruments, net.

The net cash used in financing activities of $1.1 billion in 2022 was due primarily to the repurchase of $4.2 billion of our common stock under our July 2018 stock repurchase program, repayments of borrowings under financing arrangements of $1.7 billion (including the repurchase and redemption of certain fixed rate notes and repayment of borrowings under a prior credit agreement, both described below under “Available credit and debt”), and tax withholdings of $336 million related to net share settlement of equity awards. These cash outflows were partially offset by borrowings under financing arrangements of $3.5 billion (including proceeds from the issuance of fixed rate debt in May 2022 and borrowings under our Paidy credit agreements) and changes in funds payable and amounts due to customers of $1.5 billion.

The net cash used in financing activities of $557 million in 2021 was due primarily to the repurchase of $3.4 billion of our common stock under our July 2018 stock repurchase program, tax withholdings of $1.0 billion related to net share settlement of equity awards, and repayments of borrowings under Paidy credit agreements of $361 million. The cash outflows were partially offset by changes in funds payable and amounts due to customers of $3.6 billion, cash proceeds from borrowings under our Paidy credit agreements of $272 million, and changes in collateral received related to derivative instruments, net of $207 million.

The net cash generated from financing activities of $12.5 billion in 2020 was due primarily to changes in funds payable and amounts due to customers of $10.6 billion and $7.0 billion of cash proceeds from the issuance of long-term debt in the form of fixed rate notes in May 2020 as well as proceeds from borrowings under our Credit Agreement (as defined below under “Available credit and debt”). These cash inflows were partially offset by repayment of outstanding borrowings under our Credit Agreement of $3.0 billion, the repurchase of $1.6 billion of our common stock under our stock repurchase programs, and tax withholdings related to net share settlement of equity awards of $521 million.

Effect of exchange rates on cash, cash equivalents, and restricted cash

Foreign currency exchange rates had a negative impact of $155 million, a negative impact of $102 million, and a positive impact of $169 million on cash, cash equivalents, and restricted cash during 2022, 2021, and 2020, respectively, which resulted primarily from the impact of fluctuations in the exchange rate of the U.S. dollar to the Australian dollar. The negative impact of foreign currency exchange on cash, cash equivalents, and restricted cash in 2022 was also attributable, to a lesser extent, to the fluctuations in the exchange rate of the U.S. dollar to the Swedish krona, Japanese yen, Indian rupee, and the Euro. The negative impact of foreign currency exchange on cash, cash equivalents, and restricted cash in 2021 was also attributable, to a lesser extent, to the fluctuations in the exchange rate of the U.S. dollar to the Euro and Swedish krona.

Available credit and debt

In February 2022, we entered into a credit agreement (the “Paidy Credit Agreement”) with Paidy as co-borrower, which provides for an unsecured revolving credit facility of ¥60.0 billion. In September 2022, the Paidy Credit Agreement was modified to increase the borrowing capacity by ¥30.0 billion for a total borrowing capacity of ¥90.0 billion (approximately $686 million as of December 31, 2022). In the year ended December 31, 2022, ¥64.3 billion (approximately $491 million) was drawn down under the Paidy Credit Agreement. Accordingly, at December 31, 2022, ¥25.7 billion (approximately $195 million) of borrowing capacity was available for the purposes permitted by the Paidy Credit Agreement, subject to customary conditions to borrowing.

In October 2021, we assumed a credit agreement through our acquisition of Paidy (the “Prior Credit Agreement”). The Prior Credit Agreement provided for a secured revolving credit facility of approximately ¥22.8 billion (approximately $198 million at the time of acquisition). In the first quarter of 2022, we terminated the Prior Credit Agreement and repaid outstanding borrowings.

In September 2019, we entered into a credit agreement (the “Credit Agreement”) that provides for an unsecured $5.0 billion, five-year revolving credit facility that includes a $150 million letter of credit sub-facility and a $500 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding from time to time. As of December 31, 2022, no borrowings were outstanding under the Credit Agreement and as such, $5.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement, subject to customary conditions to borrowing.

We maintain uncommitted credit facilities in various regions throughout the world with a borrowing capacity of approximately $80 million in the aggregate, where we can withdraw and utilize the funds at our discretion for general corporate purposes. As of December 31, 2022, the majority of the borrowing capacity under these credit facilities was available, subject to customary conditions to borrowing.

In May 2022, May 2020 and September 2019, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of $12.0 billion (collectively referred to as the “Notes”). Proceeds from the issuance of these Notes may be used for general corporate purposes, which may include funding the repayment or redemption of outstanding debt, share repurchases, ongoing operations, capital expenditures, and possible acquisitions of businesses, assets, or strategic investments. In May 2022, we used a portion of the proceeds from that debt issuance to repurchase and redeem $1.6 billion in notes from our prior debt issuances in September 2019 and May 2020. As of December 31, 2022, we had $10.4 billion in fixed rate debt outstanding with varying maturity dates.

For additional information, see “Note 12—Debt” to our consolidated financial statements included in this Form 10-K.

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, make strategic investments, repurchase shares under our stock repurchase programs, or reduce our cost of capital.

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 the arrangement. As of December 31, 2022, we had a total of $1.7 billion in cash withdrawals offsetting our $1.7 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

Credit ratings

As of December 31, 2022, we continue to be rated investment grade by Standard and Poor’s Financial Services, LLC, Fitch Ratings, Inc., and Moody’s Investors Services 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 borrowings under our credit agreements.

CURRENT AND FUTURE CASH REQUIREMENTS

Our material cash requirements include funds to support current and potential: operating activities, credit products, customer protection programs, stock repurchases, strategic investments, acquisitions, other commitments, and capital expenditures and other future obligations.

Credit products

Growth in our portfolio of loan receivables increases our liquidity needs, and any inability to meet those liquidity needs could adversely affect our business. We are currently evaluating partnerships and third-party sources of funding for our credit products.

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 fund European and U.S. credit activities. In August 2022, the CSSF approved PayPal's management designating up to 50% of such balances to fund our credit activities through the end of February 2023. During 2022, an additional $1.1 billion was approved to fund our credit activities. As of December 31, 2022, the cumulative amount approved by management to be designated to fund credit activities aggregated to $3.8 billion and represented approximately 37% of European customer balances made available for our corporate use at that date, as determined by applying financial regulations maintained by the CSSF. We may periodically seek to designate additional amounts of European customer balances for our credit activities, as we deem necessary, based on utilization of the approved funds and anticipated credit funding requirements. Under certain exceptional circumstances, corporate liquidity could be called upon to meet our obligations related to our European customer balances.

While our objective is to expand the availability of our credit products with capital from external sources, there can be no assurance that we will be successful in achieving that goal.

Customer protection programs

The risk of losses from our customer protection programs are specific to individual consumers, 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 consolidated financial statements included in this report, our transaction loss rate ranged between 0.09% and 0.12% of TPV. Historical loss rates may not be indicative of future results.

Stock repurchases

During the year ended December 31, 2022, we repurchased approximately $4.2 billion of our common stock in the open market under our stock repurchase program authorized in July 2018. In June 2022, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to $15.0 billion of our common stock, with no expiration from the date of authorization. As of December 31, 2022, a total of approximately $861 million and $15.0 billion remained available for future repurchases of our common stock under our July 2018 and June 2022 stock repurchase programs, respectively. For additional information, see "Note 14—Stock Repurchase Programs" to our consolidated financial statements included in this Form 10-K.

Future obligations

As of December 31, 2022 and 2021, approximately $4.9 billion and $4.1 billion, respectively, of unused credit was available to PayPal Credit account holders in the U.K. While this amount represents the total unused credit available, we have not experienced, and do not anticipate, that all of our PayPal Credit account holders will access their entire available credit at any given point in time. In addition, the individual lines of credit that make up this unused credit are subject to periodic review and termination based on, among other things, account usage and customer creditworthiness.

We have certain fixed contractual obligations and commitments that include future estimated payments for general operating purposes. Changes in our business needs, contractual cancellation provisions, fluctuating interest rates, and other factors may result in actual payments differing from our estimates. We cannot provide certainty regarding the timing and amounts of these payments. The following table summarizes our obligations as of December 31, 2022 that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through our existing cash and investment portfolio and cash expected to be generated from operations.

Payments Due During the Year Ending December 31,	Purchase Obligations	Operating Leases	Transition Tax	Long-term Debt	Total
			(In millions)		
2023	$ 900	$ 170	$ 212	$ 739	$ 2,021
2024	708	157	284	1,568	2,717
2025	374	116	354	1,280	2,124
2026	329	105	—	1,522	1,956
2027	20	92	—	729	841
Thereafter	—	150	—	9,215	9,365
	$ 2,331	$ 790	$ 850	$ 15,053	$ 19,024

The significant assumptions used in our determination of amounts presented in the above table are as follows:

- Purchase obligation amounts include minimum purchase commitments for cloud computing services, advertising, and capital expenditures, and other goods and services entered into in the ordinary course of business.
- Operating lease amounts include minimum rental payments under our non-cancelable operating leases (including leases not yet commenced) 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, unless a substantial change in our headcount needs requires us to expand our occupied space or exit an office facility early.
- Transition tax represents the one-time mandatory tax on previously deferred foreign earnings under the Tax Act.
- Long-term debt amounts represent the future principal and interest payments (based on contractual interest rates) on our fixed-rate debt. For more information, see “Note 12—Debt” to our consolidated financial statements included in this Form 10-K.

As we are unable to reasonably predict the timing of settlement of liabilities related to unrecognized tax benefits, net, the table above does not include $1.9 billion of such non-current liabilities included in deferred and other tax liabilities recorded on our consolidated balance sheet as of December 31, 2022.

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 “Item 1A. Risk Factors” and “Note 13—Commitments and Contingencies” to our consolidated financial statements included in this Form 10-K for additional discussion of these and other risks that our business faces.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The application of U.S. generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions about certain items and future events that directly affect our reported financial condition. We have established detailed policies and control procedures to provide reasonable assurance that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. An accounting estimate or assumption is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to our financial condition. Management has discussed the development, selection, and disclosure of these estimates with the Audit, Risk, and Compliance Committee of our Board of Directors. Our significant accounting policies, including recent accounting pronouncements, are described in "Note 1—Overview and Summary of Significant Accounting Policies" to the consolidated financial statements included in this Form 10-K.

A quantitative sensitivity analysis is provided where information is reasonably available, can be reliably estimated, and provides material information to investors. The amounts used to assess sensitivity are included to allow users of this report to understand a general directional cause and effect of changes in the estimates and do not represent management's predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecasted, and such estimates require regular review and adjustment.

ALLOWANCE FOR TRANSACTION AND CREDIT LOSSES

Transaction and credit losses include the expense associated with our customer protection programs, fraud, chargebacks, and credit losses associated with our loans receivable balances. Our transaction and credit losses fluctuate depending on many factors, including: total TPV, product mix, current and projected macroeconomic conditions, merchant insolvency events, changes to and usage of our customer protection programs, the impact of regulatory changes, and the credit quality of loans receivable arising from transactions funded with our credit products, which include revolving and installment credit products offered to consumers at checkout, and merchant loans and advances arising from the PayPal Working Capital and PayPal Business Loan products.

We establish allowances for negative customer balances and estimated transaction losses arising from processing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery or unsatisfactory delivery of purchased items, purchase protection program claims, account takeovers, and Automated Clearing House returns. Additions to the allowance, in the form of provisions, are reflected in transaction and credit losses on our consolidated statements of income (loss). The allowances are based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving collection and write-off patterns, and the mix of transaction and loss types, as well as current and projected macroeconomic factors, as appropriate.

We also establish an allowance for loans and interest receivable, which represents our estimate of current expected credit losses inherent in our portfolio of loans and interest receivable. This evaluation process is subject to numerous estimates and judgments. The allowance is primarily based on expectations of credit losses based on historical lifetime loss data as well as macroeconomic forecasts applied to the portfolio. The loss models incorporate various portfolio attributes including geographic region, first borrowing versus repeat borrowing, delinquency, loan term, internally developed risk ratings, credit rating, and vintage, which vary by portfolio. The loss models also incorporate macroeconomic factors such as forecasted trends in unemployment, retail e-commerce sales, and household disposable income (and through the second quarter of 2022, benchmark credit card charge-off rates), which are sourced externally, using a single scenario that we believe is most appropriate to the economic conditions applicable to a particular period. Projected loss rates, inclusive of historical loss data and macroeconomic factors, are applied to the principal amount of our merchant and consumer receivables. Our consumer receivables consist of revolving products, which do not have a contractual term, and installment products. The reasonable and supportable forecast period for revolving products, installment products, and merchant products that we have included in our projected loss rates for 2022, which approximates the estimated life of the loans, is approximately 2 years, approximately 7 months to 3.5 years, and approximately 2.5 to 3.5 years, respectively. In 2021, the reasonable and supportable forecast periods were consistent with 2022 except for installment products, which had an estimated life of 7 months to 2.5 years. We also include qualitative adjustments that incorporate incremental information not captured in the quantitative estimates of our current expected credit losses. The allowance for current expected credit losses on interest and fees receivable is determined primarily by applying loss curves to each portfolio by geography, delinquency, and period of origination, among other factors.

Determining appropriate current expected credit loss allowances for loans and interest receivable is an inherently uncertain process and ultimate losses may vary from the current estimates. We regularly update our allowance estimates as new facts become known and events occur that may impact the settlement or recovery of losses. The allowances are maintained at a level we deem appropriate to adequately provide for current expected credit losses at the balance sheet date after incorporating the impact of externally sourced macroeconomic forecasts. As of December 31, 2022, we utilized externally published projections of the U.S. and U.K. forecasted unemployment rates, forecasted U.S. retail e-commerce sales, and forecasted U.K. household disposable income, among others, over the reasonable and supportable forecast period. As of December 31, 2021, we utilized externally published projections of the U.S. and U.K. forecasted unemployment rates over the reasonable and supportable forecast period. The overall principal and interest coverage ratio as of December 31, 2022 and 2021 was approximately 7% and 9%, respectively. A significant change in the forecasted macroeconomic factors could result in a material change in our allowances. Our allowance as of December 31, 2022 took into account uncertainty with respect to macroeconomic conditions, and uncertainty around the financial health of our borrowers and effectiveness of loan modification programs made available to merchants. Our allowance as of December 31, 2021 took into account continued volatility with respect to macroeconomic conditions and uncertainty around the financial health of our merchant borrowers, including uncertainty around the effectiveness of loan modification programs made available to merchants. An increase of 1% in the principal and interest coverage ratio would increase our allowances by approximately $80 million based on the loans and interest receivable balance outstanding as of December 31, 2022.

ACCOUNTING FOR INCOME TAXES

Our annual tax rate is based on our income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective government taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available. Our income tax rate is significantly affected by the tax rates that apply to our foreign earnings. In addition to local country tax laws and regulations, our income tax rate depends on the extent that our foreign earnings are taxed by the U.S. through provisions such as the GILTI tax and base erosion anti-abuse tax or as a result of our indefinite reinvestment assertion. Indefinite reinvestment is determined by management's judgment about, and intentions concerning, our future operations.

Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings, and available tax planning strategies. These sources of income rely heavily on estimates that are based on a number of factors, including our historical experience and short-range and long-range business forecasts. To the extent deferred tax assets are not expected to be realized, we record a valuation allowance.

We recognize and measure uncertain tax positions in accordance with U.S. GAAP, pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. U.S. GAAP further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We file annual income tax returns in multiple taxing jurisdictions around the world. A number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes are adequate. We adjust these reserves, as well as the related interest and penalties, where appropriate in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Based on our results for the year ended December 31, 2022, a one-percentage point increase in our effective tax rate would have resulted in an increase in our income tax expense of approximately $34 million.

LOSS CONTINGENCIES

We are currently involved in various claims, regulatory and legal proceedings, and investigations of potential operating violations by regulatory oversight authorities. We regularly review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim, legal proceeding, or potential regulatory violation is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and whether an exposure is reasonably estimable. Our judgments are subjective and are based on the status of the legal or regulatory proceedings, the merits of our defenses, and consultation with in-house and outside legal counsel. Because of uncertainties related to these matters, accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims, litigation, or other violations and may revise our estimates. Due to the inherent uncertainties of legal and regulatory processes in the multiple jurisdictions in which we operate, our judgments may differ materially from the actual outcomes.

REVENUE RECOGNITION

Application of the accounting principles in U.S. GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, the determination of whether we are a principal to a transaction (gross revenue) or an agent (net revenue) can require considerable judgment. Further, we provide incentive payments to consumers and merchants. Evaluating whether these incentives are a payment to a customer, or consideration payable on behalf of a customer, requires judgment. Incentives determined to be made to a customer, or payable on behalf of a customer, are recorded as a reduction to gross revenue. Changes in judgments with respect to these assumptions and estimates could impact the amount of revenue recognized.

VALUATION OF GOODWILL AND INTANGIBLES

The valuation of assets acquired in a business combination requires the use of significant estimates and assumptions. The acquisition method of accounting for business combinations requires us to estimate the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in an acquired business to properly allocate purchase price consideration between assets that are depreciated or amortized and goodwill. Our estimates are based upon assumptions that we believe to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management’s assumptions, which do not reflect unanticipated events and circumstances that may occur.

EVALUATION OF STRATEGIC INVESTMENTS FOR IMPAIRMENT

We have strategic investments in non-marketable equity securities, which include investments that do not have a readily determinable fair value and are measured at cost minus impairment, if any, and are adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer (the Measurement Alternative). We review these investments regularly to determine if impairment has occurred. We assess whether an impairment loss on these non-marketable equity securities, which are primarily investments in privately held companies, has occurred based on qualitative factors such as the companies’ financial condition and business outlook, industry performance, regulatory, economic or technological environment, and other relevant events and factors affecting the company. When indicators of impairment exist, we estimate the fair value of these non-marketable equity securities using the market approach and/or the income approach. If any impairment is identified, we write down the investment to its fair value and record the corresponding charge through other income (expense), net in our consolidated statements of income (loss). Estimating fair value requires judgment and use of estimates such as discount rates, forecasted cash flows, and market data of comparable companies, among others.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates, and equity investment risk. Management establishes and oversees the implementation of policies governing our investing, funding, and foreign currency derivative activities intended 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 consolidated balance sheets as customer accounts.

As of December 31, 2022 and 2021, approximately 57% and 40%, respectively, of our total cash, cash equivalents, and investment portfolio (excluding restricted cash and strategic investments) was held in cash and cash equivalents. The remaining portfolio and assets underlying the customer balances that we hold on our consolidated balance sheets as customer accounts are maintained in interest and non-interest bearing bank deposits, time deposits, and available-for-sale debt securities. We seek to preserve principal while holding eligible liquid assets, as defined by applicable regulatory requirements and commercial law in certain 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.

Interest rate movements affect the interest income we earn on cash and cash equivalents, time deposits, and available-for-sale debt securities and the fair value of those securities. A hypothetical 100 basis points increase in interest rates would have resulted in a decrease in the fair value of our cash equivalents and available-for-sale debt securities investment by approximately $161 million and $272 million at December 31, 2022 and 2021, respectively. Changes in the fair value of our available-for-sale debt securities resulting from such interest rate changes are reported as a component of accumulated other comprehensive income ("AOCI") and are realized only if we sell the securities prior to their scheduled maturities or the declines in fair values are due to expected credit losses.

As of December 31, 2022 and 2021, we had $10.4 billion and $9.0 billion, respectively, in fixed rate debt with varying maturity dates. Since these notes bear interest at fixed rates, they do not result in any financial statement risk associated with changes in interest rates. However, the fair value of these notes fluctuates when interest rates change, increasing in periods of declining interest rates and declining in periods of increasing interest rates.

As of December 31, 2022 and 2021, we also had revolving credit facilities of approximately $5.7 billion and $5.2 billion, respectively, available to us. We are obligated to pay interest on borrowings under these facilities as well as other customary fees, including an upfront fee and an unused commitment fee based on our debt rating. Borrowings under these facilities, if any, bear interest at floating rates. As a result, we are exposed to the risk related to fluctuations in interest rate to the extent of our borrowings. As of December 31, 2022 and 2021, we had ¥64.3 billion (approximately $491 million) and ¥11.3 billion (approximately $98 million), respectively, outstanding under these credit facilities. A 100 basis points hypothetical adverse change in applicable market interest rates would not have resulted in a material impact to interest expense recorded in the period. For additional information, see "Note 12—Debt" in the notes to the consolidated financial statements included in this 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 larger 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 (loss).

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, which subject us to foreign currency exchange rate risk and may adversely impact our financial results. We transact 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 currency 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 United States ("U.S.") dollar, and are adversely affected by a strengthening of the U.S. dollar, relative to foreign currencies. We considered the historical trends in foreign currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 10% for all currencies could be experienced in the near term.

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 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 consolidated financial statements included in this Form 10-K.

We use foreign currency exchange forward contracts to protect our forecasted U.S. dollar-equivalent earnings and our investment in foreign subsidiaries from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse foreign currency exchange rate movements. We designate these contracts as cash flow hedges of forecasted revenues denominated in foreign currencies and net investment hedges for accounting purposes. The derivative’s gain or loss is initially reported as a component of AOCI. Cash flow hedges are subsequently reclassified into revenue in the same period the forecasted transaction affects earnings. The accumulated gains and losses associated with net investment hedges will remain in AOCI until the foreign subsidiaries are sold or substantially liquidated, at which point they will be reclassified into earnings.

If the U.S. dollar weakened by a hypothetical 10% at December 31, 2022 and 2021, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $710 million and $512 million lower, respectively, before considering the offsetting impact of the underlying hedged item.

We have an additional foreign currency exchange management program in which 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 a hypothetical 10% for all foreign currencies would have resulted in a negative impact on income before income taxes of approximately $173 million and $196 million at December 31, 2022 and 2021, respectively, without considering the offsetting effect of foreign currency exchange contracts. Foreign currency exchange contracts in place as of December 31, 2022 would have positively impacted income before income taxes by approximately $144 million, resulting in a net negative impact of approximately $29 million. Foreign currency exchange contracts in place as of December 31, 2021 would have positively impacted income before income taxes by approximately $203 million, resulting in a net positive impact of approximately $7 million. These reasonably possible adverse changes in exchange rates of 10% were applied to monetary assets, monetary liabilities, and available-for-sale debt securities 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 the portfolio. As of December 31, 2022 and 2021, our strategic investments totaled $2.1 billion and $3.2 billion which represented approximately 14% and 20% of our total cash, cash equivalents, and short-term and long-term investment portfolio at each of those respective dates. Our strategic investments include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. We are required to record all adjustments to the value of these strategic investments through our consolidated statements of income (loss). As such, we expect volatility to our net income (loss) 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 accounted for under the Measurement Alternative. These changes could be material based on market conditions. Additionally, the financial success of our investments in privately held companies is typically dependent on a liquidity event, such as a public offering, acquisition, private sale, or other favorable market event providing the ability to realize appreciation in the value of the investment. A hypothetical adverse change of 10% in the carrying value of our strategic investments as of December 31, 2022, which could be experienced in the near term, would have resulted in an incremental decrease of approximately $215 million to the carrying value of the portfolio. We review our non-marketable equity securities accounted for under the Measurement Alternative 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 purchases and sales of securities, and other publicly available data, for which we assess factors such as the investees’ financial condition and business outlook, industry performance, regulatory, economic, or technological environment, and other relevant events and factors affecting the investee.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The audited consolidated financial statements covering the years ended December 31, 2022, 2021, and 2020 and accompanying notes listed in Part IV, Item 15(a)(1) of this Form 10-K are included in this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on the evaluation of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), our principal executive officer and our principal financial officer have concluded that as of December 31, 2022, the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2022.

The effectiveness of our internal control over financial reporting as of December 31, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Form 10-K.

Changes in internal controls over financial reporting. There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference from our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2022.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2022.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2022.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2022.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from our Proxy Statement for our 2023 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2022.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of PayPal Holdings, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of PayPal Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of income (loss), of comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2022 listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on financial instruments in 2020.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loans Receivable

As described in Notes 1 and 11 to the consolidated financial statements, as of December 31, 2022, the Company recorded total loans and interest receivable of $7,431 million, net of an allowance of $598 million. The allowance for loans receivable is primarily based on expectations of credit losses based on historical lifetime loss data as well as macroeconomic forecasts applied to the portfolio. The loss models incorporate various portfolio attributes, as well as macroeconomic factors such as forecasted trends in unemployment, retail e-commerce sales, and household disposable income. The forecasted macroeconomic factors are sourced externally, using a single scenario to reflect the economic conditions applicable to a particular period. Management also includes qualitative adjustments that incorporate incremental information not captured in the expected credit loss models.

The principal considerations for our determination that performing procedures relating to the allowance for loans receivable is a critical audit matter are (i) the high degree of auditor subjectivity and effort in performing procedures and evaluating audit evidence relating to certain models which apply macroeconomic forecasts to estimate expected credit losses; and (ii) the audit effort involved in the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the allowance for loans receivable, including controls over certain models which apply macroeconomic forecasts to estimate expected credit losses. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in testing management's process for estimating the allowance for loans receivable. Testing management's process included (i) evaluating the appropriateness of the methodology and certain models; (ii) testing the completeness and accuracy of certain data used in the estimate; and (iii) evaluating the reasonableness of management's application of macroeconomic forecasts to estimate expected credit losses.

/s/ PricewaterhouseCoopers LLP
San Jose, California
February 9, 2023

We have served as the Company's auditor since 2000.

PayPal Holdings, Inc.
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2022	2021
	(In millions, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,776	$ 5,197
Short-term investments	3,092	4,303
Accounts receivable, net	963	800
Loans and interest receivable, net of allowances of $598 and $491 as of December 31, 2022 and 2021, respectively	7,431	4,846
Funds receivable and customer accounts	36,357	36,141
Prepaid expenses and other current assets	1,898	1,287
Total current assets	57,517	52,574
Long-term investments	5,018	6,797
Property and equipment, net	1,730	1,909
Goodwill	11,209	11,454
Intangible assets, net	788	1,332
Other assets	2,455	1,737
Total assets	$ 78,717	$ 75,803
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 126	$ 197
Funds payable and amounts due to customers	40,107	38,841
Accrued expenses and other current liabilities	4,055	3,755
Income taxes payable	813	236
Total current liabilities	45,101	43,029
Deferred tax liability and other long-term liabilities	2,925	2,998
Long-term debt	10,417	8,049
Total liabilities	58,443	54,076
Commitments and contingencies (Note 13)		
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,136 and 1,168 shares outstanding as of December 31, 2022 and 2021, respectively	—	—
Preferred stock, $0.0001 par value; 100 shares authorized, unissued	—	—
Treasury stock at cost, 173 and 132 shares as of December 31, 2022 and 2021, respectively	(16,079)	(11,880)
Additional paid-in-capital	18,327	17,208
Retained earnings	18,954	16,535
Accumulated other comprehensive income (loss)	(928)	(136)
Total equity	20,274	21,727
Total liabilities and equity	$ 78,717	$ 75,803

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

PayPal Holdings, Inc.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Year Ended December 31,		
	2022	2021	2020
	(In millions, except for per share amounts)		
Net revenues	$ 27,518	$ 25,371	$ 21,454
Operating expenses:			
Transaction expense	12,173	10,315	7,934
Transaction and credit losses	1,572	1,060	1,741
Customer support and operations	2,120	2,075	1,778
Sales and marketing	2,257	2,445	1,861
Technology and development	3,253	3,038	2,642
General and administrative	2,099	2,114	2,070
Restructuring and other charges	207	62	139
Total operating expenses	23,681	21,109	18,165
Operating income	3,837	4,262	3,289
Other income (expense), net	(471)	(163)	1,776
Income before income taxes	3,366	4,099	5,065
Income tax expense (benefit)	947	(70)	863
Net income (loss)	$ 2,419	$ 4,169	$ 4,202
Net income (loss) per share:			
Basic	$ 2.10	$ 3.55	$ 3.58
Diluted	$ 2.09	$ 3.52	$ 3.54
Weighted average shares:			
Basic	1,154	1,174	1,173
Diluted	1,158	1,186	1,187

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

PayPal Holdings, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2022	2021	2020
		(In millions)	
Net income (loss)	$ 2,419	$ 4,169	$ 4,202
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation adjustments (“CTA”)	(305)	(72)	(48)
Net investment hedges CTA (losses) gains, net	(25)	—	55
Tax benefit on net investment hedges CTA losses, net	6	—	—
Unrealized (losses) gains on cash flow hedges, net	(88)	522	(329)
Tax benefit (expense) on unrealized (losses) gains on cash flow hedges, net	4	(26)	4
Unrealized (losses) gains on investments, net	(504)	(98)	9
Tax benefit (expense) on unrealized (losses) gains on investments, net	120	22	(2)
Other comprehensive income (loss), net of tax	(792)	348	(311)
Comprehensive income (loss)	$ 1,627	$ 4,517	$ 3,891

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

PayPal Holdings, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Total Equity
				(In millions)			
Balances at December 31, 2019	1,173	$ (6,872)	$ 15,588	$ (173)	$ 8,342	$ 44	$ 16,929
Adoption of current expected credit loss standard	—	—	—	—	(178)	—	(178)
Net income	—	—	—	—	4,202	—	4,202
Foreign CTA	—	—	—	(48)	—	—	(48)
Net investment hedge CTA gain	—	—	—	55	—	—	55
Unrealized losses on cash flow hedges, net	—	—	—	(329)	—	—	(329)
Tax benefit on unrealized losses on cash flow hedges, net	—	—	—	4	—	—	4
Unrealized gains on investments, net	—	—	—	9	—	—	9
Tax expense on unrealized gains on investments, net	—	—	—	(2)	—	—	(2)
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	11	—	(365)	—	—	—	(365)
Common stock repurchased	(12)	(1,635)	—	—	—	—	(1,635)
Stock-based compensation	—	—	1,421	—	—	—	1,421
Balances at December 31, 2020	1,172	$ (8,507)	$ 16,644	$ (484)	$ 12,366	$ 44	$ 20,063
Net income	—	—	—	—	4,169	—	4,169
Foreign CTA	—	—	—	(72)	—	—	(72)
Unrealized gains on cash flow hedges, net	—	—	—	522	—	—	522
Tax expense on unrealized gains on cash flow hedges, net	—	—	—	(26)	—	—	(26)
Unrealized losses on investments, net	—	—	—	(98)	—	—	(98)
Tax benefit on unrealized losses on investments, net	—	—	—	22	—	—	22
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	11	—	(881)	—	—	—	(881)
Common stock repurchased	(15)	(3,373)	—	—	—	—	(3,373)
Stock-based compensation	—	—	1,445	—	—	—	1,445
Change in noncontrolling interest	—	—	—	—	—	(44)	(44)
Balances at December 31, 2021	1,168	$ (11,880)	$ 17,208	$ (136)	$ 16,535	$ —	$ 21,727
Net income	—	—	—	—	2,419	—	2,419
Foreign CTA	—	—	—	(305)	—	—	(305)
Net investment hedge CTA losses, net	—	—	—	(25)	—	—	(25)
Tax benefit on net investment hedges CTA losses, net	—	—	—	6	—	—	6
Unrealized losses on cash flow hedges, net	—	—	—	(88)	—	—	(88)
Tax benefit on unrealized losses on cash flow hedges, net	—	—	—	4	—	—	4
Unrealized losses on investments, net	—	—	—	(504)	—	—	(504)
Tax benefit on unrealized losses on investments, net	—	—	—	120	—	—	120
Common stock and stock-based awards issued, net of shares withheld for employee taxes	9	—	(195)	—	—	—	(195)
Common stock repurchased	(41)	(4,199)	—	—	—	—	(4,199)
Stock-based compensation	—	—	1,313	—	—	—	1,313
Other	—	—	1	—	—	—	1
Balances at December 31, 2022	1,136	$ (16,079)	$ 18,327	$ (928)	$ 18,954	$ —	$ 20,274

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

PayPal Holdings, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
		(In millions)	
Cash flows from operating activities:			
Net income (loss)	$ 2,419	$ 4,169	$ 4,202
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Transaction and credit losses	1,572	1,060	1,741
Depreciation and amortization	1,317	1,265	1,189
Stock-based compensation	1,261	1,376	1,376
Deferred income taxes	(811)	(482)	165
Net (gains) losses on strategic investments	304	(46)	(1,914)
Other	205	100	47
Changes in assets and liabilities:			
Accounts receivable	(163)	(222)	(100)
Transaction loss allowance for cash losses, net	(1,230)	(1,178)	(1,120)
Other current assets and non-current assets	118	(486)	(171)
Accounts payable	(35)	(31)	(4)
Income taxes payable	373	73	(230)
Other current liabilities and non-current liabilities	483	199	1,038
Net cash provided by operating activities	5,813	5,797	6,219
Cash flows from investing activities:			
Purchases of property and equipment	(706)	(908)	(866)
Proceeds from sales of property and equipment	5	5	120
Purchases and originations of loans receivable	(28,170)	(13,420)	(6,098)
Principal repayment of loans receivable	24,903	11,826	6,392
Purchases of investments	(20,219)	(40,116)	(41,513)
Maturities and sales of investments	23,411	39,698	30,908
Acquisitions, net of cash and restricted cash acquired	—	(2,763)	(3,609)
Funds receivable	(2,813)	193	(1,552)
Collateral posted related to derivative instruments, net	(19)	336	(327)
Other investing activities	187	—	—
Net cash used in investing activities	(3,421)	(5,149)	(16,545)
Cash flows from financing activities:			
Proceeds from issuance of common stock	143	162	137
Purchases of treasury stock	(4,199)	(3,373)	(1,635)
Tax withholdings related to net share settlements of equity awards	(336)	(1,036)	(521)
Borrowings under financing arrangements	3,475	272	6,966
Repayments under financing arrangements	(1,686)	(361)	(3,000)
Funds payable and amounts due to customers	1,498	3,572	10,597
Collateral received related to derivative instruments, net	(6)	207	(38)
Other financing activities	1	—	(52)
Net cash (used in) provided by financing activities	(1,110)	(557)	12,454
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(155)	(102)	169
Net change in cash, cash equivalents, and restricted cash	1,127	(11)	2,297
Cash, cash equivalents, and restricted cash at beginning of period	18,029	18,040	15,743
Cash, cash equivalents, and restricted cash at end of period	$ 19,156	$ 18,029	$ 18,040

PayPal Holdings, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Year Ended December 31,		
	2022	2021	2020
		(In millions)	
Supplemental cash flow disclosures:			
Cash paid for interest	$ 280	$ 231	$ 190
Cash paid for income taxes, net	$ 878	$ 474	$ 565
The table below reconciles cash, cash equivalents, and restricted cash as reported in the consolidated balance sheets to the total of the same amounts shown in the consolidated statements of cash flows:			
Cash and cash equivalents	$ 7,776	$ 5,197	$ 4,794
Short-term and long-term investments	17	109	24
Funds receivable and customer accounts	11,363	12,723	13,222
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 19,156	$ 18,029	$ 18,040

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

PayPal Holdings, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers worldwide. PayPal is committed to democratizing financial services to help improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. Our goal is to enable our merchants and consumers to manage and move their money anywhere in the world in the markets we serve, anytime, on any platform, and using any device when sending payments or getting paid, including person-to-person payments.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened focus by regulators globally on all aspects of the payments industry, including countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. The laws and regulations applicable to us, including those enacted prior to the advent of digital payments, continue to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including changes to their interpretation and implementation, 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. We monitor these areas closely and are focused on designing compliant solutions for our customers.

SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying 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. The noncontrolling interest reported in a prior period was a component of equity on our consolidated balance sheets and represented the equity interests not owned by PayPal, and was recorded for consolidated entities we controlled and of which we owned less than 100%. Noncontrolling interest was not presented separately on our consolidated statements of income (loss) as the amount was de minimis.

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 consolidated statements of income (loss). 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 consolidated statements of income (loss). Our investment balance is included in long-term investments on our consolidated balance sheets.

We determine at the inception of each investment, and re-evaluate if certain events occur, whether an entity in which we have made an investment is considered a variable interest entity ("VIE"). If we determine an investment is in a VIE, we then assess if we are the primary beneficiary, which would require consolidation.

As of December 31, 2021, we had consolidated two VIEs that provided financing for and held loans receivable of Paidy, Inc. ("Paidy"). We were the primary beneficiary of the VIEs as we performed the servicing and collection for the loans receivable, which were the activities that most significantly impacted the VIE's economic performance, and we had the obligation to absorb the losses and/or the right to receive the benefits of the VIE that could potentially be significant to these entities. The financial results of these VIEs were included in our consolidated financial statements. As of December 31, 2021, the carrying value of the assets and liabilities of our consolidated VIEs was included as short-term investments of $87 million, loans and interest receivable, net of $21 million, and long-term debt of $98 million. Cash of $87 million, included in short-term investments, was restricted to settle the debt obligations. In the first quarter of 2022, we terminated Paidy's legacy debt structure and replaced it with a new credit agreement executed in February 2022. As a result, we no longer have any consolidated VIEs as of December 31, 2022. See "Note 12—Debt" for additional information.

As of December 31, 2022 and December 31, 2021, the carrying value of our investments in nonconsolidated VIEs was $128 million and $74 million, respectively, and is included as non-marketable equity securities applying the equity method of accounting in long-term investments on our consolidated balance sheets. Our maximum exposure to loss related to our nonconsolidated VIEs, which represents funded commitments and any future funding commitments, was $232 million and $205 million as of December 31, 2022 and 2021, respectively.

In the opinion of management, these consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements for all periods presented. Certain amounts for prior years have been reclassified to conform to the financial statement presentation as of and for the year ended December 31, 2022.

Reclassifications

Beginning with the fourth quarter of 2022, we reclassified certain cash flows related to our collateral security arrangements for derivative instruments from cash flows from operating activities to cash flows from investing activities and cash flows from financing activities within the consolidated statements of cash flows. Prior period amounts have been reclassified to conform to the current period presentation.

The current period presentation classifies all changes in collateral posted and collateral received related to derivative instruments on our consolidated statements of cash flows as cash flows from investing activities and cash flows from financing activities, respectively. We believe that the current period presentation provides a more meaningful representation of the nature of the cash flows and allows for greater transparency as the cash flows related to the derivatives impact operating cash flows upon settlement exclusive of the offsetting cash flows from collateral.

The following tables present the effects of the changes on the presentation of these cash flows to the previously reported consolidated statements of cash flows:

	Year Ended December 31, 2021 (In millions)		
	As Previously Reported [1]	Adjustments	Reclassified
Net cash provided by (used in):			
Operating activities[2]	$ 6,340	$ (543)	$ 5,797
Investing activities[3]	(5,485)	336	(5,149)
Financing activities[4]	(764)	207	(557)
Effect of exchange rates on cash, cash equivalents, and restricted cash	(102)	—	(102)
Net decrease in cash, cash equivalents, and restricted cash	$ (11)	$ —	$ (11)

[1] As reported in our 2021 Form 10-K filed with the SEC on February 3, 2022.
[2] Financial statement lines impacted in operating activities were "Other current assets and non-current assets" and "Other current liabilities and non-current liabilities," which decreased by $336 million and $207 million, respectively, to arrive at the reclassified amounts.
[3] Financial statement line impacted in investing activities was "Collateral posted related to derivative instruments, net."
[4] Financial statement line impacted in financing activities was "Collateral received related to derivative instruments, net."

	Year Ended December 31, 2020 (In millions)		
	As Previously Reported [1]	Adjustments	Reclassified
Net cash provided by (used in):			
Operating activities[2]	$ 5,854	$ 365	$ 6,219
Investing activities[3]	(16,218)	(327)	(16,545)
Financing activities[4]	12,492	(38)	12,454
Effect of exchange rates on cash, cash equivalents, and restricted cash	169	—	169
Net increase in cash, cash equivalents, and restricted cash	$ 2,297	$ —	$ 2,297

[1] As reported in our 2021 Form 10-K filed with the SEC on February 3, 2022.
[2] Financial statement lines impacted in operating activities were "other current assets and non-current assets" and "other current liabilities and non-current liabilities," which increased by $327 million and $38 million, respectively, to arrive at the reclassified amounts.
[3] Financial statement line impacted in investing activities was "Collateral posted related to derivative instruments, net."
[4] Financial statement line impacted in financing activities was "Collateral received related to derivative instruments, net."

Use of estimates

The preparation of consolidated financial statements in conformity with United States ("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 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 credit losses, income taxes, loss contingencies, revenue recognition, the valuation of goodwill and intangible assets, and the valuation of strategic investments. We base our estimates on historical experience and various other assumptions which we believe to be reasonable under the circumstances. Actual results could materially differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments with original maturities of three months or less when purchased and are comprised of primarily bank deposits, government and agency securities, and commercial paper.

Investments

Short-term investments include time deposits and available-for-sale debt securities with original maturities of greater than three months but less than one year when purchased or maturities of one year or less on the reporting date. Long-term investments include time deposits and available-for-sale debt securities with maturities exceeding one year on the reporting date, as well as our strategic investments. Our available-for-sale debt securities are reported at fair value using the specific identification method. Unrealized gains and losses are reported as a component of other comprehensive income (loss), net of related estimated tax provisions or benefits.

We elect to account for available-for-sale debt securities denominated in currencies other than the functional currency of our subsidiaries, underlying funds receivable and customer accounts, short-term investments, and long-term investments, under the fair value option as further discussed in "Note 9—Fair Value Measurement of Assets and Liabilities." The changes in fair value related to initial measurement and subsequent changes in fair value are included in earnings as a component of other income (expense), net.

Our strategic investments consist of marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. Marketable equity securities have readily determinable fair values with changes in fair value recorded in other income (expense), net. Non-marketable equity securities include investments that do not have a readily determinable fair value, as well as equity method investments. The investments that do not have readily determinable fair value are measured at cost minus impairment, if any, and are adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment in the same issuer (the “Measurement Alternative”). Non-marketable equity securities also include our investments where we have the ability to exercise significant influence, but not control, over the investee and account for these securities using the equity method of accounting. All gains and losses on these investments, realized and unrealized, and our share of earnings or losses from investments accounted for using the equity method are recognized in other income (expense), net on our consolidated statements of income (loss).

We assess whether an impairment loss on our non-marketable, measurement alternative investments has occurred based on qualitative factors such as the companies’ financial condition and business outlook, industry performance, regulatory, economic or technological environment, and other relevant events and factors affecting the company. We assess whether an other-than-temporary impairment loss on our equity method investments has occurred due to declines in fair value or other market conditions. When indicators of impairment exist, we estimate the fair value of our non-marketable equity securities using the market approach and/or the income approach. Estimating fair value requires judgment and use of estimates such as discount rates, forecasted cash flows, and market data of comparable companies, among others. If any impairment is identified for non-marketable equity securities or impairment is considered other-than-temporary for our equity method investments, we write down the investment to its fair value and record the corresponding charge through other income (expense), net in our consolidated statements of income (loss). Our available-for-sale debt securities in an unrealized loss position are written down to fair value through a charge to other income (expense), net in our consolidated statements of income (loss) if we intend to sell the security or it is more likely than not we will be required to sell the security before recovery of its amortized cost basis. For the remaining available-for-sale debt securities in an unrealized loss position, if we identify that the decline in fair value has resulted from credit losses, taking into consideration changes to the rating of the security by rating agencies, implied yields versus benchmark yields, and the extent to which fair value is less than amortized cost, among other factors, we estimate the present value of cash flows expected to be collected. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Any portion of impairment not related to credit losses is recognized in other comprehensive income (loss).

Loans and interest receivable, net

Loans and interest receivable, net represents merchant receivables originated under our PayPal Working Capital (“PPWC”) product and PayPal Business Loan (“PPBL”) product and consumer loans originated under our PayPal Credit and installment credit products. PayPal Credit consists of revolving credit products.

In the U.S., PPWC, PPBL, and consumer interest-bearing installment products are provided under a program agreement we have with an independent chartered financial institution (“partner institution”). The partner institution extends credit to merchants for the PPWC and PPBL products and to consumers for interest-bearing installment products and we purchase the related receivables originated by the partner institution. For our merchant finance products outside the U.S., we extend working capital advances and loans in Europe through our Luxembourg banking subsidiary, and working capital loans in Australia through an Australian subsidiary. In the U.S., we extend certain short-term, interest-free, installment loans to consumers through a U.S. subsidiary. For our international consumer credit products, we extend credit in Europe through our Luxembourg banking subsidiary, and in Australia and Japan, through local subsidiaries.

As part of our arrangement with the partner institution in the U.S., we sell back a participation interest in the pool of receivables for the PPWC, PPBL, and consumer interest-bearing installment products. The partner institution has no recourse against us related to their participation interests for failure of debtors to pay when due. The participation interests held by the partner institution have the same priority to the interests held by us and are subject to the same credit, prepayment, and interest rate risk associated with this pool of receivables. All risks of loss are shared pro rata based on participation interests held among all participating stakeholders. We account for the asset transfer as a sale and derecognize the portion of the participation interests for which control has been surrendered. For this arrangement, gains or losses on the sale of the participation interests are not material as the carrying amount of the participation interest sold approximates the fair value at time of transfer.

In certain instances where a merchant is able to demonstrate that it is experiencing financial difficulty, there may be a modification of the loan or advance and the related interest or fee receivable for which it is probable that, without modification, we would be unable to collect all amounts due, therefore resulting in a troubled debt restructuring ("TDR"). Refer to "Note 11—Loans and Interest Receivable" for further information related to TDRs.

Loans, advances, and interest and fees receivable are reported at their outstanding balances, net of any participation interests sold and unamortized deferred origination costs. We maintain the servicing rights for the entire pool of consumer and merchant receivables outstanding and receive a market-based service fee for servicing the assets underlying the participation interest sold.

We offer both revolving and installment credit products to our consumers. The terms of our consumer relationships require us to submit monthly bills to the consumer detailing loan repayment requirements. The terms also allow us to charge the consumer interest and fees in certain circumstances. Due to the relatively small dollar amount of individual loans and interest receivable, we do not require collateral on these balances.

Another partner institution is the exclusive issuer of the PayPal Credit consumer financing program in the U.S. We do not hold an ownership interest in the receivables generated through the program and therefore, do not record these receivables on our consolidated financial statements. PayPal earns a revenue share on the portfolio of consumer receivables owned by the partner institution, which is recorded in revenues from other value added services on our consolidated statements of income (loss).

Allowance for loans and interest receivable

The allowance for loans and interest receivable represents our estimate of current expected credit losses inherent in our portfolio of loans and interest receivables. Increases to the allowance for loans receivable are reflected as a component of transaction and credit losses on our consolidated statements of income (loss). Increases to the allowance for interest and fees receivable are reflected as a reduction of net revenues on our consolidated statements of income (loss), or as a reduction of deferred revenue when interest and fees are billed at the inception of a loan or advance. The evaluation process to assess the adequacy of allowances is subject to numerous estimates and judgments.

The Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("CECL") effective January 1, 2020.

The allowance for merchant loans, advances, and interest and fees receivable is primarily based on expectations of credit losses based on historical lifetime loss data as well as macroeconomic forecasts applied to the portfolio. In the third quarter of 2022, our expected credit loss models for our merchant receivables were updated. These changes did not have a material impact on our provision recorded in the year ended December 31, 2022. The merchant loss models incorporate various portfolio attributes including geographic region, first borrowing versus repeat borrowing, delinquency, internally developed risk ratings, and vintage, as well as macroeconomic factors such as forecasted trends in unemployment and retail e-commerce sales (and through the second quarter of 2022, benchmark credit card charge-off rates.) The forecasted macroeconomic factors are sourced externally, using a single scenario that we believe is most appropriate to the economic conditions applicable to a particular period. The reasonable and supportable forecast period for merchant products that we have included in our projected loss rates for 2022 and 2021, which approximates the estimated life of the loans, is approximately 2.5 to 3.5 years. Projected loss rates, inclusive of historical loss data and macroeconomic factors, are applied to the principal amount of our merchant receivables. We also include qualitative adjustments that incorporate incremental information not captured in the quantitative estimates of our current expected credit losses. The allowance for current expected credit losses on interest and fees receivable is determined primarily by applying loss curves to each portfolio by geography, delinquency, and period of origination, among other factors.

The allowance for consumer loans and interest receivable is primarily based on expectations of credit losses based on historical lifetime loss data. The allowance for loans and interest receivable for our revolving credit product also incorporates macroeconomic forecasts applied to the portfolio. The consumer loss models incorporate various portfolio attributes including geographic region, loan term, delinquency, credit rating, vintage, and for the revolving credit portfolio macroeconomic factors such as forecasted trends in unemployment and household disposable income. The forecasted macroeconomic factors are sourced externally, using a single scenario that we believe is most appropriate to the economic conditions applicable to a particular period. The reasonable and supportable forecast period for revolving products and installment products that we have included in our projected loss rates for 2022, which approximates the estimated life of the loans, is approximately 2 years and approximately 7 months to 3.5 years, respectively. In 2021, the reasonable and supportable forecast periods were consistent with 2022 except for installment products, which had an estimated life of 7 months to 2.5 years. Projected loss rates, inclusive of historical loss data and, for the revolving credit portfolio macroeconomic factors, are derived based on and applied to the principal amount of our consumer receivables. We also include qualitative adjustments that incorporate incremental information not captured in the quantitative estimates of our current expected credit losses, such as expectations of macroeconomic conditions not captured in the loss models for our installment products. The allowance for current expected credit losses on interest and fees receivable is determined primarily by applying loss curves to each portfolio by geography, delinquency, and period of origination, among other factors.

Customer accounts

We hold all customer balances, both in the U.S. and internationally, as direct claims against us which are reflected on our consolidated balance sheets as a liability classified as amounts due to customers. Certain jurisdictions where PayPal operates require us to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all customer balances. Therefore, we restrict the use of the assets underlying the customer balances to meet these regulatory requirements and separately classify the assets as customer accounts in our consolidated balance sheets. We classify the assets underlying the customer balances as current based on their purpose and availability to fulfill our direct obligation under amounts due to customers. Customer funds for which PayPal is an agent and custodian on behalf of our customers are not reflected on our consolidated balance sheets. These funds include U.S. dollar funds which are deposited at one or more third-party financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") and are eligible for FDIC pass-through insurance (subject to applicable limits).

Under applicable accounting standards, we are an agent when facilitating cryptocurrency transactions on behalf of our customers. Cryptocurrencies held on behalf of our customers are not PayPal's assets and therefore, are not reflected as cryptocurrency assets on our consolidated balance sheets; however, we recognize a crypto asset safeguarding liability with a corresponding safeguarding asset to reflect our obligation to safeguard the cryptocurrencies held on behalf of our customers.

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 fund European and U.S. credit activities. In August 2022, the CSSF approved PayPal's management designating up to 50% of such balances to fund our credit activities through the end of February 2023. During the year ended December 31, 2022, an additional $1.1 billion was approved to fund our credit activities. As of December 31, 2022, the cumulative amount approved by management to be designated to fund credit activities aggregated to $3.8 billion and represented approximately 37% of European customer balances made available for our corporate use at that date as determined by applying financial regulations maintained by the CSSF. At the time PayPal's management designates the European customer balances held in our Luxembourg banking subsidiary to be used to extend credit, the balances are classified as cash and cash equivalents and no longer classified as customer accounts on our consolidated balance sheets. The remaining assets underlying the customer balances remain separately classified as customer accounts on our consolidated balance sheets. We identify these customer accounts separately from corporate funds and maintain them in interest and non-interest bearing bank deposits, time deposits, and available-for-sale debt securities. Customer balances deposited with our partners on a short-term basis in advance of customer transactions and used to fulfill our direct obligation under amounts due to customers are classified as cash and cash equivalents within our customer accounts classification on our consolidated balance sheets. See "Note 8—Funds Receivable and Customer Accounts and Investments" for additional information related to customer accounts.

We present changes in funds receivable and customer accounts as cash flows from investing activities in our consolidated statements of cash flows based on the nature of the activity underlying our customer accounts.

Funds receivable and funds payable

Funds receivable and funds payable arise due to the time required to initiate collection from and clear transactions through external payment networks. When customers fund their PayPal account using their bank account, credit card, debit card, or withdraw funds from their PayPal account to their bank account or through a debit card transaction, there is a clearing period before the cash is received or settled, usually one to three business days for U.S. transactions and generally up to five business days for international transactions. In addition, a portion of our customers' funds are settled directly to their bank account. These funds are also classified as funds receivable and funds payable and arise due to the time required to initiate collection from and clear transactions through external payment networks.

Property and equipment

Property and equipment consists primarily of computer equipment, software and website development costs, land and buildings, leasehold improvements, and furniture and fixtures. Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets; generally, one to four years for computer equipment and software, including capitalized software and website development costs, three years for furniture and fixtures, up to 30 years for buildings and building improvements, and the shorter of five years or the non-cancelable term of the lease for leasehold improvements.

Direct costs incurred to develop software for internal use and website development costs, including those costs incurred in expanding and enhancing our payments platform, are capitalized and amortized generally over an estimated useful life of three years and are recorded as amortization within the financial statement captions aligned with the internal organizations that are the primary beneficiaries of such assets. We capitalized $511 million and $462 million of internally developed software and website development costs for the years ended December 31, 2022 and 2021, respectively. Amortization expense for these capitalized costs was $426 million, $366 million, and $322 million for the years ended December 31, 2022, 2021, and 2020, respectively. Costs related to the maintenance of internal use software and website development costs are expensed as incurred.

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 current liabilities and deferred tax liability and other long-term liabilities on our consolidated balance sheets. For sale-leaseback transactions, we evaluate the sale and the lease arrangement based on our conclusion as to whether control of the underlying asset has been transferred, and recognize the sale-leaseback as either a sale transaction or under the financing method. The financing method requires the asset to remain on our consolidated balance sheets throughout the term of the lease and the proceeds to be recognized as a financing obligation.

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 and therefore we use an incremental borrowing rate for specific terms on a collateralized basis using 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. When we reach a decision to exercise a lease renewal or termination option, we recognize the associated impact to the ROU asset and lease liability. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

We evaluate ROU assets related to leases for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an ROU asset may not be recoverable. When a decision has been made to exit a lease prior to the contractual term or to sublease that space, we evaluate the asset for impairment and recognize the associated impact to the ROU asset and related expense, if applicable. The evaluation is performed at the asset group level initially and when appropriate, at the lowest level of identifiable cash flows, which is at the individual lease level. Undiscounted cash flows expected to be generated by the related ROU assets are estimated over the ROU assets' useful lives. If the evaluation indicates that the carrying amount of the ROU assets may not be recoverable, any potential impairment is measured based upon the fair value of the related ROU asset or asset group as determined by appropriate valuation techniques.

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, where applicable. In addition, we have elected to apply the practical expedients related to lease classification, hindsight, and land easement. We apply a single portfolio approach to account for the ROU assets and lease liabilities.

Goodwill and intangible assets

Goodwill is tested for impairment, at a minimum, on an annual basis at the reporting unit level by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The fair value of the reporting unit may be estimated using income and market approaches. The discounted cash flow method, a form of the income approach, uses expected future operating results and a market participant discount rate. The market approach uses comparable company prices and other relevant information generated by market transactions (either publicly traded entities or mergers and acquisitions) to develop pricing metrics to be applied to historical and expected future operating results of the reporting unit. Failure to achieve these expected results, changes in the discount rate, or market pricing metrics may cause a future impairment of goodwill at the reporting unit level. We conducted our annual impairment test of goodwill as of August 31, 2022 and 2021. We determined that no adjustment to the carrying value of goodwill of our reporting unit was required. As of December 31, 2022, we determined that no events occurred, or circumstances changed from August 31, 2022 through December 31, 2022 that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Intangible assets consist of acquired customer list and user base intangible assets, marketing related intangibles, developed technology, and other intangible assets. Intangible assets are amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from two to seven years. No significant residual value is estimated for intangible assets.

Impairment of long-lived assets

We evaluate long-lived assets (including intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future undiscounted cash flow the asset is expected to generate.

Allowance for transaction losses

We are exposed to transaction losses due to credit card and other payment misuse as well as nonperformance from sellers who accept payments through PayPal. We establish an allowance for estimated losses arising from completing customer transactions, such as chargebacks for unauthorized credit card use and merchant-related chargebacks due to non-delivery or unsatisfactory delivery of purchased items, purchase protection program claims, and account takeovers. This allowance represents an accumulation of the estimated amounts of probable transaction losses as of the reporting date, including those which we have not yet identified. The allowance is monitored regularly and is updated based on actual loss data. The allowance is based on known facts and circumstances, internal factors including experience with similar cases, historical trends involving loss payment patterns, and the mix of transaction and loss types, as applicable. Additions to the allowance are reflected as a component of transaction and credit losses on our consolidated statements of income (loss). The allowance for transaction losses is included in accrued expenses and other current liabilities on our consolidated balance sheets.

Allowance for negative customer balances

Negative customer balances occur primarily when there are insufficient funds in a customer's PayPal account to cover charges applied for Automated Clearing House returns, debit card transactions, and merchant-related chargebacks due to non-delivery or unsatisfactory delivery of purchased items, which are generally within the scope of our protection programs. Negative customer balances can be cured by the customer by adding funds to their account, receiving payments, or through back-up funding sources. We also utilize third-party collection agencies. For negative customer balances that are not expected to be cured or otherwise collected, we provide an allowance for expected losses. The allowance represents expected losses based on historical trends involving collection and write-off patterns, internal factors including our experience with similar cases, other known facts and circumstances, and reasonable and supportable macroeconomic forecasts, as applicable. Loss rates are derived using historical loss data for each delinquency bucket using a roll rate model that captures the losses and the likelihood that a negative customer balance will be written off as the delinquency age of such balance increases. The loss rates are then applied to the outstanding negative customer balances. Once the quantitative calculation is performed, we review the adequacy of the allowance and determine if qualitative adjustments need to be considered. We write-off negative customer balances in the month in which the balance becomes outstanding for 120 days. Write-offs that are recovered are recorded as a reduction to our allowance for negative customer balances. Negative customer balances are included in other current assets, net of the allowance on our consolidated balance sheets. Adjustments to the allowance for negative customer balances are recorded as a component of transaction and credit losses on our consolidated statements of income (loss).

Derivative instruments

See "Note 10—Derivative Instruments" for information related to the derivative instruments.

Fair value measurements

We measure certain financial assets and liabilities at fair value on a recurring basis and certain financial and non-financial assets and liabilities at fair value on a non-recurring basis when a change in fair value or impairment is evidenced. Fair value is defined as the price received to sell an asset or paid to transfer a liability in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is estimated by maximizing the use of observable inputs and minimizing the use of unobservable inputs. The categorization within the following three-level fair value hierarchy for our recurring and non-recurring fair value measurements is based upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 - Observable inputs, such as unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be market-corroborated.
- Level 3 - Unobservable inputs that cannot be directly corroborated by observable market data and that typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

See "Note 9—Fair Value Measurement of Assets and Liabilities" for additional information related to our fair value measurements.

Crypto asset safeguarding liability and corresponding safeguarding asset

See "Note 7—Other Financial Statement Details" for information related to our crypto asset safeguarding liability and corresponding safeguarding asset.

Concentrations of risk

Our cash, cash equivalents, short-term investments, accounts receivable, loans and interest receivable, net, funds receivable and customer accounts, long-term investments, and long-term notes receivable, are potentially subject to concentration of credit risk. Cash, cash equivalents, and customer accounts are placed with financial institutions that management believes are of high credit quality. In addition, funds receivable are generated primarily with financial institutions which management believes are of high credit quality. We invest our cash, cash equivalents, and customer accounts primarily in highly liquid, highly rated instruments which are uninsured. We have corporate deposit balances with financial services institutions which exceed the FDIC insurance limit of $250,000. As part of our cash management process, we perform periodic evaluations of the relative credit standing of these financial institutions. Our accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. Our loans and interest receivable are derived from merchant and consumer financing activities for customers located in the U.S. and internationally. Our long-term notes receivable is derived from deferred proceeds associated with the sale of our U.S. consumer credit receivables portfolio to a partner institution in 2018. As of December 31, 2022 and 2021, one customer accounted for 20% and 25% of net accounts receivables, respectively. No customer accounted for more than 10% of net loans receivable as of December 31, 2022 and 2021. At December 31, 2022 and 2021, one partner institution accounted for our long-term notes receivable balance, which represented 18% and 22% of other assets, respectively. During the years ended December 31, 2022, 2021, and 2020, no customer accounted for more than 10% of net revenues. During the years ended December 31, 2022, 2021, and 2020, we earned approximately 2%, 6%, and 13% of revenue, respectively, from customers on eBay's Marketplaces platform. No other source of revenue represented more than 10% of our revenue.

Revenue recognition

See "Note 2—Revenue" for information related to our revenue recognition.

Advertising expense

We expense the cost of producing advertisements at the time production occurs and expense the cost of communicating advertisements in the period during which the advertising space or airtime is used as sales and marketing expense. Online advertising expenses are recognized based on the terms of the individual agreements, which are generally over the greater of the ratio of the number of impressions delivered over the total number of contracted impressions, on a pay-per-click basis, or on a straight-line basis over the term of the contract. Advertising expense totaled $518 million, $740 million, and $654 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Defined contribution savings plans

We have a defined contribution savings plan in the U.S. which qualifies under Section 401(k) of the Internal Revenue Code ("Code"). Our non-U.S. employees are covered by other savings plans. Expenses related to our defined contribution savings plans are recorded when services are rendered by our employees.

Stock-based compensation

We determine compensation expense associated with restricted stock units, performance based restricted stock units, and restricted stock awards based on the estimated fair value of our common stock on the date of grant. We determine compensation expense associated with stock options based on the estimated grant date fair value method using the Black-Scholes valuation model. We generally recognize compensation expense using a straight-line amortization method over the respective vesting period for awards that are ultimately expected to vest. Accordingly, stock-based compensation expense for the years ended December 31, 2022, 2021, and 2020 has been reduced for estimated forfeitures. When estimating forfeitures, we consider voluntary termination behavior of our employees as well as trends of actual forfeitures.

Foreign currency

Many of our foreign subsidiaries have designated the local currency of their respective countries as their functional currency. Assets and liabilities of our non-U.S. dollar functional currency subsidiaries are translated into U.S. dollars at exchange rates prevailing at the balance sheet dates. Revenues and expenses of our non-U.S. dollar functional currency subsidiaries are translated into U.S. dollars using daily exchange rates. Gains and losses resulting from these translations are recorded as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains and losses from the remeasurement of foreign currency transactions into the functional currency are recognized as other income (expense), net in our consolidated statements of income (loss).

Income taxes

We account for income taxes using an asset and liability approach which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. If necessary, the measurement of deferred tax assets is reduced by the amount of any tax benefits that are not expected to be realized based on available evidence. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense. We account for Global Intangible Low-Taxed Income as a current-period expense when incurred.

Other income (expense), net

Other income (expense), net includes: (i) interest income, which consists of interest earned on corporate cash and cash equivalents and short-term and long-term investments, (ii) interest expense, which consists of interest expense, fees, and amortization of debt discount on our long-term debt (including current portion) and credit facilities, (iii) realized and unrealized gains (losses) on strategic investments, which includes changes in fair value related to our marketable equity securities and observable price changes and impairments on our non-marketable equity securities, and (iv) other, which primarily includes foreign currency exchange gains and losses due to remeasurement of certain foreign currency denominated monetary assets and liabilities, and fair value changes on the derivative contracts not designated as hedging instruments.

Recent accounting guidance

In March 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02, *Troubled Debt Restructurings ("TDRs")* and *Vintage Disclosures* (Topic 326): *Financial Instruments – Credit Losses*. This amended guidance will eliminate the accounting designation of a loan modification as a TDR, including eliminating the measurement guidance for TDRs. The amendments also enhance existing disclosure requirements and introduce new requirements related to modifications of receivables due from borrowers experiencing financial difficulty. Additionally, this guidance requires entities to disclose gross write-offs by year of origination for financing receivables, such as loans and interest receivable. The amended guidance is effective for fiscal years beginning after December 15, 2022 and is required to be applied prospectively, except for the recognition and measurement of TDRs, which can be applied on a modified retrospective basis. We have concluded that our financial statements were not materially impacted upon adoption. We adopted this guidance effective January 1, 2023 on a prospective basis and will provide additional disclosures as required.

Recently adopted accounting guidance

In March 2022, the SEC released Staff Accounting Bulletin No. 121 (“SAB 121”), which provides guidance for an entity to consider when it has obligations to safeguard customers’ crypto assets, whether directly or through an agent or another third party acting on its behalf. The interpretive guidance requires a reporting entity to record a liability to reflect its obligation to safeguard the crypto assets held for its platform users with a corresponding safeguarding asset. The crypto asset safeguarding liability and the corresponding safeguarding asset will be measured at the fair value of the crypto assets held for the platform users with the measurement of the safeguarding asset taking into account any potential loss events. SAB 121 also requires disclosures related to the entity’s safeguarding obligations for crypto assets held for its platform users. SAB 121 was effective in the first interim or annual financial statements ending after June 15, 2022 with retrospective application as of the beginning of the fiscal year. We adopted this guidance for the quarter ended June 30, 2022 with retrospective application as of January 1, 2022. As of June 30, 2022, we recorded $596 million for both the crypto asset safeguarding liability and corresponding safeguarding asset, which were classified as accrued expenses and other current liabilities and prepaid expenses and other current assets, respectively, on our condensed consolidated balance sheet. For additional information, see “Note 7—Other Financial Statement Details.”

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

NOTE 2—REVENUE

We enable our 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.

TRANSACTION REVENUES

We earn transaction revenues primarily from fees paid by our customers to receive payments on our platform. These fees may have a fixed and variable component. The variable component is generally a percentage of the value of the payment amount and is known at the time the transaction is processed. For a portion of our transactions, the variable component of the fee is eligible for reimbursement when the underlying transaction is approved for a refund. We estimate the amount of fee refunds that will be processed each quarter and record a provision against our transaction revenues. The volume of activity processed on our payments platform, which results in transaction revenue, is referred to as Total Payment Volume (“TPV”). We earn additional fees from merchants and consumers on transactions where we perform currency conversion, when we enable cross-border transactions (i.e., transactions where the merchant and consumer are in different countries), to facilitate the instant transfer of funds for our customers from their PayPal or Venmo account to their bank account or debit card, to facilitate the purchase and sale of cryptocurrencies, as contractual compensation from sellers that violate our contractual terms (for example, through fraud or counterfeiting), and other miscellaneous fees. Our transaction revenues are also reduced by certain incentives provided to our customers.

Our contracts with our customers are usually open-ended and can be terminated by either party without a termination penalty after the notice period has lapsed. Therefore, our contracts are defined at the transaction level and do not extend beyond the service already provided. Our contracts generally renew automatically without any significant material rights. Some of our contracts include tiered pricing, which are based primarily on volume. The fee charged per transaction is adjusted up or down if the volume processed for a specified period is different from prior period defined volumes. We have concluded that this volume-based pricing approach does not constitute a future material right since the discount is within a range typically offered to a class of customers with similar volume. We do not have any capitalized contract costs and we do not carry any material contract balances.

Our primary service comprises a single performance obligation to complete payments on our payments platform for our customers. Using our risk assessment tools, we perform a transaction risk assessment on individual transactions to determine whether a transaction should be authorized for completion on our payments platform. When we authorize a transaction, we become obligated to our customer to complete the payment transaction.

We recognize fees charged to our customers primarily on a gross basis as transaction revenue when we are the principal in respect of completing a payment transaction. As a principal to the transaction, we control the service of completing payments on our payments platform. We bear primary responsibility for the fulfillment of the payment service, contract directly with our customers, control the product specifications, and define the value proposal from our services. Further, we have full discretion in determining the fee charged to our customers, which is independent of the costs we incur in instances where we may utilize payment processors or other financial institutions to perform services on our behalf. We therefore bear full margin risk when completing a payment transaction. These fees paid to payment processors and other financial institutions are recognized as transaction expense. We are also responsible for providing customer support.

To promote engagement and acquire new users on our platform, we may provide incentives to merchants and consumers in various forms including discounts on fees, rebates, rewards, and coupons. Evaluating whether an incentive is a payment to a customer requires judgment. Incentives that are determined to be consideration payable to a customer or paid on behalf of a customer are recognized as a reduction of revenue. Certain incentives paid to users that are not our customers are classified as sales and marketing expense.

We provide merchants and consumers with protection programs for certain transactions completed on our payments platform. These programs are intended to protect both merchants and consumers from loss primarily due to fraud and counterparty performance. These protection programs do not provide a separate service to our customers and we estimate and record associated costs in transaction and credit losses during the period the payment transaction is completed.

REVENUES FROM OTHER VALUE ADDED SERVICES

We earn revenues from other value added services, which are comprised primarily of revenue earned through partnerships, referral fees, subscription fees, gateway fees, and other services that we provide to our merchants and consumers. These contracts typically have one performance obligation which is provided and recognized over the term of the contract. The transaction price is generally fixed and known at the end of each reporting period; however, for some agreements, it may be necessary to estimate the transaction price using the expected value method. Revenue earned from other value added services is recorded on a net basis when we are considered the agent with respect to processing transactions.

We also earn revenues from interest and fees earned on our portfolio of loans receivable and interest earned on certain assets underlying customer balances. Interest and fees earned on the portfolio of loans receivable are computed and recognized based on the effective interest method and are presented net of any required reserves and amortization of deferred origination costs.

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 regularly reviews our operating results on a consolidated basis. We operate as 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 are most appropriately depicted through our primary geographical markets and types of revenue categories (transaction revenues and revenues from other value added services). Revenues recorded within these categories are earned from similar products and services for which the nature of associated fees and the related revenue recognition models are substantially the same.

The following table presents our revenue disaggregated by primary geographical market and category:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Primary geographical markets			
U.S.	$ 15,807	$ 13,712	$ 11,013
United Kingdom ("U.K.")	2,071	2,340	2,340
Other countries[1]	9,640	9,319	8,101
Total net revenues[2]	$ 27,518	$ 25,371	$ 21,454
Revenue category			
Transaction revenues	$ 25,206	$ 23,402	$ 19,918
Revenues from other value added services	2,312	1,969	1,536
Total net revenues[2]	$ 27,518	$ 25,371	$ 21,454

[1] No single country included in the other countries category generated more than 10% of total revenue.
[2] Total net revenues include $1.3 billion, $425 million, and $597 million for the years ended December 31, 2022, 2021, and 2020, respectively, which do not represent revenues recognized in the scope of Accounting Standards Codification Topic 606, *Revenue from contracts with customers*. Such revenues relate to interest and fees earned on loans and interest receivable, as well as hedging gains or losses, and interest earned on certain assets underlying customer balances.

Net revenues are attributed to the country in which the party paying our PayPal fee is located.

NOTE 3—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) 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 (loss) per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive common shares. During periods when we report net loss, diluted net loss per share is the same as basic net loss per share because the effects of potentially dilutive items would decrease the net loss per share.

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

	Year Ended December 31,		
	2022	2021	2020
	(In millions, except per share amounts)		
Numerator:			
Net income (loss)	$ 2,419	$ 4,169	$ 4,202
Denominator:			
Weighted average shares of common stock—basic	1,154	1,174	1,173
Dilutive effect of equity incentive awards	4	12	14
Weighted average shares of common stock—diluted	1,158	1,186	1,187
Net income (loss) per share:			
Basic	$ 2.10	$ 3.55	$ 3.58
Diluted	$ 2.09	$ 3.52	$ 3.54
Common stock equivalents excluded from net income (loss) per diluted share because their effect would have been anti-dilutive or potentially dilutive	13	2	1

NOTE 4—BUSINESS COMBINATIONS

There were no acquisitions accounted for as business combinations or divestitures completed in 2022.

ACQUISITIONS COMPLETED IN 2021

During the year ended December 31, 2021, we completed five acquisitions reflecting 100% of the equity interests of the acquired companies, for an aggregate purchase price of $3.1 billion.

Paidy

We completed the acquisition of Paidy in October 2021 by acquiring all outstanding shares for total consideration of approximately $2.7 billion, consisting of approximately $2.6 billion in cash and approximately $161 million in assumed restricted stock and restricted stock units, subject to vesting conditions. Paidy is a two-sided payments platform that primarily provides buy now, pay later solutions (installment credit offerings) in Japan. With the acquisition of Paidy, we expanded our capabilities and relevance in Japan.

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

	(In millions)
Goodwill	$ 1,897
Customer lists and user base	512
Marketing related	83
Developed technology	47
Total intangibles	$ 642
Loans and interest receivable, net	197
Cash and cash equivalents	102
Other net assets	87
Short-term and long-term debt	(188)
Deferred tax liabilities, net	(166)
Total purchase price	$ 2,571

The intangible assets acquired consist primarily of merchant contracts, trade names/trademarks, and developed technology with estimated useful lives of three to seven years. Contractual gross loans and interest receivable acquired were $216 million. We expect to collect substantially all of these receivables. The excess of the purchase consideration, including the fair value of our equity investment, over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill and is attributable to the workforce of Paidy and the synergies expected to arise from the acquisition, including continued customer acquisition. Goodwill was not deductible for income tax purposes.

In connection with the acquisition, we issued restricted stock and restricted stock units with an approximate grant date fair value of $161 million, which represents post-business combination expense. The equity granted is a combination of shares issued to certain former Paidy employees subject to a holdback arrangement and assumed Paidy employee equity grants, which vest over a period of up to approximately four years subject to continued employment.

Other acquisitions

In 2021, we completed four other acquisitions accounted for as business combinations. The total purchase price for these acquisitions was $542 million, consisting primarily of cash consideration. The allocation of purchase consideration resulted in approximately $90 million of technology, customer, and marketing-related intangible assets with estimated useful lives ranging from approximately one to seven years, net assets of $17 million, and goodwill of approximately $435 million attributable to the workforce of the acquired companies and the synergies expected to arise from these acquisitions, including the integration of the acquired technology with our existing product offerings. Goodwill was not considered deductible for income tax purposes.

ACQUISITIONS COMPLETED IN 2020

During the year ended December 31, 2020, we completed one acquisition reflecting 100% of the equity interests of the acquired company, for a purchase price of $3.6 billion.

Honey Science Corporation

We completed our acquisition of Honey Science Corporation ("Honey") in January 2020 by acquiring all outstanding shares for total consideration of approximately $4.0 billion, consisting of approximately $3.6 billion in cash and approximately $400 million in assumed restricted stock, restricted stock units, and stock options, subject to vesting conditions. Honey was acquired to enhance our value proposition by allowing us to further simplify and personalize shopping experiences for consumers while driving conversion and increasing consumer engagement and sales for merchants.

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

	(In millions)
Goodwill	$ 2,962
Customer lists and user base	115
Marketing related	30
Developed technology	572
Total intangibles	$ 717
Accounts receivable, net	50
Deferred tax liabilities, net	(58)
Other net liabilities	(36)
Total purchase price	$ 3,635

The intangible assets acquired consist primarily of customer contracts, trade name/trademarks, and developed technology with estimated useful lives of three years. The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill and is attributable to the workforce of Honey and the synergies expected to arise from the acquisition through continued customer acquisition, cross selling initiatives, and product enhancements. Goodwill was not deductible for income tax purposes.

In connection with the acquisition, we assumed restricted stock, restricted stock units, and options with an approximate grant date fair value of $400 million, which represents post-business combination expense. The equity granted was a combination of shares issued to certain former Honey employees subject to a holdback arrangement and assumed Honey employee grants, which vest over a period of up to four years and are subject to continued employment.

OTHER INFORMATION

Prior to acquisition, we held minority interests in certain of the companies we acquired in 2021. We remeasured these investments immediately before the completion of the respective acquisitions at a total acquisition-date fair value of $64 million, which resulted in an aggregate gain of $36 million recognized as other income (expense), net in our consolidated statements of income (loss). The acquisition-date fair value was derived using the value paid less a control premium based on market analysis performed by a third party.

NOTE 5—GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The following table presents goodwill balances and adjustments to those balances during the years ended December 31, 2022 and 2021:

	December 31, 2020	Goodwill Acquired	Adjustments	December 31, 2021	Goodwill Acquired	Adjustments	December 31, 2022
				(In millions)			
Total goodwill	$ 9,135	2,355	(36)	$ 11,454	—	(245)	$ 11,209

The goodwill acquired during 2021 was attributable to the five acquisitions completed within 2021 as described in “Note 4—Business Combinations.” The adjustments to goodwill during 2022 and 2021 pertained primarily to foreign currency translation adjustments.

INTANGIBLE ASSETS

The components of identifiable intangible assets were as follows:

	December 31, 2022				December 31, 2021			
	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	$ 1,664	$ (1,092)	$ 572	7	$ 1,726	$ (919)	$ 807	7
Marketing related	395	(339)	56	5	405	(315)	90	5
Developed technology	1,099	(1,048)	51	3	1,109	(822)	287	3
All other	438	(329)	109	7	454	(306)	148	7
Intangible assets, net	$ 3,596	$ (2,808)	$ 788		$ 3,694	$ (2,362)	$ 1,332	

Amortization expense for intangible assets was $471 million, $443 million, and $451 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Expected future intangible asset amortization as of December 31, 2022 was as follows:

Fiscal years:	(In millions)
2023	$ 214
2024	196
2025	160
2026	103
2027	65
Thereafter	50
	$ 788

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, customer services and operations centers, and warehouses.

While a majority of our lease agreements do not contain an explicit interest rate, certain of our lease agreements are subject to changes based on the Consumer Price Index or another referenced index. In the event of changes to the relevant index, lease liabilities are not remeasured and instead are treated as variable lease payments and recognized in the period in which the obligation for those payments is incurred.

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

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

As of December 31, 2022, we had no finance leases.

The components of lease expense were as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Lease expense			
Operating lease expense	$ 171	$ 170	$ 166
Sublease income	(8)	(8)	(6)
Lease expense, net	$ 163	$ 162	$ 160

Supplemental cash flow information related to leases was as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 172	$ 167	$ 159
ROU lease assets obtained in exchange for new operating lease liabilities	$ 131	$ 124	$ 345
Other non-cash ROU lease asset activity	$ (52)	$ (21)	$ (23)

Supplemental balance sheet information related to leases was as follows:

	As of December 31,	
	2022	2021
	(In millions, except weighted-average figures)	
Operating ROU lease assets	$ 574	$ 659
Current operating lease liabilities	151	142
Operating lease liabilities	569	620
Total operating lease liabilities	$ 720	$ 762
Weighted-average remaining lease term—operating leases	5.7 years	6.1 years
Weighted-average discount rate—operating leases	3 %	3 %

Future minimum lease payments for our operating leases as of December 31, 2022 were as follows:

Fiscal years:	Operating Leases (In millions)
2023	$ 169
2024	155
2025	114
2026	103
2027	90
Thereafter	147
Total	$ 778
Less: present value discount	(58)
Lease liability	$ 720

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. We recognize rent expense under such agreements on a straight-line basis. Rent expense for the years ended December 31, 2022, 2021, and 2020 totaled $202 million, $192 million, and $172 million, respectively.

In the first quarter of 2020, we entered into a sale-leaseback arrangement as the seller-lessee for a data center as the buyer-lessor obtained control of the facility. We sold the data center and simultaneously entered into an operating lease agreement with the purchaser for the right to use the facility for 8 years. The Company received proceeds of approximately $119 million, net of selling costs, which resulted in a de minimis net gain on the sale transaction.

In the years ended December 31, 2022, 2021 and 2020, we incurred asset impairment charges of $81 million, $26 million, and $30 million, respectively, within restructuring and other charges on our consolidated statements of income (loss). The impairments included a reduction to our ROU lease assets in the amount of $52 million, $21 million, and $23 million, respectively, which were attributed to certain leased space we are no longer utilizing for our business operations, a portion of which is being subleased.

As of December 31, 2022, we entered into an additional operating lease for real estate, which will commence in the second quarter of 2023 or later with minimum lease payments aggregating to $12 million and a lease term of 6 years.

NOTE 7—OTHER FINANCIAL STATEMENT DETAILS

CRYPTO ASSET SAFEGUARDING LIABILITY AND CORRESPONDING SAFEGUARDING ASSET

We allow our customers in certain markets to buy, hold, sell, receive, and send certain cryptocurrencies as well as use the proceeds from sales of cryptocurrencies to pay for purchases at checkout. These cryptocurrencies consist of Bitcoin, Ethereum, Bitcoin Cash, and Litecoin (collectively, “our customers’ crypto assets”). We engage third parties, which are licensed trust companies, to provide certain custodial services, including holding our customers’ cryptographic key information, securing our customers’ crypto assets, and protecting them from loss or theft, including indemnification against certain types of losses such as theft. Our third-party custodian holds the crypto assets in a custodial account in PayPal’s name for the benefit of PayPal’s customers. We maintain the internal recordkeeping of our customers’ crypto assets, including the amount and type of crypto asset owned by each of our customers in that custodial account. Given that we currently utilize one third-party custodian, there is concentration risk in the event the custodian is not able to perform in accordance with our agreement.

Due to the unique risks associated with cryptocurrencies, including technological, legal, and regulatory risks, we recognize a crypto asset safeguarding liability to reflect our obligation to safeguard the crypto assets held for the benefit of our customers, which is recorded in accrued expenses and other current liabilities on our consolidated balance sheet. We also recognize a corresponding safeguarding asset which is recorded in prepaid expenses and other current assets on our consolidated balance sheet. The crypto asset safeguarding liability and corresponding safeguarding asset are measured and recorded at fair value on a recurring basis using prices available in the market we determine to be the principal market at the balance sheet date. The corresponding safeguarding asset may be adjusted for loss events, as applicable. As of December 31, 2022, the Company has not incurred any safeguarding loss events, and therefore, the crypto asset safeguarding liability and corresponding safeguarding asset were recorded at the same value. The following table summarizes the significant crypto assets we hold for the benefit of our customers and the crypto asset safeguarding liability and corresponding safeguarding asset as of December 31, 2022 (in millions):

Bitcoin	$ 291
Ethereum	250
Other	63
Crypto asset safeguarding liability	$ 604
Crypto asset safeguarding asset	$ 604

PROPERTY AND EQUIPMENT, NET

	As of December 31,	
	2022	2021
	(In millions)	
Property and equipment, net:		
Computer equipment and software	$ 3,380	$ 3,298
Internal use software and website development costs	3,814	3,301
Land and buildings	388	380
Leasehold improvements	364	379
Furniture and fixtures	141	146
Development in progress and other	25	86
Total property and equipment, gross	8,112	7,590
Accumulated depreciation and amortization	(6,382)	(5,681)
Total property and equipment, net	$ 1,730	$ 1,909

Depreciation and amortization expense was $846 million, $822 million, and $738 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Net changes in accounts payable on our consolidated statements of cash flows includes non-cash investing activities associated with property and equipment; the impact of which was a decrease of $36 million and $27 million in 2022 and 2021, respectively, and an increase of $17 million in 2020.

Geographical information

The following table summarizes long-lived assets based on geography, which consist of property and equipment, net and operating lease ROU assets:

	As of December 31, 2022	As of December 31, 2021
	(In millions)	
Long-lived assets:		
U.S.	$ 1,910	$ 2,050
Other countries	394	518
Total long-lived assets	$ 2,304	$ 2,568

Long-lived assets attributed to the U.S. and other countries are based upon the country in which the asset is located or owned.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the year ended December 31, 2022:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation Adjustment ("CTA")	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ 199	$ (87)	$ (270)	$ 24	$ (2)	$ (136)
Other comprehensive income (loss) before reclassifications	374	(499)	(305)	(25)	130	(325)
Less: Amount of gain reclassified from AOCI	462	5	—	—	—	467
Net current period other comprehensive income (loss)	(88)	(504)	(305)	(25)	130	(792)
Ending balance	$ 111	$ (591)	$ (575)	$ (1)	$ 128	$ (928)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the year ended December 31, 2021:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign CTA	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ (323)	$ 11	$ (198)	$ 24	$ 2	$ (484)
Other comprehensive income (loss) before reclassifications	332	(98)	(72)	—	(4)	158
Less: Amount of loss reclassified from AOCI	(190)	—	—	—	—	(190)
Net current period other comprehensive income (loss)	522	(98)	(72)	—	(4)	348
Ending balance	$ 199	$ (87)	$ (270)	$ 24	$ (2)	$ (136)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the year ended December 31, 2020:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign CTA	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ 6	$ 2	$ (150)	$ (31)	$ —	$ (173)
Other comprehensive income (loss) before reclassifications	(309)	9	(48)	55	2	(291)
Less: Amount of gain reclassified from AOCI	20	—	—	—	—	20
Net current period other comprehensive income (loss)	(329)	9	(48)	55	2	(311)
Ending balance	$ (323)	$ 11	$ (198)	$ 24	$ 2	$ (484)

The following table provides details about reclassifications out of AOCI for the periods presented below:

Details about AOCI Components	Amount of Gains (Losses) Reclassified from AOCI			Affected Line Item in the Statements of Income (Loss)
	Year Ended December 31,			
	2022	2021	2020	
	(In millions)			
Gains (losses) on cash flow hedges—foreign currency exchange contracts	$ 462	$ (190)	$ 20	Net revenues
Unrealized gains (losses) on investments	5	—	—	Other income (expense), net
	467	(190)	20	Income before income taxes
	—	—	—	Income tax expense (benefit)
Total reclassifications for the period	$ 467	$ (190)	$ 20	Net income (loss)

OTHER INCOME (EXPENSE), NET

The following table reconciles the components of other income (expense), net for the periods presented below:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Interest income	$ 174	$ 57	$ 88
Interest expense	(304)	(232)	(209)
Net gains (losses) on strategic investments	(304)	46	1,914
Other	(37)	(34)	(17)
Other income (expense), net	$ (471)	$ (163)	$ 1,776

Refer to "Note 1—Overview and Summary of Significant Accounting Policies" for details on the composition of these balances.

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 December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
	(In millions)	
Funds receivable and customer accounts:		
Cash and cash equivalents	$ 11,363	$ 12,723
Time deposits	95	334
Available-for-sale debt securities	17,349	18,336
Funds receivable	7,550	4,748
Total funds receivable and customer accounts	$ 36,357	$ 36,141
Short-term investments:		
Time deposits	$ 482	$ 590
Available-for-sale debt securities	2,593	3,604
Restricted cash	17	109
Total short-term investments	$ 3,092	$ 4,303
Long-term investments:		
Time deposits	$ 55	$ 45
Available-for-sale debt securities	2,817	3,545
Strategic investments	2,146	3,207
Total long-term investments	$ 5,018	$ 6,797

As of December 31, 2022 and 2021, 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:

	December 31, 2022[1]			
	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	$ 8,736	$ —	$ (252)	$ 8,484
Foreign government and agency securities	1,479	—	(44)	1,435
Corporate debt securities	1,637	—	(82)	1,555
Asset-backed securities	1,324	—	(26)	1,298
Municipal securities	410	—	(3)	407
Commercial paper	3,702	1	(14)	3,689
Short-term investments:				
U.S. government and agency securities	815	—	(3)	812
Foreign government and agency securities	435	—	(11)	424
Corporate debt securities	641	—	(14)	627
Asset-backed securities	415	—	(9)	406
Commercial paper	324	—	—	324
Long-term investments:				
U.S. government and agency securities	493	—	(36)	457
Foreign government and agency securities	386	—	(22)	364
Corporate debt securities	987	—	(58)	929
Asset-backed securities	1,085	—	(18)	1,067
Total available-for-sale debt securities[2]	$ 22,869	$ 1	$ (592)	$ 22,278

[1] "—" Denotes gross unrealized gain or unrealized loss of less than $1 million in a given position.

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

	December 31, 2021[1]			
	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	$ 8,754	$ —	$ (31)	$ 8,723
Foreign government and agency securities	1,849	—	(9)	1,840
Corporate debt securities	3,377	—	(15)	3,362
Asset-backed securities	1,552	—	(3)	1,549
Municipal securities	535	—	—	535
Short-term investments:				
U.S. government and agency securities	537	—	—	537
Foreign government and agency securities	493	—	(1)	492
Corporate debt securities	2,285	—	—	2,285
Asset-backed securities	278	—	(1)	277
Long-term investments:				
U.S. government and agency securities	568	—	(6)	562
Foreign government and agency securities	742	—	(6)	736
Corporate debt securities	1,445	—	(11)	1,434
Asset-backed securities	817	—	(4)	813
Total available-for-sale debt securities[2]	$ 23,232	$ —	$ (87)	$ 23,145

[1] "—" Denotes gross unrealized gain or unrealized loss of less than $1 million in a given position.

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

Gross amortized cost and estimated fair value balances exclude accrued interest receivable on available-for-sale debt securities, which totaled $65 million and $36 million at December 31, 2022 and 2021, respectively, and were included in other current assets on our consolidated balance sheets.

As of December 31, 2022 and 2021, 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 for which an allowance for credit losses was not deemed necessary in the current period, aggregated by the length of time those individual securities have been in a continuous loss position, was as follows:

	December 31, 2022[1]					
	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	$ 3,730	$ (89)	$ 4,246	$ (163)	$ 7,976	$ (252)
Foreign government and agency securities	410	(11)	997	(34)	1,407	(45)
Corporate debt securities	9	(1)	1,545	(81)	1,554	(82)
Asset-backed securities	773	(11)	508	(14)	1,281	(25)
Municipal securities	264	(3)	50	—	314	(3)
Commercial paper	3,079	(14)	—	—	3,079	(14)
Short-term investments:						
U.S. government and agency securities	345	—	73	(3)	418	(3)
Foreign government and agency securities	61	—	362	(11)	423	(11)
Corporate debt securities	97	(2)	465	(12)	562	(14)
Asset-backed securities	175	(2)	217	(7)	392	(9)
Commercial paper	224	—	—	—	224	—
Long-term investments:						
U.S. government and agency securities	—	—	457	(36)	457	(36)
Foreign government and agency securities	31	(2)	333	(20)	364	(22)
Corporate debt securities	85	(6)	834	(52)	919	(58)
Asset-backed securities	872	(9)	195	(9)	1,067	(18)
Total available-for-sale debt securities	$ 10,155	$ (150)	$ 10,282	$ (442)	$ 20,437	$ (592)

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

	December 31, 2021[1]					
	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	$ 8,224	$ (31)	$ —	$ —	$ 8,224	$ (31)
Foreign government and agency securities	1,703	(9)	20	—	1,723	(9)
Corporate debt securities	1,816	(15)	—	—	1,816	(15)
Asset-backed securities	1,302	(3)	—	—	1,302	(3)
Municipal securities	50	—	—	—	50	—
Short-term investments:						
U.S. government and agency securities	440	—	—	—	440	—
Foreign government and agency securities	485	(1)	—	—	485	(1)
Corporate debt securities	336	—	—	—	336	—
Asset-backed securities	273	(1)	—	—	273	(1)
Long-term investments:						
U.S. government and agency securities	562	(6)	—	—	562	(6)
Foreign government and agency securities	736	(6)	—	—	736	(6)
Corporate debt securities	1,355	(11)	—	—	1,355	(11)
Asset-backed securities	707	(4)	—	—	707	(4)
Total available-for-sale debt securities	$ 17,989	$ (87)	$ 20	$ —	$ 18,009	$ (87)

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

Unrealized losses have not been recognized into income as we neither intend to sell, nor anticipate that it is more likely than not that we will be required to sell, the securities before recovery of their amortized cost basis. The decline in fair value is due primarily to changes in market interest rates, rather than credit losses. We will continue to monitor the performance of the investment portfolio and assess whether impairment due to expected credit losses has occurred. Amounts reclassified to earnings from unrealized gains and losses were not material for the years ended December 31, 2022 and 2021.

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:

	December 31, 2022	
	Amortized Cost	Fair Value
	(In millions)	
One year or less	$ 11,591	$ 11,470
After one year through five years	9,232	8,790
After five years through ten years	1,968	1,941
After ten years	78	77
Total	$ 22,869	$ 22,278

STRATEGIC INVESTMENTS

Our strategic investments include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. Our marketable equity securities have readily determinable fair values and are recorded as long-term investments on our consolidated balance sheets at fair value with changes in fair value recorded in other income (expense), net on our consolidated statements of income (loss). Marketable equity securities totaled $323 million and $1.9 billion as of December 31, 2022 and 2021, respectively, including the impact of the sale of marketable equity securities during the year ended December 31, 2022.

Our non-marketable equity securities are recorded in long-term investments on our consolidated balance sheets. As of December 31, 2022 and 2021, we had non-marketable equity securities of $136 million and $79 million, respectively, where we have the ability to exercise significant influence, but not control, over the investee. We account for these equity securities using the equity method of accounting. The remaining non-marketable equity securities do not have a readily determinable fair value and 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. All gains and losses on these investments, realized and unrealized, and our share of earnings or losses from investments accounted for using the equity method are recognized in other income (expense), net on our consolidated statements of income (loss). The carrying value of our non-marketable equity securities totaled $1.8 billion and $1.3 billion as of December 31, 2022 and 2021, respectively.

Measurement Alternative adjustments

The adjustments to the carrying value of our non-marketable equity securities accounted for under the Measurement Alternative in the years ended December 31, 2022 and 2021 were as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In millions)	
Carrying amount, beginning of period	$ 1,268	$ 779
Adjustments related to non-marketable equity securities:		
Net additions[(1)]	100	133
Gross unrealized gains	423	356
Gross unrealized losses and impairments	(104)	—
Carrying amount, end of period	$ 1,687	$ 1,268

[(1)] Net additions include purchases, reductions due to sales of securities, and reclassifications when Measurement Alternative is subsequently elected or no longer applies.

The following table summarizes the 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 December 31, 2022 and 2021, respectively:

	December 31, 2022	December 31, 2021
	(In millions)	
Cumulative gross unrealized gains	$ 1,137	$ 733
Cumulative gross unrealized losses and impairments	$ (131)	$ (27)

Unrealized gains (losses) on strategic investments, excluding those accounted for using the equity method

The following table summarizes the net unrealized gains (losses) on marketable and non-marketable equity securities, excluding those accounted for using the equity method, held at December 31, 2022 and 2021, respectively:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In millions)	
Net unrealized gains (losses)	$ 79	$ (46)

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 December 31, 2022 and 2021:

	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents[1]	$ 932	$ —	$ 932
Short-term investments[2]:			
U.S. government and agency securities	812	—	812
Foreign government and agency securities	424	—	424
Corporate debt securities	627	—	627
Asset-backed securities	406	—	406
Commercial paper	324	—	324
Total short-term investments	2,593	—	2,593
Funds receivable and customer accounts[3]:			
Cash and cash equivalents	192	—	192
U.S. government and agency securities	8,484	—	8,484
Foreign government and agency securities	1,777	—	1,777
Corporate debt securities	1,694	—	1,694
Asset-backed securities	1,298	—	1,298
Municipal securities	407	—	407
Commercial paper	3,689	—	3,689
Total funds receivable and customer accounts	17,541	—	17,541
Derivatives	244	—	244
Crypto asset safeguarding asset	604	—	604
Long-term investments[2],[4]:			
U.S. government and agency securities	457	—	457
Foreign government and agency securities	364	—	364
Corporate debt securities	929	—	929
Asset-backed securities	1,067	—	1,067
Marketable equity securities	323	323	—
Total long-term investments	3,140	323	2,817
Total financial assets	$ 25,054	$ 323	$ 24,731
Liabilities:			
Derivatives	$ 298	$ —	$ 298
Crypto asset safeguarding liability	604	—	604
Total financial liabilities	$ 902	$ —	$ 902

[1] Excludes cash of $6.8 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $17 million and time deposits of $537 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $18.8 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity securities of $1.8 billion measured using the Measurement Alternative or equity method accounting.

	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents[1]	$ 400	$ —	$ 400
Short-term investments[2]:			
U.S. government and agency securities	537	—	537
Foreign government and agency securities	505	—	505
Corporate debt securities	2,285	—	2,285
Asset-backed securities	277	—	277
Total short-term investments	3,604	—	3,604
Funds receivable and customer accounts[3]:		—	
Cash and cash equivalents	622	—	622
U.S. government and agency securities	8,723	—	8,723
Foreign government and agency securities	4,090	—	4,090
Corporate debt securities	3,439	—	3,439
Asset-backed securities	1,549	—	1,549
Municipal securities	535	—	535
Total funds receivable and customer accounts	18,958	—	18,958
Derivatives	304	—	304
Long-term investments[2], [4]:			
U.S. government and agency securities	562	—	562
Foreign government and agency securities	736	—	736
Corporate debt securities	1,434	—	1,434
Asset-backed securities	813	—	813
Marketable equity securities	1,860	1,860	—
Total long-term investments	5,405	1,860	3,545
Total financial assets	$ 28,671	$ 1,860	$ 26,811
Liabilities:			
Derivatives	$ 130	$ —	$ 130

[1] Excludes cash of $4.8 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $109 million and time deposits of $635 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $17.2 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity securities of $1.3 billion measured using the Measurement Alternative or equity method accounting.

Our marketable equity securities are valued using quoted prices for identical assets in active markets (Level 1). There are no active markets for our crypto asset safeguarding liability or the corresponding safeguarding asset. Accordingly, we have valued the asset and liability using quoted prices on the active exchange that has been identified as the principal market for the underlying crypto assets (Level 2). All other financial assets and liabilities are valued using quoted prices for identical instruments in less active markets, readily available pricing sources for comparable instruments, or models using market observable inputs (Level 2).

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 to 18 months.

As of December 31, 2022 and 2021, we did not have any assets or liabilities requiring measurement at fair value on a recurring basis without observable market values that would require a high level of judgment to determine fair value (Level 3).

We elect to account for available-for-sale debt securities denominated in currencies other than the functional currency of our subsidiaries 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 consolidated statements of income (loss) 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 under the fair value option as of December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
	(In millions)	
Funds receivable and customer accounts	$ 481	$ 2,327
Short-term investments	$ —	$ 13

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 under the fair value option for the years ended December 31, 2022 and 2021:

	Year Ended December 31,	
	2022	2021
	(In millions)	
Funds receivable and customer accounts	$ (149)	$ (101)
Short-term investments	$ —	$ (30)

ASSETS MEASURED AND RECORDED AT FAIR VALUE ON A NON-RECURRING BASIS

The following tables summarize our assets held as of December 31, 2022 and 2021 for which a non-recurring fair value measurement was recorded during the years ended December 31, 2022 and 2021, respectively:

	December 31, 2022	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(In millions)		
Non-marketable equity securities measured using the Measurement Alternative[1]	$ 987	$ 589	$ 398
Other assets[2]	165	165	—
Total	$ 1,152	$ 754	$ 398

[1] Excludes non-marketable equity securities of $700 million accounted for under the Measurement Alternative for which no observable price changes occurred during the year ended December 31, 2022.

[2] Consists of ROU lease assets recorded at fair value pursuant to impairment charges that occurred during the year ended December 31, 2022. See "Note 6—Leases" for additional information.

	December 31, 2021	Significant Other Observable Inputs (Level 2)
	(In millions)	
Non-marketable equity securities measured using the Measurement Alternative[1]	$ 611	$ 611
Other assets[2]	86	86
Total	$ 697	$ 697

[1] Excludes non-marketable equity securities of $657 million accounted for under the Measurement Alternative for which no observable price changes occurred during the year ended December 31, 2021.

[2] Consists of ROU lease assets recorded at fair value pursuant to impairment charges that occurred during the year ended December 31, 2021. See "Note 6—Leases" for additional information.

We measure the non-marketable equity securities accounted for under the Measurement Alternative at cost minus impairment, if any, adjusted for observable price changes in orderly transactions for an identical or similar investment in the same issuer. Non-marketable equity securities that have been remeasured during the period based on observable price changes are classified within Level 2 in the fair value hierarchy because we estimate the fair value based on valuation methods which only include significant inputs that are observable, such as the observable transaction price at the transaction date. The fair value of non-marketable equity securities that have been remeasured due to impairment are classified within Level 3 as we estimate fair value using significant unobservable inputs such as discount rates, forecasted cash flows, and market data of comparable companies, among others.

We evaluate ROU assets related to leases for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an ROU asset may not be recoverable. Impairment losses on ROU lease assets related to office operating leases are calculated initially using estimated rental income per square foot derived from observable market data, and the impaired asset is classified within Level 2 in the fair value hierarchy.

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, and long-term debt related to borrowings on our credit facilities are carried at amortized cost, which approximates their fair value. Our notes receivable had a carrying value of approximately $441 million and fair value of approximately $396 million as of December 31, 2022. Our notes receivable had a carrying value of approximately $381 million and fair value of approximately $424 million as of December 31, 2021. Our long-term debt (including current portion) in the form of fixed rate notes had a carrying value of approximately $10.3 billion and fair value of approximately $9.5 billion as of December 31, 2022. Our fixed rate notes had a carrying value of approximately $9.0 billion and fair value of approximately $9.3 billion as of December 31, 2021. 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 long-term debt (including current portion) 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. We do not use any derivative instruments for trading or speculative purposes.

Cash flow hedges

We have significant international revenues and costs denominated in foreign currencies, which subjects us to foreign currency exchange risk. We have a foreign currency exposure management program in which 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 these foreign currency 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 AOCI 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 do not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. We report cash flows arising from derivative instruments consistent with the classification of cash flows from the underlying hedged items that these derivatives are hedging. Accordingly, the cash flows associated with derivatives designated as cash flow hedges are classified in cash flows from operating activities on our consolidated statements of cash flows.

As of December 31, 2022, we estimated that $110 million of net derivative gains related to our cash flow hedges included in AOCI are expected to be reclassified into earnings within the next 12 months. During the years ended December 31, 2022, 2021, and 2020, 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 the derivative's gain or loss in AOCI until the forecasted transaction affects earnings, at which point we also reclassify it into earnings. Gains and losses on derivatives held after we discontinue our cash flow hedges and 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.

Net investment hedges

We use forward foreign currency exchange contracts to reduce the foreign currency exchange risk related to our investment in certain foreign subsidiaries. These derivatives are designated as net investment hedges and accordingly, the gains and losses on the portion of the derivatives included in the assessment of hedge effectiveness is recorded in AOCI as part of foreign currency translation. We exclude forward points from the assessment of hedge effectiveness and recognize them in other income (expense), net on a straight-line basis over the life of the hedge. The accumulated gains and losses associated with these instruments will remain in AOCI until the foreign subsidiaries are sold or substantially liquidated, at which point they will be reclassified into earnings. The cash flows associated with derivatives designated as a net investment hedge are classified in cash flows from investing activities on our consolidated statements of cash flows.

We have not reclassified any gains or losses related to net investment hedges from AOCI into earnings during any of the periods presented.

Foreign currency exchange contracts not designated as hedging instruments

We have a foreign currency exposure management program in which we use foreign currency exchange contracts to offset the foreign currency exchange risk of 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 foreign currency exchange rate movements on our assets and liabilities. The gains and losses due to remeasurement of certain foreign currency denominated monetary assets and liabilities are recorded in other income (expense), net, which are offset by the gains and losses on these foreign currency exchange contracts. The cash flows associated with our non-designated derivatives used to hedge foreign currency denominated monetary assets and liabilities are classified in cash flows from operating activities on our consolidated statements of cash flows.

FAIR VALUE OF DERIVATIVE CONTRACTS

The fair value of our outstanding derivative instruments as of December 31, 2022 and 2021 was as follows:

	Balance Sheet Location	As of December 31, 2022	As of December 31, 2021
Derivative Assets:		(In millions)	
Foreign currency exchange contracts designated as hedging instruments	Other current assets	$ 167	$ 205
Foreign currency exchange contracts designated as hedging instruments	Other assets (non-current)	15	21
Foreign currency exchange contracts not designated as hedging instruments	Other current assets	62	78
Total derivative assets		$ 244	$ 304
Derivative Liabilities:			
Foreign currency exchange contracts designated as hedging instruments	Other current liabilities	$ 68	$ 27
Foreign currency exchange contracts designated as hedging instruments	Other long-term liabilities	133	—
Foreign currency exchange contracts not designated as hedging instruments	Other current liabilities	97	103
Total derivative liabilities		$ 298	$ 130

MASTER NETTING AGREEMENTS - RIGHTS OF SET-OFF

Under master netting agreements with certain counterparties to our foreign currency 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 on our consolidated balance sheets. Rights of set-off associated with our foreign currency exchange contracts represented a potential offset to both assets and liabilities of $70 million as of December 31, 2022 and $102 million as of December 31, 2021.

We have 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. The following table provides the collateral exchanged posted and received:

	December 31, 2022	December 31, 2021
	(In millions)	
Cash collateral posted[1]	$ 24	$ 5
Cash collateral received[2]	$ 203	$ 209

[1] Right to reclaim cash collateral related to our derivative liabilities recognized in other current assets on our consolidated balance sheets.
[2] Obligation to return counterparty cash collateral related to our derivative assets recognized in other current liabilities on our consolidated balance sheets.

EFFECT OF DERIVATIVE CONTRACTS ON CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the location in the consolidated statements of income (loss) and amount of recognized gains or losses related to our derivative instruments:

	Year Ended December 31,					
	2022		2021		2020	
	(In millions)					
	Net revenues	Other income (expense), net	Net revenues	Other income (expense), net	Net revenues	Other income (expense), net
Total amounts presented in the consolidated statements of income (loss) in which the effects of derivatives are recorded	$ 27,518	$ (471)	$ 25,371	$ (163)	$ 21,454	$ 1,776
Gains (losses) on derivatives in cash flow hedging relationship:						
Amount of gains (losses) on foreign exchange contracts reclassified from AOCI	462	—	(190)	—	20	—
Gains on derivatives in net investment hedging relationship:						
Amount of gains on foreign exchange contracts excluded from the assessment of effectiveness	—	84	—	—	—	—
Gains (losses) on derivatives not designated as hedging instruments:						
Amount of gains (losses) on foreign exchange contracts	—	118	—	144	—	(110)
Amount of losses on equity derivative contracts [1]	—	(174)	—	—	—	(64)
Total gains (losses)	$ 462	$ 28	$ (190)	$ 144	$ 20	$ (174)

[1] During the years ended December 31, 2022 and December 31, 2020, equity derivative contracts were entered into and matured which related to the sale of marketable equity securities related to a strategic investment. The cash flows associated with the equity derivative contracts were classified in cash flows from investing activities on our consolidated statements of cash flows.

The following table provides the amount of pre-tax unrealized gains or losses included in the assessment of hedge effectiveness related to our derivative instruments designated as hedging instruments that are recognized in other comprehensive income (loss):

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Unrealized gains (losses) on foreign exchange contracts designated as cash flow hedges	$ 374	$ 332	$ (309)
Unrealized (losses) gains on foreign exchange contracts designated as net investment hedges	(25)	—	55
Total unrealized gains (losses) recognized from derivative contracts designated as hedging instruments in the consolidated statements of comprehensive income (loss)	$ 349	$ 332	$ (254)

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 currency exchange payments under these contracts is determined. The following table provides the notional amounts of our outstanding derivatives:

	Year Ended December 31,	
	2022	2021
	(In millions)	
Foreign exchange contracts designated as hedging instruments	$ 7,149	$ 5,349
Foreign exchange contracts not designated as hedging instruments	11,840	20,414
Total	$ 18,989	$ 25,763

NOTE 11—LOANS AND INTEREST RECEIVABLE

CONSUMER RECEIVABLES

We offer revolving and installment credit products as a funding option for consumers in certain checkout transactions on our payments platform. Our revolving credit product consists of PayPal Credit in the U.K. Once a consumer is approved for credit, it is made available to them as a funding source in their PayPal wallet. Additionally, we offer installment credit products at the time of checkout in various markets, including the U.S., several markets across Europe, Australia, and Japan. The majority of the installment loans allow consumers to pay for purchases over periods of 12 months or less. Beginning in June 2022, we purchase receivables related to interest-bearing installment loans extended to U.S. consumers by a partner institution and are responsible for servicing functions related to that portfolio. During the year ended December 31, 2022, we purchased approximately $381 million in consumer receivables. As of December 31, 2022 and 2021, the outstanding balance of consumer receivables, which consisted of revolving and installment loans and interest receivable, was $5.9 billion and $3.8 billion, respectively, net of the participation interest sold to the partner institution of $17 million and nil, respectively. See "Note 1—Overview and Summary of Significant Accounting Policies" for additional information on this participation arrangement.

We closely monitor the credit quality of our consumer receivables to evaluate and manage our related exposure to credit risk. Credit risk management begins with initial underwriting and continues through the 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 data, including the consumer's prior repayment history with our credit products where available. We use delinquency status and trends to assist in making (or, for interest-bearing installment loans in the U.S., to assist the partner institution in making) new and ongoing credit decisions, to adjust our models, to plan our collection practices and strategies, and in determining our allowance for consumer loans and interest receivable.

The following tables present the delinquency status of consumer loans and interest receivable by year of origination. The amounts are based on the number of days past the billing date for revolving loans or contractual repayment date for installment loans. The "current" category represents balances that are within 29 days of the billing date or contractual repayment date, as applicable.

December 31, 2022
(In millions, except percentages)

	Revolving Loans Amortized Cost Basis	Installment Loans Amortized Cost Basis: 2022	2021	2020	2019	2018	Total	Percent
Current	$ 1,850	$ 3,726	$ 123	$ —	$ —	$ —	$ 5,699	97.1%
30 - 59 Days	23	26	2	—	—	—	51	0.9%
60 - 89 Days	15	20	2	—	—	—	37	0.6%
90 - 179 Days	34	47	4	—	—	—	85	1.4%
Total[(1)]	$ 1,922	$ 3,819	$ 131	$ —	$ —	$ —	$ 5,872	100%

(1) Excludes receivables from other consumer credit products of $11 million at December 31, 2022.

December 31, 2021
(In millions, except percentages)

	Revolving Loans Amortized Cost Basis	Installment Loans Amortized Cost Basis: 2021	2020	2019	2018	2017	Total	Percent
Current	$ 1,790	$ 1,939	$ 3	$ —	$ —	$ —	$ 3,732	97.0%
30 - 59 Days	18	16	—	—	—	—	34	0.9%
60 - 89 Days	12	13	—	—	—	—	25	0.6%
90 - 179 Days	27	28	1	—	—	—	56	1.5%
Total[(1)]	$ 1,847	$ 1,996	$ 4	$ —	$ —	$ —	$ 3,847	100%

(1) Excludes receivables from other consumer credit products of $44 million at December 31, 2021.

The following table summarizes the activity in the allowance for consumer loans and interest receivable for the years ended December 31, 2022 and 2021:

	December 31, 2022			December 31, 2021		
	Consumer Loans Receivable	Interest Receivable	Total Allowance[(1)]	Consumer Loans Receivable	Interest Receivable	Total Allowance[(1)]
	(In millions)					
Beginning balance	$ 243	$ 43	$ 286	$ 299	$ 53	$ 352
Provisions	292	15	307	20	10	30
Charge-offs	(216)	(29)	(245)	(116)	(20)	(136)
Recoveries	21	—	21	28	—	28
Other[(2)]	(18)	(4)	(22)	12	—	12
Ending balance	$ 322	$ 25	$ 347	$ 243	$ 43	$ 286

(1) Excludes allowances from other consumer credit products of $3 million and $4 million at December 31, 2022 and 2021, respectively.
(2) Includes amounts related to foreign currency remeasurement and, for the year ended December 31, 2021, initial allowance for purchased credit deteriorated ("PCD") loans acquired during the period. A portion of the Paidy loan portfolio acquired was determined to be purchase credit deteriorated as the loans were 30 days or more past due. As such, we recorded current expected credit losses on the PCD loans.

The provision for the year ended December 31, 2022 was primarily attributable to growth in the consumer receivable portfolio. Qualitative adjustments were made to account for limitations in our current expected credit loss models due to uncertainty with respect to macroeconomic conditions and the financial health of our borrowers.

The increase in charge-offs for the year ended December 31, 2022 compared to the same period in the prior year was due to the expansion of our short-term installment products.

The provision for current expected credit losses relating to our consumer receivable portfolio is recognized in transaction and credit losses on our consolidated statements of income (loss). The provision for interest receivable for interest earned on our consumer receivable portfolio is recognized in revenues from other value added services as a reduction to revenue. Loans receivable continue to accrue interest until they are charged off.

We charge off consumer receivable balances in the month in which a customer's balance becomes 180 days past the billing date or contractual repayment date, except for the U.S. consumer interest-bearing installment receivables, which are charged off 120 days past the contractual repayment date. Bankrupt accounts are charged off within 60 days after receipt of notification of bankruptcy. Charge-offs are recorded as a reduction to our allowance for loans and interest receivable and subsequent recoveries, if any, are recorded as an increase to the allowance for loans and interest receivable.

MERCHANT RECEIVABLES

We offer access to merchant finance products for certain small and medium-sized businesses through our PPWC and PPBL products, which we collectively refer to as our merchant finance offerings. We purchase receivables related to credit extended to U.S. merchants by a partner institution and are responsible for servicing functions related to that portfolio. During the years ended December 31, 2022 and 2021, we purchased approximately $3.2 billion and $1.8 billion in merchant receivables, respectively. As of December 31, 2022 and 2021, the total outstanding balance in our pool of merchant loans, advances, and interest and fees receivable was $2.1 billion and $1.4 billion, respectively, net of the participation interest sold to the partner institution of $97 million and $63 million, respectively. See "Note 1—Overview and Summary of Significant Accounting Policies" for additional information on this participation arrangement.

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 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 access to short-term business financing for a fixed fee based on an evaluation of the applying business as well as the business owner. PPBL repayments are collected through periodic payments until the balance has been satisfied.

The interest or fee is fixed at the time the loan or advance is extended and is recognized as deferred revenue in accrued expenses and other current liabilities on our consolidated balance sheets. The fixed interest or fee is amortized into revenues from other value added services based on the amount repaid over the repayment period. We estimate the repayment period for PPWC based on the merchant's payment processing history with PayPal. 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, as well as the credit quality of 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 loan or advance, we use, among other indicators, risk models developed internally which utilize information obtained from multiple internal and external data sources 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, prior repayment history with PayPal's credit products where available, information sourced from consumer and business credit bureau reports, and other information obtained during the application process. We use delinquency status and trends to assist in making (or, in the U.S., to assist the partner institution in making) ongoing credit decisions, to adjust our internal models, to plan our collection strategies, and in determining our allowance for these loans, advances, and interest and fees receivable.

Merchant receivables delinquency and allowance

The following tables present the delinquency status of merchant loans, advances, and interest and fees receivable by year of origination. The amounts are based on the number of days past the expected or contractual repayment date for amounts outstanding. The "current" category represents balances that are within 29 days of the expected repayment date or contractual repayment date, as applicable.

December 31, 2022 (In millions, except percentages)	2022	2021	2020	2019	2018	Total	Percent
Current	$ 1,826	$ 20	$ 57	$ 42	$ 2	$ 1,947	90.7%
30 - 59 Days	63	7	3	4	—	77	3.6%
60 - 89 Days	34	4	4	2	—	44	2.0%
90 - 179 Days	55	9	3	3	—	70	3.3%
180+ Days	1	2	2	3	—	8	0.4%
Total[1]	$ 1,979	$ 42	$ 69	$ 54	$ 2	$ 2,146	100%

December 31, 2021 (In millions, except percentages)	2021	2020	2019	2018	2017	Total	Percent
Current	$ 1,100	$ 129	$ 95	$ 3	$ —	$ 1,327	91.8%
30 - 59 Days	24	12	12	1	—	49	3.4%
60 - 89 Days	10	8	7	—	—	25	1.7%
90 - 179 Days	10	11	11	1	—	33	2.3%
180+ Days	—	4	7	1	—	12	0.8%
Total[1]	$ 1,144	$ 164	$ 132	$ 6	$ —	$ 1,446	100%

[1] Balances include the impact of modification programs offered by the Company as a part of our novel coronavirus ("COVID-19") pandemic payment relief initiatives (as discussed further below).

The following table summarizes the activity in the allowance for merchant loans, advances, and interest and fees receivable, for the years ended December 31, 2022 and 2021:

	December 31, 2022			December 31, 2021		
(In millions)	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance
Beginning balance	$ 192	$ 9	$ 201	$ 440	$ 43	$ 483
Provisions	109	18	127	(116)	(22)	(138)
Charge-offs	(105)	(9)	(114)	(173)	(12)	(185)
Recoveries	34	—	34	41	—	41
Ending balance	$ 230	$ 18	$ 248	$ 192	$ 9	$ 201

The provision for the year ended December 31, 2022 was primarily attributable to originations in the merchant portfolio and a slight deterioration in credit quality of loans outstanding. Qualitative adjustments were made to account for uncertainty around the effectiveness of loan modification programs made available to merchants in previous years, as described further below.

The decrease in the charge-offs for the year ended December 31, 2022 compared to the prior year was due to the charge-off of accounts in 2021 that experienced financial difficulties as a result of the COVID-19 pandemic.

For merchant loans and advances, the determination of delinquency 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 the contractual repayment date. 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 in the last 60 days. Bankrupt accounts are charged off within 60 days of receiving notification of bankruptcy. The provision for credit losses on merchant loans and advances is recognized in transaction and credit losses on our consolidated statements of income (loss), and the provision for interest and fees receivable is recognized as a reduction of deferred revenue in accrued expenses and other current liabilities on our consolidated balance sheets. Charge-offs are recorded as a reduction to our allowance for loans and interest receivable and subsequent recoveries, if any, are recorded as an increase to the allowance for loans and interest receivable.

Troubled debt restructurings

In certain instances where a merchant is able to demonstrate that it is experiencing financial difficulty, there may be a modification of the loan or advance and the related interest or fee receivable for which it is probable that, without modification, we would be unable to collect all amounts due. These modifications are intended to provide merchants with financial relief, and help enable us to mitigate losses.

These modifications include an increase in term by approximately 1 to 5.5 years while moving the delinquency status to current. The fee on certain of these loans or advances remains unchanged over the extended term. Alternatively, certain loans and advances have been modified to replace the initial fixed fee structure at the time the loan or advance was extended with a fixed annual percentage rate applied over the amended remaining term, which will continue to accrue interest at the fixed rate until the earlier of maturity or charge-off. These modifications had a de minimis impact on our consolidated statements of income (loss) in the years ended December 31, 2022 and 2021.

Allowances for TDRs are assessed separately from other loans and advances within our portfolio and are determined by estimating current expected credit losses utilizing the modified term and interest rate assumptions. Historical loss estimates are utilized in addition to macroeconomic assumptions to determine expected credit loss rates. Further, we may include qualitative adjustments that incorporate incremental information not captured in the quantitative estimates of our current expected credit losses.

During the year ended December 31, 2022, merchant loans, advances, and interest and fees receivables which have been modified as TDRs were de minimis. The following table shows merchant loans, advances and interest and fees receivables which were modified as TDRs in the year ended December 31, 2021:

	Year Ended December 31, 2021		
	Number of Accounts (in thousands)	Outstanding Balances[1] (in millions)	Weighted Average Payment Term Extensions (in months)
Loans and interest receivable	3	$ 45	36

[1] Balances are as of modification date.

A merchant is considered in payment default after a modification when the merchant's payment becomes 60 days past their expected or contractual repayment date. For loans or advances that have defaulted after being modified, the increased estimate of current expected credit loss is factored into overall expected credit losses. In the years ended December 31, 2022 and 2021, the amount of merchant loans, advances, and interest and fees receivables classified as TDRs that have subsequently defaulted on payments was de minimis.

NOTE 12—DEBT

FIXED RATE NOTES

In May 2022, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of $3.0 billion. Interest on these notes is payable on June 1 and December 1 of each year, beginning on December 1, 2022.

In May 2020, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of $4.0 billion. Interest on these notes is payable on June 1 and December 1 of each year, beginning on December 1, 2020.

In September 2019, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of $5.0 billion. Interest on these notes is payable in arrears semiannually (payable on April 1 and October 1).

The notes issued from the May 2022, May 2020, and September 2019 debt issuances are senior unsecured obligations and are collectively referred to as the "Notes." We may redeem the Notes in whole, at any time, or in part, from time to time, prior to maturity, at their redemption prices. Upon the occurrence of both a change of control of the Company and a downgrade of the Notes below an investment grade rating, we will be required to offer to repurchase each series of Notes at a price equal to 101% of the then outstanding principal amounts, plus accrued and unpaid interest. The Notes are subject to covenants, including limitations on our ability to create liens on our assets, enter into sale and leaseback transactions, and merge or consolidate with another entity, in each case subject to certain exceptions, limitations, and qualifications. Proceeds from the issuance of these Notes may be used for general corporate purposes, which may include funding the repayment or redemption of outstanding debt, share repurchases, ongoing operations, capital expenditures, acquisitions of businesses, assets, or strategic investments.

In May 2022, we repurchased certain Notes under the September 2019 and May 2020 debt issuances prior to maturity through tender offers. In addition, in June 2022, we redeemed the outstanding balance of the notes maturing in September 2022 through a make-whole redemption. We repurchased and redeemed $1.6 billion of outstanding Notes, as described above, which resulted in de minimis debt extinguishment net gains that were recorded as interest expense within other income (expense), net on our consolidated statements of income (loss).

As of December 31, 2022 and 2021, we had an outstanding aggregate principal amount of $10.4 billion and $9.0 billion, respectively, related to the Notes. The following table summarizes the Notes:

			As of December 31,	
	Maturities	Effective Interest Rate	2022	2021
			(in millions)	
September 2019 debt issuance of $5.0 billion:				
Fixed-rate 2.200% notes	9/26/2022	2.39%	$ —	$ 1,000
Fixed-rate 2.400% notes	10/1/2024	2.52%	1,250	1,250
Fixed-rate 2.650% notes	10/1/2026	2.78%	1,250	1,250
Fixed-rate 2.850% notes	10/1/2029	2.96%	1,500	1,500
May 2020 debt issuance of $4.0 billion:				
Fixed-rate 1.350% notes	6/1/2023	1.55%	418	1,000
Fixed-rate 1.650% notes	6/1/2025	1.78%	1,000	1,000
Fixed-rate 2.300% notes	6/1/2030	2.39%	1,000	1,000
Fixed-rate 3.250% notes	6/1/2050	3.33%	1,000	1,000
May 2022 debt issuance of $3.0 billion:				
Fixed-rate 3.900% notes	6/1/2027	4.06%	500	—
Fixed-rate 4.400% notes	6/1/2032	4.53%	1,000	—
Fixed-rate 5.050% notes	6/1/2052	5.14%	1,000	—
Fixed-rate 5.250% notes	6/1/2062	5.34%	500	—
Total term debt			$ 10,418	$ 9,000
Unamortized premium (discount) and issuance costs, net			(74)	(50)
Less: current portion of term debt[1]			(418)	(999)
Total carrying amount of term debt			$ 9,926	$ 7,951

[1] The current portion of term debt is included within accrued expenses and other current liabilities on our consolidated balance sheets.

The effective interest rates for the Notes include interest on the Notes, amortization of debt issuance costs, and amortization of the debt discount. The interest expense recorded for the Notes, including amortization of the debt discount, debt issuance costs, and debt extinguishment net gains, was $290 million, $224 million, and $190 million for the years ended December 31, 2022, 2021, and 2020, respectively.

CREDIT FACILITIES

Five-year revolving credit facility

In September 2019, we entered into a credit agreement (the "Credit Agreement") that provides for an unsecured $5.0 billion, five-year revolving credit facility that includes a $150 million letter of credit sub-facility and a $500 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding from time to time. Loans borrowed under the Credit Agreement are available in U.S. dollar, Euro, British pound, Canadian dollar, and Australian dollar, and in each case subject to the sub-limits and other limitations provided in the Credit Agreement. We may also, subject to the agreement of the applicable lenders and satisfaction of specified conditions, increase the commitments under the revolving credit facility by up to $2.0 billion. Subject to specific conditions, we may designate one or more of our subsidiaries as additional borrowers under the Credit Agreement, provided PayPal Holdings, Inc. guarantees the portion of borrowings made available and other obligations of any such subsidiaries under the Credit Agreement. As of December 31, 2022, certain subsidiaries were designated as additional borrowers. Funds borrowed under the Credit Agreement may be used for working capital, capital expenditures, acquisitions, and other purposes not in contravention with the Credit Agreement.

We are obligated to pay interest on loans under the Credit Agreement and other customary fees for a credit facility of this size and type, including an upfront fee and an unused commitment fee based on our debt rating. Loans under the Credit Agreement bear interest at either (i) the applicable eurocurrency rate plus a margin (based on our public debt ratings) ranging from 0.875% to 1.375%, (ii) the applicable overnight rate plus a margin (based on our public debt ratings) ranging from 0.875% to 1.375%, (iii) a formula based on the prime rate, the federal funds effective rate, or London Interbank Offered Rate plus a margin (based on our public debt ratings) ranging from zero to 0.375%, or (iv) a formula based on the Euro Short-Term Rate ("ESTR") or the Sterling Overnight Index Average ("SONIA") rate plus a margin (based on our public debt ratings) ranging from 0.875% to 1.375%. In January 2022, an amendment to the agreement was signed which provides for the additional borrowing rate option of utilizing SONIA or ESTR rates. The Credit Agreement will terminate and all amounts owed thereunder will be due and payable in September 2024, unless the commitments are terminated earlier. The Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default, and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens and the incurrence of subsidiary indebtedness, in each case subject to certain exceptions. The financial covenant requires us to meet a quarterly financial test with respect to a maximum consolidated leverage ratio.

In March 2020, we drew down $3.0 billion under the Credit Agreement. In May 2020, we repaid the $3.0 billion using proceeds from the May 2020 debt issuance. As of December 31, 2022, no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at December 31, 2022, $5.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement, subject to customary conditions to borrowing. The total interest expense and fees we recorded related to the Credit Agreement was approximately $16 million for the year ended December 31, 2020.

Paidy credit agreement

In February 2022, we entered into a credit agreement (the "Paidy Credit Agreement") with Paidy as co-borrower, which provides for an unsecured revolving credit facility of ¥60.0 billion. In September 2022, the Paidy Credit Agreement was modified to increase the borrowing capacity by ¥30.0 billion for a total borrowing capacity of ¥90.0 billion (approximately $686 million as of December 31, 2022.) Borrowings under the Paidy Credit Agreement are for use by Paidy for working capital, capital expenditures, and other permitted purposes. Loans under the Paidy Credit Agreement bear interest at the Tokyo Interbank Offered Rate plus a margin (based on our public debt rating) ranging from 0.40% to 0.60%. The Paidy Credit Agreement will terminate and all amounts owed thereunder will be due and payable in February 2027, unless the commitments are terminated earlier. The Paidy Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default, and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens and subsidiary indebtedness, in each case subject to certain exceptions. The financial covenant requires us to meet a quarterly financial test with respect to a maximum consolidated leverage ratio.

In the year ended December 31, 2022, ¥64.3 billion (approximately $491 million) was drawn down under the Paidy Credit Agreement, which was recorded in long-term debt on our consolidated balance sheet. Accordingly, at December 31, 2022, ¥25.7 billion (approximately $195 million) of borrowing capacity was available for the purposes permitted by the Paidy Credit Agreement, subject to customary conditions to borrowing. During the year ended December 31, 2022, the total interest expense and fees we recorded related to the Paidy Credit Agreement were de minimis.

Prior credit agreement

In October 2021, we assumed a credit agreement through our acquisition of Paidy (the “Prior Credit Agreement”), which provided for a secured revolving credit facility of ¥22.8 billion (approximately $198 million at acquisition). As of December 31, 2021, ¥11.3 billion (approximately $98 million) was outstanding under the Prior Credit Agreement, which was recorded in long-term debt on our consolidated balance sheet. In the first quarter of 2022, we terminated the Prior Credit Agreement and repaid all outstanding borrowings. The total interest expense and fees we recorded related to the Prior Credit Agreement were de minimis for the year ended December 31, 2022.

Other available facilities

We also maintain uncommitted credit facilities in various regions throughout the world, which had a borrowing capacity of approximately $80 million and $90 million in the aggregate, as of December 31, 2022 and 2021, respectively. This available credit includes facilities where we can withdraw and utilize the funds at our discretion for general corporate purposes. Interest rate terms for these facilities vary by region and reflect prevailing market rates for companies with strong credit ratings. As of December 31, 2022, the majority of the borrowing capacity under these credit facilities was available, subject to customary conditions to borrowing.

FUTURE PRINCIPAL PAYMENTS

As of December 31, 2022, the future principal payments associated with our term debt were as follows (in millions):

2023	$	418
2024		1,250
2025		1,000
2026		1,250
2027		500
Thereafter		6,000
Total	$	10,418

NOTE 13—COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As of December 31, 2022 and 2021, approximately $4.9 billion and $4.1 billion, respectively, of unused credit was available to PayPal Credit account holders in the U.K. 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.

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 or penalties or may require us to change or adopt certain business practices. 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 at that time. 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 and reasonably estimable were not material for the year ended December 31, 2022. 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. Determining legal reserves or possible losses from such matters involves judgment and may not reflect the full range of uncertainties and unpredictable outcomes. We may be exposed to losses in excess of the amount recorded, and such amounts could be material. If any of our estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our business, financial position, results of operations, or cash flows.

Regulatory proceedings

We routinely report to the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") on payments we have rejected or blocked pursuant to legal requirements under OFAC sanctions regulations. Between January 2013 and January 2022, we voluntarily disclosed to OFAC transactions that were inadvertently processed and identified as possible violations of OFAC sanctions regulations and responded to subpoenas and information requests related to certain of these transactions. In January 2023, OFAC notified us that it had completed its review of these matters and closed them with the issuance of a cautionary letter with no monetary penalties or sanctions.

PayPal Australia Pty Limited ("PPAU") self-reported a potential violation to the Australian Transaction Reports and Analysis Centre ("AUSTRAC") on May 22, 2019. This self-reported matter relates to PPAU incorrectly filing required international funds transfer instructions ("IFTIs") over a period of time under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 ("AML/CTF Act"). On September 23, 2019, PPAU received a notice from AUSTRAC requiring that PPAU appoint an external auditor (a partner of a firm which is not our independent auditor) to review certain aspects of PPAU's compliance with its obligations under the AML/CTF Act. The external auditor was appointed on November 1, 2019. As required under the terms of AUSTRAC's notice, as amended, PPAU issued to AUSTRAC the external auditor's interim reports on December 31, 2019, March 13, 2020, May 6, 2020, and July 7, 2020 and a final report on August 31, 2020.

AUSTRAC has notified PPAU that its enforcement team is investigating the matters reported upon by the external auditor in its August 31, 2020 final report. AUSTRAC continues to engage with PPAU regarding the transaction categories it considers reportable under the AML/CTF Act as IFTIs. PPAU is continuing to cooperate with AUSTRAC in all respects, including remediation activities, ongoing regular engagement with AUSTRAC, and responding to notices and requests for information and documents.

We cannot estimate the potential impact, if any, on our business or financial statements at this time. In the event an adverse outcome arises from any associated enforcement proceeding, or other further matter initiated by AUSTRAC, including in relation to AUSTRAC's determination of reportable IFTIs, then this could result in enforceable undertakings, 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.

We have received Civil Investigative Demands ("CIDs") from the Consumer Financial Protection Bureau ("CFPB") related to Venmo's unauthorized funds transfers and collections processes, and related matters, including treatment of consumers who request payments but accidentally designate an unintended recipient. The CIDs request the production of documents and answers to written questions. We are cooperating with the CFPB in connection with these CIDs.

We previously received a CID from the CFPB related to the marketing and use of PayPal Credit in connection with certain merchants that provide educational services (the "CFPB PayPal Credit Matter"). The CID requested the production of documents, written reports, and answers to written questions. We have been informed by the CFPB that this matter has been formally closed without action.

We are responding to subpoenas and requests for information received from the U.S. Securities and Exchange Commission ("SEC") Enforcement Division relating to whether the interchange rates paid to the bank that issues debit cards bearing our licensed brands were consistent with Regulation II of the Board of Governors of the Federal Reserve System, and to the reporting of marketing fees earned from the PayPal-branded card programs (the "SEC Debit Card Program Matter"). We are cooperating with the SEC Enforcement Division in connection with this investigation.

In February 2022, we received a CID from the Federal Trade Commission ("FTC") related to PayPal's practices relating to commercial customers that submit charges on behalf of other merchants or sellers, and related activities. The CID requests the production of documents and answers to written questions. We are cooperating with the FTC in connection with this CID.

In January 2023, we received notice of an administrative proceeding and a related request for information from the German Federal Cartel Office ("FCO") related to terms in PayPal (Europe) S.à.r.l. et Cie, S.C.A.'s contractual terms with merchants in Germany prohibiting surcharging and requiring parity presentation of PayPal relative to other payment methods. We are cooperating with the FCO in connection with this proceeding.

Legal proceedings

On August 20, 2021, a putative securities class action captioned Kang v. PayPal Holdings, Inc., et al., Case No. 21-cv-06468, was filed in the U.S. District Court for the Northern District of California (the "Kang Securities Action"). The Kang Securities Action asserts claims relating to our disclosure of the CFPB PayPal Credit Matter and the SEC Debit Card Program Matter in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021. The Kang Securities Action purports to be brought on behalf of purchasers of the Company's stock between February 9, 2017 and July 28, 2021 (the "Class Period"), and asserts claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against the Company, its Chief Executive Officer, and former Chief Financial Officer. The complaint alleges that certain public statements made by the Company during the Class Period were rendered materially false and misleading (which, allegedly, caused the Company's stock to trade at artificially inflated prices) by the defendants' failure to disclose that, among other things, PayPal's business practices with respect to PayPal Credit and regarding interchange rates paid to its bank partner related to its bank-issued co-branded debit cards were non-compliant with applicable laws and/or regulations. The Kang Securities Action seeks unspecified compensatory damages on behalf of the putative class members. On November 2, 2021, the court appointed a Lead Plaintiff, and on January 25, 2022, the Lead Plaintiff filed an amended complaint. The amended complaint alleges a class period between April 27, 2016 and July 28, 2021 (the "Amended Class Period"), and in addition to the Company, its Chief Executive Officer, and former Chief Financial Officer, also names other Company executives as defendants. The amended complaint alleges that various statements made by the defendants during the Amended Class Period were rendered materially false and misleading, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by PayPal's alleged violations of the 2015 consent order with the CFPB, federal consumer financial laws, and Regulation II. On August 8, 2022, the court granted Defendants' motion to dismiss the amended complaint in its entirety, and granted Lead Plaintiff's request for leave to file a further amended complaint. On September 16, 2022, Lead Plaintiff filed a Second Amended Complaint (the "SAC"), which asserts the same claims against the same Defendants based on the same alleged conduct as the prior complaint. Defendants moved to dismiss the SAC on November 3, 2022, and briefing is ongoing.

On December 16, 2021 and January 19, 2022, two related putative shareholder derivative actions captioned Pang v. Daniel Schulman, et al., Case No. 21-cv-09720, and Lalor v. Daniel Schulman, et al., Case No. 22-cv-00370, respectively, were filed in the U.S. District Court for the Northern District of California (the "California Derivative Actions"), purportedly on behalf of the Company. On August 2, 2022, a related putative shareholder derivative action captioned Jefferson v. Daniel Schulman, et al., No. 2022-0684, was filed in the Court of Chancery for the State of Delaware (the "Delaware Derivative Action," and collectively with the California Derivative Actions, the "Derivative Actions"), purportedly on behalf of the Company. The Derivative Actions are based on the same alleged facts and circumstances as the Kang Securities Action, and name certain of our officers, including our Chief Executive Officer and former Chief Financial Officer, and members of our Board of Directors, as defendants. The Derivative Actions allege claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and violations of the Securities Exchange Act of 1934, and seek to recover damages on behalf of the Company. On February 1, 2022, the court entered an order consolidating the two California Derivative Actions and staying them until all motions to dismiss in the Kang Securities Action are resolved.

On October 4, 2022, a putative securities class action captioned Defined Benefit Plan of the Mid-Jersey Trucking Industry and Teamsters Local 701 Pension and Annuity Fund v. PayPal Holdings, Inc., et al., Case No. 22-cv-5864, was filed in the U.S. District Court for the District of New Jersey. On January 11, 2023, the Court appointed Caisse de dépôt et placement du Québec as lead plaintiff and renamed the action *In re PayPal Holdings, Inc. Securities Litigation* ("PPH Securities Action"). The PPH Securities Action asserts claims relating to our public statements with respect to net new active accounts ("NNA") results and guidance, and the detection of illegitimately created accounts. The PPH Securities Action purports to be brought on behalf of purchasers of the Company's stock between February 3, 2021 and February 1, 2022 (the "Class Period"), and asserts claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against the Company, its Chief Executive Officer, and former Chief Financial Officer. The complaint alleges that certain public statements made by the Company during the Class Period were rendered materially false and misleading (which, allegedly, caused the Company's stock to trade at artificially inflated prices) by the defendants' failure to disclose that, among other things, the Company's incentive campaigns were susceptible to fraud and led to the creation of illegitimate accounts, which allegedly affected the Company's NNA results and guidance. The PPH Securities Action seeks unspecified compensatory damages on behalf of the putative class members.

On November 2, 2022, a putative shareholder derivative action captioned Shah v. Daniel Schulman, et al., Case No. 22-cv-1445, was filed in the U.S. District Court for the District of Delaware (the "Shah Action"), purportedly on behalf of the Company. The Shah Action is based on the same alleged facts and circumstances as the PPH Securities Action, and names certain of our officers, including our Chief Executive Officer and former Chief Financial Officer, and members of our Board of Directors, as defendants. The Shah Action alleges claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment, waste of corporate assets, and violations of the Securities Exchange Act of 1934, and seeks to recover damages on behalf of the Company.

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) or regulators 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 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 legal review and challenges that may reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on our business and customers and may lead to increased costs and decreased transaction volume and revenue. Further, the number and significance of these disputes and inquiries are increasing as our business has grown and expanded in scale and scope, including the number of active accounts and payments transactions on our platform, the range and increasing complexity of the products and services that we offer, and our geographical operations. 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

Our agreements with eBay governing our separation from eBay 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 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 may include indemnities related to intellectual property rights, confidentiality, willful misconduct, data privacy obligations, and certain breach of contract claims, among others. 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.

PayPal has participated in the U.S. Government's Paycheck Protection Program administered by the U.S. Small Business Administration. Loans made under this program are funded by an independent chartered financial institution that we partner with. We receive a fee for providing services in connection with these loans and retain operational and audit risk related to those activities. We have agreed, under certain circumstances, to indemnify the chartered financial institution and its assignee of a portion of these loans in connection with the services provided for loans made under this program.

To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2022 and 2021, 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 for certain transactions completed on our payments platform. These programs are intended to protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our Purchase 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 under applicable accounting standards for which we estimate and record associated costs in transaction and credit losses during the period the payment transaction is completed.

At December 31, 2022 and 2021, the allowance for transaction losses was $66 million and $121 million, respectively. The allowance for negative customer balances was $212 million and $234 million at December 31, 2022 and 2021, respectively. The following table shows changes in the allowance for transaction losses and negative customer balances related to our protection programs for the years ended December 31, 2022 and 2021:

	As of December 31,	
	2022	2021
	(In millions)	
Beginning balance	$ 355	$ 414
Provision	1,170	1,153
Realized losses	(1,417)	(1,331)
Recoveries	170	119
Ending balance	$ 278	$ 355

NOTE 14—STOCK REPURCHASE PROGRAMS

In April 2017, our Board of Directors authorized a stock repurchase program that provided 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 became effective in the first quarter of 2020 upon completion of the April 2017 stock repurchase program. In June 2022, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to $15 billion of our common stock, with no expiration from the date of authorization. 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 prior notice.

During the year ended December 31, 2022, we repurchased approximately 41 million shares of our common stock for approximately $4.2 billion at an average cost of $103.47. These shares were purchased in the open market under our stock repurchase program authorized in July 2018. As of December 31, 2022, a total of approximately $861 million and $15.0 billion remained available for future repurchases of our common stock under our July 2018 and June 2022 stock repurchase programs, respectively.

During the year ended December 31, 2021, we repurchased approximately 15 million shares of our common stock for approximately $3.4 billion at an average cost of $219.75. These shares were purchased in the open market under our stock repurchase program authorized in July 2018. As of December 31, 2021, a total of approximately $5.1 billion remained available for future repurchases of our common stock under our July 2018 stock repurchase program.

During the year ended December 31, 2020, we repurchased approximately 12 million shares of our common stock for approximately $1.6 billion at an average cost of $136.19. These shares were purchased in the open market under our stock repurchase programs authorized in April 2017 and July 2018. As of December 31, 2020, a total of approximately $8.4 billion remained available for future repurchases of our common stock under our July 2018 stock repurchase program.

Shares of common stock repurchased for the periods presented were recorded as treasury stock for the purposes of calculating net income (loss) per share and were accounted for under the cost method. No repurchased shares of common stock have been retired.

NOTE 15—STOCK-BASED AND EMPLOYEE SAVINGS PLANS

EQUITY INCENTIVE PLANS

Under the terms of the Amended and Restated PayPal Holdings, Inc. 2015 Equity Incentive Award Plan (the "Plan"), equity awards, including restricted stock units ("RSUs"), restricted stock awards, performance based restricted stock units ("PBRSUs"), stock options, deferred stock units, and stock payments, may be granted to our directors, officers, and employees. At December 31, 2022, 47 million shares were authorized under the Plan and approximately 31 million shares were available for future grant. Shares issued as a result of stock option exercises and the release of stock awards were funded primarily with the issuance of new shares of common stock.

In 2022, the Company adopted a plan for which equity-based incentive awards may be granted to new employees (the "Inducement Plan"). Grants under the Inducement Plan are in addition to the Plan mentioned above. As of December 31, 2022, 5 million shares were authorized under the Inducement Plan and approximately 3 million shares were available for future grant.

RSUs are granted to eligible employees under the Plan. RSUs issued prior to January 1, 2022 generally vest in equal annual installments over a period of three years. RSUs issued on or after January 1, 2022 generally vest over three years at a rate of 33% after one year, then in equal quarterly installments thereafter. RSUs are subject to an employee's continuing service to us, and do not have an expiration date. The cost of RSUs granted is determined using the fair market value of PayPal's common stock on the date of grant.

Certain of our executives and non-executives are eligible to receive PBRSUs, which are equity awards that may be earned based on an initial target number. The final number of PBRSUs may vest and settle depending on the Company's performance against pre-established performance metrics over a predefined performance period. PBRSUs granted under the Plan generally have one to three-year performance periods with cliff vesting following the completion of the performance period, subject to the Compensation Committee's approval of the level of achievement against the pre-established performance targets. Over the performance period, the number of PBRSUs that may be issued and related stock-based compensation expense that is recognized is adjusted upward or downward based upon the probability of achieving the approved performance targets against the performance metrics. Depending on the probability of achieving the pre-established performance targets, the number of PBRSUs issued could range from 0% to 200% of the target amount.

All stock options under the Plan were assumed in connection with acquisitions on the same terms and conditions (including vesting) applicable to such acquired companies' equity awards. The cost of stock options was determined using the Black-Scholes option pricing model.

EMPLOYEE STOCK PURCHASE PLAN

Under the terms of the Employee Stock Purchase Plan ("ESPP"), shares of our common stock may be purchased over an offering period with a maximum duration of two years at 85% of the lower of the fair market value on the first day of the applicable offering period or on the last business day of each six-month purchase period within the offering period. Employees may contribute between 2% and 10% of their gross compensation during an offering period to purchase shares, but not more than the statutory limitation of $25,000 per year. All company stock purchased through the ESPP is considered outstanding and is included in the weighted-average outstanding shares for purposes of computing basic and diluted net income (loss) per share. For the years ended December 31, 2022, 2021, and 2020, our employees purchased 1.9 million, 1.4 million, and 1.7 million shares under the ESPP at an average per share price of $73.20, $114.36, and $80.36, respectively. As of December 31, 2022, approximately 46 million shares were reserved for future issuance under the ESPP.

RSU, PBRSU, AND RESTRICTED STOCK ACTIVITY

The following table summarizes RSU, PBRSU, and restricted stock activity under the Plan and the Inducement Plan as of December 31, 2022 and changes during the year ended December 31, 2022:

	Units	Weighted Average Grant-Date Fair Value (per share)
	(In thousands, except per share amounts)	
Outstanding at January 1, 2022	17,534	$ 172.55
Awarded and assumed[1]	17,238	$ 105.20
Vested[1]	(9,930)	$ 145.75
Forfeited/cancelled[2]	(5,254)	$ 147.81
Outstanding at December 31, 2022	19,588	$ 133.27
Expected to vest	17,507	

[1] Includes approximately 0.5 million of additional PBRSUs issued during 2022 due to the achievement of company performance metrics on awards granted in previous years.
[2] Includes approximately 1.0 million of PBRSUs cancelled during 2022 resulting from a change in the method of payout of the Company portion of our Annual Incentive Plan from equity to cash for certain employees.

During the years ended December 31, 2022, 2021, and 2020, the aggregate intrinsic value of RSUs and PBRSUs vested under the Plan was $935 million, $3.4 billion, and $1.7 billion, respectively.

In the year ended December 31, 2022, the Company granted 1.5 million PBRSUs with a one-year performance period (fiscal 2022) of which 1.0 million were subsequently cancelled due to the change in method of payout as mentioned above. As such, 0.5 million will become fully vested following the completion of the performance period in February 2023 (one year from the annual incentive award cycle grant date). In the year ended December 31, 2022, the Company also granted 1.1 million PBRSUs with a three-year performance period.

In the year ended December 31, 2021, the Company granted 0.7 million PBRSUs with a one-year performance period (fiscal 2021), which became fully vested following the completion of the performance period in February 2022 (one year from the annual incentive award cycle grant date), and 0.5 million PBRSUs with a three-year performance period.

STOCK OPTION ACTIVITY

The following table summarizes stock option activity of our employees under the Plan for the year ended December 31, 2022:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(In thousands, except per share amounts and years)			
Outstanding at January 1, 2022	339	$ 17.55		
Assumed	3	$ 55.55		
Exercised	(190)	$ 20.62		
Forfeited/expired/cancelled	(11)	$ 13.66		
Outstanding at December 31, 2022	141	$ 14.56	4.93	$ 8,080
Expected to vest	24	$ 23.89	7.46	$ 1,172
Options exercisable	117	$ 12.60	4.40	$ 6,875

The weighted average grant date fair value of options assumed from acquisitions during the years ended December 31, 2022, 2021, and 2020 was $147.92, $237.26 and $108.61, respectively. The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying options and the quoted price of our common stock at December 31, 2022. During the years ended December 31, 2022, 2021, and 2020, the aggregate intrinsic value of options exercised under the Plan was $16 million, $81 million, and $66 million, respectively, determined as of the date of option exercise. At December 31, 2022, substantially all outstanding options were in-the-money.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense for the Plan and the Inducement Plan is measured based on estimated fair value at the time of grant, and recognized over the award's vesting period.

The impact on our results of operations of recording stock-based compensation expense under the Plan for the years ended December 31, 2022, 2021, and 2020 was as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
Customer support and operations	$ 269	$ 263	$ 250
Sales and marketing	151	175	172
Technology and development	512	515	529
General and administrative	383	468	460
Total stock-based compensation expense	$ 1,315	$ 1,421	$ 1,411
Capitalized as part of internal use software and website development costs	$ 52	$ 68	$ 48
Income tax benefit recognized for stock-based compensation arrangements	$ 209	$ 221	$ 226

As of December 31, 2022, there was approximately $1.4 billion of unearned stock-based compensation estimated to be expensed primarily from 2023 through 2025. If there are any modifications or cancellations of the underlying unvested awards, we may be required to accelerate, increase, or cancel all or a portion of the remaining unearned stock-based compensation expense. Future unearned stock-based compensation will increase to the extent we grant additional equity awards, change the mix of equity awards we grant, or assume unvested equity awards in connection with acquisitions.

EMPLOYEE SAVINGS PLANS

Under the terms of the PayPal Holdings, Inc. Deferred Compensation Plan, which also qualifies under Section 401(k) of the Code, participating U.S. employees may contribute up to 50% of their eligible compensation, but not more than statutory limits. Under the PayPal plan, eligible employees received one dollar for each dollar contributed, up to 4% of each employee's eligible salary, subject to a maximum employer contribution per employee of $12,200 in 2022 and $11,600 in both 2021 and 2020. Our non-U.S. employees are covered by other savings plans. For the years ended December 31, 2022, 2021, and 2020, the matching contribution expense for our U.S. and international savings plans was approximately $83 million, $81 million, and $72 million, respectively.

NOTE 16—INCOME TAXES

The components of income before income taxes are as follows:

	Year Ended December 31,		
	2022	2021	2020
	(In millions)		
United States	$ (155)	$ 290	$ 1,504
International	3,521	3,809	3,561
Income before income taxes	$ 3,366	$ 4,099	$ 5,065

The income tax expense (benefit) is composed of the following:

	Year Ended December 31,		
	2022	2021	2020
		(In millions)	
Current:			
Federal	$ 688	$ 6	$ 310
State and local	104	80	143
Foreign	966	326	245
Total current portion of income tax expense	$ 1,758	$ 412	$ 698
Deferred:			
Federal	$ (563)	$ (401)	$ 259
State and local	(101)	(45)	(32)
Foreign	(147)	(36)	(62)
Total deferred portion of income tax expense (benefit)	(811)	(482)	165
Income tax expense (benefit)	$ 947	$ (70)	$ 863

The following is a reconciliation of the difference between the effective income tax rate and the federal statutory rate:

	Year Ended December 31,		
	2022	2021	2020
Federal statutory rate	21.0 %	21.0 %	21.0 %
Domestic income taxed at different rates	(0.6)%	(1.7)%	— %
State taxes, net of federal benefit	— %	0.9 %	2.2 %
Foreign income taxed at different rates	(12.2)%	(13.4)%	(7.4)%
Stock-based compensation expense	4.1 %	(7.3)%	(1.2)%
Tax credits	(0.4)%	(2.4)%	(2.0)%
Change in valuation allowances	2.2 %	0.5 %	0.1 %
Intra-group transfer of intellectual property	10.0 %	0.7 %	4.1 %
Other	4.0 %	— %	0.2 %
Effective income tax rate	28.1 %	(1.7)%	17.0 %

For the year ended December 31, 2022, the difference between the effective income tax rate of 28.1% and the U.S. federal statutory rate of 21% to income before income taxes was primarily the result of tax expense related to the intra-group transfer of intellectual property and non-deductible stock-based compensation, partially offset by foreign income taxed at different rates. For the year ended December 31, 2021, the difference between the effective income tax rate of (1.7)% and the U.S. federal statutory rate of 21% to income before income taxes was primarily the result of foreign income taxed at different rates and stock-based compensation deductions. For the year ended December 31, 2020, the difference between the effective income tax rate of 17.0% and the U.S. federal statutory rate of 21% to income before income taxes was primarily the result of foreign income taxed at different rates, partially offset by tax expense related to the intra-group transfer of intellectual property.

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant deferred tax assets and liabilities consist of the following:

	As of December 31,	
	2022	2021
	(In millions)	
Deferred tax assets:		
Net operating loss and credit carryforwards	$ 355	$ 317
Accruals, allowances, and prepaids	427	622
Lease liabilities	173	176
Partnership investment	—	5
Stock-based compensation	154	188
Net unrealized losses	151	23
Acquired intangibles	38	—
Fixed assets and other intangibles	655	84
Total deferred tax assets	1,953	1,415
Valuation allowance	(341)	(274)
Net deferred tax assets	$ 1,612	$ 1,141
Deferred tax liabilities:		
Unremitted foreign earnings	$ (42)	$ (35)
Acquired intangibles	—	(240)
ROU lease assets	(138)	(154)
Partnership investment	(12)	—
Net unrealized gains	(135)	(351)
Total deferred tax liabilities	(327)	(780)
Net deferred tax assets	$ 1,285	$ 361

The following table shows the deferred tax assets and liabilities within our consolidated balance sheets:

		As of December 31,	
		2022	2021
	Balance Sheet Location	(In millions)	
Total deferred tax assets (non-current)	Other assets	$ 1,310	$ 547
Total deferred tax liabilities (non-current)	Deferred tax liability and other long-term liabilities	(25)	(186)
Total net deferred tax assets		$ 1,285	$ 361

As of December 31, 2022, our federal, state, and foreign net operating loss carryforwards for income tax purposes were approximately $6 million, $156 million, and $634 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Code. If not utilized, the federal net operating loss carryforwards will begin to expire in 2025, and the state net operating loss carryforwards will begin to expire in 2023. Approximately $197 million of the foreign net operating loss carryforwards will begin to expire in 2024, $191 million will begin to expire in 2034, and $246 million may be carried forward indefinitely. As of December 31, 2022, our federal and state tax credit carryforwards for income tax purposes were approximately $24 million and $374 million, respectively. If not utilized, the federal tax credits will begin to expire in 2029. Approximately $49 million of the state tax credits will begin to expire from 2023 through 2028, $8 million will begin to expire in 2038, and $317 million may be carried forward indefinitely.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. We have elected the tax law ordering approach to assess the realizability of our net operating losses. During the years ended December 31, 2022 and 2021, we increased our valuation allowance by $67 million and $108 million, respectively, and during the year ended December 31, 2020, we decreased our valuation allowance by $18 million. At December 31, 2022, 2021, and 2020, we maintained a valuation allowance with respect to our net deferred tax assets in certain states, operating losses in certain state and foreign jurisdictions, and certain federal and state tax credits that we believe are not likely to be realized.

At December 31, 2022, none of our approximately $11.0 billion of unremitted foreign earnings are considered to be indefinitely reinvested. We have accrued $42 million of deferred U.S. state income and foreign withholding taxes on the $11.0 billion of undistributed foreign earnings.

We benefit from agreements concluded in certain jurisdictions, most significantly Singapore. In December 2019, a new agreement was concluded in Singapore. The new agreement took effect January 1, 2021 and will be in effect from 2021 through 2030. This agreement results in significantly lower rates of taxation on certain classes of income and requires various thresholds of investment and employment in those jurisdictions. We review our compliance on an annual basis to ensure we continue to meet our obligations under this agreement. This agreement resulted in tax savings of approximately $510 million, $327 million, and $596 million in 2022, 2021, and 2020, respectively. The benefit of this agreement on our net income (loss) per share (diluted) was approximately $0.44, $0.28, and $0.50 in 2022, 2021, and 2020, respectively.

The following table reflects changes in unrecognized tax benefits for the periods presented below:

	Year Ended December 31,		
	2022	2021	2020
		(In millions)	
Gross amounts of unrecognized tax benefits as of the beginning of the period	$ 1,678	$ 1,479	$ 1,141
Increases related to prior period tax positions	52	172	92
Decreases related to prior period tax positions	(185)	(187)	(78)
Increases related to current period tax positions	337	232	360
Settlements	(2)	(15)	(34)
Statute of limitation expirations	(3)	(3)	(2)
Gross amounts of unrecognized tax benefits as of the end of the period	$ 1,877	$ 1,678	$ 1,479

If the remaining balance of unrecognized tax benefits were realized in a future period, it would result in a tax benefit of $1.2 billion.

For the years ended December 31, 2022, 2021, and 2020, we recognized net interest and penalties of $119 million, $6 million, and $40 million, respectively, related to uncertain tax positions in income tax expense. This expense is reflected in the “Other” line of our effective income tax rate schedule. The amount of interest and penalties accrued as of December 31, 2022 and 2021 was approximately $342 million and $212 million, respectively.

We are subject to taxation in the U.S. and various state and foreign jurisdictions. We are currently under examination by certain tax authorities for the 2010 to 2021 tax years. The material jurisdictions in which we are subject to examination by tax authorities for tax years after 2009 primarily include the U.S. (Federal and California), Australia, Germany, India, Israel, and Singapore. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from our open examinations.

Although the timing of the resolution of these audits is uncertain, we do not expect the total amount of unrecognized tax benefits as of December 31, 2022 will materially change in the next 12 months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

In connection with our separation from eBay in 2015, we entered into various agreements that govern the relationship between the parties going forward, including a tax matters agreement. Under the tax matters agreement, eBay is generally responsible for all additional taxes (and will be entitled to all related refunds of taxes) imposed on eBay and its subsidiaries (including subsidiaries that were transferred to PayPal pursuant to the separation) arising after the separation date with respect to the taxable periods (or portions thereof) ended on or prior to July 17, 2015, except for those taxes for which PayPal has reflected an unrecognized tax benefit in its financial statements on the separation date.

NOTE 17—RESTRUCTURING AND OTHER CHARGES

During the first quarter of 2022, management initiated a strategic reduction of the existing global workforce intended to streamline and optimize our global operations to enhance operating efficiency. This effort focused on reducing redundant operations and simplifying our organizational structure. The associated restructuring charges in 2022 were $121 million. We primarily incurred employee severance and benefits costs, as well as associated consulting costs under the 2022 strategic reduction. The strategic actions associated with this plan were substantially completed by the fourth quarter of 2022.

The following table summarizes the restructuring reserve activity during the year ended December 31, 2022:

	Employee Severance and Benefits and Other Associated Costs
	(In millions)
Accrued liability as of January 1, 2022	$ 5
Charges	121
Payments	(102)
Accrued liability as of December 31, 2022	$ 24

During the first quarter of 2020, management approved a strategic reduction of the existing global workforce as part of a multiphase process to reorganize our workforce concurrently with the redesign of our operating structure, which spanned multiple quarters. The associated restructuring charges in 2021 and 2020 were $27 million, and $109 million, respectively. We primarily incurred employee severance and benefits costs, as well as associated consulting costs under the 2020 strategic reduction, which was substantially completed in 2021.

Additionally, we are continuing to review our real estate and facility capacity requirements due to our new and evolving work models. We incurred asset impairment charges of $81 million, $26 million, and $30 million in 2022, 2021, and 2020, respectively, due to exiting of certain leased properties which resulted in a reduction of ROU lease assets and related leasehold improvements. See “Note 6—Leases” for additional information.

NOTE 18—SUBSEQUENT EVENTS

In January 2023, management initiated a global workforce reduction intended to focus resources on core strategic priorities, and improve our cost structure and operating efficiency. We estimate that this reduction will impact approximately 7% of our employees and will result in approximately $100 million of restructuring charges, primarily related to employee severance and benefits costs. The actions associated with this plan are expected to be substantially completed by the first quarter of 2023.

FINANCIAL STATEMENT SCHEDULE

The Financial Statement Schedule II—VALUATION AND QUALIFYING ACCOUNTS is filed as part of this Annual Report on Form 10-K.

	Balance at Beginning of Period	Charged/ (Credited) to Net Income	Charged to Other Accounts[1]	Charges Utilized/ (Write-offs)	Balance at End of Period
			(In millions)		
Allowance for Transaction Losses and Negative Customer Balances					
Year Ended December 31, 2020	$ 399	$ 1,135	$ —	$ (1,120)	$ 414
Year Ended December 31, 2021	$ 414	$ 1,153	$ —	$ (1,212)	$ 355
Year Ended December 31, 2022	$ 355	$ 1,170	$ —	$ (1,247)	$ 278
Allowance for Loans and Interest Receivable					
Year Ended December 31, 2020	$ 258	$ 689	$ 210	$ (319)	$ 838
Year Ended December 31, 2021	$ 838	$ (104)	$ —	$ (243)	$ 491
Year Ended December 31, 2022	$ 491	$ 437	$ —	$ (330)	$ 598

[1] The amount is related to the impact of the adjustment recorded for adoption of the current expected credit loss standard.

INDEX OF EXHIBITS

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
2.01	Separation and Distribution Agreement by and between eBay Inc. and PayPal Holdings, Inc.		10-12B/A	6/26/2015
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
4.01	Description of Securities		10-K	2/6/2020
4.02	Indenture, dated as of September 26, 2019, by and between PayPal Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee		8-K	9/26/2019
4.03	Officer’s Certificate, dated as of September 26, 2019, pursuant to the Indenture, dated as of September 26, 2019, by and between PayPal Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee		8-K	9/26/2019
4.04	Form of 2022 Note (included in Exhibit 4.03)		8-K	9/26/2019
4.05	Form of 2024 Note (included in Exhibit 4.03)		8-K	9/26/2019
4.06	Form of 2026 Note (included in Exhibit 4.03)		8-K	9/26/2019
4.07	Form of 2029 Note (included in Exhibit 4.03)		8-K	9/26/2019
4.08	Officer’s Certificate, dated as of May 18, 2020, pursuant to the Indenture, dated as of September 26, 2019, by and between PayPal Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee		8-K	5/18/2020
4.09	Form of 2023 Note (included in Exhibit 4.08)		8-K	5/18/2020
4.10	Form of 2025 Note (included in Exhibit 4.08)		8-K	5/18/2020
4.11	Form of 2030 Note (included in Exhibit 4.08)		8-K	5/18/2020
4.12	Form of 2050 Note (included in Exhibit 4.08)		8-K	5/18/2020
4.13	Officer’s Certificate, dated as of May 23, 2022, pursuant to the Indenture, dated as of September 26, 2019, by and between PayPal Holdings, Inc. and Wells Fargo Bank, National Association, as Trustee		8-K	5/23/2022
4.14	Form of 2027 Note (included in Exhibit 4.2)		8-K	5/23/2022
4.15	Form of 2032 Note (included in Exhibit 4.2)		8-K	5/23/2022
4.16	Form of 2052 Note (included in Exhibit 4.2)		8-K	5/23/2022
4.17	Form of 2062 Note (included in Exhibit 4.2)		8-K	5/23/2022
10.01	Tax Matters Agreement by and between eBay Inc. and PayPal Holdings, Inc. dated July 17, 2015		8-K	7/20/2015
10.02	Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., Toronto Branch, and J.P. Morgan Europe Limited, as the Administrative Agents		8-K	9/12/2019
10.03	364-Day Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent		8-K	9/12/2019
10.04+	PayPal Employee Incentive Plan, as amended and restated		DEF 14A	4/14/2016
10.05+	PayPal Holdings, Inc. Amended and Restated 2015 Equity Incentive Award Plan		8-K	5/25/2018
10.06+	PayPal Holdings, Inc. Amended and Restated Deferred Compensation Plan effective November 6, 2018		10-K	2/7/2019

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
10.07+	PayPal Holdings, Inc. Executive Change in Control and Severance Plan, as amended and restated, effective as of September 27, 2021		10-Q	11/9/2021
10.08+	Form of Indemnity Agreement between PayPal Holdings, Inc. and individual directors and officers		10-12B/A	5/14/2015
10.09+	Form of Global Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan		10-12B/A	5/14/2015
10.10+	Form of Global Performance Based Restricted Stock Unit Award Grant Notice and Performance Based Restricted Stock Unit Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan, as amended and restated		10-Q	4/27/2017
10.11+	Form of Global Notice of Grant of Stock Option and Stock Option Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan		10-12B/A	5/14/2015
10.12+	Form of Director Annual Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan		10-12B/A	5/14/2015
10.13+	Form of Electing Director Quarterly Award Agreement under the PayPal Holdings, Inc. 2015 Equity Incentive Award Plan		10-12B/A	5/14/2015
10.14+	PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan		8-K	5/25/2018
10.15+	Amendment to PayPal Holdings, Inc. Amended and Restated Employee Stock Purchase Plan		10-Q	11/9/2021
10.16+	PayPal Holdings, Inc. 2022 Inducement Plan		10-Q	8/2/2022
10.17+	Offer Letter dated September 29, 2014 between eBay Inc. and Daniel Schulman		10-12B/A	5/14/2015
10.18+	Amendment dated December 31, 2014 to Offer Letter between eBay Inc. and Daniel Schulman		10-12B/A	5/14/2015
10.19+	Letter dated April 7, 2015 from eBay Inc. to Louise Pentland		10-K	2/11/2016
10.20+	Letter dated April 13, 2015 from eBay Inc. to Jonathan Auerbach		10-K	2/11/2016
10.21+	Letter Agreement dated July 29, 2015 between John Rainey and PayPal Holdings, Inc.		10-Q	10/29/2015
10.22+	Letter Agreement, dated April 17, 2016, between Aaron Karczmer and PayPal Holdings, Inc.		10-Q	4/27/2017
10.23+	Letter Agreement effective February 20, 2019 between Mark Britto and PayPal Holdings, Inc.		10-Q	4/25/2019
10.24+	Letter Agreement effective July 13, 2022, between Blake Jorgensen and PayPal Holdings, Inc.		10-Q	8/2/2022
10.25+	Letter Agreement dated June 15, 2022 between Gabrielle Rabinovitch and PayPal Holdings, Inc.		8-K	6/17/2022
10.26+	Letter Agreement dated September 27, 2022 between Gabrielle Rabinovitch and PayPal Holdings, Inc.		8-K	10/3/2022
10.27+	Letter Agreement dated September 1, 2022 between John Kim and PayPal Holdings, Inc.		10-Q	11/3/2022
10.28+	Independent Director Compensation Policy		10-K	2/5/2021
10.29+	PayPal Holdings, Inc. Executive Change in Control and Severance Plan, as amended and restated		10-Q	7/29/2021

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
10.30	First Amendment, dated as of March 23, 2020, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., Toronto Branch, and J.P. Morgan Europe Limited, as the Administrative Agents		10-Q	5/7/2020
10.31	First Amendment, dated as of March 23, 2020, to the 364-Day Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as the Administrative Agent		10-Q	5/7/2020
10.32	Joinder Agreement, dated as of March 25, 2020, among PayPal International Treasury Centre S.à r.l., PayPal Holdings, Inc., and J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, and JPMorgan Chase Bank, N.A., Toronto Branch, as the Administrative Agents, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and the Administrative Agents		10-Q	5/7/2020
10.33	Joinder Agreement, dated as of March 25, 2020, among PayPal (Europe) S.à r.l. et Cie, S.C.A., PayPal Holdings, Inc., and J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, and JPMorgan Chase Bank, N.A., Toronto Branch, as the Administrative Agents, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and the Administrative Agents		10-Q	5/7/2020
10.34	Joinder Agreement, dated as of March 27, 2020, among PayPal Pte. Ltd., PayPal Holdings, Inc., and J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, and JPMorgan Chase Bank, N.A., Toronto Branch, as the Administrative Agents, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and the Administrative Agents		10-Q	5/7/2020
10.35	Joinder Agreement, dated as of March 31, 2020, among PayPal Australia Pty Limited, PayPal Holdings, Inc., and J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, and JPMorgan Chase Bank, N.A., Toronto Branch, as the Administrative Agents, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and the Administrative Agents		10-Q	5/7/2020
10.36	Second Amendment, dated as of January 7, 2022, to the Credit Agreement, dated as of September 11, 2019, among PayPal Holdings, Inc., the Designated Borrowers party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A., J.P. Morgan Securities Australia Limited, JPMorgan Chase Bank, N.A., Toronto Branch, and J.P. Morgan AG, as the Administrative Agents		10-K	2/3/2022
21.01	List of Subsidiaries	X		
22.01	PricewaterhouseCoopers LLP consent	X		
23.01	Power of Attorney (see signature page)	X		
31.01	Certification of PayPal Holdings, Inc.'s Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	X		
31.02	Certification of PayPal Holdings, Inc.'s Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	X		
32.01	Certification of PayPal Holdings, Inc.'s Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002	X		

Exhibit Number	Exhibit Description	Filed with this Form 10-K	Incorporated by Reference	
			Form	Date Filed
32.02	Certification of PayPal Holdings, Inc.'s Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002	X		
101	The following financial information related to the Company's Annual Report on Form 10-K for the year ended December 31, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income (Loss), (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows; and (vi) the related Notes to Consolidated Financial Statements	X		
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	X		

+ Indicates a management contract or compensatory plan or arrangement

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 9, 2023.

PayPal Holdings, Inc.

By:	*/s/ Daniel H. Schulman*	
	Name:	Daniel H. Schulman
	Title:	President, Chief Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel H. Schulman, Gabrielle Rabinovitch, Bimal Patel, Brian Y. Yamasaki and Jeffrey W. Karbowski, and each or any one of them, each with the power of substitution, his or her attorney-in-fact, to sign any amendments to this report, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 9, 2023.

Principal Executive Officer:

By: */s/ Daniel H. Schulman*

Daniel H. Schulman
President, Chief Executive Officer and Director

Principal Financial Officer:

By: */s/ Gabrielle Rabinovitch*

Gabrielle Rabinovitch
Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer

Principal Accounting Officer:

By: */s/ Jeffrey W. Karbowski*

Jeffrey W. Karbowski
Vice President, Chief Accounting Officer

Additional Directors

By: */s/ Rodney C. Adkins*
Rodney C. Adkins
Director

By: */s/ Jonathan Christodoro*
Jonathan Christodoro
Director

By: */s/ John J. Donahoe*
John J. Donahoe
Director

By: */s/ David W. Dorman*
David W. Dorman
Director

By: */s/ Belinda Johnson*
Belinda Johnson
Director

By: */s/ Enrique Lores*
Enrique Lores
Director

By: */s/ Gail J. McGovern*
Gail J. McGovern
Director

By: */s/ Deborah M. Messemer*
Deborah M. Messemer
Director

By: */s/ David M. Moffett*
David M. Moffett
Director

By: */s/ Ann M. Sarnoff*
Ann M. Sarnoff
Director

By: */s/ Frank D. Yeary*
Frank D. Yeary
Director

Exhibit 21.01

SUBSIDIARIES OF PAYPAL HOLDINGS, INC.

The following is a list of subsidiaries of PayPal Holdings, Inc., omitting subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Subsidiary	**Jurisdiction of Organization**
Bill Me Later, Inc.	Delaware, United States
Hyperwallet Systems Inc.	Canada
Paidy Inc.	Japan
PayPal (Europe) S.à r.l. et Cie, S.C.A.	Luxembourg
PayPal Australia Pty Limited	Australia
PayPal Canada Co.	Canada
PayPal do Brasil Instituição de Pagamentos Ltda.	Brazil
PayPal Global Holdings, Inc.	Delaware, United States
PayPal International Treasury Centre S.à r.l.	Luxembourg
PayPal Payment Holdings Pte. Ltd.	Singapore
PayPal Pte. Ltd.	Singapore
PayPal, Inc.	Delaware, United States
Swift Financial, LLC	Delaware, United States

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-266475, 333-266474 and 333-233776) and Form S-8 (Nos. 333-262503, 333-266139, 333-257416, 333-256374, 333-255416, 333-235832, 333-227947, 333-226532, 333-225625, 333-220890, 333-219828, 333-208346, and 333-205609) of PayPal Holdings, Inc. of our report dated February 9, 2023 relating to the financial statements and financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP
San Jose, California
February 9, 2023

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-K 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: February 9, 2023

Exhibit 31.02

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

I, Gabrielle Rabinovitch, certify that:

1. I have reviewed this report on Form 10-K 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/ Gabrielle Rabinovitch

Gabrielle Rabinovitch
Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer
(Principal Financial Officer)

Date: February 9, 2023

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 annual report on Form 10-K for the year ended December 31, 2022 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: February 9, 2023

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, Gabrielle Rabinovitch, 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 annual report on Form 10-K for the year ended December 31, 2022 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/ Gabrielle Rabinovitch

Gabrielle Rabinovitch
Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer
(Principal Financial Officer)

Date: February 9, 2023

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.

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 June 30, 2023.

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

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

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

Title of each class	*Trading Symbol(s)*	*Name of each exchange on which registered*
Common stock, $0.0001 par value per share	**PYPL**	**NASDAQ Global Select Market**

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 ☐

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 ☒ 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.

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 ☒

As of July 27, 2023, there were 1,098,037,471 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

	June 30, 2023	December 31, 2022
	(In millions, except par value) (Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,504	$ 7,776
Short-term investments	4,398	3,092
Accounts receivable, net	928	963
Loans and interest receivable, held for sale	1,903	—
Loans and interest receivable, net of allowances of $617 and $598 as of June 30, 2023 and December 31, 2022, respectively	5,547	7,431
Funds receivable and customer accounts	33,643	36,264
Prepaid expenses and other current assets	2,202	1,898
Total current assets	54,125	57,424
Long-term investments	4,543	5,018
Property and equipment, net	1,589	1,730
Goodwill	11,067	11,209
Intangible assets, net	640	788
Other assets	2,615	2,455
Total assets	$ 74,579	$ 78,624
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 137	$ 126
Funds payable and amounts due to customers	37,393	40,014
Accrued expenses and other current liabilities	3,433	4,055
Income taxes payable	791	813
Total current liabilities	41,754	45,008
Deferred tax liability and other long-term liabilities	2,615	2,925
Long-term debt	10,549	10,417
Total liabilities	54,918	58,350
Commitments and contingencies (Note 13)		
Equity:		
Common stock, $0.0001 par value; 4,000 shares authorized; 1,102 and 1,136 shares outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Preferred stock, $0.0001 par value; 100 shares authorized, unissued	—	—
Treasury stock at cost, 214 and 173 shares as of June 30, 2023 and December 31, 2022, respectively	(19,064)	(16,079)
Additional paid-in-capital	18,943	18,327
Retained earnings	20,778	18,954
Accumulated other comprehensive income (loss)	(996)	(928)
Total equity	19,661	20,274
Total liabilities and equity	$ 74,579	$ 78,624

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions, except per share data) (Unaudited)			
Net revenues	$ 7,287	$ 6,806	$ 14,327	$ 13,289
Operating expenses:				
Transaction expense	3,541	3,044	6,824	5,861
Transaction and credit losses	398	448	840	817
Customer support and operations	492	536	980	1,070
Sales and marketing	465	595	901	1,189
Technology and development	743	815	1,464	1,630
General and administrative	491	514	998	1,121
Restructuring and other charges	24	90	188	126
Total operating expenses	6,154	6,042	12,195	11,814
Operating income	1,133	764	2,132	1,475
Other income (expense), net	170	(715)	245	(797)
Income before income taxes	1,303	49	2,377	678
Income tax expense	274	390	553	510
Net income (loss)	$ 1,029	$ (341)	$ 1,824	$ 168
Net income (loss) per share:				
Basic	$ 0.93	$ (0.29)	$ 1.63	$ 0.14
Diluted	$ 0.92	$ (0.29)	$ 1.62	$ 0.14
Weighted average shares:				
Basic	1,111	1,158	1,120	1,161
Diluted	1,114	1,158	1,124	1,166

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

PayPal Holdings, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions) (Unaudited)			
Net income (loss)	$ 1,029	$ (341)	$ 1,824	$ 168
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation adjustments (“CTA”)	(216)	(300)	(236)	(395)
Net investment hedges CTA gains, net	169	135	196	156
Tax expense on net investment hedges CTA gains, net	(39)	(31)	(45)	(36)
Unrealized (losses) gains on cash flow hedges, net	(23)	213	(134)	210
Tax benefit (expense) on unrealized (losses) gains on cash flow hedges, net	1	(11)	7	(11)
Unrealized gains (losses) on investments, net	13	(164)	188	(457)
Tax (expense) benefit on unrealized gains (losses) on investments, net	(3)	38	(44)	105
Other comprehensive income (loss), net of tax	(98)	(120)	(68)	(428)
Comprehensive income (loss)	$ 931	$ (461)	$ 1,756	$ (260)

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, 2022	1,136	$ (16,079)	$ 18,327	$ (928)	$ 18,954	$ 20,274
Net income	—	—	—	—	795	795
Foreign CTA	—	—	—	(20)	—	(20)
Net investment hedges CTA gains, net	—	—	—	27	—	27
Tax expense on net investment hedges CTA gains, net	—	—	—	(6)	—	(6)
Unrealized losses on cash flow hedges, net	—	—	—	(111)	—	(111)
Tax benefit on unrealized losses on cash flow hedges, net	—	—	—	6	—	6
Unrealized gains on investments, net	—	—	—	175	—	175
Tax expense on unrealized gains on investments, net	—	—	—	(41)	—	(41)
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	5	—	(157)	—	—	(157)
Common stock repurchased	(19)	(1,443)	—	—	—	(1,443)
Stock-based compensation	—	—	359	—	—	359
Balances at March 31, 2023	1,122	$ (17,522)	$ 18,529	$ (898)	$ 19,749	$ 19,858
Net income	—	—	—	—	1,029	1,029
Foreign CTA	—	—	—	(216)	—	(216)
Net investment hedges CTA gains, net	—	—	—	169	—	169
Tax expense on net investment hedges CTA gains, net	—	—	—	(39)	—	(39)
Unrealized losses on cash flow hedges, net	—	—	—	(23)	—	(23)
Tax benefit on unrealized losses on cash flow hedges, net	—	—	—	1	—	1
Unrealized gains on investments, net	—	—	—	13	—	13
Tax expense on unrealized gains on investments, net	—	—	—	(3)	—	(3)
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	2	—	39	—	—	39
Common stock repurchased	(22)	(1,542)	—	—	—	(1,542)
Stock-based compensation	—	—	375	—	—	375
Balances at June 30, 2023	1,102	$ (19,064)	$ 18,943	$ (996)	$ 20,778	$ 19,661

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY—(continued)

	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, 2021	1,168	$ (11,880)	$ 17,208	$ (136)	$ 16,535	$ 21,727
Net income	—	—	—	—	509	509
Foreign CTA	—	—	—	(95)	—	(95)
Net investment hedges CTA gains, net	—	—	—	21	—	21
Tax expense on net investment hedges CTA gains, net	—	—	—	(5)	—	(5)
Unrealized losses on cash flow hedges, net	—	—	—	(3)	—	(3)
Unrealized losses on investments, net	—	—	—	(293)	—	(293)
Tax benefit on unrealized losses on investments, net	—	—	—	67	—	67
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	4	—	(273)	—	—	(273)
Common stock repurchased	(11)	(1,500)	—	—	—	(1,500)
Stock-based compensation	—	—	447	—	—	447
Other	—	—	1	—	—	1
Balances at March 31, 2022	1,161	$ (13,380)	$ 17,383	$ (444)	$ 17,044	$ 20,603
Net loss	—	—	—	—	(341)	(341)
Foreign CTA	—	—	—	(300)	—	(300)
Net investment hedges CTA gains, net	—	—	—	135	—	135
Tax expense on net investment hedges CTA gains, net	—	—	—	(31)	—	(31)
Unrealized gains on cash flow hedges, net	—	—	—	213	—	213
Tax expense on unrealized gains on cash flow hedges, net	—	—	—	(11)	—	(11)
Unrealized losses on investments, net	—	—	—	(164)	—	(164)
Tax benefit on unrealized losses on investments, net	—	—	—	38	—	38
Common stock and stock-based awards issued and assumed, net of shares withheld for employee taxes	3	—	51	—	—	51
Common stock repurchased	(8)	(750)	—	—	—	(750)
Stock-based compensation	—	—	324	—	—	324
Balances at June 30, 2022	1,156	$ (14,130)	$ 17,758	$ (564)	$ 16,703	$ 19,767

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

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2023	2022
	(In millions) (Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 1,824	$ 168
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Transaction and credit losses	840	817
Depreciation and amortization	539	661
Stock-based compensation	708	741
Deferred income taxes	(146)	(457)
Net (gains) losses on strategic investments	(181)	658
Adjustments to loans and interest receivable, held for sale	34	—
Other	(276)	295
Originations of loans receivable, held for sale	(1,521)	—
Proceeds from repayments of loans receivable, originally classified as held for sale	302	—
Changes in assets and liabilities:		
Accounts receivable	36	(67)
Accounts payable	(12)	(27)
Income taxes payable	(326)	86
Other assets and liabilities	(851)	(408)
Net cash provided by operating activities	970	2,467
Cash flows from investing activities:		
Purchases of property and equipment	(320)	(366)
Proceeds from sales of property and equipment	40	5
Purchases and originations of loans receivable	(15,167)	(12,300)
Proceeds from repayments of loans receivable, originally classified as held for investment	15,990	10,910
Purchases of investments	(10,523)	(13,151)
Maturities and sales of investments	10,742	11,087
Funds receivable	759	(882)
Collateral posted related to derivative instruments, net	(11)	5
Other investing activities	83	30
Net cash provided by (used in) investing activities	1,593	(4,662)
Cash flows from financing activities:		
Proceeds from issuance of common stock	82	86
Purchases of treasury stock	(2,961)	(2,250)
Tax withholdings related to net share settlements of equity awards	(200)	(275)
Borrowings under financing arrangements	720	3,288
Repayments under financing arrangements	(942)	(1,686)
Funds payable and amounts due to customers	(2,578)	1,586
Collateral received related to derivative instruments, net	(175)	236
Other financing activities	—	1
Net cash (used in) provided by financing activities	(6,054)	986

PayPal Holdings, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—(continued)

	Six Months Ended June 30,	
	2023	2022
	(In millions) (Unaudited)	
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(50)	(136)
Net change in cash, cash equivalents, and restricted cash	(3,541)	(1,345)
Cash, cash equivalents, and restricted cash at beginning of period	19,156	18,029
Cash, cash equivalents, and restricted cash at end of period	$ 15,615	$ 16,684
Supplemental cash flow disclosures:		
Cash paid for interest	$ 167	$ 112
Cash paid for income taxes, net	$ 906	$ 444
The table below reconciles cash, cash equivalents, and restricted cash as reported in the condensed consolidated balance sheets to the total of the same amounts shown in the condensed consolidated statements of cash flows:		
Cash and cash equivalents	$ 5,504	$ 4,583
Short-term investments	11	22
Funds receivable and customer accounts	10,100	12,079
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows	$ 15,615	$ 16,684

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 that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers worldwide. PayPal is committed to democratizing financial services to help improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. Our goal is to enable our merchants and consumers to manage and move their money anywhere in the world in the markets we serve, anytime, on any platform, and using any device when sending payments or getting paid, including person-to-person payments.

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened focus by regulators globally on all aspects of the payments industry, including countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. The laws and regulations applicable to us, including those enacted prior to the advent of digital payments, continue to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including changes to their interpretation and implementation, 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. We monitor these areas closely and are focused on designing compliant solutions for our customers.

SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying 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 (loss). 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 (loss). Our investment balance is included in long-term investments on our condensed consolidated balance sheets.

We determine at the inception of each investment, and re-evaluate if certain events occur, whether an entity in which we have made an investment is considered a variable interest entity (“VIE”). If we determine an investment is in a VIE, we then assess if we are the primary beneficiary, which would require consolidation. As of June 30, 2023 and December 31, 2022, no VIEs qualified for consolidation as the structures of these entities do not provide us with the ability to direct activities that would significantly impact their economic performance. As of June 30, 2023 and December 31, 2022, the carrying value of our investments in nonconsolidated VIEs was $146 million and $128 million, respectively, and is included as non-marketable equity securities applying the equity method of accounting in long-term investments on our condensed consolidated balance sheets. Our maximum exposure to loss related to our nonconsolidated VIEs, which represents funded commitments and any future funding commitments, was $233 million and $232 million as of June 30, 2023 and December 31, 2022, respectively.

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, 2022 (the “2022 Form 10-K”) filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) on February 10, 2023.

In the opinion of management, these condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the condensed consolidated financial statements for all interim periods presented. Certain amounts for prior periods have been reclassified to conform to the financial statement presentation as of and for the three and six months ended June 30, 2023.

Reclassifications

Beginning with the fourth quarter of 2022, we reclassified certain cash flows related to our collateral security arrangements for derivative instruments from cash flows from operating activities to cash flows from investing activities and cash flows from financing activities within the condensed consolidated statements of cash flows. Prior period amounts have been reclassified to conform to the current period presentation.

The current period presentation classifies all changes in collateral posted and collateral received related to derivative instruments on our condensed consolidated statements of cash flows as cash flows from investing activities and cash flows from financing activities, respectively. We believe that the current period presentation provides a more meaningful representation of the nature of the cash flows and allows for greater transparency as the cash flows related to the derivatives impact operating cash flows upon settlement exclusive of the offsetting cash flows from collateral.

The following table presents the effects of the changes on the presentation of these cash flows to the previously reported condensed consolidated statements of cash flows:

	Six Months Ended June 30, 2022 (In millions)		
	As Previously Reported [1]	Adjustments	Reclassified
Net cash provided by (used in):			
Operating activities[2]	$ 2,708	$ (241)	$ 2,467
Investing activities[3]	(4,667)	5	(4,662)
Financing activities[4]	750	236	986
Effect of exchange rates on cash, cash equivalents, and restricted cash	(136)	—	(136)
Net decrease in cash, cash equivalents, and restricted cash	$ (1,345)	$ —	$ (1,345)

[1] As reported in our Form 10-Q for the quarter ended June 30, 2022 filed with the SEC on August 3, 2022.
[2] Financial statement line impacted in operating activities was "Other assets and liabilities."
[3] Financial statement line impacted in investing activities was "Collateral posted related to derivative instruments, net."
[4] Financial statement line impacted in financing activities was "Collateral received related to derivative instruments, net."

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 credit losses, income taxes, loss contingencies, revenue recognition, the valuation of goodwill and intangible assets, and the valuation of strategic investments. We base our estimates on historical experience and various other assumptions which we believe to be reasonable under the circumstances. Actual results could materially differ from these estimates.

Loans and interest receivable, held for sale

Loans and interest receivable, held for sale, represents a portion of our installment consumer receivables that we intend to sell. This portfolio includes the substantial majority of the United Kingdom ("U.K.") and other European buy now, pay later loan receivables.

In June 2023, we entered into a multi-year agreement with a global investment firm to sell up to €40 billion of U.K. and other European buy now, pay later loan receivables, consisting of eligible loans and interest receivable, held for sale at the closing of the transaction and a forward-flow arrangement for the sale of future originations of eligible loans over a 24-month commitment period (together, "eligible consumer installment receivables"). Following the closing of this transaction, which is expected to occur in the second half of 2023, the global investment firm will become the owner of the eligible consumer installment receivables and we will no longer hold an ownership interest in these receivables. We will maintain the servicing rights and receive a servicing fee for the entire pool of the eligible consumer installment receivables outstanding.

Loans and interest receivable, held for sale are recorded at the lower of cost or fair value, determined on an aggregate basis, with valuation changes and any associated charge-offs recorded in restructuring and other charges on our condensed consolidated statements of income (loss). Prior to the decision to sell, this portfolio was reported at outstanding principal balances, net of allowances, including unamortized deferred origination costs and estimated collectible interest and fees. At the time of reclassification, any previously recorded allowance for credit losses for loans and interest receivable outstanding was reversed, resulting in a decrease of approximately $33 million in transaction and credit losses in our condensed consolidated statements of income (loss) for the three and six months ended June 30, 2023. Interest income on interest bearing held-for-sale loans is accrued and recognized based on the contractual rate of interest.

Recently adopted accounting guidance

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2022-02, *Troubled Debt Restructurings ("TDRs")* and *Vintage Disclosures* (Topic 326): *Financial Instruments – Credit Losses*. This amended guidance eliminated the accounting designation of a loan modification as a TDR and the measurement guidance for TDRs. The amendments also enhanced existing disclosure requirements and introduced new requirements related to modifications of receivables due from borrowers experiencing financial difficulty. Additionally, this guidance required entities to disclose gross charge-offs by year of origination for financing receivables, such as loans and interest receivable. The amended guidance was effective for fiscal years beginning after December 15, 2022 and was required to be applied prospectively, except for the recognition and measurement of TDRs, which could be applied on a modified retrospective basis. We adopted this guidance effective January 1, 2023 on a prospective basis. Our financial statements were not materially impacted upon adoption. For additional information, see "Note 11—Loans and Interest Receivable."

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

NOTE 2—REVENUE

We enable our 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 regularly reviews our operating results on a consolidated basis. We operate as 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 are most appropriately depicted through our primary geographical markets and types of revenue categories (transaction revenues and revenues from other value added services). Revenues recorded within these categories are earned from similar products and services for which the nature of associated fees and the related revenue recognition models are substantially the same.

The following table presents our revenue disaggregated by primary geographical market and category:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Primary geographical markets				
U.S.	$ 4,210	$ 3,863	$ 8,357	$ 7,534
Other countries[1]	3,077	2,943	5,970	5,755
Total net revenues[2]	$ 7,287	$ 6,806	$ 14,327	$ 13,289
Revenue category				
Transaction revenues	$ 6,556	$ 6,272	$ 12,920	$ 12,270
Revenues from other value added services	731	534	1,407	1,019
Total net revenues[2]	$ 7,287	$ 6,806	$ 14,327	$ 13,289

[1] No single country included in the other countries category generated more than 10% of total net revenues.
[2] Total net revenues include $452 million and $296 million for the three months ended June 30, 2023 and 2022, respectively, and $903 million and $483 million for the six months ended June 30, 2023 and 2022, respectively, which do not represent revenues recognized in the scope of Accounting Standards Codification Topic 606, *Revenue from contracts with customers*. Such revenues relate to interest and fees earned on loans and interest receivable, including loans and interest receivable held for sale, hedging gains or losses, and interest earned on certain assets underlying customer balances.

Net revenues are attributed to the country in which the party paying our fee is located.

NOTE 3—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) 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 (loss) per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive common shares. During periods when we report net loss, diluted net loss per share is the same as basic net loss per share because the effects of potentially dilutive items would decrease the net loss per share.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions, except per share amounts)			
Numerator:				
Net income (loss)	$ 1,029	$ (341)	$ 1,824	$ 168
Denominator:				
Weighted average shares of common stock - basic	1,111	1,158	1,120	1,161
Dilutive effect of equity incentive awards	3	—	4	5
Weighted average shares of common stock - diluted	1,114	1,158	1,124	1,166
Net income (loss) per share:				
Basic	$ 0.93	$ (0.29)	$ 1.63	$ 0.14
Diluted	$ 0.92	$ (0.29)	$ 1.62	$ 0.14
Common stock equivalents excluded from income (loss) per diluted share because their effect would have been anti-dilutive or potentially dilutive	25	20	19	12

NOTE 4—BUSINESS COMBINATIONS

There were no acquisitions accounted for as business combinations or divestitures completed in the three and six months ended June 30, 2023 and 2022.

NOTE 5—GOODWILL AND INTANGIBLE ASSETS

GOODWILL

The following table presents goodwill balances and adjustments to those balances during the six months ended June 30, 2023:

	December 31, 2022	Goodwill Acquired	Adjustments	June 30, 2023
		(In millions)		
Total goodwill	$ 11,209	$ —	$ (142)	$ 11,067

The adjustments to goodwill during the six months ended June 30, 2023 pertained to foreign currency translation adjustments.

INTANGIBLE ASSETS

The components of identifiable intangible assets were as follows:

	June 30, 2023				December 31, 2022			
	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	$ 1,561	$ (1,088)	$ 473	7	$ 1,664	$ (1,092)	$ 572	7
Marketing related	388	(345)	43	5	395	(339)	56	5
Developed technology	1,068	(1,035)	33	3	1,099	(1,048)	51	3
All other	429	(338)	91	7	438	(329)	109	7
Intangible assets, net	$ 3,446	$ (2,806)	$ 640		$ 3,596	$ (2,808)	$ 788	

In the three months ended June 30, 2023, we retired approximately $8 million of fully amortized intangible assets, all of which were included in developed technology. In the six months ended June 30, 2023, we retired approximately $92 million of fully amortized intangible assets, of which $65 million and $27 million were included in customer lists and user base and developed technology, respectively. Amortization expense for intangible assets was $58 million and $120 million for the three months ended June 30, 2023 and 2022, respectively. Amortization expense for intangible assets was $115 million and $238 million for the six months ended June 30, 2023 and 2022, respectively.

Expected future intangible asset amortization as of June 30, 2023 was as follows (in millions):

Fiscal years:	
Remaining 2023	$ 102
2024	186
2025	152
2026	95
2027	59
Thereafter	46
Total	$ 640

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, customer services and operations centers, and warehouses.

While a majority of our lease agreements do not contain an explicit interest rate, certain of our lease agreements are subject to changes based on the Consumer Price Index or another referenced index. In the event of changes to the relevant index, lease liabilities are not remeasured and instead are treated as variable lease payments and recognized in the period in which the obligation for those payments is incurred.

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

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

As of June 30, 2023, we had no finance leases.

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Lease expense				
Operating lease expense	$ 39	$ 43	$ 80	$ 85
Sublease income	(2)	(2)	(4)	(4)
Lease expense, net	$ 37	$ 41	$ 76	$ 81

Supplemental cash flow information related to leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 43	$ 42	$ 86	$ 83
Right-of-use ("ROU") lease assets obtained in exchange for new operating lease liabilities	$ 23	$ 11	$ 22	$ 94
Other non-cash ROU lease asset activity	$ (4)	$ (15)	$ (25)	$ (25)

Supplemental balance sheet information related to leases was as follows:

	June 30, 2023	December 31, 2022
	(In millions, except weighted-average figures)	
Operating ROU lease assets	$ 495	$ 574
Current operating lease liabilities	152	151
Operating lease liabilities	509	569
Total operating lease liabilities	$ 661	$ 720
Weighted-average remaining lease term—operating leases	5.6 years	5.7 years
Weighted-average discount rate—operating leases	4 %	3 %

Future minimum lease payments for our operating leases as of June 30, 2023 were as follows:

Fiscal years:	Operating Leases (In millions)
Remaining 2023	$ 88
2024	162
2025	118
2026	108
2027	95
Thereafter	164
Total	$ 735
Less: present value discount	(74)
Lease liability	$ 661

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.

In the three and six months ended June 30, 2023, we incurred asset impairment charges of $4 million and $43 million, respectively, within restructuring and other charges on our condensed consolidated statements of income (loss). The impairments in the three and six months ended June 30, 2023 included a reduction to our ROU lease assets in the amount of $4 million and $25 million, respectively, which were attributed to certain leased space we are no longer utilizing for our business operations, a portion of which is being subleased. In the three and six months ended June 30, 2022, we incurred asset impairment charges of $19 million and $35 million, respectively, within restructuring and other charges on our condensed consolidated statements of income (loss). The impairments in the three and six months ended June 30, 2022 included a reduction to our ROU lease assets in the amount of $15 million and $25 million, respectively, which were attributed to certain leased space we are no longer utilizing for our business operations, a portion of which is being subleased.

NOTE 7—OTHER FINANCIAL STATEMENT DETAILS

CRYPTO ASSET SAFEGUARDING LIABILITY AND CORRESPONDING SAFEGUARDING ASSET

We allow our customers in certain markets to buy, hold, sell, receive, and send certain cryptocurrencies as well as use the proceeds from sales of cryptocurrencies to pay for purchases at checkout. These cryptocurrencies consist of Bitcoin, Ethereum, Bitcoin Cash, and Litecoin (collectively, “our customers’ crypto assets”). We engage third parties, which are licensed trust companies, to provide certain custodial services, including holding our customers’ cryptographic key information, securing our customers’ crypto assets, and protecting them from loss or theft, including indemnification against certain types of losses such as theft. Our third-party custodians hold the crypto assets in a custodial account in PayPal’s name for the benefit of PayPal’s customers. We maintain the internal recordkeeping of our customers’ crypto assets, including the amount and type of crypto asset owned by each of our customers in that custodial account. As of June 30, 2023, we utilize two third-party custodians; as such, there is concentration risk in the event these custodians are not able to perform in accordance with our agreement.

Due to the unique risks associated with cryptocurrencies, including technological, legal, and regulatory risks, we recognize a crypto asset safeguarding liability to reflect our obligation to safeguard the crypto assets held for the benefit of our customers, which is recorded in accrued expenses and other current liabilities on our condensed consolidated balance sheets. We also recognize a corresponding safeguarding asset which is recorded in prepaid expenses and other current assets on our condensed consolidated balance sheets. The crypto asset safeguarding liability and corresponding safeguarding asset are measured and recorded at fair value on a recurring basis using prices available in the market we determine to be the principal market at the balance sheet date. The corresponding safeguarding asset may be adjusted for loss events, as applicable. As of June 30, 2023, the Company has not incurred any safeguarding loss events, and therefore, the crypto asset safeguarding liability and corresponding safeguarding asset were recorded at the same value.

The following table summarizes the significant crypto assets we hold for the benefit of our customers and the crypto asset safeguarding liability and corresponding safeguarding asset as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	(In millions)	
Bitcoin	$ 532	$ 291
Ethereum	369	250
Other	115	63
Crypto asset safeguarding liability	$ 1,016	$ 604
Crypto asset safeguarding asset	$ 1,016	$ 604

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended June 30, 2023:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign Currency Translation Adjustment (“CTA”)	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ —	$ (416)	$ (595)	$ 26	$ 87	$ (898)
Other comprehensive income (loss) before reclassifications	11	13	(216)	169	(41)	(64)
Less: Amount of gain reclassified from accumulated other comprehensive income (loss) (“AOCI”)	34	—	—	—	—	34
Net current period other comprehensive income (loss)	(23)	13	(216)	169	(41)	(98)
Ending balance	$ (23)	$ (403)	$ (811)	$ 195	$ 46	$ (996)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended June 30, 2022:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign CTA	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ 196	$ (380)	$ (365)	$ 45	$ 60	$ (444)
Other comprehensive income (loss) before reclassifications	320	(164)	(300)	135	(4)	(13)
Less: Amount of gain reclassified from AOCI	107	—	—	—	—	107
Net current period other comprehensive income (loss)	213	(164)	(300)	135	(4)	(120)
Ending balance	$ 409	$ (544)	$ (665)	$ 180	$ 56	$ (564)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the six months ended June 30, 2023:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign CTA	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ 111	$ (591)	$ (575)	$ (1)	$ 128	$ (928)
Other comprehensive income (loss) before reclassifications	(24)	163	(236)	196	(82)	17
Less: Amount of gain (loss) reclassified from AOCI	110	(25)	—	—	—	85
Net current period other comprehensive income (loss)	(134)	188	(236)	196	(82)	(68)
Ending balance	$ (23)	$ (403)	$ (811)	$ 195	$ 46	$ (996)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the six months ended June 30, 2022:

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Investments	Foreign CTA	Net Investment Hedges CTA Gains (Losses)	Estimated Tax (Expense) Benefit	Total
			(In millions)			
Beginning balance	$ 199	$ (87)	$ (270)	$ 24	$ (2)	$ (136)
Other comprehensive income (loss) before reclassifications	364	(457)	(395)	156	58	(274)
Less: Amount of gain reclassified from AOCI	154	—	—	—	—	154
Net current period other comprehensive income (loss)	210	(457)	(395)	156	58	(428)
Ending balance	$ 409	$ (544)	$ (665)	$ 180	$ 56	$ (564)

The following table provides details about reclassifications out of AOCI for the periods presented below:

Details about AOCI Components	Amount of Gains (Losses) Reclassified from AOCI				Affected Line Item in the Statements of Income (Loss)
	Three Months Ended June 30,		Six Months Ended June 30,		
	2023	2022	2023	2022	
	(In millions)				
Gains on cash flow hedges—foreign currency exchange contracts	$ 34	$ 107	$ 110	$ 154	Net revenues
Losses on investments	—	—	(23)		Net revenues
Losses on investments	—	—	(2)	—	Other income (expense), net
	34	107	85	154	Income before income taxes
	—	—	—	—	Income tax expense
Total reclassifications for the period	$ 34	$ 107	$ 85	$ 154	Net income (loss)

OTHER INCOME (EXPENSE), NET

The following table reconciles the components of other income (expense), net for the periods presented below:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
	(In millions)			
Interest income	$ 116	$ 27	$ 224	$ 42
Interest expense	(87)	(69)	(174)	(128)
Net gains (losses) on strategic investments	133	(672)	181	(658)
Other	8	(1)	14	(53)
Other income (expense), net	$ 170	$ (715)	$ 245	$ (797)

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 June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	(In millions)	
Funds receivable and customer accounts:		
Cash and cash equivalents	$ 10,100	$ 11,363
Time deposits	118	95
Available-for-sale debt securities	16,738	17,349
Funds receivable	6,687	7,457
Total funds receivable and customer accounts	$ 33,643	$ 36,264
Short-term investments:		
Time deposits	$ 609	$ 482
Available-for-sale debt securities	3,778	2,593
Restricted cash	11	17
Total short-term investments	$ 4,398	$ 3,092
Long-term investments:		
Time deposits	$ 65	$ 55
Available-for-sale debt securities	2,120	2,817
Strategic investments	2,358	2,146
Total long-term investments	$ 4,543	$ 5,018

As of June 30, 2023 and December 31, 2022, 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:

	June 30, 2023[1]			
	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	$ 9,139	$ —	$ (188)	$ 8,951
Foreign government and agency securities	964	—	(22)	942
Corporate debt securities	1,508	—	(53)	1,455
Asset-backed securities	1,287	1	(11)	1,277
Municipal securities	661	—	(6)	655
Commercial paper	2,961	—	(7)	2,954
Short-term investments:				
U.S. government and agency securities	693	—	(4)	689
Foreign government and agency securities	646	—	(12)	634
Corporate debt securities	993	—	(22)	971
Asset-backed securities	484	—	(7)	477
Commercial paper	1,009	—	(2)	1,007
Long-term investments:				
U.S. government and agency securities	412	—	(28)	384
Foreign government and agency securities	152	—	(9)	143
Corporate debt securities	499	—	(23)	476
Asset-backed securities	1,127	—	(10)	1,117
Total available-for-sale debt securities[2]	$ 22,535	$ 1	$ (404)	$ 22,132

[1] "—" Denotes gross unrealized gain or unrealized loss of less than $1 million in a given position.

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

	December 31, 2022[1]			
	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	$ 8,736	$ —	$ (252)	$ 8,484
Foreign government and agency securities	1,479	—	(44)	1,435
Corporate debt securities	1,637	—	(82)	1,555
Asset-backed securities	1,324	—	(26)	1,298
Municipal securities	410	—	(3)	407
Commercial paper	3,702	1	(14)	3,689
Short-term investments:				
U.S. government and agency securities	815	—	(3)	812
Foreign government and agency securities	435	—	(11)	424
Corporate debt securities	641	—	(14)	627
Asset-backed securities	415	—	(9)	406
Commercial paper	324	—	—	324
Long-term investments:				
U.S. government and agency securities	493	—	(36)	457
Foreign government and agency securities	386	—	(22)	364
Corporate debt securities	987	—	(58)	929
Asset-backed securities	1,085	—	(18)	1,067
Total available-for-sale debt securities[2]	$ 22,869	$ 1	$ (592)	$ 22,278

[1] "—" Denotes gross unrealized gain or unrealized loss of less than $1 million in a given position.

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

Gross amortized cost and estimated fair value balances exclude accrued interest receivable on available-for-sale debt securities, which totaled $88 million and $65 million at June 30, 2023 and December 31, 2022, respectively, and were included in other current assets on our condensed consolidated balance sheets.

As of June 30, 2023 and December 31, 2022, 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 for which an allowance for credit losses was not deemed necessary in the current period, aggregated by the length of time those individual securities have been in a continuous loss position, was as follows:

	June 30, 2023[1]					
	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	$ 3,815	$ (36)	$ 4,373	$ (152)	$ 8,188	$ (188)
Foreign government and agency securities	196	(2)	640	(20)	836	(22)
Corporate debt securities	50	—	1,405	(53)	1,455	(53)
Asset-backed securities	614	(5)	502	(6)	1,116	(11)
Municipal securities	618	(6)	10	—	628	(6)
Commercial paper	2,869	(7)	—	—	2,869	(7)
Short-term investments:						
U.S. government and agency securities	44	—	152	(4)	196	(4)
Foreign government and agency securities	119	—	499	(12)	618	(12)
Corporate debt securities	101	—	782	(22)	883	(22)
Asset-backed securities	215	(2)	144	(5)	359	(7)
Commercial paper	909	(2)	—	—	909	(2)
Long-term investments:						
U.S. government and agency securities	—	—	384	(28)	384	(28)
Foreign government and agency securities	—	—	143	(9)	143	(9)
Corporate debt securities	121	(1)	345	(22)	466	(23)
Asset-backed securities	489	(3)	429	(7)	918	(10)
Total available-for-sale debt securities	$ 10,160	$ (64)	$ 9,808	$ (340)	$ 19,968	$ (404)

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

	December 31, 2022[1]					
	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	$ 3,730	$ (89)	$ 4,246	$ (163)	$ 7,976	$ (252)
Foreign government and agency securities	410	(10)	997	(34)	1,407	(44)
Corporate debt securities	9	(1)	1,545	(81)	1,554	(82)
Asset-backed securities	773	(12)	508	(14)	1,281	(26)
Municipal securities	264	(3)	50	—	314	(3)
Commercial paper	3,079	(14)	—	—	3,079	(14)
Short-term investments:						
U.S. government and agency securities	345	—	73	(3)	418	(3)
Foreign government and agency securities	61	—	362	(11)	423	(11)
Corporate debt securities	97	(2)	465	(12)	562	(14)
Asset-backed securities	175	(2)	217	(7)	392	(9)
Commercial paper	224	—	—	—	224	—
Long-term investments:						
U.S. government and agency securities	—	—	457	(36)	457	(36)
Foreign government and agency securities	31	(2)	333	(20)	364	(22)
Corporate debt securities	85	(6)	834	(52)	919	(58)
Asset-backed securities	872	(9)	195	(9)	1,067	(18)
Total available-for-sale debt securities	$ 10,155	$ (150)	$ 10,282	$ (442)	$ 20,437	$ (592)

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

Unrealized losses have not been recognized into income as we neither intend to sell, nor anticipate that it is more likely than not that we will be required to sell, the securities before recovery of their amortized cost basis. The decline in fair value is due primarily to changes in market interest rates, rather than credit losses. We will continue to monitor the performance of the investment portfolio and assess whether impairment due to expected credit losses has occurred. During the three months ended June 30, 2023, we received $749 million in proceeds from the sale of available-for-sale debt securities, incurring gross realized gains and losses which were de minimis and determined using the specific identification method. During the six months ended June 30, 2023, we received $1.8 billion in proceeds from the sale of available-for-sale debt securities, incurring gross realized losses of $25 million, which were determined using the specific identification method.

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:

	June 30, 2023	
	Amortized Cost	Fair Value
	(In millions)	
One year or less	$ 13,639	$ 13,466
After one year through five years	6,619	6,405
After five years through ten years	2,214	2,199
After ten years	63	62
Total	$ 22,535	$ 22,132

STRATEGIC INVESTMENTS

Our strategic investments include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. 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 on our condensed consolidated statements of income (loss). Marketable equity securities totaled $513 million and $323 million as of June 30, 2023 and December 31, 2022, respectively.

Our non-marketable equity securities are recorded in long-term investments on our condensed consolidated balance sheets. The carrying value of our non-marketable equity securities totaled $1.8 billion as of June 30, 2023 and December 31, 2022. As of June 30, 2023 and December 31, 2022, we had non-marketable equity securities of $154 million and $136 million, respectively, where we have the ability to exercise significant influence, but not control, over the investee. We account for these equity securities using the equity method of accounting. The remaining non-marketable equity securities do not have a readily determinable fair value and 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, and our share of earnings or losses from investments accounted for using the equity method are recognized in other income (expense), net on our condensed consolidated statements of income (loss).

Measurement Alternative adjustments

The adjustments to the carrying value of our non-marketable equity securities accounted for under the Measurement Alternative in the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Carrying amount, beginning of period	$ 1,680	$ 1,469	$ 1,687	$ 1,268
Adjustments related to non-marketable equity securities:				
Net additions[(1)]	10	44	26	57
Gross unrealized gains	1	61	23	249
Gross unrealized losses and impairments	—	—	(45)	—
Carrying amount, end of period	$ 1,691	$ 1,574	$ 1,691	$ 1,574

[(1)] Net additions include purchases, reductions due to sales of securities, and reclassifications when the Measurement Alternative is subsequently elected or no longer applies.

The following table summarizes the 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 June 30, 2023 and December 31, 2022, respectively:

	June 30, 2023	December 31, 2022
	(In millions)	
Cumulative gross unrealized gains	$ 1,160	$ 1,137
Cumulative gross unrealized losses and impairments	$ (175)	$ (131)

Unrealized gains (losses) on strategic investments, excluding those accounted for using the equity method

The following table summarizes the net unrealized gains (losses) on marketable and non-marketable equity securities, excluding those accounted for using the equity method, held at June 30, 2023 and 2022, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Net unrealized gains (losses)	$ 136	$ (673)	$ 188	$ (709)

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 June 30, 2023 and December 31, 2022:

	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents[1]	$ 155	$ —	$ 155
Short-term investments[2]:			
U.S. government and agency securities	689	—	689
Foreign government and agency securities	634	—	634
Corporate debt securities	971	—	971
Asset-backed securities	477	—	477
Commercial paper	1,007	—	1,007
Total short-term investments	3,778	—	3,778
Funds receivable and customer accounts[3]:			
Cash and cash equivalents	26	—	26
U.S. government and agency securities	8,951	—	8,951
Foreign government and agency securities	1,315	—	1,315
Corporate debt securities	1,586	—	1,586
Asset-backed securities	1,277	—	1,277
Municipal securities	655	—	655
Commercial paper	2,954	—	2,954
Total funds receivable and customer accounts	16,764	—	16,764
Derivatives	201	—	201
Crypto asset safeguarding asset	1,016	—	1,016
Long-term investments[2],[4]:			
U.S. government and agency securities	384	—	384
Foreign government and agency securities	143	—	143
Corporate debt securities	476	—	476
Asset-backed securities	1,117	—	1,117
Marketable equity securities	513	513	—
Total long-term investments	2,633	513	2,120
Total financial assets	$ 24,547	$ 513	$ 24,034
Liabilities:			
Derivatives	$ 113	$ —	$ 113
Crypto asset safeguarding liability	1,016	—	1,016
Total financial liabilities	$ 1,129	$ —	$ 1,129

[1] Excludes cash of $5.3 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $11 million and time deposits of $674 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $16.9 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity securities of $1.8 billion measured using the Measurement Alternative or equity method accounting.

	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
		(In millions)	
Assets:			
Cash and cash equivalents[1]	$ 932	$ —	$ 932
Short-term investments[2]:			
U.S. government and agency securities	812	—	812
Foreign government and agency securities	424	—	424
Corporate debt securities	627	—	627
Asset-backed securities	406	—	406
Commercial paper	324	—	324
Total short-term investments	2,593	—	2,593
Funds receivable and customer accounts[3]:			
Cash and cash equivalents	192	—	192
U.S. government and agency securities	8,484	—	8,484
Foreign government and agency securities	1,777	—	1,777
Corporate debt securities	1,694	—	1,694
Asset-backed securities	1,298	—	1,298
Municipal securities	407	—	407
Commercial paper	3,689	—	3,689
Total funds receivable and customer accounts	17,541	—	17,541
Derivatives	244	—	244
Crypto asset safeguarding asset	604	—	604
Long-term investments[2], [4]:			
U.S. government and agency securities	457	—	457
Foreign government and agency securities	364	—	364
Corporate debt securities	929	—	929
Asset-backed securities	1,067	—	1,067
Marketable equity securities	323	323	—
Total long-term investments	3,140	323	2,817
Total financial assets	$ 25,054	$ 323	$ 24,731
Liabilities:			
Derivatives	$ 298	$ —	$ 298
Crypto asset safeguarding liability	604	—	604
Total financial liabilities	$ 902	$ —	$ 902

[1] Excludes cash of $6.8 billion not measured and recorded at fair value.
[2] Excludes restricted cash of $17 million and time deposits of $537 million not measured and recorded at fair value.
[3] Excludes cash, time deposits, and funds receivable of $18.7 billion underlying funds receivable and customer accounts not measured and recorded at fair value.
[4] Excludes non-marketable equity securities of $1.8 billion measured using the Measurement Alternative or equity method accounting.

Our marketable equity securities are valued using quoted prices for identical assets in active markets (Level 1). There are no active markets for our crypto asset safeguarding liability or the corresponding safeguarding asset. Accordingly, we have valued the asset and liability using quoted prices on the active exchange that has been identified as the principal market for the underlying crypto assets (Level 2). All other financial assets and liabilities are valued using quoted prices for identical instruments in less active markets, readily available pricing sources for comparable instruments, or models using market observable inputs (Level 2).

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.

As of June 30, 2023 and December 31, 2022, we did not have any assets or liabilities requiring measurement at fair value on a recurring basis with significant unobservable inputs that would require a high level of judgment to determine fair value (Level 3).

We elect to account for available-for-sale debt securities denominated in currencies other than the functional currency of our subsidiaries 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 (loss) 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 and amortized cost of our available-for-sale debt securities under the fair value option as of June 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In millions)		(In millions)	
Funds receivable and customer accounts	$ 442	$ 504	$ 441	$ 481

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 under the fair value option for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Funds receivable and customer accounts	$ 4	$ (109)	$ 11	$ (143)

ASSETS MEASURED AND RECORDED AT FAIR VALUE ON A NON-RECURRING BASIS

The following tables summarize our assets held as of June 30, 2023 and December 31, 2022 for which a non-recurring fair value measurement was recorded during the six months ended June 30, 2023 and the year ended December 31, 2022, respectively:

	June 30, 2023	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(In millions)		
Loans and interest receivable, held for sale	$ 1,903	$ —	$ 1,903
Non-marketable equity securities measured using the Measurement Alternative[1]	146	106	40
Other assets[2]	102	102	—
Total	$ 2,151	$ 208	$ 1,943

[1] Excludes non-marketable equity securities of $1.5 billion accounted for under the Measurement Alternative for which no observable price changes occurred during the six months ended June 30, 2023.

[2] Consists of ROU lease assets recorded at fair value pursuant to impairment charges that occurred during the six months ended June 30, 2023. See “Note 6—Leases” for additional information.

PayPal Holdings, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

	December 31, 2022	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
		(In millions)	
Non-marketable equity investments measured using the Measurement Alternative[1]	$ 1,122	$ 724	$ 398
Other assets[2]	165	165	—
Total	$ 1,287	$ 889	$ 398

[1] Excludes non-marketable equity securities of $565 million accounted for under the Measurement Alternative for which no observable price changes occurred during the year ended December 31, 2022.
[2] Consists of ROU lease assets recorded at fair value pursuant to impairment charges that occurred during the year ended December 31, 2022. See "Note 6—Leases" for additional information.

The fair value of loans and interest receivables held for sale is classified within Level 3 as we estimate fair value using significant unobservable inputs. The significant unobservable input is the price at which the Company expects to sell the loans based upon our agreement with the global investment firm that will purchase these loans. The price is determined based upon certain loan and risk classifications of the portfolio. The following table presents the valuation techniques covering the majority of Level 3 non-recurring fair value measurements and the most significant unobservable inputs used in those measurements as of June 30, 2023:

	Fair Value (In millions)	Methodology	Input	Low[1]	High[1]	Weighted Average[1][2]
Loans and interest receivable, held for sale	$ 1,903	Price-based	Price	$ 0.98	$ 0.99	$ 0.99

[1] Prices are measured in relation to $1.00 par.
[2] Weighted average is calculated based on the fair value of the loans.

We measure the non-marketable equity securities accounted for under the Measurement Alternative at cost minus impairment, if any, adjusted for observable price changes in orderly transactions for an identical or similar investment in the same issuer. Non-marketable equity securities that have been remeasured during the period based on observable price changes are classified within Level 2 in the fair value hierarchy because we estimate the fair value based on valuation methods which only include significant inputs that are observable, such as the observable transaction price at the transaction date. The fair value of non-marketable equity securities are classified within Level 3 when we estimate fair value using significant unobservable inputs such as when we remeasure due to impairment and use discount rates, forecasted cash flows, and market data of comparable companies, among others.

We evaluate ROU assets related to leases for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an ROU asset may not be recoverable. Impairment losses on ROU lease assets related to office operating leases are calculated initially using estimated rental income per square foot derived from observable market data, and the impaired asset is classified within Level 2 in the fair value hierarchy.

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, and long-term debt related to borrowings on our credit facilities, are carried at amortized cost, which approximates their fair value. Our notes receivable had a carrying value of approximately $461 million and fair value of approximately $389 million as of June 30, 2023. Our notes receivable had a carrying value of approximately $441 million and fair value of approximately $396 million as of December 31, 2022. Our term debt (including current portion) in the form of fixed rate notes had a carrying value of approximately $10.5 billion and fair value of approximately $9.7 billion as of June 30, 2023. Our term debt (including current portion) in the form of fixed rate notes had a carrying value of approximately $10.3 billion and fair value of approximately $9.5 billion as of December 31, 2022. 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 term debt (including current portion) 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. We do not use any derivative instruments for trading or speculative purposes.

Cash flow hedges

We have significant international revenues and costs denominated in foreign currencies, which subjects us to foreign currency exchange risk. We have a foreign currency exposure management program in which we designate certain foreign currency exchange contracts, generally with maturities of 12 months or less, to reduce the volatility of cash flows primarily related to forecasted revenues and expenses denominated in certain foreign currencies. The objective of these foreign currency 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 AOCI and subsequently reclassified into revenue or applicable expense line item in the condensed consolidated statements of income (loss) 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 do not exclude any component of the changes in fair value of the derivative instruments from the assessment of hedge effectiveness. We report cash flows arising from derivative instruments consistent with the classification of cash flows from the underlying hedged items that these derivatives are hedging. Accordingly, the cash flows associated with derivatives designated as cash flow hedges are classified in cash flows from operating activities on our condensed consolidated statements of cash flows.

As of June 30, 2023, we estimated that $23 million of net derivative losses related to our cash flow hedges included in AOCI are expected to be reclassified into earnings within the next 12 months. During the three and six months ended June 30, 2023 and 2022, 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 the derivative’s gain or loss in AOCI until the forecasted transaction affects earnings, at which point we also reclassify it into earnings. Gains and losses on derivatives held after we discontinue our cash flow hedges and 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.

Net investment hedges

We use forward foreign currency exchange contracts to reduce the foreign currency exchange risk related to our investment in certain foreign subsidiaries. These derivatives are designated as net investment hedges and accordingly, the gains and losses on the portion of the derivatives included in the assessment of hedge effectiveness is recorded in AOCI as part of foreign currency translation. We exclude forward points from the assessment of hedge effectiveness and recognize them in other income (expense), net on a straight-line basis over the life of the hedge. The accumulated gains and losses associated with these instruments will remain in AOCI until the foreign subsidiaries are sold or substantially liquidated, at which point they will be reclassified into earnings. The cash flows associated with derivatives designated as a net investment hedge are classified in cash flows from investing activities on our condensed consolidated statements of cash flows.

We have not reclassified any gains or losses related to net investment hedges from AOCI into earnings during any of the periods presented.

Foreign currency exchange contracts not designated as hedging instruments

We have a foreign currency exposure management program in which we use foreign currency exchange contracts to offset the foreign currency exchange risk of 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 foreign currency exchange rate movements on our assets and liabilities. The gains and losses due to remeasurement of certain foreign currency denominated monetary assets and liabilities are recorded in other income (expense), net, which are offset by the gains and losses on these foreign currency exchange contracts. The cash flows associated with our non-designated derivatives used to hedge foreign currency denominated monetary assets and liabilities are classified in cash flows from operating activities on our condensed consolidated statements of cash flows.

FAIR VALUE OF DERIVATIVE CONTRACTS

The fair value of our outstanding derivative instruments as of June 30, 2023 and December 31, 2022 was as follows:

	Balance Sheet Location	June 30, 2023	December 31, 2022
		(In millions)	
Derivative Assets:			
Foreign currency exchange contracts designated as hedging instruments	Other current assets	$ 47	$ 167
Foreign currency exchange contracts designated as hedging instruments	Other assets (non-current)	42	15
Foreign currency exchange contracts not designated as hedging instruments	Other current assets	112	62
Total derivative assets		$ 201	$ 244
Derivative Liabilities:			
Foreign currency exchange contracts designated as hedging instruments	Other current liabilities	$ 69	$ 68
Foreign currency exchange contracts designated as hedging instruments	Other long-term liabilities	—	133
Foreign currency exchange contracts not designated as hedging instruments	Other current liabilities	44	97
Total derivative liabilities		$ 113	$ 298

MASTER NETTING AGREEMENTS - RIGHTS OF SET-OFF

Under master netting agreements with certain counterparties to our foreign currency 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 on our condensed consolidated balance sheets. Rights of set-off associated with our foreign currency exchange contracts represented a potential offset to both assets and liabilities of $52 million as of June 30, 2023 and $70 million as of December 31, 2022.

We have 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. The following table provides the collateral posted and received:

	June 30, 2023	December 31, 2022
	(In millions)	
Cash collateral posted[1]	$ 35	$ 24
Cash collateral received[2]	$ 28	$ 203

[1] Right to reclaim cash collateral related to our derivative liabilities recognized in other current assets on our condensed consolidated balance sheets.
[2] Obligation to return counterparty cash collateral related to our derivative assets recognized in other current liabilities on our condensed consolidated balance sheets.

EFFECT OF DERIVATIVE CONTRACTS ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide the location in the condensed consolidated statements of income (loss) and amount of recognized gains or losses related to our derivative instruments:

	Three Months Ended June 30,			
	2023		2022	
	(In millions)			
	Net revenues	Other income (expense), net	Net revenues	Other income (expense), net
Total amounts presented in the condensed consolidated statements of income (loss) in which the effects of cash flow hedges and net investment hedges are recorded	$ 7,287	$ 170	$ 6,806	$ (715)
Gains (losses) on derivatives in cash flow hedging relationship:				
Amount of gains on foreign currency exchange contracts reclassified from AOCI	34	—	107	—
Gains (losses) on derivatives in net investment hedging relationship:				
Amount of gains on foreign currency exchange contracts excluded from the assessment of effectiveness	—	29	—	17
Gains (losses) on derivatives not designated as hedging instruments:				
Amount of (losses) gains on foreign currency exchange contracts	—	(81)	—	147
Total gains (losses)	$ 34	$ (52)	$ 107	$ 164

	Six Months Ended June 30,			
	2023		2022	
	(In millions)			
	Net revenues	Other income (expense), net	Net revenues	Other income (expense), net
Total amounts presented in the condensed consolidated statements of income (loss) in which the effects of cash flow hedges and net investment hedges are recorded	$ 14,327	$ 245	$ 13,289	$ (797)
Gains (losses) on derivatives in cash flow hedging relationship:				
Amount of gains on foreign exchange contracts reclassified from AOCI	110	—	154	—
Gains (losses) on derivatives in net investment hedging relationship:				
Amount of gains on foreign exchange contracts excluded from the assessment of effectiveness	—	59	—	26
Gains (losses) on derivatives not designated as hedging instruments:				
Amount of (losses) gains on foreign exchange contracts	—	(156)	—	108
Total gains (losses)	$ 110	$ (97)	$ 154	$ 134

The following table provides the amount of pre-tax unrealized gains or losses included in the assessment of hedge effectiveness related to our derivative instruments designated as hedging instruments that are recognized in other comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Unrealized gains (losses) on foreign exchange contracts designated as cash flow hedges	$ 11	$ 320	$ (24)	$ 364
Unrealized gains on foreign exchange contracts designated as net investment hedges	169	135	196	156
Total unrealized gains recognized from derivative contracts designated as hedging instruments in the condensed consolidated statements of comprehensive income (loss)	$ 180	$ 455	$ 172	$ 520

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 currency exchange payments under these contracts is determined. The following table provides the notional amounts of our outstanding derivatives:

	June 30, 2023	December 31, 2022
	(In millions)	
Foreign exchange contracts designated as hedging instruments	$ 6,154	$ 7,149
Foreign exchange contracts not designated as hedging instruments	10,222	11,840
Total	$ 16,376	$ 18,989

NOTE 11—LOANS AND INTEREST RECEIVABLE

LOANS AND INTEREST RECEIVABLE, HELD FOR SALE

In June 2023, we entered into a multi-year agreement with a global investment firm to sell up to €40 billion of our eligible consumer installment receivables portfolio including those held on our balance sheet at closing of the transaction and a forward-flow arrangement for the sale of future originations. Loans and interest receivable, held for sale are recorded at the lower of cost or fair value, determined on an aggregate basis, with valuation changes and any associated charge-offs recorded in restructuring and other charges on our condensed consolidated statements of income (loss). Prior to the decision to sell, this portfolio was reported at outstanding principal balances, net of allowances, including unamortized deferred origination costs and estimated collectible interest and fees. At the time of reclassification, any previously recorded allowance for credit losses for loans and interest receivable outstanding was reversed, resulting in a decrease of approximately $33 million in transaction and credit losses in our condensed consolidated statements of income (loss). See “Note 1—Overview and Summary of Significant Accounting Policies” for additional information.

During the six months ended June 30, 2023, we reclassified approximately $1.2 billion of eligible consumer installment receivables from loans and interest receivable, net to loans and interest receivable, held for sale. As of June 30, 2023, the total outstanding balance in our held for sale portfolio was $1.9 billion, including loans reclassified as held for sale and loans originated as held for sale.

LOANS AND INTEREST RECEIVABLE, NET

Consumer receivables

We offer revolving and installment credit products as a funding option for consumers in certain checkout transactions on our payments platform. Our revolving credit product consists of PayPal Credit in the U.K., which is made available to consumers as a funding source in their PayPal wallet once they are approved for credit. Additionally, we offer installment credit products at the time of checkout in various markets, including the U.S., several markets across Europe, Australia, and Japan. We offer non interest-bearing installment credit products in these markets as well as interest-bearing installment credit products in the U.S. and Germany. Beginning in June 2022, we have purchased receivables related to interest-bearing installment loans extended to U.S. consumers by an independent chartered financial institution ("partner institution") and are responsible for the servicing functions related to that portfolio. During the six months ended June 30, 2023 and 2022, we purchased approximately $514 million and nil in consumer receivables, respectively. As of June 30, 2023 and December 31, 2022, the outstanding balance of consumer receivables, which consisted of revolving and installment loans and interest receivable, was $4.5 billion and $5.9 billion, respectively, net of the participation interest sold to the partner institution of $26 million and $17 million, respectively.

We closely monitor the credit quality of our consumer receivables to evaluate and manage our related exposure to credit risk. Credit risk management begins with initial underwriting and continues through the 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 data, including the consumer's prior repayment history with our credit products where available. We use delinquency status and trends to assist in making (or, for interest-bearing installment loans in the U.S., to assist the partner institution in making) new and ongoing credit decisions, to adjust our models, to plan our collection practices and strategies, and in determining our allowance for consumer loans and interest receivable.

Consumer receivables delinquency and allowance

The following tables present the delinquency status and gross charge-offs of consumer loans and interest receivable by year of origination. The amounts are based on the number of days past the billing date for revolving loans or contractual repayment date for installment loans. The "current" category represents balances that are within 29 days of the billing date or contractual repayment date, as applicable.

June 30, 2023
(In millions, except percentages)

		Installment Loans Amortized Cost Basis						
	Revolving Loans Amortized Cost Basis	2023	2022	2021	2020	2019	Total	Percent
Consumer loans and interest receivable:								
Current	$ 2,009	$ 1,631	$ 613	$ 42	$ —	$ —	$ 4,295	95.5%
30 - 59 Days	28	26	9	1	—	—	64	1.5%
60 - 89 Days	15	20	9	1	—	—	45	1.0%
90 - 179 Days	37	22	31	2	—	—	92	2.0%
Total[(1)]	$ 2,089	$ 1,699	$ 662	$ 46	$ —	$ —	$ 4,496	100%
Gross charge-offs for the six months ended June 30, 2023	$ 61	$ 4	$ 101	$ 3	$ —	$ —	$ 169	

[(1)] Excludes receivables from other consumer credit products of $4 million at June 30, 2023.

	December 31, 2022 (In millions, except percentages)							
		Installment Loans Amortized Cost Basis						
	Revolving Loans Amortized Cost Basis	2022	2021	2020	2019	2018	Total	Percent
Consumer loans and interest receivable:								
Current	$ 1,850	$ 3,726	$ 123	$ —	$ —	$ —	$ 5,699	97.1%
30 - 59 Days	23	26	2	—	—	—	51	0.9%
60 - 89 Days	15	20	2	—	—	—	37	0.6%
90 - 179 Days	34	47	4	—	—	—	85	1.4%
Total[1]	$ 1,922	$ 3,819	$ 131	$ —	$ —	$ —	$ 5,872	100%

[1] Excludes receivables from other consumer credit products of $11 million at December 31, 2022.

The following table summarizes the activity in the allowance for consumer loans and interest receivable for the six months ended June 30, 2023 and 2022:

	June 30, 2023			June 30, 2022		
	Consumer Loans Receivable	Interest Receivable	Total Allowance[1], [2]	Consumer Loans Receivable	Interest Receivable	Total Allowance[1]
	(In millions)					
Beginning balance	$ 322	$ 25	$ 347	$ 243	$ 43	$ 286
Reversal of allowance due to reclassification of loans and interest receivable to held for sale	(33)	—	(33)	—	—	—
Provisions	182	13	195	118	4	122
Charge-offs	(154)	(15)	(169)	(92)	(15)	(107)
Recoveries	18	—	18	9	—	9
Other[3]	2	1	3	(24)	(4)	(28)
Ending balance	$ 337	$ 24	$ 361	$ 254	$ 28	$ 282

[1] Excludes allowances from other consumer credit products of nil and $3 million at June 30, 2023 and 2022, respectively.
[2] Beginning balances, provisions and charge-offs include amounts related to loans and interest receivable prior to their reclassification to loan and interest receivable, held for sale.
[3] Includes amounts related to foreign currency remeasurement.

The provision for the six months ended June 30, 2023 was primarily attributable to growth in the U.S. installment loans and U.K. revolving loans within our consumer receivable portfolio. In the second quarter of 2023, we updated our expected credit loss models for the consumer receivables. The expected credit loss models utilize certain macroeconomic factors such as forecasted trends in household disposable income and retail e-commerce sales, and no longer consider unemployment. These changes did not have a material impact on our provision recorded in the period. Qualitative adjustments were made to account for limitations in our current expected credit loss models due to uncertainty with respect to the financial health of our borrowers.

The increase in charge-offs for the six months ended June 30, 2023 compared to the same period in the prior year was due to the expansion of our installment products and growth of revolving credit products.

The provision for current expected credit losses relating to our consumer receivable portfolio is recognized in transaction and credit losses on our condensed consolidated statements of income (loss). The provision for interest receivable for interest earned on our consumer receivable portfolio is recognized in revenues from other value added services as a reduction to revenue. Loans receivable continue to accrue interest until they are charged off.

We charge off consumer receivable balances in the month in which a customer's balance becomes 180 days past the billing date or contractual repayment date, except for the U.S. consumer interest-bearing installment receivables, which are charged off 120 days past the contractual repayment date. Bankrupt accounts are charged off within 60 days after receipt of notification of bankruptcy. Charge-offs are recorded as a reduction to our allowance for loans and interest receivable and subsequent recoveries, if any, are recorded as an increase to the allowance for loans and interest receivable.

Merchant receivables

We offer access to merchant finance products for certain small and medium-sized businesses through our PayPal Working Capital ("PPWC") and PayPal Business Loan ("PPBL") products, which we collectively refer to as our merchant finance offerings. We purchase receivables related to credit extended to U.S. merchants by a partner institution and are responsible for the servicing functions related to that portfolio. During the six months ended June 30, 2023 and 2022, we purchased approximately $975 million and $1.4 billion in merchant receivables, respectively. As of June 30, 2023 and December 31, 2022, the total outstanding balance in our pool of merchant loans, advances, and interest and fees receivable was $1.7 billion and $2.1 billion, respectively, net of the participation interest sold to the partner institution of $69 million and $97 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 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 access to short-term business financing for a fixed fee based on an evaluation of the applying business as well as the business owner. PPBL repayments are collected through periodic payments until the balance has been satisfied.

The interest or fee is fixed at the time the loan or advance is extended and is recognized as deferred revenue in accrued expenses and other current liabilities on our condensed consolidated balance sheets. The fixed interest or fee is amortized into revenues from other value added services based on the amount repaid over the repayment period. We estimate the repayment period for PPWC based on the merchant's payment processing history with PayPal. 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, as well as the credit quality of 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 loan or advance, we use, among other indicators, risk models developed internally which utilize information obtained from multiple internal and external data sources 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, prior repayment history with PayPal's credit products where available, information sourced from consumer and business credit bureau reports, and other information obtained during the application process. We use delinquency status and trends to assist in making (or, in the U.S., to assist the partner institution in making) ongoing credit decisions, to adjust our internal models, to plan our collection strategies, and in determining our allowance for these loans, advances, and interest and fees receivable.

Merchant receivables delinquency and allowance

The following tables present the delinquency status and gross charge-offs of merchant loans, advances, and interest and fees receivable by year of origination. The amounts are based on the number of days past the expected or contractual repayment date for amounts outstanding. The "current" category represents balances that are within 29 days of the expected repayment date or contractual repayment date, as applicable.

June 30, 2023 (In millions, except percentages)	2023	2022	2021	2020	2019	Total	Percent
Merchant loans, advances, and interest and fees receivable:							
Current	$ 918	$ 451	$ 7	$ 38	$ 26	$ 1,440	86.5%
30 - 59 Days	23	37	3	2	2	67	4.0%
60 - 89 Days	9	26	2	1	2	40	2.4%
90 - 179 Days	11	92	3	2	2	110	6.6%
180+ Days	—	2	2	1	2	7	0.5%
Total	$ 961	$ 608	$ 17	$ 44	$ 34	$ 1,664	100%
Gross charge-offs for the six months ended June 30, 2023	$ —	$ 109	$ 10	$ 10	$ 3	$ 132	

December 31, 2022 (In millions, except percentages)	2022	2021	2020	2019	2018	Total	Percent
Merchant loans, advances, and interest and fees receivable:							
Current	$ 1,826	$ 20	$ 57	$ 42	$ 2	$ 1,947	90.7%
30 - 59 Days	63	7	3	4	—	77	3.6%
60 - 89 Days	34	4	4	2	—	44	2.0%
90 - 179 Days	55	9	3	3	—	70	3.3%
180+ Days	1	2	2	3	—	8	0.4%
Total	$ 1,979	$ 42	$ 69	$ 54	$ 2	$ 2,146	100%

The following table summarizes the activity in the allowance for merchant loans, advances, and interest and fees receivable for the six months ended June 30, 2023 and 2022:

	June 30, 2023			June 30, 2022		
	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance	Merchant Loans and Advances	Interest and Fees Receivable	Total Allowance
	(In millions)					
Beginning balance	$ 230	$ 18	$ 248	$ 192	$ 9	$ 201
Provisions	107	21	128	(3)	5	2
Charge-offs	(117)	(15)	(132)	(47)	(5)	(52)
Recoveries	12	—	12	19	—	19
Ending balance	$ 232	$ 24	$ 256	$ 161	$ 9	$ 170

The provision for the six months ended June 30, 2023 was primarily attributable to a deterioration in credit quality of loans outstanding. Qualitative adjustments were made to account for limitations in our current expected credit loss models due to uncertainty around the financial health of our borrowers including the effectiveness of loan modification programs made available to merchants.

The increase in the charge-offs for the six months ended June 30, 2023 compared to the same period in the prior year was due to the expansion of acceptable risk parameters in 2022, which resulted in a deterioration of the overall credit quality of loans outstanding.

For merchant loans and advances, the determination of delinquency 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 the contractual repayment date. 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 in the last 60 days. Bankrupt accounts are charged off within 60 days after receipt of notification of bankruptcy. The provision for credit losses on merchant loans and advances is recognized in transaction and credit losses on our condensed consolidated statements of income (loss), and the provision for interest and fees receivable is recognized as a reduction of deferred revenue in accrued expenses and other current liabilities on our condensed consolidated balance sheets. Charge-offs are recorded as a reduction to our allowance for loans and interest receivable and subsequent recoveries, if any, are recorded as an increase to the allowance for loans and interest receivable.

NOTE 12—DEBT

FIXED RATE NOTES

In June 2023, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of ¥90 billion (approximately $622 million as of June 30, 2023). Interest on these notes is payable on June 9 and December 9 of each year, beginning on December 9, 2023.

In May 2022, May 2020, and September 2019, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of $3.0 billion, $4.0 billion and $5.0 billion, respectively.

The notes issued from the June 2023, May 2022, May 2020, and September 2019 debt issuances are senior unsecured obligations and are collectively referred to as the “Notes.” We may redeem the Notes in whole, at any time, or in part (except for the June 2023 notes), from time to time, prior to maturity, at their redemption prices. Upon the occurrence of both a change of control of the Company and a downgrade of the Notes below an investment grade rating, we will be required to offer to repurchase each series of Notes at a price equal to 101% of the then outstanding principal amounts, plus accrued and unpaid interest. The Notes are subject to covenants, including limitations on our ability to create liens on our assets, enter into sale and leaseback transactions, and merge or consolidate with another entity, in each case subject to certain exceptions, limitations, and qualifications. Proceeds from the issuance of these Notes may be used for general corporate purposes, which may include funding the repayment or redemption of outstanding debt, share repurchases, ongoing operations, capital expenditures, acquisitions of businesses, assets, or strategic investments.

In May 2022, we repurchased certain notes under the September 2019 and May 2020 debt issuances prior to maturity through tender offers. In addition, in June 2022, we redeemed the outstanding balance of the notes maturing in September 2022 through a make-whole redemption. We repurchased and redeemed $1.6 billion of outstanding notes, as described above, which resulted in de minimis debt extinguishment net gains that were recorded as interest expense within other income (expense), net on our condensed consolidated statements of income (loss).

As of June 30, 2023 and December 31, 2022, we had an outstanding aggregate principal amount of $10.6 billion and $10.4 billion, respectively, related to the Notes. The following table summarizes the Notes:

	Maturities	Effective Interest Rate	June 30, 2023	December 31, 2022
			(in millions)	
September 2019 debt issuance:				
Fixed-rate 2.400% notes	10/1/2024	2.52%	$ 1,250	$ 1,250
Fixed-rate 2.650% notes	10/1/2026	2.78%	1,250	1,250
Fixed-rate 2.850% notes	10/1/2029	2.96%	1,500	1,500
May 2020 debt issuance:				
Fixed-rate 1.350% notes	6/1/2023	1.55%	—	418
Fixed-rate 1.650% notes	6/1/2025	1.78%	1,000	1,000
Fixed-rate 2.300% notes	6/1/2030	2.39%	1,000	1,000
Fixed-rate 3.250% notes	6/1/2050	3.33%	1,000	1,000
May 2022 debt issuance:				
Fixed-rate 3.900% notes	6/1/2027	4.06%	500	500
Fixed-rate 4.400% notes	6/1/2032	4.53%	1,000	1,000
Fixed-rate 5.050% notes	6/1/2052	5.14%	1,000	1,000
Fixed-rate 5.250% notes	6/1/2062	5.34%	500	500
June 2023 debt issuance[(1)]:				
¥30 billion fixed-rate 0.813% notes	6/9/2025	0.89%	207	—
¥23 billion fixed-rate 0.972% notes	6/9/2026	1.06%	159	—
¥37 billion fixed-rate 1.240% notes	6/9/2028	1.31%	256	—
Total term debt			$ 10,622	$ 10,418
Unamortized premium (discount) and issuance costs, net			(73)	(74)
Less: current portion of term debt[(2)]			—	(418)
Total carrying amount of term debt			$ 10,549	$ 9,926

(1) Principal amounts represent the U.S. dollar equivalent as of June 30, 2023 and December 31, 2022, respectively.
(2) The current portion of term debt is included within accrued expenses and other current liabilities on our condensed consolidated balance sheets.

The effective interest rates for the Notes include interest on the Notes, amortization of debt issuance costs, and amortization of the debt discount. The interest expense recorded for the Notes, including amortization of the debt discount and debt issuance costs, was $83 million and $166 million for the three and six months ended June 30, 2023, respectively. The interest expense recorded for the Notes, including amortization of the debt discount, debt issuance costs, and debt extinguishment net gains, was $67 million and $123 million for the three and six months ended June 30, 2022, respectively.

CREDIT FACILITIES

Five-year revolving credit facility

In June 2023, we entered into a credit agreement (the "Credit Agreement") that provides for an unsecured $5.0 billion, five-year revolving credit facility and terminated the facility entered into in September 2019. The Credit Agreement includes a $150 million letter of credit sub-facility and a $600 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding from time to time. Loans borrowed under the Credit Agreement are available in U.S. dollar, Euro, British pound, and Australian dollar, and in each case subject to the sub-limits and other limitations provided in the Credit Agreement. We may also, subject to the agreement of the applicable lenders and satisfaction of specified conditions, increase the commitments under the revolving credit facility by up to $2.0 billion. Subject to specific conditions, we may designate one or more of our subsidiaries as additional borrowers under the Credit Agreement, provided PayPal Holdings, Inc. guarantees the portion of borrowings made available and other obligations of any such subsidiaries under the Credit Agreement. As of June 30, 2023, certain subsidiaries were designated as additional borrowers. Funds borrowed under the Credit Agreement may be used for working capital, capital expenditures, acquisitions, and other purposes not in contravention of the Credit Agreement.

We are obligated to pay interest on loans under the Credit Agreement and other customary fees for a credit facility of this size and type, including an upfront fee and an unused commitment fee based on our debt rating. Loans under the Credit Agreement will bear interest at either (i) the applicable term benchmark rate plus a margin (based on the Company's public debt ratings) ranging from 0.750% to 1.250%, (ii) the applicable Risk-Free Rate (Sterling Overnight Index Average for loans denominated in pounds sterling and Euro Short-Term Rate for loans denominated in euros) rate plus a margin (based on the Company's public debt ratings) ranging from 0.750% to 1.250%, (iii) the applicable overnight rate plus a margin (based on the Company's public debt ratings) ranging from 0.750% to 1.250% or (iv) a formula based on the prime rate, the federal funds effective rate or the adjusted term Secured Overnight Financing Rate plus a margin (based on the Company's public debt ratings) ranging from zero to 0.250%. Subject to certain conditions stated in the Credit Agreement, the Company and any subsidiaries designated as additional borrowers may borrow, prepay and reborrow amounts under the revolving credit facility at any time during the term of the Credit Agreement. The Credit Agreement will terminate and all amounts owing thereunder will be due and payable on June 7, 2028, unless (a) the commitments are terminated earlier, either at the request of the Company or, if an event of default occurs, by the lenders (or automatically in the case of certain bankruptcy-related events), or (b) the maturity date is extended upon the request of the Company, subject to the agreement of the lenders. The Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default, and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens and the incurrence of subsidiary indebtedness, in each case subject to certain exceptions. The financial covenant requires the Company to meet a quarterly financial test with respect to a maximum consolidated leverage ratio.

As of June 30, 2023, no borrowings or letters of credit were outstanding under the Credit Agreement. Accordingly, at June 30, 2023, $5.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement, subject to customary conditions to borrowing.

Paidy credit agreement

In February 2022, we entered into a credit agreement (the "Paidy Credit Agreement") with Paidy as co-borrower, which provided for an unsecured revolving credit facility of ¥60.0 billion, which was modified in September 2022 to increase the borrowing capacity by ¥30.0 billion for a total borrowing capacity of ¥90.0 billion (approximately $622 million as of June 30, 2023). In June 2023, we repaid borrowings on the Paidy Credit Agreement using proceeds from the June 2023 debt issuance. As of June 30, 2023, no borrowings were outstanding, and as of December 31, 2022, ¥64.3 billion (approximately $491 million) was outstanding under the Paidy Credit Agreement, which was recorded in long-term debt on our condensed consolidated balance sheets. At June 30, 2023, ¥90.0 billion (approximately $622 million) of borrowing capacity was available for the purposes permitted by the Paidy Credit Agreement, subject to customary conditions to borrowing. During the three and six months ended June 30, 2023 and 2022, the total interest expense and fees we recorded related to the Paidy Credit Agreement were de minimis.

FUTURE PRINCIPAL PAYMENTS

As of June 30, 2023, the future principal payments associated with our term debt were as follows (in millions):

Remaining 2023	$	—
2024		1,250
2025		1,207
2026		1,409
2027		500
Thereafter		6,256
Total	$	10,622

Other than as provided above, there were no significant changes to the information disclosed in our 2022 Form 10-K.

NOTE 13—COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As of June 30, 2023 and December 31, 2022, approximately $5.6 billion and $4.9 billion, respectively, of unused credit was available to PayPal Credit account holders in the U.K. 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.

LITIGATION AND REGULATORY MATTERS

Overview

We are involved in legal and regulatory proceedings on an ongoing basis. Certain of these proceedings are in early stages and may seek an indeterminate amount of damages or penalties or may require us to change or adopt certain business practices. 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 at that time. 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 and reasonably estimable were not material as of June 30, 2023. 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. Determining legal reserves or possible losses from such matters involves judgment and may not reflect the full range of uncertainties and unpredictable outcomes. We may be exposed to losses in excess of the amount recorded, and such amounts could be material. If any of our estimates and assumptions change or prove to have been incorrect, it could have a material adverse effect on our business, financial position, results of operations, or cash flows.

Regulatory proceedings

PayPal Australia Pty Limited ("PPAU") self-reported a potential violation to the Australian Transaction Reports and Analysis Centre ("AUSTRAC") on May 22, 2019. This self-reported matter relates to PPAU incorrectly filing required international funds transfer instructions over a period of time under the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 ("AML/CTF Act"). On September 23, 2019, PPAU received a notice from AUSTRAC requiring that PPAU appoint an external auditor (a partner of a firm which is not our independent auditor) to review certain aspects of PPAU's compliance with its obligations under the AML/CTF Act. The external auditor was appointed on November 1, 2019.

AUSTRAC had notified PPAU that its enforcement team was investigating the matters reported upon by the external auditor in its August 31, 2020 final report. As a resolution of this investigation, on March 17, 2023, AUSTRAC's Chief Executive Officer accepted an enforceable undertaking from PPAU in relation to the self-reported issues.

The enforceable undertaking does not include a monetary penalty. The entry into and compliance with the enforceable undertaking will not require a change to 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 adversely affect our business.

PPAU is required to deliver an Assurance Action Plan ("AAP") under the enforceable undertaking to demonstrate that the governance and oversight arrangements following the remedial work completed by PPAU are sustainable and appropriate. The enforceable undertaking requires PPAU to appoint an external auditor. The external auditor was appointed on June 22, 2023 and will assess and report on the appropriateness, sustainability and efficacy of the actions to be taken under the AAP. The external auditor's final report to PPAU and AUSTRAC is due on or before April 16, 2024. The successful completion of the enforceable undertaking is subject to AUSTRAC's ultimate review and decision based on the external auditor's final report. We cannot predict the outcome of the external auditor's final report or AUSTRAC's decision.

Any failure to comply with the enforceable undertaking could result in penalties or require us to change our business practices.

We have received Civil Investigative Demands ("CIDs") from the Consumer Financial Protection Bureau ("CFPB") related to Venmo's unauthorized funds transfers and collections processes, and related matters, including treatment of consumers who request payments but accidentally designate an unintended recipient. The CIDs request the production of documents and answers to written questions. We are cooperating with the CFPB in connection with these CIDs.

We have responded to subpoenas and requests for information from the U.S. Securities and Exchange Commission ("SEC") Enforcement Division relating to whether the interchange rates paid to the bank that issues debit cards bearing our licensed brands were consistent with Regulation II of the Board of Governors of the Federal Reserve System, and to the reporting of marketing fees earned from the PayPal-branded card programs (the "SEC Debit Card Program Matter"). We have been informed by the SEC that this matter has been formally closed without action.

In February 2022, we received a CID from the Federal Trade Commission ("FTC") related to PayPal's practices relating to commercial customers that submit charges on behalf of other merchants or sellers, and related activities. The CID requests the production of documents and answers to written questions. We are cooperating with the FTC in connection with this CID.

In January 2023, we received notice of an administrative proceeding and a related request for information from the German Federal Cartel Office ("FCO") related to terms in PayPal (Europe) S.à.r.l. et Cie, S.C.A.'s contractual terms with merchants in Germany prohibiting surcharging and requiring parity presentation of PayPal relative to other payment methods. We are cooperating with the FCO in connection with this proceeding.

Legal proceedings

On August 20, 2021, a putative securities class action captioned Kang v. PayPal Holdings, Inc., et al., Case No. 21-cv-06468, was filed in the U.S. District Court for the Northern District of California (the "Kang Securities Action"). The Kang Securities Action asserts claims relating to our disclosure of a CID from the CFPB related to the marketing and use of PayPal Credit in connection with certain merchants that provide educational services and the SEC Debit Card Program Matter in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021. The Kang Securities Action purports to be brought on behalf of purchasers of the Company's stock between February 9, 2017 and July 28, 2021 (the "Class Period"), and asserts claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 against the Company, its Chief Executive Officer, and former Chief Financial Officer. The complaint alleges that certain public statements made by the Company during the Class Period were rendered materially false and misleading (which, allegedly, caused the Company's stock to trade at artificially inflated prices) by the defendants' failure to disclose that, among other things, PayPal's business practices with respect to PayPal Credit and regarding interchange rates paid to its bank partner related to its bank-issued co-branded debit cards were non-compliant with applicable laws and/or regulations. The Kang Securities Action seeks unspecified compensatory damages on behalf of the putative class members. On November 2, 2021, the court appointed a Lead Plaintiff, and on January 25, 2022, the Lead Plaintiff filed an amended complaint. The amended complaint alleges a class period between April 27, 2016 and July 28, 2021 (the "Amended Class Period"), and in addition to the Company, its Chief Executive Officer, and former Chief Financial Officer, also names other Company executives as defendants. The amended complaint alleges that various statements made by the defendants during the Amended Class Period were rendered materially false and misleading, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, by PayPal's alleged violations of the 2015 consent order with the CFPB, federal consumer financial laws, and Regulation II. On August 8, 2022, the court granted Defendants' motion to dismiss the amended complaint in its entirety, and granted Lead Plaintiff's request for leave to file a further amended complaint. On September 16, 2022, Lead Plaintiff filed a Second Amended Complaint (the "SAC"), which asserts the same claims against the same Defendants based on the same alleged conduct as the prior complaint. Defendants moved to dismiss the SAC on November 3, 2022. On April 27, 2023, the Court granted Defendants' motion and dismissed the SAC in its entirety with prejudice. Plaintiffs' deadline to file an appeal has passed and the matter is now closed.

On December 16, 2021 and January 19, 2022, two related putative shareholder derivative actions captioned *Pang v. Daniel Schulman, et al.*, Case No. 21-cv-09720, and *Lalor v. Daniel Schulman, et al.*, Case No. 22-cv-00370, respectively, were filed in the U.S. District Court for the Northern District of California (the "California Derivative Actions"), purportedly on behalf of the Company. On August 2, 2022, a related putative shareholder derivative action captioned *Jefferson v. Daniel Schulman, et al.*, No. 2022-0684, was filed in the Court of Chancery for the State of Delaware (the "Delaware Derivative Action," and collectively with the California Derivative Actions, the "Derivative Actions"), purportedly on behalf of the Company. The Derivative Actions are based on the same alleged facts and circumstances as the Kang Securities Action, and name certain of our officers, including our Chief Executive Officer and former Chief Financial Officer, and members of our Board of Directors, as defendants. The Derivative Actions allege claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, and violations of the Securities Exchange Act of 1934 ("Exchange Act"), and seek to recover damages on behalf of the Company. On February 1, 2022, the court entered an order consolidating the two California Derivative Actions and staying them until all motions to dismiss in the Kang Securities Action are resolved. On June 29, 2023, following the final dismissal of the Kang Securities Action, the Court so-ordered a stipulation dismissing the California Derivative Actions, without prejudice.

On October 4, 2022, a putative securities class action captioned *Defined Benefit Plan of the Mid-Jersey Trucking Industry and Teamsters Local 701 Pension and Annuity Fund v. PayPal Holdings, Inc., et al.*, Case No. 22-cv-5864, was filed in the U.S. District Court for the District of New Jersey. On January 11, 2023, the Court appointed Caisse de dépôt et placement du Québec as lead plaintiff and renamed the action *In re PayPal Holdings, Inc. Securities Litigation* ("PPH Securities Action"). On March 13, 2023, the lead plaintiff filed an amended and consolidated complaint. The PPH Securities Action asserts claims relating to our public statements with respect to net new active accounts ("NNA") results and guidance, and the detection of illegitimately created accounts. The PPH Securities Action purports to be brought on behalf of purchasers of the Company's stock between February 3, 2021 and February 1, 2022 (the "Class Period"), and asserts claims for alleged violations of Sections 10(b) of the Exchange Act against the Company, as well as its Chief Executive Officer, Chief Strategy, Growth and Data Officer, and former Chief Financial Officer (collectively, the "Individual Defendants," and together with the Company, "Defendants"), and for alleged violations of Sections 20(a) and 20A of the Exchange Act against the Individual Defendants. The complaint alleges that certain public statements made by Defendants during the Class Period were rendered materially false and misleading (which, allegedly, caused the Company's stock to trade at artificially inflated prices) by the Defendants' failure to disclose that, among other things, the Company's incentive campaigns were susceptible to fraud and led to the creation of illegitimate accounts, which allegedly affected the Company's NNA results and guidance. The PPH Securities Action seeks unspecified compensatory damages on behalf of the putative class members.

On November 2, 2022, a putative shareholder derivative action captioned *Shah v. Daniel Schulman, et al.*, Case No. 22-cv-1445, was filed in the U.S. District Court for the District of Delaware (the "Shah Action"), purportedly on behalf of the Company. On April 4, 2023, a putative shareholder derivative action captioned *Nelson v. Daniel Schulman, et. al.*, Case No. 23-cv-01913, was filed in the U.S. District Court for the District of New Jersey (the "Nelson Action") purportedly on behalf of the Company. The Shah and Nelson Actions are based on the same alleged facts and circumstances as the PPH Securities Action, and name certain of our officers, including our Chief Executive Officer and former Chief Financial Officer, and members of our Board of Directors, as defendants. The Shah and Nelson Actions allege claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unjust enrichment, waste of corporate assets, gross mismanagement and violations of the Exchange Act, and seek to recover damages on behalf of the Company. The Shah and Nelson Actions have been stayed pending further developments in the PPH Securities Action.

On December 20, 2022, a civil lawsuit captioned State of Hawai'i, by its Office of Consumer Protection, v. PayPal, Inc., and PayPal Holdings, Inc., Case No. 1CCV-22-0001610, was filed in the Circuit Court of the First Circuit of the State of Hawai'i (the "Hawai'i Action"). The Hawai'i Action asserts claims for unfair and deceptive acts and practices under Hawai'i Revised Statutes Sections 480-2(a) and 481A-3(a). Plaintiff seeks injunctive relief as well as unspecified penalties and other monetary relief. On July 14, 2023, the court denied Defendants' motion to dismiss the complaint.

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) or regulators 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 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 legal review and challenges that may reflect the increasing global regulatory focus to which the payments industry is subject and, when taken as a whole with other regulatory and legislative action, such actions could result in the imposition of costly new compliance burdens on our business and customers and may lead to increased costs and decreased transaction volume and revenue. Further, the number and significance of these disputes and inquiries are increasing as our business has grown and expanded in scale and scope, including the number of active accounts and payments transactions on our platform, the range and increasing complexity of the products and services that we offer, and our geographical operations. 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

Our agreements with eBay governing our separation from eBay 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 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 may include indemnities related to intellectual property rights, confidentiality, willful misconduct, data privacy obligations, and certain breach of contract claims, among others. 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.

PayPal has participated in the U.S. Government's Paycheck Protection Program administered by the U.S. Small Business Administration. Loans made under this program are funded by an independent chartered financial institution that we partner with. We receive a fee for providing services in connection with these loans and retain operational and audit risk related to those activities. We have agreed, under certain circumstances, to indemnify the chartered financial institution and its assignee of a portion of these loans in connection with the services provided for loans made under this program.

To date, no significant costs have been incurred, either individually or collectively, in connection with our indemnification provisions.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2023 and December 31, 2022, 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 for certain transactions completed on our payments platform. These programs are intended to protect both merchants and consumers from loss primarily due to fraud and counterparty performance. Our Purchase 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 under applicable accounting standards for which we estimate and record associated costs in transaction and credit losses during the period the payment transaction is completed.

At June 30, 2023 and December 31, 2022, the allowance for transaction losses was $58 million and $66 million, respectively. The allowance for negative customer balances was $288 million and $212 million at June 30, 2023 and December 31, 2022, respectively. The following table shows changes in the allowance for transaction losses and negative customer balances related to our protection programs for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in millions)			
Beginning balance	$ 318	$ 319	$ 278	$ 355
Provision	286	380	586	702
Realized losses	(288)	(373)	(553)	(763)
Recoveries	30	52	35	84
Ending balance	$ 346	$ 378	$ 346	$ 378

NOTE 14—STOCK REPURCHASE PROGRAMS

During the six months ended June 30, 2023, we repurchased approximately 41 million shares of our common stock for approximately $3.0 billion at an average price of $72.42, excluding excise tax. These shares were purchased in the open market under our stock repurchase programs authorized in July 2018 and June 2022. As of June 30, 2023, a total of approximately $12.9 billion remained available for future repurchases of our common stock under our June 2022 stock repurchase program.

The Inflation Reduction Act of 2022 imposed a nondeductible 1% excise tax on the net value of certain stock repurchases made after December 31, 2022. Beginning in the first quarter of 2023, we reflected the applicable excise tax in treasury stock on our condensed consolidated balance sheet. During the six months ended June 30, 2023, we recorded $24 million in excise tax within treasury stock on our condensed consolidated balance sheet.

NOTE 15—STOCK-BASED PLANS

In May 2023, our stockholders approved an additional authorization of 34.6 million shares to the Amended and Restated PayPal Holdings, Inc. 2015 Equity Incentive Award Plan (the "Plan"). In June 2023, the Company filed a post-effective amendment to the 2022 Inducement Plan registration statement that enabled 2.6 million shares previously issuable under the 2022 Inducement Plan to be included in the 34.6 million additional shares issuable under the Plan.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense for our equity incentive plans are measured based on their estimated fair value at the time of grant and recognized over the award's vesting period.

The impact on our results of operations of recording stock-based compensation expense under our equity incentive plans for the three and six months ended June 30, 2023 and 2022 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In millions)			
Customer support and operations	$ 76	$ 67	$ 148	$ 140
Sales and marketing	45	42	88	87
Technology and development	149	129	297	265
General and administrative	106	88	200	276
Total stock-based compensation expense	$ 376	$ 326	$ 733	$ 768
Capitalized stock-based compensation expense	$ 13	$ 12	$ 24	$ 28

NOTE 16—INCOME TAXES

Our effective tax rate for the three and six months ended June 30, 2023 was 21% and 23%, respectively. Our effective tax rate for the three and six months ended June 30, 2022 was 796% and 75%, respectively. The difference between our effective tax rate and the U.S. federal statutory rate of 21% in the current periods was primarily the result of foreign income taxed at different rates and discrete tax adjustments, including tax expense related to stock-based compensation. The difference between our effective tax rate and the U.S. federal statutory rate of 21% for the three and six months ended June 30, 2022 was primarily due to tax expense related to the intra-group transfer of intellectual property.

NOTE 17—RESTRUCTURING AND OTHER CHARGES

During the first quarter of 2023, management initiated a global workforce reduction intended to focus resources on core strategic priorities, and improve our cost structure and operating efficiency. The associated restructuring charges during the three and six months ended June 30, 2023 were nil and $117 million, respectively. We primarily incurred employee severance and benefits costs, substantially all of which have been accrued for as of March 31, 2023.

The following table summarizes the restructuring reserve activity during the six months ended June 30, 2023:

	Employee Severance and Benefits and Other Associated Costs
	(In millions)
Accrued liability as of January 1, 2023	$ 24
Charges	117
Payments	(121)
Accrued liability as of June 30, 2023	$ 20

During the first quarter of 2022, management initiated a strategic reduction of the existing global workforce intended to streamline and optimize our global operations to enhance operating efficiency. This effort focused on reducing redundant operations and simplifying our organizational structure. The associated restructuring charges during the three and six months ended June 30, 2022 were $71 million and $91 million, respectively. We primarily incurred employee severance and benefits costs, as well as associated consulting costs under this strategic reduction. The strategic actions associated with this plan were substantially completed by the fourth quarter of 2022.

Additionally, we are continuing to review our real estate and facility capacity requirements due to our new and evolving work models. We incurred asset impairment charges of $4 million and $43 million in the three and six months ended June 30, 2023, respectively, and $19 million and $35 million in the three and six months ended June 30, 2022, respectively, due to exiting of certain leased properties, which resulted in a reduction of ROU lease assets and related leasehold improvements. See “Note 6—Leases” for additional information. We recognized a gain of $14 million due to the sale of an owned property in the three and six months ended June 30, 2023. We also incurred a loss of $8 million upon designation of another owned property as held for sale in the six months ended June 30, 2023.

During the three and six months ended June 30, 2023, approximately $34 million of losses were recorded in restructuring and other charges in order to measure loans and interest receivable, held for sale, at the lower of cost or fair value.

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, mergers or acquisitions, or management strategies). These forward-looking statements can be identified by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "continue," "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, 2022 (the "2022 Form 10-K"), as supplemented 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 in this report and our other filings with the Securities and Exchange Commission. 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, new information, 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 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, Inc. and its consolidated subsidiaries.

BUSINESS ENVIRONMENT

THE COMPANY

We are a leading technology platform that enables digital payments and simplifies commerce experiences on behalf of merchants and consumers worldwide. PayPal is committed to democratizing financial services to help improve the financial health of individuals and to increase economic opportunity for entrepreneurs and businesses of all sizes around the world. Our goal is to enable our merchants and consumers to manage and move their money anywhere in the world in the markets we serve, anytime, on any platform, and using any device when sending payments or getting paid, including person-to-person payments.

Regulatory environment

We operate globally and in a rapidly evolving regulatory environment characterized by a heightened focus by regulators globally on all aspects of the payments industry, including countering terrorist financing, anti-money laundering, privacy, cybersecurity, and consumer protection. The laws and regulations applicable to us, including those enacted prior to the advent of digital payments, continue to evolve through legislative and regulatory action and judicial interpretation. New or changing laws and regulations, including changes to their interpretation and implementation, 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. We monitor these areas closely and are focused on designing compliant solutions for our customers.

Information security

Information security risks for global payments and technology companies like us have increased significantly in recent years. Although we have developed systems and processes designed to protect the data we manage, prevent data loss and other security incidents, and enable us to effectively respond to known and potential risks, and expect to continue to expend significant resources to bolster these protections, we remain subject to these risks and there can be no assurance that our security measures will provide sufficient security or prevent breaches or attacks. For additional information regarding our information security risks, see Part I, Item 1A, Risk Factors in our 2022 Form 10-K, as supplemented and, to the extent inconsistent, superseded below (if applicable) in Part II, Item 1A, Risk Factors of this Form 10-Q.

BREXIT

The United Kingdom ("U.K.") formally exited the European Union ("EU") and the European Economic Area ("EEA") on January 31, 2020 (commonly referred to as "Brexit") with the expiration of the transition period on December 31, 2020. PayPal operates in the U.K. within the scope of its passport permissions (as they stood at the end of the transition period) under the Temporary Permissions Regime pending the grant of new authorizations by the U.K. financial regulators. We are currently unable to determine the longer-term impact that Brexit will have on our business, which will depend, in part, on the implications of new tariff, trade, and regulatory frameworks that now govern the provision of cross-border goods and services between the U.K. and the EEA, as well as the financial and operational consequences of the requirement for PayPal to obtain new U.K. authorizations to operate its business longer-term within the U.K. market. For additional information on how Brexit could affect our business, see Part I, Item 1A, Risk Factors in our 2022 Form 10-K, as supplemented and, to the extent inconsistent, superseded below (if applicable) in Part II, Item 1A, Risk Factors of this Form 10-Q.

Brexit may contribute to instability in financial, stock, and foreign currency exchange markets, including volatility in the value of the British pound and Euro. We have foreign currency exchange exposure management programs designed to help reduce the impact from foreign currency exchange rate movements. The tables below provide the percentage of our total net revenues and gross loans and interest receivable from the U.K. and EU for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net revenues generated from the U.K.	7 %	8 %	7 %	8 %
Net revenues generated from the EU	20 %	17 %	19 %	18 %

	June 30, 2023[1]	December 31, 2022
Gross loans and interest receivable due from customers in the U.K.	30 %	29 %
Gross loans and interest receivable due from customers in the EU	30 %	28 %

[1] Includes loans and interest receivable, held for sale.

MACROECONOMIC ENVIRONMENT

The broader implications of the macroeconomic environment, including uncertainty around the Russia and Ukraine conflict, supply chain shortages, a recession globally or in markets in which we operate, higher inflation rates, higher interest rates, and other related global economic conditions, remain unknown. A deterioration in macroeconomic conditions could continue to increase the risk of lower consumer spending, merchant and consumer bankruptcy, insolvency, business failure, higher credit losses, foreign currency exchange fluctuations, or other business interruption, which may adversely impact our business. If these conditions continue or worsen, they could adversely impact our future financial and operating results.

OVERVIEW OF RESULTS OF OPERATIONS

The following table provides a summary of our condensed consolidated financial results for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Percent Increase/(Decrease)	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Percent Increase/(Decrease)
	(In millions, except percentages and per share data)					
Net revenues	$ 7,287	$ 6,806	7 %	$ 14,327	$ 13,289	8 %
Operating expenses	6,154	6,042	2 %	12,195	11,814	3 %
Operating income	$ 1,133	$ 764	48 %	$ 2,132	$ 1,475	45 %
Operating margin	16 %	11 %	**	15 %	11 %	**
Other income (expense), net	$ 170	$ (715)	124 %	$ 245	$ (797)	131 %
Income tax expense	274	390	(30)%	553	510	8 %
Effective tax rate	21 %	796 %	**	23 %	75 %	**
Net income (loss)	$ 1,029	$ (341)	**	$ 1,824	$ 168	**
Net income (loss) per diluted share	$ 0.92	$ (0.29)	**	$ 1.62	$ 0.14	**
Net cash provided by operating activities[(1)]	$ (200)	$ 1,250	(116)%	$ 970	$ 2,467	(61)%

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)] Prior period amounts have been revised to conform to the current period presentation. Refer to "Note 1—Overview and Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in this Form 10-Q for additional information.

** Not meaningful.

THREE MONTHS ENDED JUNE 30, 2023 AND 2022

Net revenues increased $481 million, or 7%, in the three months ended June 30, 2023 compared to the same period of the prior year driven primarily by growth in total payment volume ("TPV", as defined below under "Key Metrics") of 11%.

Total operating expenses increased $112 million, or 2%, in the three months ended June 30, 2023 compared to the same period of the prior year due primarily to an increase in transaction expense, partially offset by reductions in sales and marketing expense, technology and development expense, and restructuring and other charges.

Operating income increased by $369 million, or 48%, in the three months ended June 30, 2023 compared to the same period of the prior year due to net revenues growing faster than operating expenses. Our operating margin was 16% and 11% in the three months ended June 30, 2023 and 2022, respectively, reflecting the positive impact of operating efficiencies in our business, partially offset by the negative impact of an increase in transaction expense.

Net income increased $1.4 billion in the three months ended June 30, 2023 compared to the same period of the prior year due to the previously discussed increase in operating income of $369 million, an increase in other income (expense), net of $885 million driven primarily by net gains on strategic investments in the current period as compared to net losses in the prior period, and a decrease in income tax expense of $116 million driven primarily by higher tax expense in the prior period related to the intra-group transfer of intellectual property, partially offset by higher tax expense in the current period on higher operating income and net gains on strategic investments.

SIX MONTHS ENDED JUNE 30, 2023 AND 2022

Net revenues increased $1.0 billion, or 8%, in the six months ended June 30, 2023 compared to the same period of the prior year driven primarily by growth in TPV of 10%.

Total operating expenses increased $381 million, or 3%, in the six months ended June 30, 2023 compared to the same period of the prior year due primarily to an increase in transaction expense, partially offset by reductions in sales and marketing expense, technology and development expense, general and administrative expense, and customer support and operations expense.

Operating income increased $657 million, or 45%, in the six months ended June 30, 2023 compared to the same period of the prior year due to net revenues growing faster than operating expenses. Our operating margin was 15% and 11% in the six months ended June 30, 2023 and 2022, respectively, reflecting the positive impact of operating efficiencies in our business, partially offset by the negative impact of an increase in transaction expense.

Net income increased $1.7 billion in the six months ended June 30, 2023 compared to the same period of the prior year due to the previously discussed increase in operating income of $657 million and an increase of $1.0 billion in other income (expense), net driven primarily by net gains on strategic investments in the current period as compared to net losses in the prior period.

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 exchange risk which may adversely impact our financial results. The strengthening or weakening of the United States ("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. We generated approximately 42% of our net revenues from customers domiciled outside of the U.S. in the three and six months ended June 30, 2023 as compared to 43% in both the three and six months ended June 30, 2022. Because we generate substantial net revenues internationally, we are subject to the risks of doing business outside of the U.S. See Part I, Item 1A, Risk Factors in our 2022 Form 10-K, as supplemented and, to the extent inconsistent, superseded (if applicable) below in Part II, Item 1A, Risk Factors of this Form 10-Q.

We calculate the year-over-year impact of foreign currency exchange 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 in which we use foreign currency exchange contracts, designated 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 or operating expenses (as applicable) in the same period the forecasted transactions impact earnings.

In the three and six months ended June 30, 2023, year-over-year foreign currency exchange rate movements relative to the U.S. dollar had the following impact on our reported results:

	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
	(In millions)	
Favorable (unfavorable) impact to net revenues (exclusive of hedging impact)	$ 6	$ (133)
Hedging impact	34	110
Favorable (unfavorable) impact to net revenues	40	(23)
Favorable impact to operating expense	7	85
Net favorable impact to operating income	$ 47	$ 62

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.

We also use foreign currency exchange contracts, designated as net investment hedges, to reduce the foreign currency exchange risk related to our investment in certain foreign subsidiaries. Gains and losses associated with these instruments will remain in accumulated other comprehensive income (loss) until the underlying foreign subsidiaries are sold or substantially liquidated.

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 in which we use foreign currency exchange contracts to help 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.

Additionally, in connection with transactions occurring in multiple currencies on our payments platform, 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 and when transactions occur.

KEY METRICS AND FINANCIAL RESULTS

KEY METRICS

TPV, number of payment transactions, active accounts, and number of payment transactions per active account are key non-financial performance metrics ("key metrics") that management uses to measure the scale of our platform and the relevance of our products and services to our customers, and are defined as follows:

- *TPV* is the value 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.

- *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.

- An *active account* is an account registered directly with PayPal or a platform access partner that has completed a transaction on our platform, not including gateway-exclusive transactions, within the past 12 months. A platform access partner is a third party whose customers are provided access to PayPal's platform or services through such third party's login credentials, including individuals and entities that utilize Hyperwallet's payout capabilities. A user may register on our platform to access different products and may register more than one account to access a product. Accordingly, a user may have more than one active account. The number of active accounts provides management with additional perspective on the overall scale of our platform, but may not have a direct relationship to our operating results.

- *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. The number of payment transactions per active account provides management with insight into the average number of times an account engages in payments activity on our payments platform in a given period. The number of times a consumer account or a merchant account transacts on our platform may vary significantly from the average number of payment transactions per active account.

As our transaction revenue is typically correlated with TPV growth and the number of payment transactions completed on our payments platform, management uses these metrics to gain insights into the scale and strength of our payments platform, the engagement level of our customers, and underlying activity and trends which may be indicators of current and future performance. We present these key metrics to enhance investors' evaluation of the performance of our business and operating results.

Our key metrics are calculated using internal company data based on the activity we measure on our payments platform and compiled from multiple systems, including systems that are internally developed or acquired through business combinations. While the measurement of our key metrics is based on what we believe to be reasonable methodologies and estimates, there are inherent challenges and limitations in measuring our key metrics globally at our scale. The methodologies used to calculate our key metrics require judgment.

We regularly review our processes for calculating these key metrics, and from time to time we may make adjustments to improve the accuracy or relevance of our metrics. For example, we continuously apply models, processes, and practices designed to detect and prevent fraudulent account creation on our platforms, and work to improve and enhance those capabilities. When we detect a significant volume of illegitimate activity, we generally remove the activity identified from our key metrics. Although such adjustments may impact key metrics reported in prior periods, we generally do not update previously reported key metrics to reflect these subsequent adjustments unless the retrospective impact of process improvements or enhancements is determined by management to be material.

NET REVENUES

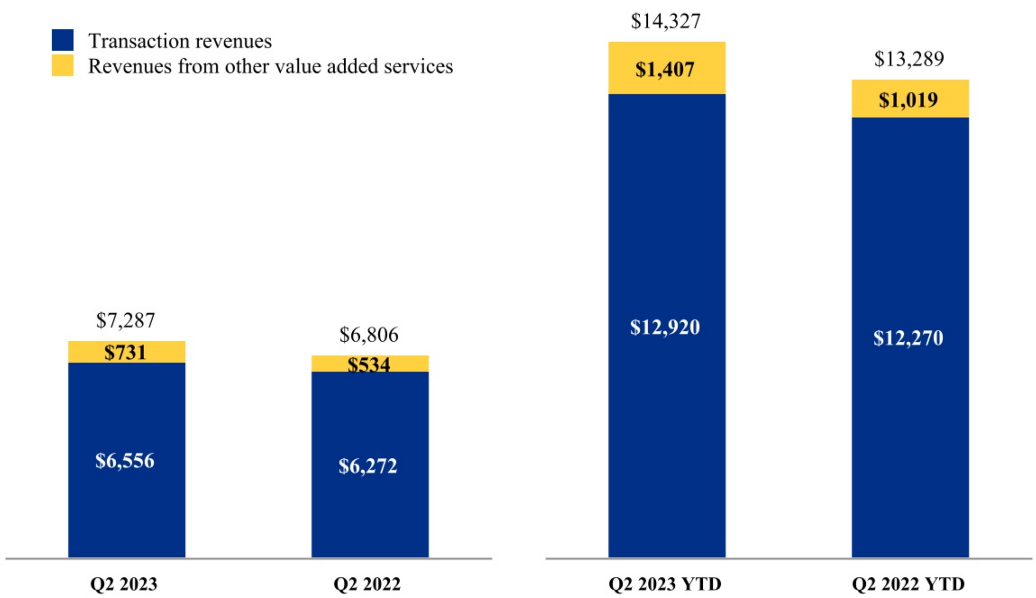
Our revenues are classified into the following two categories:

- *Transaction revenues*: Net transaction fees charged to merchants and consumers on a transaction basis based on the 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. We earn additional fees from merchants and consumers: on transactions where we perform currency conversion, when we enable cross-border transactions (i.e., transactions where the merchant and consumer are in different countries), to facilitate the instant transfer of funds for our customers from their PayPal or Venmo account to their bank account or debit card, to facilitate the purchase and sale of cryptocurrencies, as contractual compensation from sellers that violate our contractual terms (for example, through fraud or counterfeiting), and other miscellaneous fees.

- *Revenues from other value added services*: Net revenues derived primarily from revenue earned through partnerships, referral fees, subscription fees, gateway fees, and other services we provide to our merchants and consumers. We also earn revenues from interest and fees earned on our portfolio of loans receivable and interest earned on certain assets underlying customer balances.

Net revenue analysis

The components of our net revenues for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):

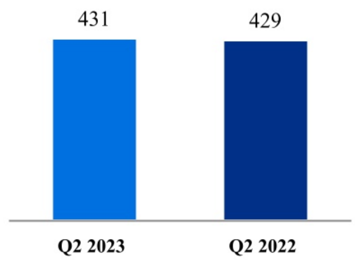


Transaction revenues

Transaction revenues grew by $284 million, or 5%, and $650 million, or 5%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year driven primarily by growth in TPV and the number of payment transactions from our Braintree products and services partially offset by a decline in revenues from our core PayPal products and services, including declines in contractual compensation for the three and six months ended June 30, 2023, of $75 million and $105 million, respectively, from sellers that violated our contractual terms predominantly in international markets.

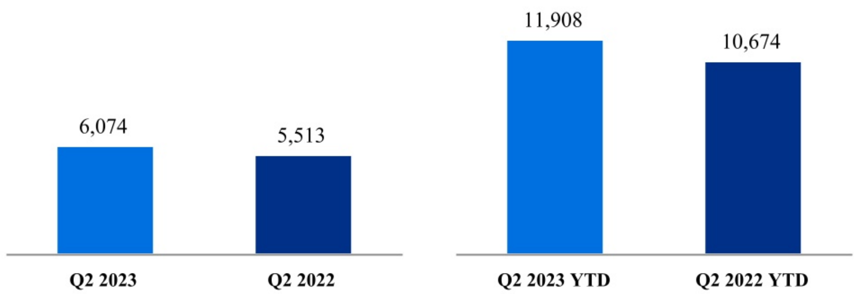
The graphs below present the respective key metrics (in millions) for the three and six months ended June 30, 2023 and 2022:

Active Accounts*

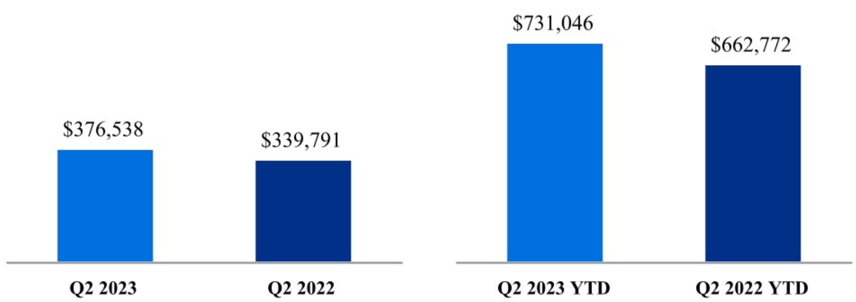


*Reflects active accounts at the end of the applicable period.

Number of payment transactions



TPV



The following table provides a summary of related metrics:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2023	2022		2023	2022	
Number of payment transactions per active account	54.7	48.7	12 %	54.7	48.7	12 %
Percent of cross-border TPV	12 %	13 %	**	12 %	14 %	**

** Not meaningful

We had active accounts of 431 million and 429 million as of June 30, 2023 and 2022, respectively. Our total number of payment transactions was 6.1 billion and 5.5 billion for the three months ended June 30, 2023 and 2022, respectively, an increase of 10%. Our total number of payment transactions was 11.9 billion for the six months ended June 30, 2023, compared to 10.7 billion in the six months ended June 30, 2022, an increase of 12%. TPV was $377 billion and $340 billion for the three months ended June 30, 2023 and 2022, respectively, an increase of 11%. TPV was $731 billion for the six months ended June 30, 2023 compared to $663 billion in the six months ended June 30, 2022, an increase of 10%.

Transaction revenues grew more slowly than growth in TPV and the number of payment transactions in the three and six months ended June 30, 2023 compared to the same periods in the prior year due primarily to a decline in revenues from core PayPal products and services and foreign currency exchange fees. Additionally, for the three months ended June 30, 2023, the slower growth of transaction revenues compared to TPV and the number of payment transactions was due to an unfavorable impact from hedging.

Revenues from other value added services

Revenues from other value added services increased $197 million, or 37%, and $388 million, or 38%, in the three and six months ended June 30, 2023, respectively, compared to the same periods in the prior year primarily attributable to increases in interest earned on certain assets underlying customer account balances resulting from higher interest rates, and to a lesser extent, interest and fee revenue on our loans receivable portfolio driven by consumer interest-bearing installment loans and consumer revolving loans.

OPERATING EXPENSES

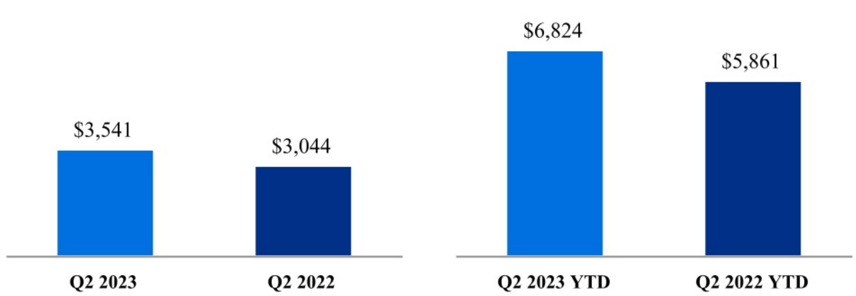
The following table summarizes our operating expenses and related metrics we use to assess the trends in each:

	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2023	2022		2023	2022	
	(In millions, except percentages)					
Transaction expense	$ 3,541	$ 3,044	16 %	$ 6,824	$ 5,861	16 %
Transaction and credit losses	398	448	(11)%	840	817	3 %
Customer support and operations	492	536	(8)%	980	1,070	(8)%
Sales and marketing	465	595	(22)%	901	1,189	(24)%
Technology and development	743	815	(9)%	1,464	1,630	(10)%
General and administrative	491	514	(4)%	998	1,121	(11)%
Restructuring and other charges	24	90	(73)%	188	126	49 %
Total operating expenses	$ 6,154	$ 6,042	2 %	$ 12,195	$ 11,814	3 %
Transaction expense rate(1)	0.94 %	0.90 %	**	0.93 %	0.88 %	**
Transaction and credit loss rate(2)	0.11 %	0.13 %	**	0.11 %	0.12 %	**

(1) Transaction expense rate is calculated by dividing transaction expense by TPV.
(2) Transaction and credit loss rate is calculated by dividing transaction and credit losses by TPV.
** Not meaningful.

Transaction expense

Transaction expense for the three and six months ended June 30, 2023 and 2022 was as follows (in millions):

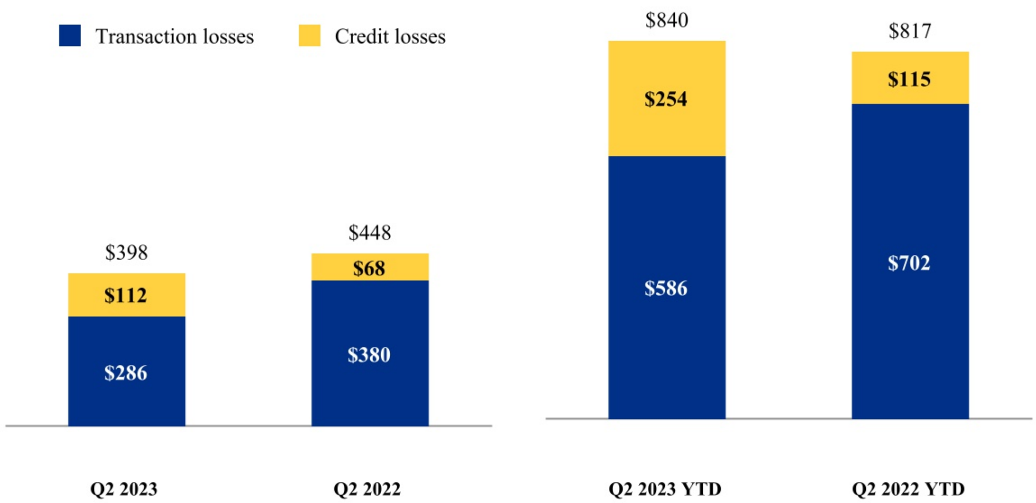


Transaction expense increased by $497 million, or 16%, and $963 million, or 16%, in the three and six months ended June 30, 2023, respectively, due primarily to the increase in TPV of 11% and 10% for the three and six months ended June 30, 2023, respectively, as well as unfavorable changes in product mix. The increase in the transaction expense rate for the three and six months ended June 30, 2023 compared to the same periods of the prior year was also attributable to unfavorable changes in product mix with a higher proportion of TPV from unbranded card processing volume, which generally has higher expense rates than other products and services, partially offset by favorable changes in regional mix with respect to our core PayPal products and certain third-party pricing reductions with respect to our Venmo products. For the three and six months ended June 30, 2023, approximately 37% and 36% of TPV, respectively, was generated outside of the U.S. For the three and six months ended June 30, 2022, approximately 35% and 36% of TPV, respectively, was generated outside of the U.S.

Our transaction expense rate is impacted by changes in product mix, merchant mix, regional mix, funding mix, and fees paid to payment processors and other financial institutions. 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 or Venmo account balance or our consumer credit products.

Transaction and credit losses

The components of our transaction and credit losses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



Transaction and credit losses decreased by $50 million, or 11%, and increased by $23 million, or 3%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year.

Transaction losses were $286 million in the three months ended June 30, 2023 compared to $380 million in the three months ended June 30, 2022, a decrease of $94 million, or 25%. Transaction losses were $586 million in the six months ended June 30, 2023 compared to $702 million in the six months ended June 30, 2022, a decrease of $116 million, or 17%. Transaction loss rate (transaction losses divided by TPV) was 0.08% for the three and six months ended June 30, 2023, compared to 0.11% for the three and six months ended June 30, 2022. The decrease in transaction losses in the three and six months ended June 30, 2023 was primarily due to a $114 million loss related to an ongoing merchant insolvency proceeding in the three and six months ended June 30, 2022 with no activity of comparable individual magnitude in the current period.

Credit losses increased by $44 million and $139 million in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year. The components of credit losses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net charge-offs[1]	$ 134	$ 60	$ 244	$ 112
Reserve build (release)[2],[3]	(22)	8	10	3
Credit losses	$ 112	$ 68	$ 254	$ 115

[1] Net charge-offs includes principal charge-offs partially offset by recoveries for consumer and merchant receivables.
[2] Reserve build (release) represents change in allowance for principal receivables excluding foreign currency remeasurement.
[3] Includes the reversal of allowance associated with the reclassification of certain loans to held for sale.

The provision in the three and six months ended June 30, 2023 was attributable to loan originations during the period and a deterioration in the credit quality of loans outstanding, partially offset by reversal of reserve associated with the reclassification of certain receivables to held for sale. The provision in the three and six months ended June 30, 2022 was attributable to loan originations in that period, partially offset by improvements in the credit quality of loans outstanding. During the periods presented, allowances for our merchant and consumer portfolios included qualitative adjustments that took into account uncertainty with respect to macroeconomic conditions and around the financial health of our borrowers, including the effectiveness of loan modification programs made available to merchants.

As of June 30, 2023, loans and interest receivable, held for sale was $1.9 billion. Loans and interest receivable, held for sale, represents the portion of our installment consumer receivables that we intend to sell. This portfolio includes the substantial majority of the U.K. and other European buy now, pay later loan receivables. In June 2023, we entered into a multi-year agreement with a global investment firm to sell up to €40 billion of U.K. and other European buy now, pay later loan receivables, consisting of eligible loans and interest receivable, held for sale at the closing of the transaction and a forward-flow arrangement for the sale of future originations of eligible loans over a 24-month commitment period (together, "eligible consumer installment receivables"). At the time of reclassification, previously recorded allowance for credit losses for loans and interest receivable outstanding was reversed, resulting in a decrease of approximately $33 million in transaction and credit losses in our condensed consolidated statement of income (loss). See "Note 1—Overview and Summary of Significant Accounting Policies" in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for additional information.

The consumer loans and interest receivable balance, net of participation interest sold, remained consistent as of June 30, 2023 and 2022 at $4.5 billion. The increases driven by the expansion of our installment credit products in the U.S. and Japan and our revolving credit product in the U.K. were offset by the reclassification of eligible consumer installment receivables as held for sale in the U.K and other European countries, as discussed above.

Approximately 36% and 43% of our consumer loans receivable outstanding (including loans held for sale and loans held for investments) as of June 30, 2023 and 2022, respectively, were due from consumers in the U.K. The decrease in the percentage of consumer loans receivable outstanding in the U.K. at June 30, 2023 compared to June 30, 2022 was primarily due to overall growth in other markets related to installment credit products.

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

	June 30,	
	2023	2022
Percent of consumer loans and interest receivable current[1]	95.5 %	96.5 %
Percent of consumer loans and interest receivable > 90 days outstanding[1], [2]	2.0 %	1.6 %
Net charge-off rate[1], [3]	5.0 %	4.2 %

[1] Amounts as of June 30, 2023 exclude loans and interest receivable, held for sale.
[2] Represents percentage of balances which are 90 days past the billing date or contractual repayment date, as applicable.
[3] Net charge-off rate is the annual ratio of net credit losses, excluding fraud losses, on consumer loans as a percentage of the average daily amount of consumer loans and interest receivable balance during the period.

The increase in net charge-off rate for consumer loans and interest receivable at June 30, 2023 as compared to June 30, 2022 was primarily due to the reclassification of certain receivables to held for sale. The net charge-off rate is expected to increase in the second half of 2023 due to a slowing of new originations of consumer loans held for investment because all eligible new U.K. and other European installment loans will be classified as held for sale and consequently excluded from net charge-offs.

We offer access to merchant finance products for certain small and medium-sized businesses, which we refer to as our merchant finance offerings. Total merchant loans, advances, and interest and fees receivable outstanding, net of participation interest sold, remained consistent as of June 30, 2023 and 2022 at $1.7 billion. The increase in merchant loans, advances, and interest and fees receivable outstanding related to our PayPal Working Capital ("PPWC") product in Europe was offset by a decrease in receivable outstanding related to our PayPal Business Loan ("PPBL") product in the U.S. Approximately 79% and 7% of our merchant receivables outstanding as of June 30, 2023 were due from merchants in the U.S. and U.K., respectively, as compared to 84% and 6%, respectively, as of June 30, 2022.

The following table provides information regarding the credit quality of our merchant loans, advances, and interest and fees receivable balance:

	June 30,	
	2023	2022
Percent of merchant loans, advances, and interest and fees receivable current	86.5 %	93.2 %
Percent of merchant loans, advances, and interest and fees receivable > 90 days outstanding[1]	7.1 %	2.6 %
Net charge-off rate[2]	13.3 %	3.4 %

[1] Represents percentage of balances which are 90 days past the original expected or contractual repayment period, as applicable.
[2] Net charge-off rate is the annual ratio of net credit losses, excluding fraud losses, on merchant loans and advances as a percentage of the average daily amount of merchant loans, advances, and interest and fees receivable balance during the period.

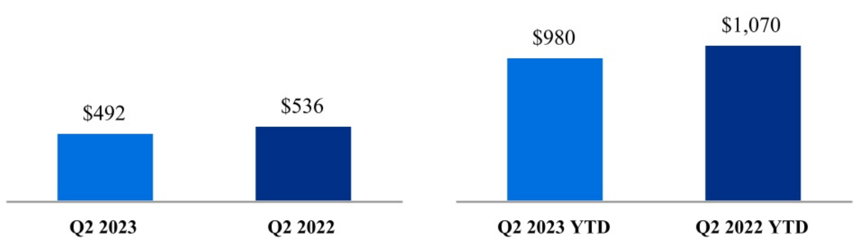
The decrease in the percent of current merchant receivables, increase in percent of merchant receivables greater than 90 days outstanding, and increase in the net charge-off rate for merchant receivables at June 30, 2023 as compared to June 30, 2022 were primarily due to the expansion of acceptable risk parameters in 2022, which resulted in a decline in the overall credit quality of loans outstanding related to our PPBL product.

We continue to evaluate and modify our acceptable risk parameters in response to the changing macroeconomic environment. During the first quarter of 2023, in response to declining performance, a number of risk mitigation strategies were implemented which resulted in reduced PPBL originations in the first half of 2023. Modifications to the acceptable risk parameters for our consumer credit products did not have a material impact on our consumer loans in the periods presented.

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

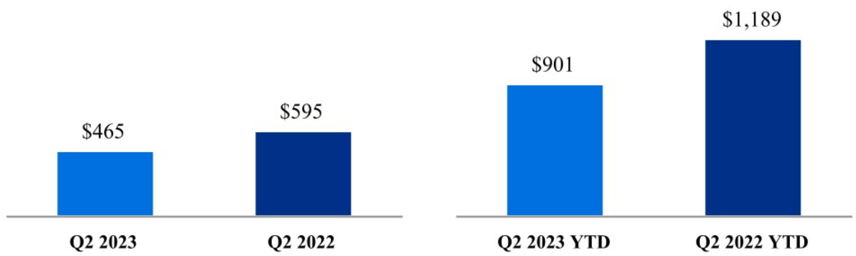
Customer support and operations expenses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



Customer support and operations expenses decreased by $44 million, or 8%, and $90 million, or 8%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year due primarily to a decline in employee-related costs, and contractors and consulting costs. The decline in customer support and operations expense for the six months ended June 30, 2023 was also driven by a decline in customer onboarding and compliance costs.

Sales and marketing

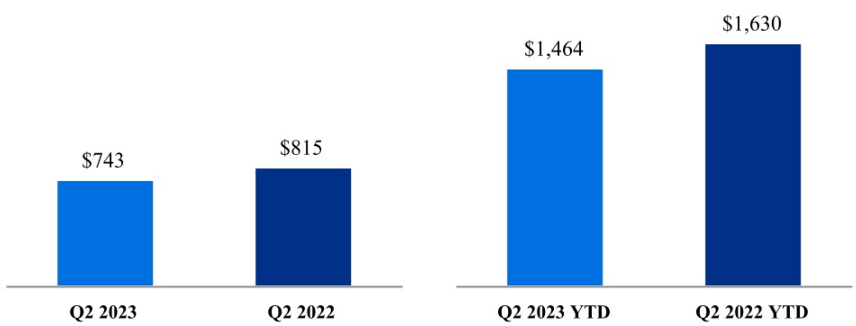
Sales and marketing expenses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



Sales and marketing expenses decreased by $130 million, or 22%, and $288 million, or 24%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year due primarily to lower spending on marketing campaigns and targeted user incentives and, to a lesser extent, declines in employee-related costs, amortization of acquired intangibles, and consulting services.

Technology and development

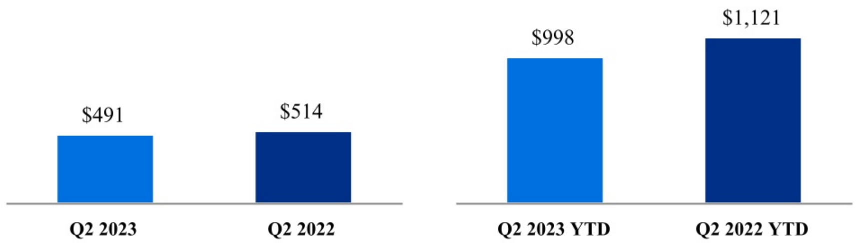
Technology and development expenses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



Technology and development expenses decreased by $72 million, or 9%, and $166 million, or 10%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year due primarily to lower intangible amortization in the current period and a decline in costs related to contractors and consultants. The decline in technology and development expenses for the six months ended June 30, 2023 was also attributable to a decline in cloud computing services utilized in delivering our products and services.

General and administrative

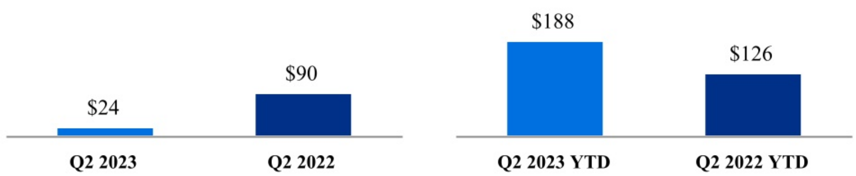
General and administrative expenses for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



General and administrative expenses decreased by $23 million, or 4%, and $123 million, or 11%, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year. The decline in general and administrative expenses in the three months ended June 30, 2023 was due primarily to a decrease in professional services expenses. The decline in general and administrative expenses in the six months ended June 30, 2023 was primarily attributable to a decline in employee-related expenses driven by lower stock-based compensation expense, and to a lesser extent, a decrease in professional services expenses.

Restructuring and other charges

Restructuring and other charges for the three and six months ended June 30, 2023 and 2022 were as follows (in millions):



Restructuring and other charges decreased by $66 million and increased by $62 million, in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year.

During the first quarter of 2023, management initiated a global workforce reduction intended to focus resources on core strategic priorities, and improve our cost structure and operating efficiency. The associated restructuring charges during the three and six months ended June 30, 2023 were nil and $117 million, respectively. We primarily incurred employee severance and benefits costs, substantially all of which have been accrued for as of March 31, 2023. The estimated reduction in annualized employee-related costs associated with the impacted workforce was approximately $280 million, including approximately $85 million in stock-based compensation. We expect to reinvest a portion of the reduction in annual costs associated with the impacted workforce to drive business priorities.

During the first quarter of 2022, management initiated a strategic reduction of the existing global workforce intended to streamline and optimize our global operations to enhance operating efficiency. This effort focused on reducing redundant operations and simplifying our organizational structure. The associated restructuring charges during the three and six months ended June 30, 2022 was $71 million and $91 million, respectively. We primarily incurred employee severance and benefits costs, as well as associated consulting costs. The strategic actions associated with this plan were substantially completed by the fourth quarter of 2022.

For information on the associated restructuring liability, see “Note 17—Restructuring and Other Charges” in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Additionally, we are continuing to review our real estate and facility capacity requirements due to our new and evolving work models. We incurred asset impairment charges of $4 million and $43 million in the three and six months ended June 30, 2023, respectively, and $19 million and $35 million in the three and six months ended June 30, 2022, respectively, due to exiting certain leased properties, which resulted in a reduction of right-of-use lease assets and related leasehold improvements. We recognized a gain of $14 million due to the sale of an owned property in the three and six months ended June 30, 2023. We also incurred a loss of $8 million upon designation of another owned property as held for sale in the six months ended June 30, 2023.

During the three and six months ended June 30, 2023, approximately $34 million of losses were recorded in restructuring and other charges in order to measure loans and interest receivable, held for sale, at the lower of cost or fair value.

Other income (expense), net

Other income (expense), net increased $885 million and $1.0 billion in the three and six months ended June 30, 2023, respectively, compared to the same periods of the prior year due primarily to net gains on strategic investments in the current periods as compared to net losses in the prior periods, and to a lesser extent, higher interest income resulting from an increase in interest rates, partially offset by an increase in interest expense due to incremental expense from our May 2022 fixed rate debt. Other income (expense), net in the six months ended June 30, 2023 was also positively impacted by foreign exchange gains in the current period compared to losses in the prior period primarily from actions taken in connection with our decision to suspend transactional services in Russia.

Income tax expense

Our effective income tax rate was 21% and 796% for the three months ended June 30, 2023 and 2022, respectively, and 23% and 75% for the six months ended June 30, 2023 and 2022, respectively. The decrease in our effective income tax rate for the three and six months ended June 30, 2023 compared to the same periods of the prior year was due primarily to higher tax expense in the prior year related to the intra-group transfer of intellectual property.

LIQUIDITY AND CAPITAL RESOURCES

We require liquidity and access to capital to fund our global operations, including our customer protection programs, credit products, capital expenditures, investments in our business, potential acquisitions and strategic investments, working capital, and other cash needs. 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 meet our cash requirements within the next 12 months and beyond.

SOURCES OF LIQUIDITY

Cash, cash equivalents, and investments

The following table summarizes our cash, cash equivalents, and investments as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	(In millions)	
Cash, cash equivalents, and investments[(1),(2)]	$ 12,076	$ 13,723

[(1)] Excludes assets related to funds receivable and customer accounts of $33.6 billion and $36.3 billion at June 30, 2023 and December 31, 2022, respectively.
[(2)] Excludes total restricted cash of $11 million and $17 million at June 30, 2023 and December 31, 2022, respectively, and strategic investments of $2.4 billion and $2.1 billion as of June 30, 2023 and December 31, 2022, respectively.

Cash, cash equivalents, and investments held by our foreign subsidiaries were $7.1 billion at June 30, 2023 and $8.6 billion at December 31, 2022, or 59% and 62% of our total cash, cash equivalents, and investments as of those respective dates. At December 31, 2022, all of our cash, cash equivalents, and investments held by foreign subsidiaries were subject to U.S. taxation under Subpart F, Global Intangible Low Taxed Income or the one-time transition tax under the Tax Cuts and Jobs Act of 2017. Subsequent repatriations to the U.S. will not be taxable from a U.S. federal tax perspective, but may be subject to state income 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. Accordingly, not all of our cash is available for general corporate purposes.

Cash flows

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

	Six Months Ended June 30,	
	2023	2022
	(In millions)	
Net cash provided by (used in):		
Operating activities[1]	$ 970	$ 2,467
Investing activities[1]	1,593	(4,662)
Financing activities[1]	(6,054)	986
Effect of exchange rates on cash, cash equivalents, and restricted cash	(50)	(136)
Net decrease in cash, cash equivalents, and restricted cash	$ (3,541)	$ (1,345)

[1] Prior period amounts have been revised to conform to the current period presentation. Refer to "Note 1—Overview and Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in this Form 10-Q for additional information.

Operating activities

The net cash generated from operating activities of $1.0 billion in the six months ended June 30, 2023 was due primarily to operating income of $2.1 billion, as well as adjustments for non-cash expenses including provision for transaction and credit losses of $840 million, stock-based compensation of $708 million, and depreciation and amortization of $539 million. Cash flows from operating activities was also impacted by originations of loans receivable, held for sale of $1.5 billion, changes in other assets and liabilities of $851 million, primarily related to actual cash transaction losses incurred during the period and a decline in other liabilities, changes in income taxes payable of $326 million, and net gains from our strategic investments of $181 million, partially offset by proceeds from repayments of loans receivable, originally classified as held for sale of $302 million.

The net cash generated from operating activities of $2.5 billion in the six months ended June 30, 2022 was due primarily to operating income of $1.5 billion, as well as adjustments for non-cash expenses including provision for transaction and credit losses of $817 million, stock-based compensation of $741 million, and depreciation and amortization of $661 million. Cash flows from operating activities was also impacted by net losses incurred on our strategic investments of $658 million, changes in deferred income taxes of $457 million, and changes in other assets and liabilities of $408 million, primarily related to actual cash transaction losses during the period partially offset by an increase in other liabilities.

In the six months ended June 30, 2023 and 2022, cash paid for income taxes, net was $906 million and $444 million, respectively.

Investing activities

The net cash provided by investing activities of $1.6 billion in the six months ended June 30, 2023 was due primarily to proceeds from repayments of loans receivable, originally classified as held for investment, of $16.0 billion, maturities and sales of investments of $10.7 billion, and changes in funds receivable from customers of $759 million, partially offset by purchases and originations of loans receivable of $15.2 billion, purchases of investments of $10.5 billion, and purchases of property and equipment of $320 million.

The net cash used in investing activities of $4.7 billion in the six months ended June 30, 2022 was due primarily to purchases of investments of $13.2 billion, purchases and originations of loans receivable of $12.3 billion, changes in funds receivable from customers of $882 million, and purchases of property and equipment of $366 million. These cash outflows were partially offset by maturities and sales of investments of $11.1 billion and principal repayment of loans receivable of $10.9 billion.

Financing activities

The net cash used in financing activities of $6.1 billion in the six months ended June 30, 2023 was due primarily to the repurchase of $3.0 billion of our common stock under our stock repurchase programs, changes in funds payable and amounts due to customers of $2.6 billion, repayments of borrowings under financing arrangements of $942 million (including principal repayment of fixed rate debt under our May 2020 debt issuance and repayment of borrowings under our Paidy credit agreement), tax withholdings related to net share settlement of equity awards of $200 million, and changes in collateral received related to derivative instruments, net of $175 million. These cash outflows were partially offset by borrowings under financing arrangements of $720 million (including proceeds from the issuance of fixed rate debt in June 2023 and borrowings under our Paidy credit agreement).

The net cash provided by financing activities of $986 million in the six months ended June 30, 2022 was due primarily to borrowings under financing arrangements of $3.3 billion (including proceeds from the issuance of fixed rate debt in May 2022 and borrowing under our Paidy credit agreements), changes in funds payable and amounts due to customers of $1.6 billion, and changes in collateral received related to derivative instruments, net of $236 million. These cash inflows were partially offset by the repurchase of $2.3 billion of our common stock under our July 2018 stock repurchase program, repayment of borrowings under financing arrangements of $1.7 billion (including the repurchase and redemption of certain fixed rate notes and repayment of borrowings under a prior credit agreement), and tax withholdings related to net share settlement of equity awards of $275 million.

Effect of exchange rates on cash, cash equivalents, and restricted cash

Foreign currency exchange rates for the six months ended June 30, 2023 and 2022 had a negative impact of $50 million and $136 million, respectively, on cash, cash equivalents, and restricted cash. The negative impact on cash, cash equivalents and restricted cash in the six months ended June 30, 2023 was due primarily to the unfavorable impact of fluctuations in the exchange rate of the U.S. dollar to the Australian dollar. The negative impact on cash, cash equivalents and restricted cash in the six months ended June 30, 2022 was due primarily to the unfavorable impact of fluctuations in the exchange rate of the U.S. dollar to the Australian dollar, and to a lesser extent, the Euro, Japanese yen, and Swedish krona.

Available credit and debt

In June 2023, we issued fixed rate notes with varying maturity dates for an aggregate principal amount of ¥90 billion (approximately $622 million as of June 30, 2023). Proceeds from the issuance of these notes may be used for general corporate purposes, which may include funding the repayment or redemption of outstanding debt, share repurchases, ongoing operations, capital expenditures, and possible acquisitions of businesses, assets, or strategic investments. As of June 30, 2023, we had $10.6 billion in fixed rate debt outstanding with varying maturity dates.

In June 2023, we entered into a credit agreement (the “Credit Agreement”) that provides for an unsecured $5.0 billion, five-year revolving credit facility and terminated the facility entered into in September 2019. The Credit Agreement includes a $150 million letter of credit sub-facility and a $600 million swingline sub-facility, with available borrowings under the revolving credit facility reduced by the amount of any letters of credit and swingline borrowings outstanding from time to time. As of June 30, 2023, no borrowings were outstanding under the Credit Agreement and as such, $5.0 billion of borrowing capacity was available for the purposes permitted by the Credit Agreement, subject to customary conditions to borrowing.

In February 2022, we entered into a credit agreement (the “Paidy Credit Agreement”) with Paidy as co-borrower, which provided for an unsecured revolving credit facility of ¥60.0 billion, which was modified in September 2022 to increase the borrowing capacity by ¥30.0 billion for a total borrowing capacity of ¥90.0 billion (approximately $622 million as of June 30, 2023.) In June 2023, we repaid borrowings on the Paidy Credit Agreement using proceeds from the June 2023 debt issuance. As of June 30, 2023, no borrowings were outstanding, and as of December 31, 2022, ¥64.3 billion (approximately $491 million) was outstanding under the Paidy Credit Agreement. At June 30, 2023, ¥90.0 billion (approximately $622 million) of borrowing capacity was available for the purposes permitted by the Paidy Credit Agreement, subject to customary conditions to borrowing.

Other than as described above, there were no significant changes to the available credit and debt disclosed in our 2022 Form 10-K. For additional information, see “Note 12—Debt” in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

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, make strategic investments, repurchase shares under our stock repurchase programs, or reduce our cost of capital.

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 the arrangement. As of June 30, 2023, we had a total of $3.0 billion in cash withdrawals offsetting our $3.0 billion in Aggregate Cash Deposits held within the financial institution under the cash pooling arrangement.

Credit ratings

As of June 30, 2023, we continue to be rated investment grade by Standard and Poor’s Financial Services, LLC, Fitch Ratings, Inc., and Moody’s Investors Services, 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 borrowings under our credit agreements.

CURRENT AND FUTURE CASH REQUIREMENTS

Our material cash requirements include funds to support current and potential: operating activities, credit products, customer protection programs, stock repurchases, strategic investments, acquisitions, other commitments, and capital expenditures and other future obligations.

Credit products

Growth in our portfolio of loan receivables increases our liquidity needs and any inability to meet those liquidity needs could adversely affect our business. We continue to evaluate partnerships and third-party sources of funding for our credit products.

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 fund European and U.S. credit activities. In August 2022, the CSSF approved PayPal’s management designating up to 50% of such balances to fund our credit activities through the end of February 2023. In February 2023, the CSSF agreed that PayPal’s management may continue to designate up to 50% of European customer balances held in our Luxembourg banking subsidiary to fund European, U.K., and U.S. credit activities. As of June 30, 2023, the cumulative amount approved by management to be designated to fund credit activities aggregated to $3.8 billion and represented approximately 40% of European customer balances made available for our corporate use at that date, as determined by applying financial regulations maintained by the CSSF. We may periodically seek to designate additional amounts of European customer balances for our credit activities, as we deem necessary, based on utilization of the approved funds and anticipated credit funding requirements. Under certain exceptional circumstances, corporate liquidity could be called upon to meet our obligations related to our European customer balances.

While our objective is to expand the availability of our credit products with capital from external sources, there can be no assurance that we will be successful in achieving that goal.

In June 2023, we entered into a multi-year agreement with a global investment firm to sell up to €40 billion of our eligible consumer installment receivables portfolio including those held on our balance sheet at closing of the transaction and a forward-flow arrangement for the sale of future originations. Following the closing of this transaction, which is expected to occur in the second half of 2023, the global investment firm will become the owner of the eligible consumer installment receivables and future eligible installment receivables originated over a 24-month commitment period, and we will no longer hold an ownership interest in these receivables. See “Note 1—Overview and Summary of Significant Accounting Policies” in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for additional information.

Customer protection programs

The risk of losses from our customer protection programs are specific to individual consumers, 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 rate ranged between 0.08% and 0.11% of TPV. Historical loss rates may not be indicative of future results.

Stock repurchases

During the six months ended June 30, 2023, we repurchased approximately $3.0 billion of our common stock in the open market under our stock repurchase programs authorized in July 2018 and June 2022. As of June 30, 2023, a total of approximately $12.9 billion remained available for future repurchases of our common stock under our June 2022 stock repurchase program.

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 of our 2022 Form 10-K, as supplemented and, to the extent inconsistent, superseded below in Part II, Item 1A, Risk Factors of this Form 10-Q, as well as “Note 13—Commitments and Contingencies” in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for additional discussion of these and other risks that our business faces.

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 equity investment risk. Management establishes and oversees the implementation of policies governing our investing, funding, and foreign currency derivative activities intended 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 June 30, 2023 and December 31, 2022, approximately 46% and 57%, respectively, of our total cash, cash equivalents, and investment portfolio (excluding restricted cash and strategic investments) was held in cash and cash equivalents. The remaining portfolio and assets underlying the customer balances that we hold on our condensed consolidated balance sheets as customer accounts are maintained in interest and non-interest bearing bank deposits, time deposits, and available-for-sale debt securities. We seek to preserve principal while holding eligible liquid assets, as defined by applicable regulatory requirements and commercial law in certain 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.

Interest rate movements affect the interest income we earn on cash and cash equivalents, time deposits, and available-for-sale debt securities and the fair value of those securities. A hypothetical 100 basis points increase in interest rates would have resulted in a decrease in fair value of our cash equivalents and available-for-sale debt securities investment by approximately $150 million and $161 million at June 30, 2023 and December 31, 2022, respectively. Changes in the fair value of our available-for-sale debt securities resulting from such interest rate changes are reported as a component of accumulated other comprehensive income ("AOCI") and are realized only if we sell the securities prior to their scheduled maturities or the declines in fair values are due to expected credit losses.

As of June 30, 2023 and December 31, 2022, we had $10.6 billion and $10.4 billion, respectively, in fixed rate debt with varying maturity dates. Since these notes bear interest at fixed rates, they do not result in any financial statement risk associated with changes in interest rates. However, the fair value of these notes fluctuates when interest rates change, increasing in periods of declining interest rates and declining in periods of increasing interest rates.

As of June 30, 2023 and December 31, 2022, we also had revolving credit facilities of approximately $5.6 billion and $5.7 billion, respectively, available to us. We are obligated to pay interest on borrowings under these facilities as well as other customary fees, including an upfront fee and an unused commitment fee based on our debt rating. Borrowings under these facilities, if any, bear interest at floating rates. As a result, we are exposed to the risk related to fluctuations in interest rates to the extent of our borrowings. As of June 30, 2023, we had no borrowings under these facilities, and as of December 31, 2022, ¥64.3 billion (approximately $491 million) was outstanding under these facilities. A 100 basis points hypothetical adverse change in applicable market interest rates would not have resulted in a material impact to interest expense recorded in the period. For additional information, see "Note 12—Debt" in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

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 larger 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 (loss).

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, which subject us to foreign currency exchange rate risk and may adversely impact our financial results. We transact 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 currency 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 United States ("U.S.") dollar, and are adversely affected by a strengthening of the U.S. dollar, relative to foreign currencies. We considered the historical trends in foreign currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 10% for all currencies could be experienced in the near term.

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 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" in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q.

We use foreign currency exchange forward contracts to protect our forecasted U.S. dollar-equivalent earnings and our investment in foreign subsidiaries from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate, the impact of adverse foreign currency exchange rate movements. We designate these contracts as cash flow hedges of forecasted revenues and expenses denominated in certain foreign currencies and net investment hedges for accounting purposes. The derivative's gain or loss is initially reported as a component of AOCI. Cash flow hedges are subsequently reclassified into revenue or expense (as applicable) in the same period the forecasted transaction affects earnings. The accumulated gains and losses associated with net investment hedges will remain in AOCI until the foreign subsidiaries are sold or substantially liquidated, at which point they will be reclassified into earnings.

If the U.S. dollar weakened by a hypothetical 10% at June 30, 2023 and December 31, 2022, the amount recorded in AOCI related to our foreign currency exchange forward contracts, before taxes, would have been approximately $574 million and $710 million lower, respectively, before considering the offsetting impact of the underlying hedged item.

We have an additional foreign currency exchange management program in which we use foreign currency exchange contracts to help 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 a hypothetical 10% for all foreign currencies would have resulted in a negative impact on income before income taxes of approximately $217 million and $173 million at June 30, 2023 and December 31, 2022, respectively, without considering the offsetting effect of foreign currency exchange contracts. Foreign currency exchange contracts in place as of June 30, 2023 would have positively impacted income before income taxes by approximately $203 million, resulting in a net negative impact of approximately $14 million. Foreign currency exchange contracts in place as of December 31, 2022 would have positively impacted income before income taxes by approximately $144 million, resulting in a net negative impact of approximately $29 million. These reasonably possible adverse changes in exchange rates of 10% were applied to monetary assets, monetary liabilities, and available-for-sale debt securities 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 the portfolio. As of June 30, 2023 and December 31, 2022, our strategic investments totaled $2.4 billion and $2.1 billion, which represented approximately 16% and 14% of our total cash, cash equivalents, and short-term and long-term investment portfolio at each of those respective dates. Our strategic investments include marketable equity securities, which are publicly traded, and non-marketable equity securities, which are primarily investments in privately held companies. We are required to record all adjustments to the value of these strategic investments through our condensed consolidated statements of income (loss). As such, we expect volatility to our net income (loss) in future periods due to changes in fair value related to our investments in marketable equity securities and changes in observable prices and impairment related to our non-marketable equity securities accounted for under the Measurement Alternative. These changes could be material based on market conditions. Additionally, the financial success of our investments in privately held companies is typically dependent on a liquidity event, such as a public offering, acquisition, private sale, or other favorable market event providing the ability to realize appreciation in the value of the investment. A hypothetical adverse change of 10% in the carrying value of our strategic investments as of June 30, 2023, which could be experienced in the near term, would have resulted in a decrease of approximately $236 million to the carrying value of the portfolio. We review our non-marketable equity securities accounted for under the Measurement Alternative 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 purchases and sales of securities, and other publicly available data, for which we assess factors such as the investees' financial condition and business outlook, industry performance, regulatory, economic, or technological environment, and other relevant events and factors affecting the investee.

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 the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), our principal executive officer and our principal financial officer have concluded that as of June 30, 2023, the end of the period covered by this report, our disclosure controls and procedures were effective.

(b) Changes in internal controls over financial reporting. There were no changes in our internal controls over financial reporting as defined in the Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter 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” in the notes to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q 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, 2022 as filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) on February 10, 2023 (“2022 Form 10-K”), as updated by subsequent Quarterly Reports on Form 10-Q as filed with the SEC (“Forms 10-Q”). The following information supplements and, to the extent inconsistent, supersedes some of the information appearing in the Risk Factors section of our 2022 Form 10-K and Forms 10-Q. 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.

LEGAL, REGULATORY AND COMPLIANCE RISKS

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 complex and changing laws, rules, regulations, policies, and legal interpretations in the markets in which we offer services directly or through partners, including, but not limited to, those governing: banking, credit, deposit taking, cross-border and domestic money transmission, prepaid access, foreign currency exchange, privacy, data protection, data governance, cybersecurity, banking secrecy, digital payments, cryptocurrency, payment services (including payment processing and settlement services), lending, fraud detection, consumer protection, antitrust and competition, economic and trade sanctions, anti-money laundering, and counter-terrorist financing.

Regulators and legislators globally have been establishing, evolving, and increasing their regulatory authority, oversight, and enforcement in a manner that impacts our business. As we introduce new products and services and expand into new markets, including through acquisitions, we expect to become subject to additional regulations, restrictions, and licensing requirements. As we expand and localize our international activities, we expect that our obligations in the markets in which we operate will continue to increase. In addition, because 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, which may impose different, more specific, or conflicting obligations on us, as well as broader liability.

Any failure or perceived failure to comply with existing or new laws, regulations, or orders of any government authority (including changes to or expansion of their interpretation) 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; cause us to lose existing licenses or prevent or delay us from obtaining additional licenses that may be required for our business; increase regulatory scrutiny of our business; divert management’s time and attention from our business; restrict our operations; lead to increased friction for customers; force us to make changes to our business practices, products, or operations; require us to engage in remediation activities; or delay planned transactions, 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 and international regulatory and enforcement regimes, coupled with the global scope of our operations and the evolving global regulatory environment, could result in a single event prompting a large number of overlapping investigations and legal and regulatory proceedings by multiple government authorities in different jurisdictions. While we have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, there can be no assurance that our employees, contractors, and agents will not violate such laws and regulations.

Payments Regulation

In the U.S., PayPal, Inc. (a wholly-owned subsidiary) holds 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 and certain territories. If we fail to comply with applicable laws or regulations required to maintain our licenses, we could be subject to liability and/or additional restrictions, forced to cease doing business with residents of certain states or territories, forced to change our business practices, or required to obtain additional licenses or regulatory approvals, which could impose substantial costs and harm our business.

While we currently allow our customers 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 hold balances or withdraw funds. These restrictions may limit our ability to grow our business.

Outside of the U.S., we principally provide our services to customers in the European Economic Area ("EEA") and the United Kingdom ("U.K.") through PayPal (Europe) S.à.r.l. et Cie, S.C.A. ("PayPal (Europe)"), our wholly-owned subsidiary that is licensed and subject to regulation as a credit institution in Luxembourg. PayPal (Europe) may be subject to enforcement actions and significant fines if it violates applicable requirements. Additionally, compliance with applicable laws and regulations could become more costly and operationally difficult to manage due to potentially inconsistent interpretations and domestic regulations by various countries in the region. Applicable regulation relating to payments, anti-money laundering and digital services, which are key focus areas of regulators and subject to extensive new regulation, could subject us to additional and complex obligations, risks and associated costs. 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 and certain activities of PayPal (Europe) would become directly supervised by the ECB, rather than by the Luxembourg Commission de Surveillance du Secteur Financier, which could subject us to additional requirements and would likely increase compliance costs. PayPal (Europe) is also subject to regulation by the ECB under the oversight framework for electronic payment instruments, schemes and arrangements (PISA), which may also lead to increased compliance obligations and 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 ("MAS"). The Payment Services Act came into effect in Singapore in January 2020. As of July 1, 2023, PayPal Pte. Ltd. has been issued a Major Payment Institution license by the MAS to continue to provide payments services. In order to maintain this license, we are required to comply with applicable regulatory requirements, which will result in increased operational complexity and costs for our Singapore and international operations.

In many of the markets outside the U.S. (other than Singapore) served by PayPal Pte. Ltd. or by local branches or subsidiaries subject to local regulatory supervision or oversight, as the case may be, there may be uncertainty whether our Singapore-based service is subject only to Singapore law or also to other local laws, and whether such local laws might require a payment processor like us to be licensed as a payments service, bank, financial institution, or otherwise.

There are substantial costs and potential product and operational changes involved in maintaining and renewing licenses, certifications, and approvals, and we could be subject to enforcement actions, fines, and litigation if we are found to violate any of these requirements. There can be no assurance that we will be able to (or decide to) continue to apply for or obtain any licenses, renewals, certifications, and approvals in any jurisdiction. In certain markets, we may need to rely on local banks or other partners to process payments and conduct foreign currency exchange transactions in local currency, and local regulators may use their authority over such local partners to prohibit, restrict, or limit us from doing business. Any of the foregoing could, individually or in the aggregate, result in substantial additional costs, delay or preclude planned transactions, product launches or improvements, require significant and costly operational changes, impose restrictions, limitations, or additional requirements on our business, products and services, or prevent or limit us from providing our products or services in a given market.

Cryptocurrency Regulation and Related Risks

Our customer cryptocurrency offerings could subject us to additional regulations, licensing requirements, or other obligations or liabilities. Within the U.S., we are regulated by the New York Department of Financial Services as a virtual currency business, which does not qualify us to engage in securities brokerage or dealing activities. The regulatory status of particular cryptocurrencies is unclear under existing law. For example, if the SEC were to assert that any of the cryptocurrencies we support are securities, the SEC could assert that our activities involving that cryptocurrency require securities broker-dealer registration or other obligations under the federal securities laws. The rapidly evolving regulatory landscape with respect to cryptocurrency may subject us to additional licensing and regulatory obligations or to inquiries or investigations from the SEC, other regulators and governmental authorities, and require us to make product changes, restrict or discontinue product offerings, implement additional and potentially costly controls, or take other actions. If we fail to comply with regulations, requirements, prohibitions or other obligations applicable to us, we could face regulatory or other enforcement actions, potential fines, and other consequences.

We hold our customers' cryptocurrency assets through one or more third-party custodians. Financial and third-party risks related to our customer cryptocurrency offerings, such as inappropriate access to, theft, or destruction of cryptocurrency assets held by our custodians, insufficient insurance coverage by a custodian to reimburse us for all such losses, a custodian's failure to maintain effective controls over the custody and settlement services provided to us, a custodian's inability to purchase or liquidate cryptocurrency holdings, and defaults on financial or performance obligations by a custodian, or counterparty financial institutions, could expose our customers and us to loss, and therefore significantly harm our business, financial performance, and reputation.

We have selected custodian partners, and may in the future select additional custodian partners, that are subject to regulatory oversight, capital requirements, maintenance of audit and compliance industry certifications, and cybersecurity procedures and policies. Nevertheless, operational disruptions at any such custodian, or such custodian's failure to safeguard cryptocurrency holdings could result in losses of customer assets, expose us to customer claims, reduce consumer confidence and materially impact our operating results and our cryptocurrency product offerings.

Custodial arrangements to safeguard cryptocurrency assets involve unique risks and uncertainties in the event of a custodian's bankruptcy. While other types of assets and some custodied cryptocurrencies have been deemed not to be part of the custodian's bankruptcy estate under various regulatory regimes, bankruptcy courts have not yet definitively determined the appropriate treatment of custodial holdings of digital assets in a bankruptcy proceeding. In the event of a custodian's bankruptcy, the lack of precedent and the highly fact-dependent nature of the determination could delay or preclude the return of custodied cryptocurrency assets to us or to our customers. Although we contractually require our custodians to segregate our customer assets and not commingle them with proprietary or other assets, we cannot be certain that these contractual obligations, even if duly observed by a custodian, will be effective in preventing such assets from being treated as part of the custodian's estate under bankruptcy or other insolvency law. In that event, our claim on behalf of such customers against a custodian's estate for our customers' cryptocurrency assets could be treated as a general unsecured claim against the custodian, in which case our customers could seek to hold us liable for any resulting losses.

In addition, our cryptocurrency product offerings could have the effect of heightening or exacerbating many of the risk factors described in this "Risk Factors" section.

Lending Regulation

We hold a number of U.S. state lending licenses for our U.S. consumer short-term installment loan product, which is subject to federal and state laws governing consumer credit and debt collection. While the consumer short-term installment loan products that we offer outside the U.S. are generally exempt from primary consumer credit legislation, certain consumer lending laws, consumer protection or banking transparency regulations continue to apply to these products. Increased global regulatory focus on short-term installment products and consumer credit more broadly could result in laws or regulations requiring changes to our policies, procedures, operations, and product offerings, and restrict or limit our ability to offer credit products, and we could be subject to additional compliance and licensure requirements, enforcement action, fines, and litigation if we are found to violate any aspects of applicable law or regulations.

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

We are regularly subject to claims, individual and class action lawsuits, arbitration proceedings, government and regulatory investigations, inquiries, actions or requests, and other proceedings alleging violations of laws, rules, and regulations with respect to competition, antitrust, intellectual property, privacy, data protection, information security, anti-money laundering, counter-terrorist financing, sanctions, anti-bribery, anti-corruption, consumer protection (including unfair, deceptive, or abusive acts or practices), the terms of our customer agreements, fraud, accessibility, securities, tax, labor and employment, commercial disputes, services, charitable fundraising, contract disputes, escheatment of unclaimed or abandoned property, product liability, use of our services for illegal purposes, the matters described in “Note 13—Commitments and Contingencies—Litigation and Regulatory Matters—General Matters” to our consolidated financial statements, and other matters. The number and significance of these disputes and inquiries is expected to continue to increase as our products, services, and business expand in complexity, scale, scope, and geographic reach, including through acquisitions of businesses and technology. Investigations and legal proceedings are inherently uncertain, expensive and disruptive to our operations, and could result in substantial judgments, fines, penalties or settlements, negative publicity, substantial diversion of management’s time and effort, reputational harm, criminal sanctions, or orders that prevent or limit us from offering certain products or services; require us to change our business practices in costly ways, develop non-infringing or otherwise altered products or technologies, or pay substantial royalty or licensing fees; or delay or preclude planned transactions or product launches or improvements. Determining legal reserves or possible losses from such matters involves significant estimates and judgments and may not reflect the full range of uncertainties and unpredictable outcomes. We may be exposed to losses in excess of the amount recorded, and such amounts could be material. If any of our estimates and assumptions change or prove to have been incorrect, this could have a material adverse effect on our business, financial position, results of operations, or cash flows.

BUSINESS AND OPERATIONS RISKS

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

To process certain transactions, we must comply with applicable payment card, bank or other network (collectively, “network”) rules. The rules govern all aspects of a transaction on the networks, including fees and other practices. From time to time, the networks have increased the fees and assessments that they charge for transactions that access their networks. Certain networks have also imposed special fees or assessments for transactions that are executed through a digital wallet such as the one that PayPal offers. Our payment processors may have the right to pass any increases in fees and assessments on to us and to increase their own fees for processing. Any increase in interchange fees, special fees, or assessments for transactions that we pay to the networks or our payment processors could make our pricing less competitive, increase our operating costs, and reduce our operating income, which could materially harm our business, financial condition, and results of operations.

In some jurisdictions, government regulations have required payment card networks to reduce or cap interchange fees. Any changes in interchange fee rates or limitations, or their applicability to PayPal, could adversely affect our competitive position against payment card service providers and the revenue we earn from our branded card programs, require us to change our business practices, and harm our business.

We may also be subject to fines and other penalties assessed by networks resulting from any rule violations by us or our merchants. The networks set and interpret their rules and have alleged from time to time that various aspects of our business model violate these rules or our agreements with the networks. Such allegations may result in significant fines, penalties, damages, or other liabilities, adversely impact benefits to us under the agreements, or require changes in our business practices that may be costly and adversely affect our business, results of operations and financial condition. The network rules may also increase the cost of, impose restrictions on, or otherwise impact the development of, our products which may negatively affect product deployment and adoption. The networks could adopt new operating rules or interpret or re-interpret existing rules that we or our payment processors might find difficult or impractical to follow, or costly to implement, which could require us to make significant changes to our products, increase our operational costs, and negatively impact our business. If we become unable or limited in our ability to accept certain payment types such as debit or credit cards, our business would be materially and adversely affected.

Our credit products expose us to additional risks.

We offer credit products to a wide range of consumers and merchants in the U.S. and various international markets. The financial success of these products depends largely on the effective management of related risk. The credit decision-making process for our consumer credit products uses proprietary methodologies and credit algorithms and other analytical techniques designed to analyze the credit risk of specific consumers based on, among other factors, their past purchase and transaction history with PayPal or Venmo and their credit scores. Similarly, proprietary risk models and other indicators are applied to assess merchants who desire to use our merchant financing offerings to help predict their ability to repay. These risk models may not accurately predict the creditworthiness of a consumer or merchant due to inaccurate assumptions, including those related to the particular consumer or merchant, market conditions, economic environment, or limited transaction history or other data. The accuracy of these risk models and the ability to manage credit risk related to our credit products may also be affected by legal or regulatory requirements, changes in consumer behavior, changes in the economic environment, issuing bank policies, and other factors.

We generally rely on the activities and charters of unaffiliated financial institutions to provide PayPal and Venmo branded consumer credit and merchant financing offerings to our U.S. customers. As a service provider to these unaffiliated financial institutions, which are federally supervised U.S. financial institutions, we are subject from time to time to examination by their federal banking regulators. In the event of any termination or interruption in a partner bank's ability or willingness to lend, our ability to offer consumer credit and merchant financing products could be interrupted or limited, which could materially and adversely affect our business. We may be unable to reach a similar arrangement with another unaffiliated financial institution on favorable terms or at all. Obtaining and maintaining the lending licenses required for us to originate such loans ourselves would be a costly, time-consuming and uncertain process, and would subject us to additional laws and regulatory requirements, which could significantly increase our costs and compliance obligations and require us to change our business practices.

We are subject to the risk that account holders who use our credit products will default on their payment obligations. The non-payment rate among account holders may increase due to, among other factors, changes to underwriting standards, risk models not accurately predicting the creditworthiness of a user, worsening economic conditions, such as a recession or government austerity programs, increases in prevailing interest rates, and high unemployment rates. Account holders who miss payments often fail to repay their loans, and account holders who file for protection under the bankruptcy laws generally do not repay their loans. Any deterioration in the performance of loans facilitated through our platform or unexpected losses on such loans may increase the risk of potential charge-offs, increase our allowance for loans and interest receivable, negatively impact our revenue share arrangement with an independent chartered financial institution with respect to our U.S. consumer credit product, and materially and adversely affect our financial condition and results of operations.

We currently purchase receivables related to our U.S. PayPal-branded merchant financing offerings and certain U.S. consumer installment loan products and extend credit for our consumer and merchant products outside the U.S. through our international subsidiaries. In June 2023, we entered into a multi-year agreement to sell up to €40 billion of U.K. and European buy now, pay later ("BNPL") loan receivables originated by PayPal (Europe), consisting of the sale of a substantial majority of the U.K. and European BNPL loan portfolio held on PayPal (Europe)'s balance sheet at the closing of the transaction and a forward-flow arrangement for the sale of future originations of eligible loans. The closing of the transaction and the sale of future receivables are subject to certain conditions. If these conditions are not satisfied or waived or if the parties are unable to fulfill their obligations under these arrangements, the sale of these receivables could be delayed or not take place at all and we may not realize the expected benefits of this arrangement.

From time to time, we may consider other third-party sources of funding (including asset sales, warehouse facilities, forward-flow arrangements, securitizations, partnerships or other funding structures) for our credit portfolio or other receivables. The availability of such third-party funding is subject to a number of factors, including economic conditions and interest rates, and there can be no assurance that any such funding arrangements can be obtained on favorable terms or at all. If we are unable to fund our credit products or the purchase of the receivables related to our credit products and offerings adequately or in a cost-effective manner, the growth of our credit products and our results of operations and financial condition could be materially and adversely impacted.

Global and regional economic conditions could harm our business.

Adverse global and regional economic conditions such as turmoil affecting the banking system or financial markets, including, but not limited to, tightening in the credit markets, extreme volatility or distress in the financial markets (including the fixed income, credit, currency, equity, and commodity markets), higher unemployment, high consumer debt levels, recessionary or inflationary pressures, supply chain issues, reduced consumer confidence or economic activity, government fiscal, monetary and tax policies, U.S. and international trade relationships, agreements, treaties, tariffs and restrictive actions, the inability of a government to enact a budget in a fiscal year, government shutdowns, government austerity programs, and other negative financial news or macroeconomic developments could have a material adverse impact on the demand for our products and services, including a reduction in the volume and size of transactions on our payments platform. Additionally, any inability to access the capital markets when needed due to volatility or illiquidity in the markets or increased regulatory liquidity and capital requirements may strain our liquidity position. Such conditions may also expose us to fluctuations in foreign currency exchange rates or interest rates that could materially and adversely affect our financial results.

Brexit: The U.K.'s departure from the EU could harm our business, financial condition, and results of operations.

Following the departure of the U.K. from the EU and the EEA on January 31, 2020 (commonly referred to as "Brexit") and the expiration of the transition period on December 31, 2020, there continues to be uncertainty over the practical consequences of Brexit, including the potential for greater restrictions on the supply and availability of goods and services between the U.K. and EEA region, and a general deterioration in consumer sentiment and credit conditions leading to overall negative economic growth and increased risk of merchant default.

The consequences of Brexit have brought legal uncertainty and increased complexity for financial services firms, which could continue as national laws and regulations in the U.K. differ from EU laws and regulations and additional authorization requirements come into effect. These developments have led and could lead in the future to additional regulatory costs and challenges for us. Specifically, PayPal currently operates in the U.K. within the scope of its passport permissions (as they existed at the end of the transition period) pursuant to the Temporary Permissions Regime pending the grant of new authorizations by the U.K. financial regulators. If we are unable to obtain the required authorizations before the expiry of the longstop dates set by the U.K. regulators under the Temporary Permissions Regime, our European operations could lose their ability to offer services within the U.K. market, or into the U.K. market on a cross-border basis. Our European operations may also be required to comply with legal and regulatory requirements in the U.K. that may be in addition to, or inconsistent with, those of the EEA, in each case, leading to increased complexity and costs.

If one or more of our counterparty financial institutions default on their financial or performance obligations to us or fail, we may incur significant losses.

We have significant amounts of cash, cash equivalents, receivables outstanding, and other investments on deposit or in accounts with banks or other financial institutions in the U.S. and international jurisdictions. As part of our foreign currency hedging activities, we regularly enter into transactions involving derivative financial instruments with various financial institutions. Certain banks and other financial institutions are also lenders under our credit facilities. We regularly monitor our concentration of, and exposure to, counterparty risk, and actively manage this exposure to mitigate the associated risk. Despite these efforts, we may be exposed to the risk of default on obligations by, or deteriorating operating results or financial condition or failure of, these counterparty financial institutions. If one of our counterparty financial institutions were to become insolvent, placed into receivership, or file for bankruptcy, our ability to recover losses incurred as a result of default or to access or recover our assets that are deposited, held in accounts with, or otherwise due from, such counterparty may be limited due to the insufficiency of the failed institutions' estate to satisfy all claims in full or the applicable laws or regulations governing the insolvency, bankruptcy, or resolution proceedings. In the event of default on obligations by, or the failure of, one or more of these counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

If we are unable, or perceived as unable, to effectively manage customer funds, our business could be harmed.

We hold a substantial amount of funds belonging to our customers, including balances in customer accounts and funds being remitted to sellers of goods and services or recipients of peer-to-peer transactions. In certain jurisdictions where we operate, we are required to comply with applicable regulatory requirements with respect to customer balances. Our success is reliant on public confidence in our ability to effectively manage our customers' balances and handle substantial transaction volumes and amounts of customer funds. Any failure to manage customer funds in compliance with applicable regulatory requirements, or any public loss of confidence in us or our ability to effectively manage customer balances, could lead customers to discontinue or reduce their use of our products or reduce customer balances held with us, which could significantly harm our business.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

REPURCHASES OF EQUITY SECURITIES

In June 2022, our Board of Directors authorized an additional stock repurchase program that provides for the repurchase of up to $15 billion of our common stock, with no expiration from the date of authorization. Our stock repurchase program is 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 program 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 program at any time without prior notice.

The stock repurchase activity under our stock repurchase program during the three months ended June 30, 2023 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 March 31, 2023				$ 14,429
April 1, 2023 through April 30, 2023	8.2	$ 74.52	8.2	13,817
May 1, 2023 through May 31, 2023	6.5	$ 66.15	6.5	13,386
June 1, 2023 through June 30, 2023	7.5	$ 65.10	7.5	12,900
Balance as of June 30, 2023	22.2		22.2	$ 12,900

(1) Average price paid per share for open market purchases includes broker commissions, but excludes excise tax.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

RULE 10B5-1 TRADING PLANS

An equity trading plan is a written document that preestablishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including sales of shares acquired under the Company's employee and director equity plans.

On May 23, 2023, Gabrielle Rabinovitch, Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer, entered into an equity trading plan that is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act. The trading plan has a duration of August 22, 2023 to August 22, 2024 with approximately 33,115 shares (vested and net shares expected to vest over the duration of the trading plan) subject to sale under the plan.

ITEM 6: EXHIBITS

INDEX TO EXHIBITS

		Incorporated by Reference		
Exhibit Number	Exhibit Description	Form	Date Filed	Filed Herewith
4.01	Officer's Certificate pursuant to the Indenture, dated as of June 9, 2023	8-K	6/9/2023	
4.02	Form of Note for 0.813% Notes due 2025 (included in Exhibit 4.01)	8-K	6/9/2023	
4.03	Form of Note for 0.972% Notes due 2026 (included in Exhibit 4.01)	8-K	6/9/2023	
4.04	Form of Note for 1.240% Notes due 2028 (included in Exhibit 4.01)	8-K	6/9/2023	
10.01+	PayPal Holdings, Inc. 2015 Incentive Award Plan, as Amended and Restated	8-K	5/31/2023	
10.02	Credit Agreement, dated as of June 7, 2023, among PayPal Holdings, Inc. the Designated Borrowers party thereto, the Lenders party thereto and JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Australia Limited, as the Administrative Agents	8-K	6/13/2023	
10.03†	Receivables Purchase Agreement, dated as of June 16, 2023 by and between PayPal (Europe) S.à r.l. et Cie, SCA (as Seller and Receivables Manager), Alps Partners S.à r.l. (as Purchaser), BNY Mellon Corporate Trustee Services limited (as Security Agent), Avega S.à r.l. (as Back-Up Receivables Manager Facilitator) and Alps Partners (Holding) S.à r.l. (as Class C Lender)	8-K	6/22/2023	
10.04†	Receivables Management Agreement, dated as of June 16, 2023 by and between PayPal (Europe) S.à r.l. et Cie, SCA (as Seller and Receivables Manager), Alps Partners S.à r.l. (as Purchaser), Avega S.à r.l. (as Back-Up Receivables Manager Facilitator) and Alps Partners (Holding) S.à r.l. (as Class C Lender)	8-K	6/22/2023	
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	The following financial information related to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income (Loss), (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the related Notes to Condensed Consolidated Financial Statements	-	-	X
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	-	-	X

+ Indicates a management contract or compensatory plan or arrangement.
* 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 them by reference.
† Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

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:

Date: August 2, 2023

By: */s/ Daniel H. Schulman*

Daniel H. Schulman
President and Chief Executive Officer

Principal Financial Officer and Principal Accounting Officer:

Date: August 2, 2023

By: */s/ Gabrielle Rabinovitch*

Gabrielle Rabinovitch
Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer

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: August 2, 2023

Exhibit 31.02

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

I, Gabrielle Rabinovitch, 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/ Gabrielle Rabinovitch

Gabrielle Rabinovitch

Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer

(Principal Financial Officer)

Date: August 2, 2023

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 June 30, 2023 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: August 2, 2023

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, Gabrielle Rabinovitch, 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 June 30, 2023 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/ Gabrielle Rabinovitch

Gabrielle Rabinovitch
Acting Chief Financial Officer and Senior Vice President, Investor Relations and Treasurer
(Principal Financial Officer)

Date: August 2, 2023

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.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☑ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended July 31, 2022

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 0-21180

INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware	77-0034661
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

2700 Coast Avenue, Mountain View, CA 94043
(Address of principal executive offices, including zip code)

(650) 944-6000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	INTU	Nasdaq Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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 ☐

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 ☑ 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 definition 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

The aggregate market value of Intuit Inc. outstanding common stock held by non-affiliates of Intuit as of January 31, 2022, the last business day of our most recently completed second fiscal quarter, based on the closing price of $555.23 reported by the Nasdaq Global Select Market on that date, was $152.8 billion.

There were 281,869,879 shares of Intuit voting common stock outstanding as of August 26, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on January 19, 2023 are incorporated by reference in Part III of this Annual Report on Form 10-K.

INTUIT INC.
FISCAL 2022 FORM 10-K
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Intuit, QuickBooks, TurboTax, Mint, Credit Karma and Mailchimp among others, are registered trademarks and/or registered service marks of Intuit Inc., or one of its subsidiaries, in the United States and other countries. Other parties' marks are the property of their respective owners.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Please also see the section entitled "*Risk Factors*" in Item 1A of Part I of this Annual Report for important information to consider when evaluating these statements. All statements in this report, other than statements that are purely historical, are forward-looking statements. Words such as "expect," "anticipate," "intend," "plan," "believe," "forecast," "estimate," "seek," and similar expressions also identify forward-looking statements. In this report, forward-looking statements include, without limitation, the following:

- our expectations and beliefs regarding future conduct and growth of the business;
- statements regarding the impact of the COVID-19 pandemic and macroeconomic conditions on our business;
- our beliefs and expectations regarding seasonality, competition and other trends that affect our business;
- our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities;
- our expectation that we will continue to invest significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities;
- our expectation that we will work with the broader industry and government to protect our customers from fraud;
- our expectation that we will generate significant cash from operations;
- our expectation that total service and other revenue as a percentage of our total revenue will continue to grow;
- our expectations regarding the development of future products, services, business models and technology platforms and our research and development efforts;
- our assumptions underlying our critical accounting policies and estimates, including our judgments and estimates regarding revenue recognition; the fair value of goodwill; and expected future amortization of acquired intangible assets;
- our intention not to sell our investments and our belief that it is more likely than not that we will not be required to sell them before recovery at par;
- our belief that the investments we hold are not other-than-temporarily impaired;
- our belief that we take prudent measures to mitigate investment related risks;
- our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;
- our assessments and estimates that determine our effective tax rate;
- our belief that our income tax valuation allowance is sufficient;
- our belief that it is not reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months;
- our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our seasonal working capital needs, capital expenditure requirements, contractual obligations, debt service requirements and other liquidity requirements associated with our operations for at least the next 12 months;
- our expectation that we will return excess cash generated by operations to our stockholders through repurchases of our common stock and the payment of cash dividends, after taking into account our operating and strategic cash needs;
- our judgments and assumptions relating to our loan portfolio;
- our belief that the credit facilities will be available to us should we choose to borrow under them;
- our expectations regarding acquisitions and their impact on business and strategic priorities; and
- our assessments and beliefs regarding the future developments and outcomes of pending legal proceedings and inquiries by regulatory authorities, the liability, if any, that Intuit may incur as a result of those proceedings and inquiries, and the impact of any potential losses or expenses associated with such proceedings or inquiries on our financial statements.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this report and in our other filings with the Securities and Exchange Commission before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this Annual Report and, except as required by law, we undertake no obligation to revise or update any forward-looking statement for any reason.

PART I

ITEM 1 - BUSINESS

BACKGROUND

Overview and Mission

Intuit helps consumers and small businesses prosper by delivering financial management, compliance, and marketing products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us serve small business customers.

Our mission is to power prosperity around the world. Across our platform, we use the power of technology to deliver three core benefits to our customers: helping put more money in their pockets, saving them time by eliminating work so they can focus on what matters to them, and ensuring that they have complete confidence in every financial decision they make.

All of our customers have a common set of needs. Our global technology platform, which includes TurboTax, Credit Karma, QuickBooks, and Mailchimp, is designed to help consumers and small businesses manage their finances, get and retain customers, save money, pay off debt and do their taxes with ease and confidence so they receive the maximum refund they deserve. For those customers who have made the bold decision to become entrepreneurs and go into business for themselves, we are focused on helping them find and keep customers, get paid faster, pay their employees, manage and get access to capital, and ensure their books are done right. We serve more than 100 million customers and generated revenue of $12.7 billion in our fiscal year which ended July 31, 2022.

The rise of artificial intelligence (AI) is fundamentally reshaping our world — and Intuit is taking advantage of this technological revolution to find new ways to improve the customer experience and deliver on our mission. We are focused on capitalizing on this opportunity to improve prosperity globally and inspire our workforce, while investing in our company's reputation and durable growth in the future.

Intuit Inc. was incorporated in California in March 1984. We reincorporated in Delaware and completed our initial public offering in March 1993. Our principal executive offices are located at 2700 Coast Avenue, Mountain View, California, 94043, and our main telephone number is 650-944-6000. When we refer to "we," "our" or "Intuit" in this Annual Report on Form 10-K, we mean the current Delaware corporation (Intuit Inc.) and its California predecessor, as well as all of our consolidated subsidiaries.

Our Business Portfolio

We organize our businesses into four reportable segments:

***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our QuickBooks offerings include financial and business management online services and desktop software, payroll solutions, time tracking, merchant payment processing solutions, and financing for small businesses. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada. Our Mint offering is a personal finance offering which helps customers track their finances and daily financial behaviors.

***Credit Karma*:** This segment serves consumers with a personal finance platform that provides personalized recommendations of credit card, home, auto and personal loan, and insurance products; online savings and checking accounts through an FDIC member bank partner; and access to their credit scores and reports, credit and identity monitoring, credit report dispute, and data-driven resources.

***ProConnect*:** This segment serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada.

Our Business and Growth Strategy

At Intuit, our strategy starts with customer obsession. We listen to and observe our customers, understand their challenges, and then use advanced technology, including AI, to develop innovative solutions to help consumers and small businesses prosper. Our strategy for delivering on our bold goals is to be an AI-driven expert platform where we and others can solve our customers' most important problems. We plan to accelerate the development of the platform by applying AI in three key areas:

- An Open Platform: None of us can do it alone, including Intuit. The best way to deliver for customers is by creating an open, collaborative platform. It's the power of partnerships that accelerates the world's success. Our open technology platform integrates with partners so, together, we can deliver value and benefits that matter the most to our customers.
- Application of AI: AI helps our customers work smarter because we can automate, predict and personalize their experience. Using AI technologies, we are: leveraging machine learning to build decision engines and algorithms that learn from rich datasets to transform user experiences; applying knowledge engineering and turning compliance rules into code; and using natural language processing to revolutionize how customers interact with products and services.
- Incorporating Experts: One of the biggest problems our customers face is lack of confidence. Even with current advances in technology that deliver personalized tools and insights, many customers want to connect with a real person to help give them the confidence they are making the right decision. By bringing experts onto our platform we can solve this massive problem for customers. The power of our virtual expert platform allows us to scale the intelligence of our products, elevating experts to advisors and delivering big benefits for customers.

As we build our AI-driven expert platform, we prioritize our resources on five strategic priorities across the company. These priorities focus on solving the problems that matter most to customers and include:

- **Revolutionizing speed to benefit:** When customers use our products and services, we use the power of data-driven customer insights to deliver value instantly and aim to make interactions with our offerings frictionless, without the need for customers to manually enter data. We are accelerating the application of AI and investing in decentralized technologies such as blockchain and cryptocurrency, with a goal to revolutionize the customer experience and help customers put more money in their pockets faster. This priority is foundational across our business, and execution against it positions us to succeed with our other four strategic priorities.
- **Connecting people to experts:** The largest problem our customers face is lack of confidence to file their own taxes or to manage their books. To build their confidence, we connect our customers to experts. We offer customers access to experts to help them make important decisions – and experts, such as accountants, gain access to new customers so they can grow their businesses. We are also expanding how we think about virtual experiences by exploring metaverse technologies and broadening the segments we serve beyond tax and accounting, to play a more meaningful role in our customers' lives.
- **Unlocking smart money decisions:** Crippling high-cost debt and lack of savings are at unprecedented levels across the US. To address these challenges, we are creating an autonomous financial platform with Credit Karma that helps consumers find the right financial products, puts more money in their pockets and connects them to insights and education.
- **Be the center of small business growth:** We are focused on helping customers grow their businesses by offering a broad, seamless set of tools that are designed to help them get and retain customers, get paid faster, manage and get access to capital, pay employees with confidence, and use third-party apps to help run their businesses. At the same time, we want to position ourselves to better serve product-based businesses to benefit customers who sell products through multiple channels.
- **Disrupt the small business mid-market:** We aim to disrupt the mid-market with QuickBooks Online Advanced, our online offering designed to address the needs of small business customers with 10 to 100 employees. This offering enables us to increase retention of these larger customers, and attract new mid-market customers who are over-served by available offerings.

As the external environment evolves, we continue to innovate and adapt our strategy and anticipate our customers' needs. For nearly 40 years, we have been dedicated to developing innovative solutions that are designed to solve our customers' most important financial problems, are easy to use, and are available where and when customers need them. As a result, our customers actively recommend our products and solutions to others, which is one important way that we measure the success of our strategy.

PRODUCTS AND SERVICES

During fiscal 2022, we offered our products and services in the four segments described in *"Business Overview"* above. The following table shows the revenue for each of these segments over the last three fiscal years.

	Fiscal 2022	Fiscal 2021	Fiscal 2020
Small Business & Self-Employed	51 %	49 %	53 %
Consumer	31 %	37 %	41 %
Credit Karma (1)	14 %	9 %	— %
ProConnect	4 %	5 %	6 %

(1) Credit Karma revenue from December 3, 2020

Total international net revenue was approximately 8%, 5%, and 4% of consolidated total net revenue for the twelve months ended July 31, 2022, 2021 and 2020.

For financial information about our reportable segments, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* in Item 7 and Note 15 to the consolidated financial statements in Item 8 of this Annual Report.

Small Business & Self-Employed

Our Small Business & Self-Employed segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our goal is for QuickBooks to be the source of truth for each small business customer who uses our integrated platform. We work to make this a reality through our three-pillared growth strategy: Grow the Core by transforming financial management software and meeting customers where they are; Connect the Ecosystem, by meeting a wider range of customer needs with a single integrated platform; and Expand Globally, by serving small businesses around the world. With this strategy, we enable a powerful ecosystem, personalized using artificial intelligence, that scales across our customers' most pressing needs.

Small business owners are constantly faced with challenges and barriers in their journey to success. Universally, small businesses at every stage of growth struggle to get customers, get paid, get capital, pay workers, get access to advice, and stay compliant and organized. Our innovative, end-to-end customer growth platform provides actionable, AI-driven insights our customers need to grow and run their businesses with confidence.

Get Customers

Mailchimp. Mailchimp is an all-in-one marketing platform for growing businesses. Mailchimp's marketing platform enables small and mid-market businesses to digitally promote their businesses across email, social media, landing pages, ads, websites, and more, all from one place.

Get Paid

Payment Processing Solutions. Our full range of merchant services for small businesses includes credit card, debit card, Apple Pay, and ACH payment services for in-person and card-not-present payments. We offer instant deposit options for eligible customers. QuickBooks Payments is deeply integrated into QuickBooks through seamless onboarding and automated transaction reconciliation and is the default payment solution for QuickBooks invoicing.

QuickBooks Checking. The QuickBooks Checking business bank account comes with a physical and virtual debit card for powerful purchasing power, fast payments with no fee Instant Deposit, and powerful cash flow management with Envelopes for partitioning funds for future expenses, all with no fees.

Get Capital

Capital. We offer financing options for small businesses to help them get the capital they need to succeed. The financing process provides small businesses the ability to use their QuickBooks data to qualify to borrow capital, whether directly from Intuit or from a third-party partner.

Get Paid Upfront. Get Paid Upfront provides access to capital through qualifying QuickBooks invoices, allowing small businesses to take control of their cash flow and put earned money to work faster. Invoice proceeds are funded in advance, while the small business' customer sees nothing different and pays their invoice as they usually would.

Pay Workers

Employer Solutions (Payroll and Time Tracking). Our payroll solutions, available as online or desktop solutions, are sold on a subscription basis and integrate with our QuickBooks Online and Desktop offerings or may be purchased standalone. Our

QuickBooks Online payroll offerings include automated tax payments and filings, as well as access to employee benefits offerings like health insurance and 401(k) plans. We also offer QuickBooks Time which seamlessly integrates with QuickBooks Payroll and third-party payroll products to help businesses easily and accurately track time across a mobile workforce, including tools for project planning, job costing, and tracking per-client billable hours.

Access Advice

QuickBooks Live. QuickBooks Live Full-Service Bookkeeping gives small businesses one-on-one support from our team of expert bookkeepers to manage and maintain books with guaranteed accuracy. Our QuickBooks Live bookkeepers have an average of 10 years of experience working with small businesses across a wide array of industries. They're certified QuickBooks ProAdvisors, and many are Certified Public Accountants.

QuickBooks ProAdvisor. Accounting professionals can assist with bookkeeping, taxes, payroll, and more. Our free Find a ProAdvisor service helps customers find a QuickBooks Certified accountant or bookkeeper who knows their niche, speaks their language, or is close by—whatever works best. To enable our network of hundreds of thousands of accountants, we offer memberships to the QuickBooks ProAdvisor program, which provides accountants access to QuickBooks Online Accountant, technical support, training, product certification, marketing tools, and discounts on Intuit products and services purchased on behalf of clients.

Stay Compliant & Organized

QuickBooks Self-Employed. Designed specifically for self-employed customers like independent contractors and freelancers, QuickBooks Self-Employed helps customers stay tax-time ready, all year long. Features include categorizing business and personal transactions, identifying and classifying tax deductible expenses, tracking mileage, calculating estimated quarterly taxes and sending invoices. In the United States, QuickBooks Self-Employed can be combined with TurboTax to export and pay year-end taxes.

QuickBooks Online. Designed for all kinds of small businesses, QuickBooks Online helps simplify accounting and tax compliance. Users can track income and expenses, create and send invoices and estimates, manage and pay bills, and review a variety of financial reports. QuickBooks Online also has powerful industry-specific capabilities such as features for product-based businesses. QuickBooks Online is an open platform, enabling third-party developers to create online and mobile applications that integrate with our offering.

QuickBooks Online Advanced. Designed for small businesses with 10 to 100 employees that have more complex needs, QuickBooks Online Advanced has features specifically designed for high-growth, mid-market small businesses and leverages AI, automation and data insights to deliver more ways for them to grow and scale. QuickBooks Online Advanced integrates across the QuickBooks ecosystem and with best-in-class apps, and also has powerful industry-specific features that deliver automation, deeper insights, and enhanced tracking for what matters most to a users' unique industry.

QuickBooks Desktop Software. Our QuickBooks financial management solutions are also available as desktop versions for small businesses. QuickBooks Enterprise, designed for small businesses with 10 to 100 employees, is available for download and can also be provided as a hosted solution. This offering provides industry-specific reports and features for a range of industries, including Contractor, Manufacturing and Wholesale, Nonprofit, and Retail.

Financial Supplies. We offer a range of financial supplies designed for individuals and small businesses that use our QuickBooks offerings. These include standard paper checks and Secure Plus checks with CheckLock fraud protection features, a variety of stationery, tax forms and related supplies.

Consumer

Our Consumer segment includes our TurboTax products and services that are designed to enable customers to prepare and file their federal and state income tax returns quickly and accurately. These offerings are available either online or as desktop versions. They are designed to be easy to use, yet sophisticated enough for complex tax returns. For customers using our online offerings and looking for additional advice or guidance along the way, we have experts standing by to offer tax review and advice all year round. We also have experts available to prepare, sign and file tax returns for customers who prefer to have their taxes prepared for them. We also offer Mint, which is an online personal finance offering aimed at helping customers track their finances and daily financial behaviors and was a part of this segment through July 31, 2022. On August 1, 2022, our Mint offering moved from our Consumer segment to our Credit Karma segment.

Tax Return Preparation Offerings. For the 2021 tax season, we offered a variety of commercial software products and tax filing services to meet the different needs of our customers, including those filing simple returns, those who itemize deductions, own investments or rental property, and small business owners. Customers can electronically file their federal and state income tax returns through our electronic filing service. We also offered TurboTax Live for customers seeking to obtain tax advice from professionals, TurboTax Live Full Service for customers seeking to have their tax returns prepared for them, as well as audit defense and audit support services. Our online tax preparation and filing services were offered through the websites of thousands of financial institutions, electronic retailers, and other online merchants. Financial institutions can offer our online tax preparation and filing services to their customers through a link to TurboTax Online. Our TurboTax U.S. and Canada offerings consist of desktop and online offerings.

Credit Karma

Our Credit Karma segment provides consumers with a financial platform that helps them find the right financial products and put more money in their pockets. The platform offers a number of free services to its members: access to their credit scores and reports, credit and identity monitoring, credit report dispute, data-driven resources, personalized recommendations of credit card, loan, and insurance products and online savings and checking accounts through our bank partner, MVB Bank, Inc., Member FDIC. To provide these services to its members, Credit Karma works with a variety of partners, including credit bureaus, banks, credit card issuers, insurance carriers, and other financial institutions and lending partners. Additionally, Credit Karma leverages Lightbox, a first-of-its-kind enterprise platform which allows lenders to leverage thousands of de-identified data points from Credit Karma members to help provide its members with greater certainty that they will be approved if they apply for a financial product.

ProConnect

Our ProConnect segment includes our professional tax offerings and serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings consist of Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada. These offerings enable accountants to accurately and efficiently complete and electronically file a full range of consumer, small business, and commercial federal and state tax returns. Lacerte is designed for full-service year-round accounting firms who handle more complex returns. ProSeries is designed for year-round tax practices handling moderately complex tax returns. ProConnect Tax Online is our cloud-based solution, which is designed for full-service year-round practices who prepare all forms of consumer and small business returns and integrates with our QuickBooks Online offerings. ProFile is our Canadian desktop tax offering, which serves year-round full-service accounting firms for both consumer and business tax returns. ProTax Online is our Canadian cloud based tax solution, which is designed for full-service year-round practices who prepare all forms of consumer and business tax returns, and is fully integrated into QuickBooks Online Accountant to provide seamless integration of data across books and tax through our Workpapers solution. We also offer a variety of tax-related services that complement the tax return preparation process including year-round document storage, collaboration services, e-signature, and bank products, and additional capabilities such as fixed asset management, desktop hosting, and third party solutions for practice management for some of our U.S. tax offerings.

PRODUCT DEVELOPMENT

The markets for software and related services are characterized by rapid technological change, shifting customer needs and frequent new product introductions and enhancements. Continuous investment is required to innovate and develop new products and services as well as enhance existing offerings to be successful in these markets. Our product development efforts are more important than ever as we pursue our growth strategy.

We develop many of our products and services internally, and we have a number of United States and foreign patents and pending applications that relate to various aspects of our products and technology. We also supplement our internal development efforts by acquiring or licensing products and technology from third parties, and establishing other relationships that enable us to enhance or expand our offerings more rapidly. We expect to expand our third-party technology relationships as we continue to pursue our growth strategy.

Our online offerings have rapid development cycles, while our traditional desktop software products tend to have predictable annual development and product release cycles. In addition, developing consumer and professional tax software and services presents unique challenges because of the demanding development cycle required to accurately incorporate federal and state tax law and tax form changes within a rigid timetable. The development timing for our small business payroll and merchant payment processing services offerings varies with business needs and regulatory requirements, and the length of the development cycle depends on the scope and complexity of each project.

We continue to make substantial investments in research and development, and we expect to focus our future research and development efforts on enhancing existing products and services with financial recommendations, personalization, and ease of use enabled by AI and other advanced technologies. We continue to focus on developing new products and services, including global offerings, and significant research and development efforts for ongoing projects to update the technology platforms for several of our offerings.

SEASONALITY

Our Consumer and ProConnect offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are typically concentrated in the period from November through April. This seasonal pattern typically results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively.

In fiscal 2022, the IRS began accepting returns on January 24, 2022, and the tax filing deadline was April 18, 2022. However, in fiscal 2021, the IRS began accepting returns on February 12, 2021, and the tax filing deadline was May 17, 2021. In fiscal 2020, the IRS began accepting returns on January 27, 2020, and the tax filing deadline was July 15, 2020. As a result of the extensions of the tax filing deadlines in 2021 and 2020, a significant amount of our fiscal 2021 and 2020 Consumer segment and ProConnect segment revenues were recognized in the fourth quarter as compared to the third quarter of fiscal 2022.

We expect the seasonality of our Consumer and ProConnect businesses to continue to have a significant impact on our quarterly financial results in the future.

MARKETING, SALES AND DISTRIBUTION CHANNELS

Markets

Our primary customers are consumers and small businesses. We also provide specialized tax and accounting products to professional accountants, who are key partners to help us reach small business customers. The markets in which we compete have always been characterized by rapid technological change, shifting customer needs, and frequent new product introductions and enhancements by competitors. Over the past several years, the widespread usage of mobile devices and social media have accelerated the pace of change and revolutionized the way that customers learn about, evaluate, and purchase products and services.

Real-time, personalized online shopping experiences are the standard. In addition, many customers now begin shopping in one channel and ultimately purchase in another. This has created a need for integrated, multi-channel, shop-and-buy experiences. Market and industry changes quickly make existing products and services obsolete. Our success depends on our ability to respond rapidly to these changes with new business models, updated competitive strategies, new or enhanced products and services, alternative distribution methods, and other changes in the way we do business.

Marketing Programs

We use a variety of marketing programs to generate direct sales, develop leads, increase general awareness of the Intuit brand and our product portfolio, and drive sales in retail. These programs include offline marketing such as TV, radio, billboard, magazine and newspaper advertising; digital marketing such as display and pay-per-click advertising, search engine optimization, and social and affiliate marketing; mobile marketing through online app stores; email marketing; retail marketing; public relations; sponsorships, and in product marketing to drive awareness of related products and services. Our campaigns are designed to attract new users, retain existing users, and cross sell additional offerings.

Sales and Distribution Channels

Multi-Channel Shop-and-Buy Experiences. Our customers primarily research products and services online. Some customers buy and use our products and services entirely online. Others research online but make their purchase at a retail location. Because many customers shop across multiple channels, we continue to coordinate our online, offline, and retail presence and promotions to support an integrated, multi-channel shop-and-buy model. We also focus on cross-selling complementary Intuit and third-party offerings online and in-product.

Direct Sales Channel. We offer many of our products and services directly through our websites, apps, and call centers. Direct, online sales are an effective channel for customers who can make purchase decisions based on content provided on our websites, via other online content or word of mouth recommendations. Assisted sales continues to be an effective channel for serving customers that want live help to select the products and services that are right for their needs. We also have a direct sales force that calls on U.S. and international accounting firms and seeks to increase their awareness, usage, and recommendation of our small business and professional tax solutions. For mid-market businesses, we have implemented and expanded on our omnichannel go to market strategy by diversifying and growing our technology partner channel and industry focused direct sales teams.

Mobile Application Stores. We distribute many of our offerings for mobile devices through proprietary online stores that provide applications for specific devices. These include the Apple App Store and Google's Play Store.

Partner and Other Channels. We offer many of our products and services through partners including value-added resellers, system integrators (including accountants and marketing professionals), and managed service providers who help us reach new customers at the point of need and drive growth and market share by extending our online reach. These partners combine our products and services with marketing, sales, and technical expertise to deliver a complete solution at the local level. We also sell our QuickBooks and TurboTax desktop software as well as payroll services at retail locations across the United States and Canada and on retailer websites. In Canada, we also rely on distributors who sell products into the retail channel.

COMPETITION

We face intense competition in all of our businesses in all aspects across all markets for our products and services, which are rapidly evolving, fragmented, and have complex interdependencies with many businesses. Competitive pressures in many of the markets we serve have grown markedly over the past few years and we expect this trend to continue. The competitive landscape is also constantly evolving as we expand into new market segments and new companies emerge and existing companies expand their capabilities (either directly or through acquisitions or partnerships) to include the markets in which we compete. Given the breadth of the products and services that we offer as a global technology company and the customer problems that we aim to serve, we compete with the offerings from a variety of companies across a range of industries, including large global companies, smaller geographically focused companies, startups and professional services. Our current global competitors include Blucora (TaxAct), Block, H&R Block, The Sage Group, Microsoft (Dynamics), Oracle (NetSuite) and Xero. Additional companies that may have offerings that we may compete with to solve some of our customer's problems include:

- business software providers, such as those that provide accounting and financial software, website building, email marketing, inventory management, payroll and employee management;
- tax preparation services providers;
- accounting, consulting and tax firms;
- government entities that offer publicly funded electronic tax preparation and filing services with no fees to individual taxpayers;
- software companies and banks that provide payments services, including merchant processing, checking, savings, loans, point of sale devices and lending;
- software companies that provide personal finance management products and tools, including credit-score monitoring and personal financial services and content;
- companies that provide a marketplace of consumer financial offerings;
- financial institutions;
- credit bureaus; and
- large platform companies, such as Meta, Amazon and Alphabet, that could develop competing technology solutions to any of the problems that our customers may face.

We believe our most important competitive factors are functionality, ease of use, high availability, security, the integration of these products with related software, brand name recognition, effective distribution, quality of support, and cost. We believe that we compete favorably based on these factors and our ability to remain competitive will largely depend on our ongoing performance.

CUSTOMER SUCCESS

For many of our offerings, we provide product support and technical support through channels including telephone, e-mail, online and video chat, text messaging, our customer support websites, self-help assets embedded in our products, and online communities where consumers can share knowledge and product advice with each other.

We also provide access to experts, through our TurboTax and QuickBooks Live offerings, who provide tax advice, tax preparation and bookkeeping services.

Our customer success staff predominantly consists of Intuit-employed and outsourced experts. We supplement with seasonal employees and additional outsourcing during periods of peak call volumes, such as during the tax return filing season or following a major product launch. We outsource to several firms domestically and internationally. Most of our internationally outsourced small business customer success personnel are currently located in the Philippines.

We also source staff through our Prosperity Hub program, which is designed to spark economic prosperity in underserved communities. One part of this program is our socially responsible sourcing model, where we both directly and through customer success partner-employers, hire, train, and retain workers who deliver support and services for our customers.

Self-help information is offered for free in-product and on our support websites for many of our offerings. Support alternatives and fees vary by product. For example, some product subscriptions receive 24x7 support and additional contact channel options.

MANUFACTURING AND DISTRIBUTION

Online Products and Services

Our online offerings include QuickBooks Online, online payroll services, merchant payment processing services, Mailchimp's e-commerce, marketing automation, and customer relationship management offerings, TurboTax Online, ProConnect Tax Online, consumer and professional electronic tax filing services, Credit Karma offerings, and Mint. We completed the transition of our systems, networks and databases used to operate these online offerings to public cloud providers, such as Amazon Web Services and Google Cloud Platform.

Desktop Software and Supplies

Although an increasing proportion of our desktop software customers choose to electronically download software, many customers continue to choose to purchase these products in the form of physical media. The key processes in manufacturing desktop software are manufacturing compact discs (CDs) and digital video discs (DVDs), printing boxes and related materials, and assembling and shipping the final products.

For retail manufacturing and distribution, we have agreements with Arvato Digital Services, Inc. (Arvato), a division of Bertelsmann AG, under which Arvato provides a majority of the manufacturing volume for our launches of QuickBooks and TurboTax and day-to-day replenishment after product launches, as well as our retail distribution logistics. Arvato also provides most of the manufacturing volume and distribution services for our direct desktop software orders.

Customers typically receive desktop software electronically. However, when physical product is ordered, we typically ship the physical product within a few days of receiving an order and backlog is minimal.

PRIVACY AND SECURITY OF CUSTOMER AND WORKFORCE INFORMATION AND TRANSACTIONS

We are stewards of our customers’ data and have designed data stewardship principles to align our organization in collecting, using and protecting such information. As we believe strongly in being good stewards of our customers’ data, we operate our program to comply with laws and regulations that govern our use, sharing and protection of customers’ personal information, including, for example, laws with respect to financial services and the handling of tax data. We have established guidelines and practices to help ensure that customers and members of our workforce are aware of, and can control, how we use information about them. We also use privacy statements to provide notice to customers of our privacy practices, as well as provide them the opportunity to furnish instructions with respect to use of their personal information. We participate in industry groups whose purpose is to develop or shape industry best practices, and to inform public policy for privacy and security.

We use security safeguards to help protect the systems and the information that customers and members of our workforce give to us from loss, misuse and unauthorized alteration. We use technical, logical and procedural measures, such as multi-factor authentication, which are designed to help detect and prevent fraud and misuse of customer information. Whenever customers transmit sensitive information to us, such as credit card information or tax return data through one of our websites or products, we follow current industry standards to encrypt the data as it is transmitted to us, and when we store it at rest. We routinely patch our systems with security updates and we work to protect our systems from unauthorized internal or external access using numerous commercially available computer security products as well as internally developed security procedures and practices.

GOVERNMENT REGULATION

Our Consumer and ProConnect segments are subject to federal, state and international government requirements, including regulations related to the electronic filing of tax returns, the provision of tax preparer assistance, and the use and disclosure of customer information. Our Small Business & Self-Employed segment offers products and services to small businesses and consumers, such as payroll, payments, and financing, which are also subject to certain regulatory requirements. Our Credit Karma segment offers personal finance products and services to consumers, such as recommendations of credit card, loan and insurance products and access to credit scores and reports, which are also subject to certain regulatory requirements.

INTELLECTUAL PROPERTY

Our success depends on the proprietary technology embodied in our offerings. We protect this proprietary technology by relying on a variety of intellectual property mechanisms, including copyright, patent, trade secret and trademark laws, restrictions on disclosure and other methods. For example, we regularly file applications for patents, copyrights and trademarks and service marks in order to protect intellectual property that we believe is important to our business. We hold a growing patent portfolio that we believe is important to Intuit’s overall competitive advantage, although we are not materially dependent on any one patent or particular group of patents in our portfolio at this time. We also have a number of registered trademarks that include Intuit, QuickBooks, Lacerte, TurboTax, QB, ProSeries, ProConnect, Mint, Credit Karma, and Mailchimp. We have registered these and other trademarks and service marks in the United States and, depending on the relevance of each brand to other markets, in many foreign countries. Most registrations can be renewed perpetually at 10-year intervals. We also license intellectual property from third parties for use in our products.

Although our portfolio of patents is growing, the patents that have been issued to us could be determined to be invalid and may not be enforceable against competitive products in every jurisdiction. In addition, third parties have asserted and may, in the future, assert infringement claims against us and our customers. These claims and any litigation may result in invalidation of our proprietary rights or a finding of infringement along with an assessment of damages. Litigation, even if without merit, could result in substantial costs and diversion of resources and management attention. In addition, third-party licenses may not continue to be available to us on commercially acceptable terms, or at all.

HUMAN CAPITAL

We consider our employees one of our four True North key stakeholders because they help us deliver for our customers, our shareholders, and the communities we serve. As of July 31, 2022, we had approximately 17,300 employees in 10 countries. During fiscal 2022, we employed on average approximately 9,100 seasonal employees from January to April primarily to support our Consumer segment customers during the peak of tax season. We believe our future success and growth will depend on our ability to attract and retain a qualified workforce in all areas of our business.

Intuit's overall workforce development strategies are developed and managed by our Chief People & Places Officer, who reports to the CEO. The Compensation and Organizational Development Committee of the Board of Directors has oversight with respect to company-wide organization and talent assessment, employee recruitment, engagement and retention, leadership development, management depth and strength assessment, workplace environment and culture, employee health and safety, and pay equity. Of the total number of employees, approximately 1,600 are employed by Credit Karma, which has certain unique compensation and workforce development programs. We regularly collect, measure and share the sentiment of our workforce through multiple channels, including engagement surveys and other touch points, which help to guide the work we do to support our workforce.

Culture and Values

In order to deliver on our mission to power prosperity around the world, we are guided by our company values as we strive to create a culture where employees can do the best work of their lives. Our values and culture are woven into our hiring and retention practices and are foundational to our ability to attract, retain, and advance top, diverse talent.

- Our value of Integrity Without Compromise means valuing trust above all else, speaking the truth, and doing the right thing even when no one is looking.
- Our value of Courage means being bold and fearless in how we think and act, holding a high bar for performance and valuing speed, with a bias for learning and action.
- Our value of Customer Obsession means falling in love with our customers' problems and delivering solutions that delight our customers.
- Our value of Stronger Together means championing diversity, inclusion and a respectful environment, thriving on diverse voices to challenge and inform decisions and delivering exceptional work so others can count on us.
- Our value of We Care and Give Back means we strive to be stewards of the future, strengthen the communities around us and give everyone the opportunity to prosper. We provide eligible full-time employees paid time off that can be used to do volunteer work during normal work hours for vetted non-profits and donation matching up to an annual limit.

Diversity, Equity and Inclusion

At the foundation of our culture is a commitment to diversity, equity and inclusion (DEI). We believe that diversity is a fact, but treating people equitably and inclusively are choices we make. To deliver for our customers, we seek to foster a workforce that is as diverse as the communities we serve. When we do this, we believe we develop deeper empathy, accelerating innovation to solve the biggest problems our customers face. We have had a designated role dedicated to diversity and inclusion since 2015 and our Chief Diversity, Equity & Inclusion Officer (CDEIO) leads a dedicated and specialized team in our DEI efforts. Our Compensation and Organizational Development Committee oversees Intuit's DEI initiatives in support of organizational development. Intuit's strategy is operationalized through the following elements:

- Goals and transparency: Intuit has set short- and long-term goals for increasing the representation in our workforce of women and employees from underrepresented racial groups (which we define as Black/African-American, Latinx/ Hispanic, Native American, Native Alaskan and Native Hawaiian). Our diversity data is shared with all employees, and progress on our goals is reviewed monthly with all executives. We also publicly disclose our progress on our goals and the breakdowns of the diversity of gender and underrepresented racial groups in our workforce both in the aggregate and among our leadership and technology roles;
- Center of Excellence: The CDEIO leads a cross-functional team with expertise in enterprise leadership, strategy, human resources and communications all focused on driving a more diverse and inclusive workplace;
- Employee Resource Groups: Intuit's employee resource groups aid in creating community, recruiting, on-boarding and providing safe spaces for our diverse workforce;
- Engagement: Intuit conducts a dedicated DEI survey focused on the experiences of our workforce;
- REAL Team: Intuit has a Racial Equity Leadership Team that is focused on helping us drive durable change as we strive to continue advancing racial equity and equality;
- Education: All senior leaders have attended multiple DEI workshops, including C-suite training on racial equity. We have manager and employee training on leading inclusively and a guide for managers on how to have conversations about difficult and polarizing external events;

- Talent acquisition: Intuit has established a dedicated team to drive diversity, equity and inclusion across our hiring practices, programs and strategies. We have also invested in new, external partnerships to better engage with diverse talent and communities; and
- Accountability: The Compensation and Organizational Development Committee reviews our progress towards our goals and workforce diversity initiatives at least annually.

We strive to reward employees with compensation that is market competitive, fair and equitable across gender, race and ethnicity. We invest in this commitment by performing pay equity analyses twice a year using independent, third-party vendors. We are transparent about our pay equity results and have multiple avenues for employees to use for any questions about their pay.

Developing Talent and Training

We are committed to creating a high-performing culture that consistently delivers for our customers, shareholders and communities while providing an experience for our workforce that values leadership, innovation, and collaboration. We promote the development of all of our employees and provide employees with access to learning plans based on their needs and interests and the resources they need to grow, thrive and reinvent themselves over time.

In addition, we are invested in growing our current and future leaders. Our teams design programs and resources to develop the leadership skills of our employees and measure their progress.

All full-time employees have access to opportunities to develop and learn through company-sponsored learning paths and online courses on topics ranging from artificial intelligence to manager essentials in support of an employee’s ability to adapt to any work environment.

Employees set goals and measure progress through our goal setting tool and have opportunities to focus on growth both during performance assessment conversations and ongoing regular check-ins.

Employee Listening & Engagement

Listening and responding to our employees is at the core of our work. We value employee feedback and we leverage it to continuously improve the employee experience. We regularly collect, measure and share the sentiment of our workforce through multiple channels, including engagement surveys, and other touch points, which help to guide the work we do to support our workforce.

Total Rewards

Our compensation philosophy aims to attract and retain top talent for today and the future. Intuit’s total target compensation includes base hourly pay or salary at market-competitive rates, a range of incentive plans that vary based on role, and equity grants. Incentive compensation plans are part of our pay for performance philosophy and closely align with company performance and reward top performance. Most year-round employees are eligible for equity, which allows the majority of our employees to share in the company’s success.

Additional benefits and rewards include healthcare, retirement benefits, and paid time off including annual paid recharge days and family and parental leave.

The health and well-being of our employees and their families continues to be a top priority. We offer our employees access to programs to support their physical, emotional and financial well-being. Employees also have access to other resources to help with their well-being, including resilience, mindfulness and counseling programs, wellness reimbursement programs, back-up childcare, financial education programs and access to an employee assistance program.

Hybrid Way of Working

After shifting to working virtually during the pandemic to keep our workforce safe, we are now embracing and transitioning to hybrid work at Intuit. Our hybrid work model brings the best of in-person collaboration and connections together with the flexibility of virtual work. Self-directed teams are empowered to decide where/when in-person work is accretive to their work. Across the company, we expect teams to spend a portion of their time working on campus. This hybrid way of working invests in and amplifies Intuit’s culture. In doing so, we seek to realize a sense of connectedness and belonging; to spark creativity and innovation; to solve for speed, agility, and productivity; and to attract and retain top, diverse talent to the company.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following table shows Intuit's executive officers and their areas of responsibility as of July 31, 2022. Their biographies follow the table.

Name	Age	Position
Sasan K. Goodarzi	54	President, Chief Executive Officer and Director
Scott D. Cook	70	Chairman of the Executive Committee
Michelle M. Clatterbuck	54	Executive Vice President and Chief Financial Officer
J. Alexander Chriss	45	Executive Vice President and General Manager, Small Business & Self-Employed Group
Laura A. Fennell	61	Executive Vice President, Chief People & Places Officer
Varun Krishna	40	Executive Vice President and General Manager, Consumer Group
Marianna Tessel	55	Executive Vice President and Chief Technology Officer
Kerry J. McLean	58	Executive Vice President, General Counsel and Corporate Secretary
Lauren D. Hotz	47	Senior Vice President and Chief Accounting Officer

Mr. Goodarzi has been President and Chief Executive Officer and a member of the Board of Directors since January 2019 and previously served as Executive Vice President and General Manager of Intuit's Small Business Group since May 2016. He previously was Executive Vice President and General Manager of Intuit's Consumer Tax Group from August 2015 through April 2016 and from August 2013 to July 2015 served as Senior Vice President and General Manager of the Consumer Tax Group. He served as Intuit's Senior Vice President and Chief Information Officer from August 2011 to July 2013, having rejoined Intuit after serving as CEO of Nexant Inc., a privately held provider of intelligent grid software and clean energy solutions, beginning in November 2010. During his previous tenure at Intuit from 2004 to 2010, Mr. Goodarzi led several business units including Intuit Financial Services and the professional tax division. Prior to joining Intuit, Mr. Goodarzi worked for Invensys, a global provider of industrial automation, transportation and controls technology, serving as global president of the products group. He also held a number of senior leadership roles in the automation control division at Honeywell Inc. He serves on the board of Atlassian Corporation Plc and chairs the Compensation and Leadership Development Committee. Mr. Goodarzi holds a Bachelor's degree in Electrical Engineering from the University of Central Florida and a Master's degree in Business Administration from the Kellogg School of Management at Northwestern University.

Mr. Cook, a founder of Intuit, has been an Intuit director since March 1984 and is currently Chairman of the Executive Committee. He served as Intuit's Chairman of the Board from February 1993 to July 1998. From April 1984 to April 1994, he served as Intuit's President and Chief Executive Officer. Mr. Cook served on the board of directors of The Procter & Gamble Company from 2000 to 2020. Mr. Cook was also a director of eBay Inc. from 1998 to 2015. Mr. Cook holds a Bachelor of Arts degree in Economics and Mathematics from the University of Southern California and a Master's degree in Business Administration from Harvard Business School.

Ms. Clatterbuck has been Executive Vice President and Chief Financial Officer since February 2018. She manages the financial strategy and operations across the company, including Treasury, Procurement, Investor Relations and Finance Operations. Ms. Clatterbuck served as acting finance leader for Intuit's Small Business Group from June 2017 through January 2018, led finance for the Consumer Tax Group beginning in September 2012 and was promoted to Senior Vice President for that group in August 2016. Her earlier roles at Intuit include Vice President of finance for the Professional Tax business in 2006 and finance director in October 2004. Ms. Clatterbuck joined Intuit in March 2003 as a senior finance manager. Prior to Intuit, Ms. Clatterbuck held various financial management roles at General Electric. Before that, she was a financial litigation consultant at The Barrington Consulting Group. Ms. Clatterbuck holds a Bachelor's degree in commerce with a concentration in finance from the University of Virginia.

Mr. Chriss has been Executive Vice President and General Manager of Intuit's Small Business & Self-Employed Group since January 2019. He previously was Senior Vice President and Chief Product Officer of Intuit's Small Business Group from January 2017 through December 2018 and Vice President of Intuit's Self-Employed business from August 2013 through December 2016. Prior to that, Mr. Chriss held various other roles at Intuit since he joined in July 2004. He has served on the board of directors of Houzz Inc. since December 2020. Mr. Chriss holds a Bachelor's degree in Economics from Tufts University.

Ms. Fennell has been Executive Vice President, Chief People & Places Officer since August 2018 and previously served as Executive Vice President, General Counsel and Corporate Secretary. Prior to that, she served as Senior Vice President, General Counsel and Corporate Secretary since February 2007. Ms. Fennell joined Intuit as Vice President, General Counsel and Corporate Secretary in April 2004. She leads the team responsible for acquiring, developing, mobilizing and rewarding the company's global workforce. Prior to joining Intuit, Ms. Fennell spent nearly eleven years at Sun Microsystems, Inc., most recently as Vice President of Corporate Legal Resources, as well as Acting General Counsel. Prior to joining Sun, she was an associate attorney at Wilson Sonsini, Goodrich & Rosati PC. Ms. Fennell sits on the board of directors of the Children's Discovery Museum of San Jose. Ms. Fennell holds a Bachelor of Science degree in Business Administration from California State University, Chico and a Juris Doctor from Santa Clara University.

Mr. Krishna has been Executive Vice President and General Manager of Intuit's Consumer Group since May 2022, previously holding the positions of Senior Vice President and General Manager of Growth Products and Senior Vice President and General Manager of Mint, from February 2022 and January 2020, respectively. He joined Intuit in September 2015 as Vice President of Product for the Company's TurboTax business unit and became Senior Vice President of Product for TurboTax and Mint in August 2019. Prior to Intuit, Mr. Krishna held executive positions at PayPal, Groupon, and BetterWorks after spending some of his early career at Microsoft overseeing a variety of product lines and features. Mr. Krishna holds a Bachelor's degree in Computer Engineering from the University of Waterloo in Canada.

Ms. Tessel has been Executive Vice President and Chief Technology Officer of Intuit since January 2019 and previously served as Chief Product Development Officer of Intuit's Small Business & Self-Employed Group from June 2017 to December 2018. Prior to joining Intuit, Ms.Tessel worked for Docker Inc., a software containerization platform, serving as Senior Vice President of Engineering and Executive Vice President of Strategic Development from November 2014 to June 2017, and VMware, which provides cloud computing and related services, from June 2008 through November 2014, most recently serving as Vice President of Engineering. She has served on the board of directors of Cisco Systems, Inc. since March 2021. Ms.Tessel holds a Bachelor's of Science degree in Computing from Technion – Israel Institute of Technology.

Ms. McLean has been Executive Vice President, General Counsel and Corporate Secretary since August 2020. Prior to that, she served as Senior Vice President, General Counsel and Corporate Secretary from August 2018 to July 2020 and Vice President, Deputy General Counsel from August 2010 to July 2018. She joined Intuit in 2006 as Director, Deputy General Counsel. Ms. McLean leads Intuit's legal, privacy, compliance, and global corporate affairs teams. Prior to joining Intuit, Ms. McLean spent over six years at Wind River Systems, Inc., most recently as the Director of Legal. Prior to joining Wind River, she was an associate at Howard, Rice, Nemerovski, Canady, Falk & Rabkin PC (now Arnold & Porter Kaye Scholer LLP). Ms. McLean serves on the board of directors of the California Minority Counsel Program. Ms. McLean holds a Bachelor of Arts degree in International Relations from University of California, Davis and a Juris Doctor from University of California, Hastings College of Law.

Ms. Hotz has been Senior Vice President and Chief Accounting Officer since August 2022, and previously held roles as Vice President and Chief Accounting Officer from February 2022 to July 2022 and Vice President and Corporate Controller from August 2020 to January 2022. She previously served as the Director, Corporate Accounting from January 2014 to July 2020. Since joining Intuit in 2004, Ms. Hotz has held a variety of accounting leadership roles at the Company. From 2001 to 2004, Ms. Hotz served in corporate controller and finance functions at other public companies. She began her career in public accounting at Coopers & Lybrand LLP (now PricewaterhouseCoopers LLP), from 1996 to 1998, and RSM McGladrey & Pullen LLP (now RSM US LLP), from 1998 to 2001. Ms. Hotz is a California Certified Public Accountant (inactive) and holds a Bachelor of Science degree in accounting from Washington University in St. Louis.

AVAILABLE INFORMATION

Our corporate website, *www.intuit.com*, provides materials for investors and information relating to Intuit's corporate governance. The content on any website referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise.

We file reports required of public companies with the Securities and Exchange Commission (SEC). These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports, and amendments to these reports. The SEC maintains a website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We make available free of charge on the Investor Relations section of our corporate website all of the reports we file with or furnish to the SEC as soon as reasonably practicable after the reports are filed or furnished. Copies of this Annual Report on Form 10-K may also be obtained without charge by contacting Investor Relations, Intuit Inc., P.O. Box 7850, Mountain View, California 94039-7850 or by calling 650-944-6000 or by emailing investor_relations@intuit.com.

ITEM 1A - RISK FACTORS

Our businesses routinely encounter and address risks, many of which could cause our future results to be materially different than we presently anticipate. Below, we describe significant factors, events and uncertainties that make an investment in our securities risky, categorized solely for ease of reference as strategic, operational, legal and compliance, and financial risks. The following events and consequences could have a material adverse effect on our business, growth, prospects, financial condition, results of operations, cash flows, liquidity, reputation and credit rating, and the trading price of our common stock could decline. These risks are not the only ones we face. We could also be affected by other events, factors or uncertainties that are presently unknown to us or that we do not currently consider to present significant risks to our business. These risks may be amplified by the effects of global developments, conditions or events like inflationary pressures, the Russia-Ukraine war and the COVID-19 pandemic, which have caused significant global economic instability and uncertainty.

The COVID-19 pandemic has caused significant economic instability and uncertainty and the extent to which it will impact our business, results of operations and financial condition is uncertain and difficult to predict.

The COVID-19 pandemic has caused economic instability and uncertainty globally and, in fiscal 2020, had a temporary negative impact on our business. The severity and duration of the pandemic's impact on our business and financial performance will depend on many factors beyond our control, including the emergence and virulence of new variants of the COVID-19 virus, the related responses of governments and businesses, and the availability, effectiveness and adoption of vaccines and treatments. Potential and current negative impacts of the pandemic include, but are not limited to, the following:

- There are new and more frequent attempts by malicious third parties seeking to take advantage of our employees while working remotely to fraudulently gain access to our systems, which could cause us to expend significant resources to remediate and could damage our reputation.
- The complexity of resuming operations in our offices under a hybrid workplace model may adversely impact the productivity, health and well-being of our workforce and exacerbate security and execution risks that could cause us to lose the confidence of our customers and government agencies and harm our revenues and earnings.
- Potential disruption of services on which we rely to deliver our services to our customers, such as our third-party customer success partners and financial institutions, could prevent us or our service providers from delivering critical services to our customers or accepting and fulfilling customer orders, any of which could materially and adversely affect our business or reputation.
- Failure to realize some or all of the anticipated benefits of our mergers and acquisitions activities for reasons related to the pandemic may cause us to experience losses that result in significant harm to our operating results or financial condition.
- There could be increased volatility in our stock price related to the pandemic, which could result in the loss of some or all of the value of an investment in Intuit.

These and other potential negative impacts relating to the COVID-19 pandemic are described further in the risk factors that follow.

STRATEGIC RISKS

We face intense competitive pressures that may harm our operating results.

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. Our competitors and potential competitors range from large and established entities to emerging start-ups. Our competitors may introduce superior products and services, reduce prices, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. In addition, we face competition from existing companies, with large established consumer user-bases and broad-based platforms, who may change or expand the focus of their business strategies and marketing to target our customers, including small businesses, tax and personal financial management customers.

We also face competition from companies with a variety of business models, including increased competition from providers of free offerings, particularly in our tax, accounting, payments and personal finance platform businesses. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers as effectively as competitors with different business models. In addition, other providers of free offerings may provide features that we do not offer and customers who have formerly paid for our products and services may elect to use our competitors' free offerings instead. These competitive factors may diminish our revenue and profitability, and harm our ability to acquire and retain customers.
Our consumer tax business also faces significant potential competition from the public sector, where we face the risk of federal and state taxing authorities proposing revenue raising strategies that involve developing and providing government tax

software or other government return preparation systems at public expense. These or similar programs may be introduced or expanded in the future, which may change the voluntary compliance tax system in ways that could cause us to lose customers and revenue. The IRS Free File Program is currently the sole means by which the IRS offers tax software directly to taxpayers and its continuation depends on a number of factors, including continued broad public awareness of and access to the free program and continued private industry donations, as well as continued government support. The Free File Program operates under an agreement that is scheduled to expire in October 2023. If the Free File Program were to be terminated or the IRS were to enter the software development and return preparation space, the federal government could become a publicly funded direct competitor of the U.S. tax services industry and of Intuit. Government funded services that curtail or eliminate the role of taxpayers in preparing their own taxes could potentially have material and adverse revenue implications on us.

Future revenue growth depends upon our ability to adapt to technological change as well as global trends in the way customers access software offerings and successfully introduce new and enhanced products, services and business models.

We operate in industries that are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To meet the changing needs of our customers and partners and attract and retain top technical talent, we must continue to innovate, develop new products and features, and enhance our ability to solve customer problems with emerging technologies, such as artificial intelligence and blockchain. We have and will continue to devote significant resources to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies.

Our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. As we continue to introduce and expand our new business models, including offerings that are free to end users, our customers may not perceive value in the additional benefits and services we offer beyond our free offering and may choose not to pay for those additional benefits or we may be unsuccessful in increasing customer adoption of these offerings or our risk profile may change, resulting in loss of revenue.

We also provide additional customer benefits by utilizing customer data available to us through our existing offerings, and the growth of our business depends, in part, on our existing customers expanding their use of our products and services. If we are not able to effectively utilize our customers’ data to provide them with value or develop and clearly demonstrate the value of new or upgraded products or services to our customers, our revenues may be harmed.

While we offer our products on a variety of hardware platforms, if we cannot continue adapting our products to tablet and mobile devices, or if our competitors can adapt their products more quickly than us, our business could be harmed. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on mobile devices and we may need to devote significant resources to the creation, support, and maintenance of such offerings. Further, legislation or regulatory changes may mandate changes in our products that make them less attractive to users.

In some cases, we may expend a significant amount of resources and management attention on offerings that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. We have also invested, and in the future, expect to invest in new business models, geographies, strategies and initiatives. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the initiatives and inadequate return on investments. Because these new initiatives are inherently risky, they may not be successful and may harm our financial condition and operating results.

We rely on third-party intellectual property in our products and services.

Many of our products and services include intellectual property of third parties, which we license under agreements that may need to be renewed or renegotiated from time to time. We may not be able to obtain licenses to these third-party technologies or content on reasonable terms, or at all. If we are unable to obtain the rights necessary to use this intellectual property in our products and services, we may not be able to provide the affected offerings, and customers who are currently using the affected product may be disrupted, which may in turn harm our future financial results, damage our brand, and result in customer loss. Also, we and our customers have been and may continue to be subject to infringement claims as a result of the third-party intellectual property incorporated in our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

Some of our offerings include third-party software that is licensed under so-called “open source” licenses, some of which may include a requirement that, under certain circumstances, we make available, or grant licenses to, any modifications or derivative works we create based upon the open source software. Although we have established internal review and approval processes to mitigate these risks, we cannot be sure that all open source software is submitted for approval prior to use in our products. Many of the risks associated with usage of open source may not be eliminated and, if not properly addressed, may harm our business.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patents, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets for us. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. The efforts that we take to protect our proprietary rights may not always be sufficient or effective. Protecting our intellectual property rights is costly and time consuming and may not be successful in every location. Any significant impairment of our intellectual property rights could harm our business, our brand and our ability to compete.

Policing unauthorized use and copying of our products is difficult, expensive and time consuming. Current U.S. laws that prohibit copying give us only limited practical protection from software piracy and the laws of many other countries provide very little protection. We frequently encounter unauthorized copies of our software being sold through online marketplaces. Although we continue to evaluate and put in place technology solutions to attempt to lessen the impact of piracy and engage in efforts to educate consumers and public policy leaders on these issues and cooperate with industry groups in their efforts to combat piracy, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to events or activities attributed to us, members of our workforce, agents, third parties we rely on, or our users, may tarnish our reputation and reduce the value of our brands. Our brand value also depends on our ability to provide secure and trustworthy products and services as well as our ability to protect and use our customers' data in a manner that meets their expectations. In addition, a security incident that results in unauthorized disclosure of our customers' sensitive data could cause material reputational harm.

We have public environmental, social and governance (ESG) commitments, including our goals to increase the diversity of our workforce, create and prepare individuals for jobs and have a positive impact on the climate. Our ability to achieve these goals is subject to numerous risks that may be outside of our control. Our failure or perceived failure to achieve our ESG goals or maintain ESG practices that meet evolving stakeholder expectations could harm our reputation, adversely impact our ability to attract and retain employees or customers and expose us to increased scrutiny from the investment community and enforcement authorities. Our reputation also may be harmed by the perceptions that our customers, employees and other stakeholders have about our action or inaction on social, ethical, or political issues. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands and could also reduce our stock price.

Our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions.

We have acquired and may continue to acquire companies, products, technologies and talent that complement our strategic direction, both in and outside the United States. Acquisitions, such as our acquisition of Mailchimp, involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology, data assets and operations into our business and maintain uniform standards, controls, policies, and procedures;
- inability to realize synergies or anticipated benefits expected to result from an acquisition within the expected time fame or at all;
- disruption of our ongoing business and distraction of management;
- challenges retaining the key employees, customers, resellers and other business partners of the acquired operation;
- the internal control environment of an acquired entity may not be consistent with our standards or with regulatory requirements, and may require significant time and resources to align or rectify;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies;
- failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and

- to the extent we use debt to fund acquisitions or for other purposes, our interest expense and leverage will increase significantly, and to the extent we issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share will be diluted.

We have divested and may in the future divest certain assets or businesses that no longer fit with our strategic direction or growth targets. Divestitures involve significant risks and uncertainties, including:

- inability to find potential buyers on favorable terms;
- failure to effectively transfer liabilities, contracts, facilities and employees to buyers;
- requirements that we retain or indemnify buyers against certain liabilities and obligations;
- the possibility that we will become subject to third-party claims arising out of such divestiture;
- challenges in identifying and separating the intellectual property, systems and data to be divested from the intellectual property, systems and data that we wish to retain;
- inability to reduce fixed costs previously associated with the divested assets or business;
- challenges in collecting the proceeds from any divestiture;
- disruption of our ongoing business and distraction of management;
- loss of key employees who leave us as a result of a divestiture; and
- if customers or partners of the divested business do not receive the same level of service from the new owners, our other businesses may be adversely affected, to the extent that these customers or partners also purchase other products offered by us or otherwise conduct business with our retained business.

In addition, any acquisition or divestiture that we announce may not be completed if closing conditions are not satisfied. Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. In particular, if we are unable to successfully operate together with Credit Karma, Mailchimp or any other company that we acquire to achieve shared growth opportunities or combine reporting or other processes within the expected time frame or at all, there may be a material and adverse effect on the benefits that we expect to achieve as a result of the acquisition, and we could experience additional costs or loss of revenue. Moreover, adverse changes in market conditions and other factors,including those listed above, may cause an acquisition to be dilutive to Intuit's operating earnings per share for a period of time. Any dilution of our non-GAAP diluted earnings per share could cause the price of shares of Intuit Common Stock to decline or grow at a reduced rate.

OPERATIONAL RISKS

Security incidents, improper access to or disclosure of our data or customers' data, or other cyberattacks on our systems could harm our reputation and adversely affect our business.

We host, collect, use and retain large amounts of sensitive and personal customer and workforce data, including credit card information, tax return information, bank account numbers, credit report information, login credentials and passwords, personal and business financial data and transactions data, social security numbers and payroll information, as well as our confidential, nonpublic business information. We use commercially available security technologies and security and business controls to limit access to and use of such sensitive data. Although we expend significant resources to create security protections designed to shield this data against potential theft and security breaches, such measures cannot provide absolute security.

Our technologies, systems, and networks have been subject to, and are increasingly likely to continue to be the target of, cyberattacks, computer viruses, ransomware or other malware, worms, social engineering, malicious software programs, insider threats, and other cybersecurity incidents that could result in the unauthorized release, gathering, monitoring, use, loss or destruction of sensitive and personal data of our customers and our workforce, or Intuit's sensitive business data or cause temporary or sustained unavailability of our software and systems. While we maintain cybersecurity insurance, our insurance may not be sufficient to cover all liabilities described herein. These types of incidents can be caused by malicious third parties, acting alone or in groups, or more sophisticated organizations including nation-states or state-sponsored organizations, and the risks could be elevated in connection with the Russia-Ukraine war. Customers who fail to update their systems, continue to run software that we no longer support, fail to install security patches on a timely basis or inadequately use security controls create vulnerabilities and make it more difficult for us to detect and prevent these kinds of attacks. We are increasingly incorporating open source software into our products, and there may be vulnerabilities in open source software that make it susceptible to cyberattacks. In addition, because the techniques used to obtain unauthorized access to sensitive information change frequently, and are becoming more sophisticated and are often not able to be detected until after a successful attack, we may be unable to anticipate these techniques or implement adequate preventive measures. Although this is an industry-wide problem that affects software and hardware across platforms, it may increasingly affect our offerings because cyber-criminals tend to focus their efforts on well-known offerings that are popular among customers and hold sensitive personal or financial information, like our digital money offerings, and we expect them to continue to do so.

Further, the security measures that we implement may not be able to prevent unauthorized access to our products and our customers' account data. While we require annual security training for our workforce, malicious third parties have in the past may in the future be able to fraudulently induce members of our workforce, customers or users by social engineering means, such as email phishing, to disclose sensitive information in order to gain access to our systems. It is also possible that unauthorized access to or disclosure of customer data may occur due to inadequate use of security controls by our customers or our workforce. Accounts created with weak or recycled passwords could allow cyberattackers to gain access to customer data. Unauthorized persons could gain access to customer accounts if customers do not maintain effective access controls of their systems and software. In addition, we have and will continue to experience new and more frequent attempts by malicious third parties to fraudulently gain access to our systems, such as through increased email phishing of our workforce.

Criminals may also use stolen identity information obtained outside of our systems to gain unauthorized access to our customers' data. We have experienced such instances in the past and as the accessibility of stolen identity information increases, generally, we may experience further instances of unauthorized access to our systems through the use of stolen identity information of our customers or our workforce in the future. Further, our customers may choose to use the same login credentials across multiple products and services unrelated to our products. Such customers' login credentials may be stolen from products offered by third-party service providers unrelated to us and the stolen identity information may be used by a malicious third party to access our products, which could result in disclosure of confidential information. In addition, our shift to a hybrid workplace model, where our workforce will spend a portion of their time working in our offices and a portion of their time working from home, introduces operational complexity that exacerbates our security-related risks.

Our efforts to protect data may also be unsuccessful due to software bugs (whether open source or proprietary code), break-ins, workforce error or other threats that evolve.

Further, because we have created an ecosystem where customers can have one identity across multiple Intuit products, a security incident may give access to increased amounts of customer data. This may result in disclosure of confidential information, loss of customer confidence in our products, possible litigation, material harm to our reputation and financial condition, disruption of our or our customers' business operations and a decline in our stock price. From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, actual or perceived vulnerabilities in our infrastructure, our software or third-party software components that are distributed with our products or fraudulent activity by unauthorized persons utilizing our products with stolen customer identity information. The existence of such vulnerabilities or fraudulent activity, even if they do not result in a security breach, may undermine customer confidence as well as the confidence of government agencies that regulate our offerings. Such perceived vulnerabilities could also seriously harm our business by tarnishing our reputation and brand and limiting the adoption of our products and services and could cause our stock price to decline.

Additionally, Credit Karma is subject to an order issued in 2014 by the Federal Trade Commission (FTC) that, among other things, requires maintenance of a comprehensive security program relating to the development and management of new and existing products and services and biannual independent security assessments for 20 years from the date of the order. To the extent Credit Karma shares data covered by the order with Intuit, the order may apply to Intuit with respect to such data. Credit Karma's failure to fulfill the requirements of the FTC's order could result in fines, penalties, regulatory inquiries, investigations and claims, and negatively impact our business and reputation.

A cybersecurity incident affecting the third parties we rely on could expose us or our customers to a risk of loss or misuse of confidential information and significantly damage our reputation.

We depend on a number of third parties, including vendors, developers and partners who are critical to our business. We or our customers may grant access to customer data to these third parties to help deliver customer benefits, or to host certain of our and our customers' sensitive and personal data. In addition, we share sensitive, nonpublic business information (including, for example, materials relating to financial, business and legal strategies) with other vendors in the ordinary course of business.

While we conduct background checks of our workforce, conduct reviews of partners, developers and vendors and use commercially available technologies to limit access to systems and data, it is possible that malicious third parties may misrepresent their intended use of data or may circumvent our controls, resulting in accidental or intentional disclosure or misuse of our customer or workforce data. Further, while we conduct due diligence on the security and business controls of our third-party partners, we may not have the ability to effectively monitor or oversee the implementation of these control measures. Malicious third parties may be able to circumvent these security and business controls or exploit vulnerabilities that may exist in these controls, resulting in the disclosure or misuse of sensitive business and personal customer or workforce information and data. In addition, malicious actors may attempt to use the information technology supply chain to compromise our systems by, for example, introducing malware through software updates.

A security incident involving third parties we rely on may have serious negative consequences for our businesses, including disclosure of sensitive customer or workforce data, or confidential or competitively sensitive information regarding our business, including intellectual property and other proprietary data; make our products more vulnerable to fraudulent activity; cause temporary or sustained unavailability of our software and systems; result in possible litigation, fines, penalties and damages; result in loss of customer confidence; cause material harm to our reputation and brands; lead to further regulation and oversight by federal or state agencies; cause adverse financial condition; and result in a reduced stock price.

Concerns about the current privacy and cybersecurity environment, generally, could deter current and potential customers from adopting our products and services and damage our reputation.

The continued occurrence of cyberattacks and data breaches on governments, businesses and consumers in general indicates that we operate in an external environment where cyberattacks and data breaches are becoming increasingly common. If the global cybersecurity environment worsens, and there are increased instances of security breaches of third-party offerings where consumers' data and sensitive information is compromised, consumers may be less willing to use online offerings, particularly offerings like ours in which customers often share sensitive financial data. In addition, the increased availability of data obtained as a result of breaches of third-party offerings could make our own products more vulnerable to fraudulent activity. Even if our products are not affected directly by such incidents, any such incident could damage our reputation and deter current and potential customers from adopting our products and services or lead customers to cease using online and connected software products to transact financial business altogether.

If we are unable to effectively combat the increasing amount and sophistication of fraudulent activities by malicious third parties, we may suffer losses, which may be substantial, and lose the confidence of our customers and government agencies and our revenues and earnings may be harmed.

The online tax preparation, payroll, payments, lending and personal financial management industries have been experiencing an increasing amount of fraudulent activities by malicious third parties, and those fraudulent activities are becoming increasingly sophisticated. Although we do not believe that any of this activity is uniquely targeted at our products or businesses, this type of fraudulent activity may adversely impact our tax, payroll, payments, lending and personal financial management businesses, and the risk is heightened when our workforce is working from home. In addition to any losses that may result from such fraud, which may be substantial, a loss of confidence by our customers or by governmental agencies in our ability to prevent fraudulent activity may seriously harm our business and damage our brand. If we cannot adequately combat such fraudulent activity, governmental authorities may refuse to allow us to continue to offer the affected services, or these services may otherwise be adversely impacted, which could include federal or state tax authorities refusing to allow us to process our customers' tax returns electronically, resulting in a significant adverse impact on our earnings and revenue. As fraudulent activities become more pervasive and increasingly sophisticated, and fraud detection and prevention measures must become correspondingly more complex to combat them across the various industries in which we operate, we may implement risk control mechanisms that could make it more difficult for legitimate customers to obtain and use our products, which could result in lost revenue and negatively impact our earnings.

If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our business may be harmed.

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll, payments and personal financial management businesses. Despite our efforts to ensure that effective processing systems and controls are in place to handle transactions appropriately, it is possible that we may make errors or that funds may be misappropriated due to fraud. The likelihood of any such error or misappropriation is magnified as we increase the volume and speed of the transactions we process. If we are unable to effectively manage our systems and processes, or if there is an error in our products, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our reputation, the willingness of customers to use our products, and our financial results. In our payments processing service business, if a disputed transaction between a merchant and its customer is not resolved in favor of the merchant, we may be required to pay those amounts to the payment or credit card network and these payments may exceed the amount of the customer reserves established to make such payments.

Business interruption or failure of our information technology and communication systems may impair the availability of our products and services, which may damage our reputation and harm our future financial results.

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our products and our underlying technical infrastructure. As we continue to grow our online services, we become more dependent on the continuing operation and availability of our information technology and communications systems and those of our external service providers, including, for example, third-party Internet-based or cloud computing services. We do not have redundancy for all of our systems, and our disaster recovery planning may not account for all eventualities. We have designed a significant portion of our software and computer systems to utilize data processing and storage capabilities provided by public cloud providers, such as Amazon Web Services. If any public cloud service that we use is unavailable to us for any reason, our customers may not be able to access certain of our cloud products or features, which could significantly impact our operations, business, and financial results.

Failure of our systems or those of our third-party service providers, may result in interruptions in our service and loss of data or processing capabilities, all of which may cause a loss in customers, refunds of product fees, material harm to our reputation and operating results.

Our tax businesses must effectively handle extremely heavy customer demand during critical peak periods, which typically occur from January until April of each year. We face significant risks in maintaining adequate service levels during these peak periods when we have historically derived a substantial portion of our overall revenue from the tax businesses. Any interruptions in our online tax preparation or electronic filing service at any time during the tax season, particularly during a peak period, could result in significantly decreased revenue, lost customers, unexpected refunds of customer charges, negative publicity and increased operating costs, any of which could significantly harm our business, financial condition and results of operations.

We rely on internal systems and external systems maintained by manufacturers, distributors and other service providers to take and fulfill customer orders, handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems may prevent us or our service providers from accepting and fulfilling customer orders or cause company and customer data to be unintentionally disclosed. Our continuing efforts to upgrade and expand our network security and other information systems as well as our high-availability capabilities are costly, and problems with the design or implementation of system enhancements may harm our business and our results of operations.

Our business operations, information technology and communications systems are vulnerable to damage or interruption from natural disasters, climate change, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses and malware, computer denial of service attacks, terrorist attacks, public health emergencies and other events beyond our control. For example, we shifted to operations under a hybrid workplace model where our workforce spends a portion of their time working in our offices and a portion of their time working from home. This model has introduced new execution risks and we may experience longer-term disruptions to our operations as we evolve our workplace model, any of which may impair our ability to perform critical functions or could make it considerably more difficult to develop, enhance and support our products and services.

In addition, our corporate headquarters and other critical business operations are located near major seismic faults. In the event of a major natural or man-made disaster, our insurance coverage may not completely compensate us for our losses and our future financial results may be materially harmed.

We regularly invest resources to update and improve our internal information technology systems and software platforms. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems and software platforms disrupt our operations, our business could be harmed.

We rely on our network infrastructure, data hosting, public cloud and software-as-a-service providers, and internal technology systems for many of our development, marketing, operational, support, sales, accounting and financial reporting activities. We are continually investing resources to update and improve these systems and environments in order to meet existing needs, as well as the growing and changing requirements of our business and customers. If we experience prolonged delays or unforeseen difficulties in updating and upgrading our systems and architecture, we may experience outages and may not be able to deliver certain offerings and develop new offerings and enhancements that we need to remain competitive. Such improvements and upgrades are often complex, costly and time consuming. In addition, such improvements can be challenging to integrate with our existing technology systems, or may uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in outages, disruption in our business operations, loss of revenue or damage to our reputation.

If we are unable to develop, manage and maintain critical third-party business relationships, our business may be adversely affected.

Our growth is increasingly dependent on the strength of our business relationships and our ability to continue to develop, manage and maintain new and existing relationships with third-party partners. We rely on various third-party partners, including software and service providers, suppliers, credit reporting bureaus, vendors, manufacturers, distributors, accountants, contractors, financial institutions, core processors, licensing partners and development partners, among others, in many areas of our business in order to deliver our offerings and operate our business. Credit Karma generates revenue from its relationships with financial institution partners, which are subject to particular risks that affect their willingness to offer their products on Credit Karma's platform, such as adverse economic conditions and an increasing complexity in the regulatory environment. We also rely on third parties to support the operation of our business by maintaining our physical facilities, equipment, power systems and infrastructure. In certain instances, these third-party relationships are sole source or limited source relationships and can be difficult to replace or substitute depending on the level of integration of the third party’s products or services into, or with, our offerings and/or the general availability of such third party’s products and services. In addition, there may be few or no alternative third-party providers or vendors in the market. Further, there can be no assurance that we will be able to adequately retain third-party contractors engaged to help us operate our business.

Additionally, the business operations of our third-party partners have been and could continue to be disrupted by global events like the Russia-Ukraine War and the COVID-19 pandemic, including the effects on their third-party partners. If our third-party partners are unable to help us operate our business, our business and financial results may be negatively impacted. The failure of third parties to provide acceptable and high quality products, services and technologies or to update their products, services and technologies may result in a disruption to our business operations and our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Alternative arrangements and services may not be available to us on commercially reasonable terms or at all, or we may experience business interruptions upon a transition to an alternative partner.

Although we have strict standards for our suppliers and business partners to comply with the law and company policies regarding workplace and employment practices, data use and security, environmental compliance, intellectual property licensing and other applicable regulatory and compliance requirements, we cannot control their day-to-day practices. Any violation of laws or implementation of practices regarded as unethical could result in supply chain disruptions, canceled orders, terminations of or damage to key relationships, and damage to our reputation.

In particular, we have relationships with banks, credit unions and other financial institutions that support certain critical services we offer to our customers. If macroeconomic conditions or other factors cause any of these institutions to fail, consolidate, stop providing certain services or institute cost-cutting efforts, our business and financial results may suffer and we may be unable to offer those services to our customers.

We increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers. Any adverse changes by these third parties could adversely affect our financial results.

Competition for our key employees is intense and we may not be able to attract, retain and develop the highly skilled employees we need to support our strategic objectives.

Much of our future success depends on the continued service and availability of skilled employees, including members of our executive team, and those in technical and other key positions. Experienced individuals with skill sets in software as a service, mobile technologies, data science, artificial intelligence and data security are in high demand and we have faced and will continue to face intense competition globally to attract and retain a diverse workforce with these and other skills that are critical to our success. This is especially the case in California and India where a significant number of our employees are located. The compensation and incentives we have available to attract, retain and motivate employees may not meet the expectations of current and prospective employees as the competition for talent intensifies. For example, our equity awards may become less effective if our stock price decreases or increases at a slower rate than our talent competitors'. In addition, if we were to issue significant additional equity to attract or retain employees, the ownership of our existing stockholders would be diluted and our related expenses would increase. Other factors may make it more challenging for us to continue to successfully attract, retain and develop key employees. For example, current and prospective employees may seek new or different opportunities based on mobility, location flexibility or any challenges we face in achieving our publicly stated workforce diversity goals.

If we experience significant product accuracy or quality problems or delays in product launches, it may harm our revenue, earnings and reputation.

Our customers rely on the accuracy of our offerings. All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable and potentially late tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products may contain errors that could unexpectedly interfere with the operation of the software or result in incorrect calculations. The complexity of the tax laws on which our products are based may also make it difficult for us to consistently deliver offerings that contain the features, functionality and level of accuracy that our customers expect. When we encounter problems we may be required to modify our code, work with state tax administrators to communicate with affected customers, assist customers with amendments, distribute patches to customers who have already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products either late in our development cycle or after release it may cause us to delay our product launch date or suspend product availability until such issues can be fixed. Any major defects, launch delays or product suspensions may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or other payments, including those resulting from our accuracy guarantee in our tax preparation products. For example, an error in our tax products could cause a compliance error for taxpayers, including the over or underpayment of their federal or state tax liability. While our accuracy guarantee commits us to reimburse penalties and interest paid by customers due solely to calculation errors in our tax preparation products, such errors may result in additional burdens on third parties that we may need to address or that may cause us to suspend the availability of our products until such errors are addressed. This could also affect our reputation, the willingness of customers to use our products, and our financial results. Further, as we develop our platform to connect people to experts, such as connecting TurboTax customers with tax experts through our TurboTax Live offering, or connecting QuickBooks customers with bookkeepers through our QuickBooks Live offering, we face the risk that these experts may provide advice that is erroneous, ineffective or otherwise unsuitable. Any such deficiency in the advice given by these experts may cause harm to our customers, a loss of customer confidence in our offerings or harm to our reputation or financial results. Moreover, as we continue to incorporate emerging technologies, like AI and blockchain, into our offerings, they may not function as designed or have unintended consequences, any of which could subject us to competitive harm, legal liability or reputational harm.

Our international operations are subject to increased risks which may harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

- different or more restrictive privacy, data protection, data localization, and other laws that could require us to make changes to our products, services and operations, such as mandating that certain types of data collected in a particular country be stored and/or processed within that country;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- geopolitical events, including natural disasters or severe weather events (including those caused or exacerbated by climate change), acts of war and terrorism (including the Russia-Ukraine war and any related political or economic responses), and public health emergencies, including divergent governmental responses thereto across the jurisdictions in which we operate;
- compliance with sanctions and import or export regulations, including those arising from the Russia-Ukraine war;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and laws and regulations of other jurisdictions prohibiting corrupt payments to government officials and other third parties;
- antitrust and competition regulations;
- potentially adverse tax developments;
- economic uncertainties relating to European sovereign and other debt;
- trade barriers and changes in trade regulations;
- political or social unrest, economic instability, repression, or human rights issues; and
- risks related to other government regulation or required compliance with local laws.

Violations of the rapidly evolving and complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions or sanctions against us, our officers or our broader workforce, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, we cannot be sure that our workforce, contractors and agents are in compliance with our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business, operating results, and financial condition.

Climate change may have an impact on our business.

While we seek to mitigate our business risks associated with climate change by establishing robust environmental programs and partnering with organizations that are also focused on mitigating their own climate-related risks, we recognize that there are inherent climate-related risks wherever business is conducted. Any of our primary workplace locations may be vulnerable to the adverse effects of climate change. For example, our offices globally have historically experienced, and are projected to continue to experience, climate-related events at an increasing frequency, including drought, water scarcity, heat waves, cold waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. Furthermore, it is more difficult to mitigate the impact of these events on our employees to the extent they work from home. Changing market dynamics, global policy developments and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers and the business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations. Additionally, failure to uphold, meet or make timely forward progress against our public commitments and goals related to climate action could adversely affect our reputation with suppliers and customers, financial performance or ability to recruit and retain talent.

LEGAL AND COMPLIANCE RISKS

Increasing and changing government regulation of our businesses may harm our operating results.

We are subject to federal, state, local and international laws and regulations that affect our and our customers' activities, including, without limitation, labor, advertising and marketing, tax, financial services, data privacy and security, electronic funds transfer, money transmission, lending, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, intellectual property ownership and infringement, import and export requirements, anti-bribery and anti-corruption, insurance, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health and safety, and other regulated activities. There have been significant new regulations and heightened focus by the government on many of these areas. As we expand our products and services and evolve our business models, both domestically and internationally, we may become subject to additional government regulation or increased regulatory scrutiny. For example, the regulation of emerging technologies that we may incorporate into our offerings, such as artificial intelligence and blockchain, is still an evolving area, and it is possible that we could become subject to new regulations that negatively impact our operations and results. Further, regulators (both in the U.S. and in other jurisdictions in which we operate) may adopt new laws or regulations, change existing regulations, or their interpretation of existing laws or regulations may differ from ours. We are and may continue to be subject to pandemic-related protocols and restrictions that impact our workforce and workplaces. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, changes in the cybersecurity environment, litigation by the government or private entities, changes to or new interpretations of existing laws may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our tax businesses or offer our tax products and services. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply. We are also required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing services.

Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Complex and evolving regulation of privacy and data protection could result in claims, changes to our business practices, penalties or increased cost of operations or otherwise harm our business.

Regulations related to the provision of online services are continually evolving as federal, state and foreign governments adopt new or modify existing laws and regulations addressing data privacy, cybersecurity, the collection, processing, storage, transfer and use of data, and the use of AI. These include, for example, the EU's General Data Protection Regulation (GDPR), the California Consumer Protection Act (CCPA), the California Privacy Rights Act that will amend the CCPA in January 2023 and the Virginia Consumer Data Protection Act that will become effective in January 2023. These laws and regulations may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. In our efforts to meet the various data privacy regulations that apply to us, we have made and continue to make certain operational changes to our products and business practices. If we are unable to engineer products that meet these evolving requirements or help our customers meet their obligations under these or other new data regulations, we might experience reduced demand for our offerings. Further, penalties for non-compliance with these laws may be significant.

In addition, the evolution of global privacy treaties and frameworks has created compliance uncertainty and increased complexity. For example, the judicial invalidation of the EU-U.S. and Swiss-U.S. Privacy Shield frameworks that we relied on to transfer data has created additional compliance challenges for the transfer of EU personal data to the U.S. While we rely on alternative methods for the transfer of this data, ongoing legal challenges to these and other transfer mechanisms could cause us to incur costs or change our business practices in a manner adverse to our business.

Other governmental authorities throughout the U.S. and around the world are considering similar types of legislative and regulatory proposals concerning data protection. Each of these privacy, security and data protection laws and regulations could impose significant limitations, require changes to our business, require notification to customers or workers of a security breach, restrict our use or storage of personal information, or cause changes in customer purchasing behavior that may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may make customers less likely to purchase our products and may harm our future financial results. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages. We have incurred, and may continue to incur, significant expenses to comply with existing privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

We are frequently a party to litigation and regulatory inquiries which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.

We are subject to various legal proceedings (including class action lawsuits), claims and regulatory inquiries that have arisen out of the ordinary conduct of our business and are not yet resolved and additional proceedings, claims and inquiries may arise in the future. The number and significance of these proceedings, claims and inquiries may increase as our businesses evolve. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in costly litigation, damage awards, consent decrees, injunctive relief or increased costs of business; require us to change our business practices or products; require significant amounts of management time; result in diversion of significant operations resources; or otherwise harm our business and future financial results. For further information about specific litigation, see Item 3, "Legal Proceedings."

Third parties claiming that we infringe their proprietary rights may cause us to incur significant legal expenses and prevent us from selling our products.

We may become increasingly subject to infringement claims, including patent, copyright, trade secret, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the intellectual property rights of others. We have received a number of allegations of intellectual property infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon the intellectual property held by third parties. Some of these claims are the subject of pending litigation against us and against some of our customers. These claims may involve patent holding companies or other adverse intellectual property owners who have no relevant product revenues of their own, and against whom our own intellectual property may provide little or no deterrence. The ultimate outcome of any allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

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

The laws relating to the liability of online services companies for information such as online content disseminated through their services are subject to frequent challenges. In spite of settled law in the U.S., claims are made against online services companies by parties who disagree with the content. Where our online content is accessed on the internet outside of the U.S., challenges may be brought under foreign laws which do not provide the same protections for online services companies as in the U.S. These challenges in either U.S. or foreign jurisdictions may give rise to legal claims alleging defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through the services. Certain of our services include content generated by users of our online services. Although this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

FINANCIAL RISKS

Our tax business is highly seasonal and our quarterly results fluctuate significantly.

Our tax offerings have significant seasonal patterns. Revenue from income tax preparation products and services has historically been heavily concentrated from November through April, as the tax filing deadline for the IRS and many states is traditionally in April. This seasonality has caused significant fluctuations in our quarterly financial results. In addition, the effects of these fluctuations have been and may in the future be further exacerbated by changes to the traditional opening and closing dates of the tax season. For example, the IRS and many states extended their tax filing deadlines to May 17, 2021 for the 2020 tax year and to July 15, 2020 for the 2019 tax year due to conditions created by the pandemic. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of other factors, including factors that may affect the timing of revenue recognition. These include the timing of the availability of federal and state tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions; changes to our offerings that result in the inclusion or exclusion of ongoing services; changes in product pricing strategies or product sales mix; changes in customer behavior; and the timing of our discontinuation of support for older product offerings. Other factors that may affect our quarterly or annual financial results include the timing of acquisitions, divestitures, and goodwill and acquired intangible asset impairment charges. Any fluctuations in our operating results may adversely affect our stock price.

If actual customer refunds for our offerings exceed the amount we have reserved our future financial results may be harmed.

Like many software companies we refund customers for product returns and subscription cancellations. We establish reserves against revenue in our financial statements based on estimated customer refunds. We closely monitor this refund activity in an effort to maintain adequate reserves. In the past, customer refunds have not differed significantly from these reserves. However, if we experience actual customer refunds or an increase in risks of collecting customer payments that significantly exceed the amount we have reserved, it may result in lower net revenue.

Unanticipated changes in our income tax rates or other indirect tax may affect our future financial results.

Our future effective income tax rates may be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, by changes in our stock price, or by changes in tax laws or their interpretation. In August 2022, the Inflation Reduction Act of 2022 was signed into law. This law, among other things, provides for a corporate alternative minimum tax on adjusted financial statement income (effective for us beginning in fiscal 2024), and an excise tax on corporate stock repurchases (effective for our share repurchases after December 31, 2022), and we are continuing to evaluate the impact it may have on our financial position and results of operations. There are several proposed changes to U.S. and non-U.S. tax legislation and the ultimate enactment of any of them could have a negative impact on our effective tax rate. Foreign governments may enact tax laws that could result in further changes to global taxation and materially affect our financial position and results of operations. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

An increasing number of states and foreign jurisdictions have adopted laws or administrative practices, that impose new taxes on all or a portion of gross revenue or other similar amounts or impose additional obligations to collect transaction taxes such as sales, consumption, value added, or similar taxes. We may not have sufficient lead time to build systems and processes to collect these taxes properly, or at all. Failure to comply with such laws or administrative practices, or a successful assertion by such states or foreign jurisdictions requiring us to collect taxes where we do not, could result in material tax liabilities, including for past sales, as well as penalties and interest.

Adverse global economic conditions could harm our business and financial condition.

Adverse macroeconomic developments, including without limitation inflation, slowing growth, rising interest rates or recession, could negatively affect our business and financial condition. These developments or other global events, including those related to the Russia-Ukraine war, have caused, and could, in the future, cause disruptions and volatility in global financial markets and increased rates of default and bankruptcy, and could impact consumer and small business spending and have other unforeseen consequences. For example, in response to increasing inflation, the U.S. Federal Reserve began to raise interest rates in March 2022 for the first time in over three years, and signaled it expects additional rate increases. It is difficult to predict the impact of such events on our partners, customers, members, or economic markets more broadly, which have been and will continue to be highly dependent upon the actions of governments and businesses in response to macroeconomic events, and the effectiveness of those actions. In particular, because the majority of our revenue is derived from sales within the U.S., economic conditions in the U.S. have an even greater impact on us than companies with a more diverse international presence. Challenging economic times could cause potential new customers not to purchase or to delay purchasing our products and services, and could cause our existing customers to discontinue purchasing or delay upgrades of our existing products and services. In addition, financial institution partners may again decrease or suspend their activity on Credit Karma’s platform, increased interest rates may make offers from Credit Karma’s financial institution partners less attractive to Credit Karma’s members, members may decrease their engagement on the platform or their creditworthiness could be negatively impacted, reducing members' ability to qualify for credit cards and loans. Any of the foregoing may negatively impact our revenues and future financial results. Decreased consumer spending levels could also reduce credit and debit card transaction processing volumes causing reductions in our payments revenue. Poor economic conditions and high unemployment have caused, and could in the future cause, a significant decrease in the number of tax returns filed, which may have a significant effect on the number of tax returns we prepare and file. In addition, weakness in the end-user consumer and small business markets could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us, which could increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Adverse economic conditions, including inflation, may also increase the costs of operating our business, including vendor, supplier and workforce expenses. Any of these events could harm our business and our future financial results.

We provide capital to small businesses, which exposes us to certain risk, and may cause us material financial or reputational harm.

We provide capital to qualified small businesses, which exposes us to the risk of our borrowers’ inability to repay such loans. We have also entered into credit arrangements with financial institutions to obtain the capital we provide under this offering. Any termination or interruption in the financial institutions’ ability to lend to us could interrupt our ability to provide capital to qualified small businesses. Further, our credit decisioning, pricing, loss forecasting, scoring and other models used to evaluate loan applications may contain errors or may not adequately assess creditworthiness of our borrowers, or may be otherwise ineffective, resulting in incorrect approvals or denials of loans. It is also possible that loan applicants could provide false or incorrect information. Moreover, adverse macroeconomic conditions may have a significant impact on small businesses and may increase the likelihood that our borrowers are unable to repay their loans. If any of the foregoing events were to occur, our reputation, relationships with borrowers, collections of loans receivable and financial results could be harmed.

Amortization of acquired intangible assets and impairment charges may cause significant fluctuation in our net income.

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were $556 million in fiscal 2022; $196 million in fiscal 2021; and $28 million in fiscal 2020. Although under current accounting rules goodwill is not amortized, we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that may not have been reasonably foreseen in prior periods. At July 31, 2022, we had $13.7 billion in goodwill and

$7.1 billion in net acquired intangible assets on our consolidated balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

We have incurred indebtedness and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

As of July 31, 2022, we had an aggregate of $6.9 billion of indebtedness outstanding under our credit facilities and our senior unsecured notes. Under the agreements governing our indebtedness, we are permitted to incur additional debt. This debt, and any debt that we may incur in the future, may adversely affect our financial condition and future financial results by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, share repurchases and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets or reduce or delay planned capital, operating or investment expenditures. Such measures may not be sufficient to enable us to service our debt.

Additionally, the agreements governing our indebtedness impose restrictions on us and require us to comply with certain covenants. For example, our credit facilities restrict the ability of our subsidiaries to incur indebtedness and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our credit facilities and the indenture governing our senior unsecured notes limit our ability to create liens our and subsidiaries' assets and engage in sale and leaseback transactions. If we breach any of these covenants and do not obtain a waiver from the lenders or the noteholders, as applicable, then, subject to applicable cure periods, any or all of our outstanding indebtedness may be declared immediately due and payable. There can be no assurance that any refinancing or additional financing would be available on terms that are favorable or acceptable to us, if at all.

Under the terms of our outstanding senior unsecured notes, we may be required to repurchase the notes for cash prior to their maturity in connection with the occurrence of certain changes of control that are accompanied by certain downgrades in the credit ratings of the notes. The repayment obligations under the notes may have the effect of discouraging, delaying or preventing a takeover of our company. If we were required to pay the notes prior to their scheduled maturity, it could have a negative impact on our cash position and liquidity and impair our ability to invest financial resources in other strategic initiatives.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. If our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our unsecured revolving credit facility may increase. In addition, adverse economic conditions or any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may negatively impact the terms of any such financing.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value.

We have a stock repurchase program under which we are authorized to repurchase our common stock. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Our repurchase program may be suspended or terminated at any time. Even if our stock repurchase program is fully implemented, it may not enhance long-term stockholder value. Also, the amount, timing, and execution of our stock repurchase programs may fluctuate based on our priorities for the use of cash for other purposes and because of changes in cash flows, tax laws, and the market price of our common stock.

Our stock price may be volatile and your investment could lose value.

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, security of our products, or legal proceedings can cause changes in our stock price. These factors, as well as general economic and political conditions, including the effects of a general slowdown in the global economy, the COVID-19 pandemic, the Russia-Ukraine war and inflationary pressures, and the timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes may adversely affect our stock price. Moreover, the COVID-19 pandemic, the Russia-Ukraine war and inflationary pressures have caused significant volatility in the global financial markets, which has resulted in significant volatility in our stock price recently. Further, any changes in the amounts or frequency of share repurchases or dividends may also adversely affect our stock price. A significant drop in our stock price could expose us to the risk of securities class actions lawsuits, which may result in substantial costs and divert management's attention and resources, which may adversely affect our business.

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Our principal locations, their purposes, and the expiration dates for the leases on facilities at those locations as of July 31, 2022, are shown in the table below. We have renewal options on many of our leases.

Location	Purpose	Approximate Square Feet	Principal Lease Expiration Dates
Mountain View, California	Corporate headquarters and principal offices for Small Business & Self-Employed segment	487,000	2024 - 2026
Mountain View, California	Corporate headquarters and principal offices for Small Business & Self-Employed segment	185,000	Owned
Bangalore, India	Principal offices for Intuit India	478,000	2022 - 2025
San Diego, California	Principal offices for Consumer segment	466,000	Owned
Oakland, California	Principal offices for Credit Karma segment	167,000	2031
Plano, Texas	Principal offices for ProConnect segment	166,000	2026

We also lease or own facilities in a number of domestic locations and lease facilities internationally in Canada, the United Kingdom, Australia, Israel, and several other locations. We believe our facilities are suitable and adequate for our current and near-term needs, and that we will be able to locate additional facilities as needed. See Note 10 to the consolidated financial statements in Item 8 of this Annual Report for more information about our lease commitments.

ITEM 3 - LEGAL PROCEEDINGS

See Note 14 to the consolidated financial statements in Item 8 of this Annual Report for a description of legal proceedings.

ITEM 4 - MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Intuit's common stock is quoted on the Nasdaq Global Select Market under the symbol "INTU."

Stockholders

As of August 26, 2022, we had approximately 640 record holders and approximately 1,292,000 beneficial holders of our common stock.

Dividends

We declared cash dividends that totaled $2.72 per share of outstanding common stock or $781 million during fiscal 2022 and $2.36 per share of outstanding common stock or $651 million during fiscal 2021. In August 2022, our Board of Directors declared a quarterly cash dividend of $0.78 per share of outstanding common stock payable on October 18, 2022 to stockholders of record at the close of business on October 10, 2022. We currently expect to continue to pay comparable cash dividends on a quarterly basis in the future; however, future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock repurchase activity during the three months ended July 31, 2022 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
May 1, 2022 through May 31, 2022	767,157	$382.20	767,157	$1,728,290,486
June 1, 2022 through June 30, 2022	292,225	$390.10	292,225	$1,614,292,658
July 1, 2022 through July 31, 2022	248,506	$407.52	248,506	$1,513,022,373
Total	1,307,888	$388.78	1,307,888	

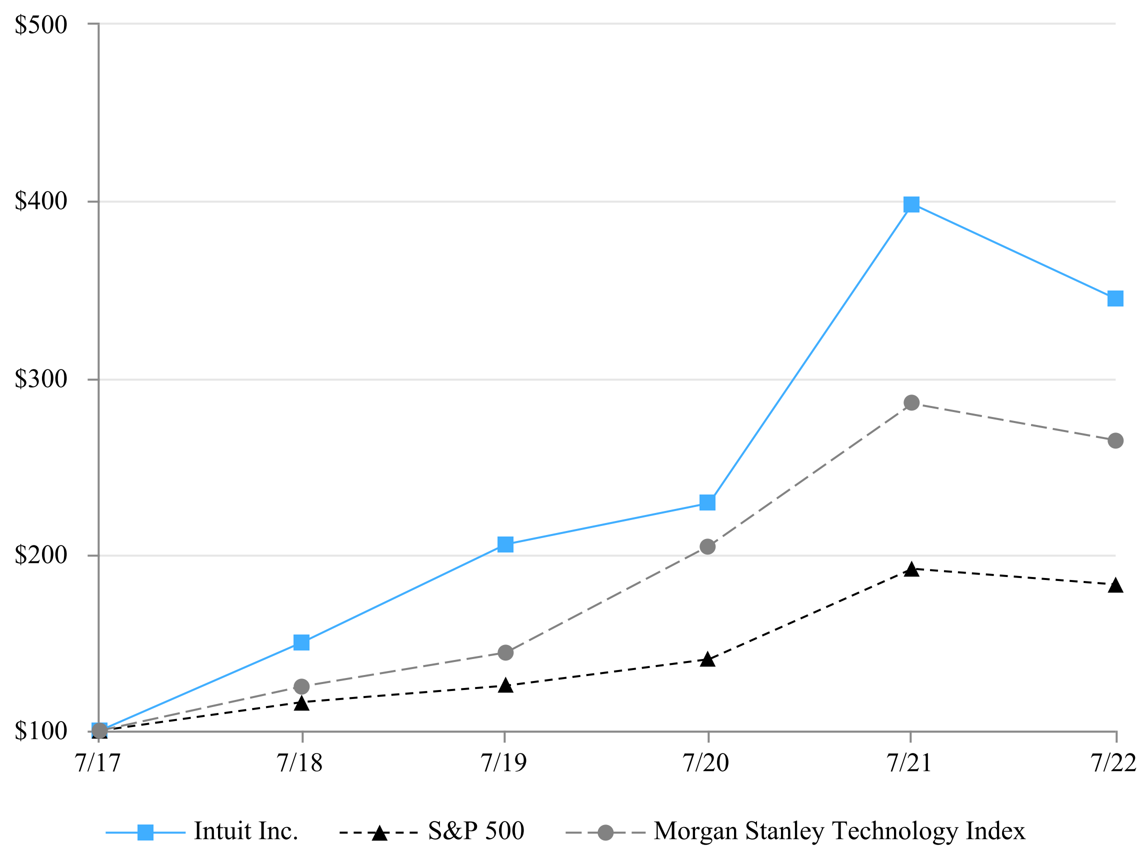
Note: On August 20, 2021, our Board approved an increased authorization under our existing stock repurchase program to purchase up to an additional $2 billion of our common stock. All of the shares repurchased during the three months ended July 31, 2022 were purchased under this plan. At July 31, 2022, authorization from our Board of Directors to expend up to $1.5 billion remained available under that plan. On August 19, 2022, our Board approved an increase in the authorization under the existing stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock.

Company Stock Price Performance

The graph below compares the cumulative total stockholder return on Intuit common stock for the last five full fiscal years with the cumulative total returns on the S&P 500 Index and the Morgan Stanley Technology Index for the same period. The graph assumes that $100 was invested in Intuit common stock and in each of the other indices on July 31, 2017, and that all dividends were reinvested. The comparisons in the graph below are based on historical data – with Intuit common stock prices based on the closing price on the dates indicated – and are not intended to forecast the possible future performance of Intuit's common stock.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Intuit Inc., the S&P 500 Index,
and Morgan Stanley Technology Index



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	July 31, 2017	July 31, 2018	July 31, 2019	July 31, 2020	July 31, 2021	July 31, 2022
Intuit Inc.	$ 100.00	$ 150.23	$ 205.62	$ 228.93	$ 398.37	$ 344.80
S&P 500	$ 100.00	$ 116.24	$ 125.52	$ 140.53	$ 191.75	$ 182.85
Morgan Stanley Technology Index	$ 100.00	$ 125.17	$ 144.31	$ 204.78	$ 285.30	$ 264.57

ITEM 6 - [RESERVED]

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers of our consolidated financial statements with the perspectives of management. This should allow the readers of this report to obtain a comprehensive understanding of our businesses, strategies, current trends, and future prospects. Our MD&A includes the following sections:

- ***Executive Overview:*** High level discussion of our operating results and some of the trends that affect our business.
- ***Critical Accounting Policies and Estimates:*** Policies and estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements.
- ***Results of Operations:*** A more detailed discussion of our revenue and expenses.
- ***Liquidity and Capital Resources:*** Discussion of key aspects of our consolidated statements of cash flows, changes in our consolidated balance sheets, and our financial commitments.

You should note that this MD&A contains forward-looking statements that involve risks and uncertainties. Please see the section entitled *"Forward-Looking Statements"* immediately preceding Part I for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the consolidated financial statements and related notes in Item 8 of this Annual Report.

Due to the ongoing COVID-19, pandemic we continue to conduct business with modifications to employee work locations. Nearly all of our sites are now fully open. We are transitioning to a hybrid model where our workforce will spend a portion of their time working in our offices and a portion of their time working from home. We continue to evaluate and refine our return to workplace strategy.

The Russia-Ukraine war and related sanctions imposed as a result of this conflict have increased global economic and political uncertainty. Intuit does not have offices or material business in Russia or Ukraine.

While we have not experienced significant disruptions to our operations from the COVID-19 pandemic or the Russia-Ukraine war, we are unable to predict the full impact that these events will have on our operations and future financial performance, including demand for our offerings, impact to our customers and partners, actions that may be taken by governmental authorities, impact to the overall macroeconomic environment, and other factors identified in "Risk Factors" in Item 1A of Part I of this Annual Report.

In April 2020, Intuit was approved as a non-bank Small Business Administration lender for the Paycheck Protection Program (PPP). The PPP was authorized under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide small businesses loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt which is designed to provide assistance to small businesses during the COVID-19 pandemic.

On December 3, 2020, we acquired Credit Karma in a business combination, which operates as a separate reportable segment. We have included their results of operations in our consolidated results of operations from the date of acquisition. Segment operating income for Credit Karma includes all direct expenses related to selling and marketing, product development, and general and administrative, which is different from our other reportable segments where we do not fully allocate corporate expenses. Therefore, Credit Karma segment operating income is not comparable to the segment operating income of our other reportable segments. See Note 7 to the consolidated financial statements in Item 8 of this Annual Report for more information.

On November 1, 2021, we acquired all of the outstanding equity of The Rocket Science Group LLC (Mailchimp). Mailchimp is part of our Small Business & Self-Employed segment. We have included the results of Mailchimp in our consolidated results of operations from the date of acquisition. See Note 7 to the consolidated financial statements in Item 8 of this Annual Report for more information.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. We have included the results of Mint in the Consumer segment in the segment results below. Revenue and operating results for Mint are not significant and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint will be included in the Credit Karma segment.

On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

EXECUTIVE OVERVIEW

This overview provides a high level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results for fiscal 2022 as well as our future prospects. This summary is not intended to be exhaustive, nor is it a substitute for the detailed discussion and analysis provided elsewhere in this Annual Report on Form 10-K.

Industry Trends and Seasonality

Industry Trends

Artificial intelligence (AI) is transforming multiple industries, including financial technology. Disruptive start-ups, emerging ecosystems and mega-platforms are harnessing new technology to create personalized experiences, deliver data-driven insights and increase speed of service. These shifts are creating a more dynamic and highly competitive environment where customer expectations are shifting around the world as more services become digitized and the array of choices continues to increase.

Seasonality

Our Consumer and ProConnect offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are typically concentrated in the period from November through April. This seasonal pattern typically results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively.

In fiscal 2022, the IRS began accepting returns on January 24, 2022, and the tax filing deadline was April 18, 2022. However, in fiscal 2021, the IRS began accepting returns on February 12, 2021, and the tax filing deadline was May 17, 2021. In fiscal 2020, the IRS began accepting returns on January 27, 2020, and the tax filing deadline was July 15, 2020. As a result of the extensions of the tax filing deadlines in 2021 and 2020, a significant amount of our fiscal 2021 and 2020 Consumer segment and ProConnect segment revenues were recognized in the fourth quarter as compared to the third quarter of fiscal 2022.

We expect the seasonality of our Consumer and ProConnect businesses to continue to have a significant impact on our quarterly financial results in the future.

Key Challenges and Risks

Our growth strategy depends upon our ability to initiate and embrace disruptive technology trends, to enter new markets, and to drive broad adoption of the products and services we develop and market. Our future growth also increasingly depends on the strength of our third-party business relationships and our ability to continue to develop, maintain, and strengthen new and existing relationships. To remain competitive and continue to grow, we are investing significant resources in our product development, marketing, and sales capabilities, and we expect to continue to do so in the future.

As we offer more online services, the ongoing operation and availability of our platforms and systems and those of our external service providers is becoming increasingly important. Because we help customers manage their financial lives, we face risks associated with the hosting, collection, use, and retention of personal customer information and data. We are investing significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities, and we expect to continue to do so in the future.

For our consumer and professional tax offerings, we have implemented additional security measures and are continuing to work with state and federal governments to implement industry-wide security and anti-fraud measures, including sharing information regarding suspicious filings. We received ISO 27001 certification for a portion of our systems, and we continue to invest in security measures and to work with the broader industry and government to protect our customers against this type of fraud. Additionally, Credit Karma’s security measures are regularly reviewed and updated.

For a complete discussion of the most significant risks and uncertainties affecting our business, please see *“Forward-Looking Statements”* immediately preceding Part I and *“Risk Factors”* in Item 1A of Part I of this Annual Report.

Overview of Financial Results

The most important financial indicators that we use to assess our business are revenue growth for the company as a whole and for each reportable segment; operating income growth for the company as a whole; earnings per share; and cash flow from operations. We also track certain non-financial drivers of revenue growth and, when material, identify them in the applicable discussions of segment results below. Service offerings are a significant part of our business. Our total service and other revenue was $11.0 billion or 86% of our total revenue in fiscal 2022, and we expect our total service and other revenue to continue to grow in the future.

Key highlights for fiscal 2022 include the following:

Revenue of
$12.7 B
up 32% from fiscal 2021

Small Business & Self-Employed revenue of
$6.5 B
up 38% from fiscal 2021

Consumer revenue of
$3.9 B
up 10% from fiscal 2021

Credit Karma revenue of
$1.8 B
up 109% from fiscal 2021[1]

ProConnect revenue of
$546 M
up 6% from fiscal 2021

Operating income of
$2.6 B
up 3% from fiscal 2021

Net income of
$2.1 B
flat compared to fiscal 2021

Diluted net income per share of
$7.28
down 4% from fiscal 2021

Cash flow from operations of
$3.9 B
up 20% from fiscal 2021

[1] Credit Karma revenue for fiscal 2021 includes the operations of Credit Karma from the acquisition date of December 3, 2020, while fiscal 2022 includes the full twelve months of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we are required to make estimates, assumptions, and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our consolidated balance sheets. We believe that the estimates, assumptions, and judgments involved in the following accounting policies have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies:

- Revenue Recognition
- Business Combinations
- Goodwill, Acquired Intangible Assets, and Other Long-Lived Assets – Impairment Assessments
- Legal Contingencies
- Accounting for Income Taxes – Estimates of Deferred Taxes, Valuation Allowances, and Uncertain Tax Positions

Our senior management has reviewed the development and selection of these critical accounting policies and their disclosure in this Annual Report on Form 10-K with the Audit and Risk Committee of our Board of Directors.

Revenue Recognition

We derive our revenue primarily from the sale of online services such as tax, accounting, payroll, merchant payment processing, delivery of qualified links, e-commerce, marketing automation, customer relationship management, and packaged desktop software products and desktop software subscriptions. Our contracts with customers often include promises to transfer multiple products and services. In determining how revenue should be recognized, a five-step process is used, which requires judgment and estimates within the revenue recognition process. The primary judgments include identifying the performance obligations in the contract and determining whether the performance obligations are distinct. If any of these judgments were to change it could cause a material increase or decrease in the amount of revenue we report in a particular period. For additional information, see *"Revenue Recognition"* in Note 1 to the consolidated financial statements in Item 8 of this Annual Report.

Business Combinations

As described in *"Description of Business and Summary of Significant Accounting Policies – Business Combinations,"* in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, under the acquisition method of accounting we generally recognize the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree at their fair values as of the date of acquisition. We measure goodwill as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. The acquisition method of accounting requires us to exercise judgment and make significant estimates and assumptions regarding the fair values of the elements of a business combination as of the date of acquisition, including the fair values of identifiable intangible assets, deferred tax asset valuation allowances, liabilities related to uncertain tax positions, and contingencies. This method allows us to refine these estimates over a one-year measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. If we are required to retroactively adjust provisional amounts that we have recorded for the fair values of assets and liabilities in connection with acquisitions, these adjustments could materially decrease our operating income and net income and result in lower asset values on our consolidated balance sheet.

Significant estimates and assumptions that we must make in estimating the fair value of acquired technology, customer lists, and other identifiable intangible assets include future cash flows that we expect to generate from the acquired assets. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could record impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Goodwill, Acquired Intangible Assets and Other Long-Lived Assets – Impairment Assessments

We estimate the fair value of acquired intangible assets and other long-lived assets that have finite useful lives whenever an event or change in circumstances indicates that the carrying value of the asset may not be recoverable. We test for potential impairment of goodwill and other intangible assets that have indefinite useful lives annually in our fourth fiscal quarter or whenever indicators of impairment arise. The timing of the annual test may result in charges to our consolidated statement of operations in our fourth fiscal quarter that could not have been reasonably foreseen in prior periods.

As described in *"Description of Business and Summary of Significant Accounting Policies – Goodwill, Acquired Intangible Assets and Other Long-Lived Assets,"* in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, in order to estimate the fair value of goodwill we use a weighted combination of a discounted cash flow model (known as the income approach) and comparisons to publicly traded companies engaged in similar businesses (known as the market approach). The income approach requires us to use a number of assumptions, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a rate of return that considers the relative risk of achieving the cash flows and the time value of money. We evaluate cash flows at the reporting unit level. Although the assumptions we use in our discounted cash flow model are consistent with the assumptions we use to generate our internal strategic plans and forecasts, significant judgment is required to estimate the amount and timing of future cash flows from each reporting unit and the relative risk of achieving those cash flows. When using the market approach, we make judgments about the comparability of publicly traded companies engaged in similar businesses. We base our judgments on factors such as size, growth rates, profitability, risk, and return on investment. We also make judgments when adjusting market multiples of revenue, operating income, and earnings for these companies to reflect their relative similarity to our own businesses. See Note 6 to the consolidated financial statements in Item 8 of this Annual Report for a summary of goodwill by reportable segment.

We estimate the recoverability of acquired intangible assets and other long-lived assets that have finite useful lives by comparing the carrying amount of the asset to the future undiscounted cash flows that we expect the asset to generate. In order to estimate the fair value of those assets, we estimate the present value of future cash flows from those assets. The key assumptions that we use in our discounted cash flow model are the amount and timing of estimated future cash flows to be generated by the asset over an extended period of time and a rate of return that considers the relative risk of achieving the cash flows and the time value of money. Significant judgment is required to estimate the amount and timing of future cash flows and the relative risk of achieving those cash flows. We also make judgments about the remaining useful lives of acquired intangible assets and other long-lived assets that have finite lives. See Note 6 to the consolidated financial statements in

Item 8 of this Annual Report for a summary of cost, accumulated amortization and weighted average life in years for our acquired intangible assets.

Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. For example, if our future operating results do not meet current forecasts or if we experience a sustained decline in our market capitalization that is determined to be indicative of a reduction in fair value of one or more of our reporting units, we may be required to record future impairment charges for goodwill and acquired intangible assets. Impairment charges could materially decrease our future net income and result in lower asset values on our consolidated balance sheets.

During the fourth quarters of fiscal 2022, fiscal 2021, and fiscal 2020, we performed our annual goodwill impairment tests. Using the methodology described in *"Description of Business and Summary of Significant Accounting Policies – Goodwill, Acquired Intangible Assets and Other Long-Lived Assets,"* in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, we determined that the estimated fair values of all of our reporting units substantially exceeded their carrying values and that they were not impaired.

Legal Contingencies

We are subject to certain legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. We review the status of each significant matter quarterly and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we record a liability and an expense for the estimated loss. If we determine that a loss is possible and the range of the loss can be reasonably determined, then we disclose the range of the possible loss. Significant judgment is required in the determination of whether a potential loss is probable, reasonably possible, or remote as well as in the determination of whether a potential exposure is reasonably estimable. Our accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Potential legal liabilities and the revision of estimates of potential legal liabilities could have a material impact on our financial position and results of operations. See Note 14 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Accounting for Income Taxes – Estimates of Deferred Taxes, Valuation Allowances, and Uncertain Tax Positions

We estimate our income taxes based on the various jurisdictions where we conduct business. Significant judgment is required in determining our worldwide income tax provision. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by the United States Internal Revenue Service or other taxing jurisdictions. We estimate our current tax liability and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be realized. To the extent we believe that realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding tax expense in our consolidated statement of operations.

We record a valuation allowance to reflect uncertainties about whether we will be able to utilize our deferred tax assets before they expire. We assess the need for an adjustment to the valuation allowance on a quarterly basis. The assessment is based on our estimates of future sources of taxable income in the jurisdictions in which we operate and the periods over which our deferred tax assets will be realizable. While we have considered future taxable income in assessing the need for a valuation allowance for the periods presented, we could in the future be required to increase the valuation allowance to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance could have an adverse impact on our income tax provision and net income in the period in which we record the change.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not of being sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results. See Note 11 to the consolidated financial statements in Item 8 of this Annual Report for more information.

RESULTS OF OPERATIONS

A discussion regarding our financial condition and results of operations for fiscal 2022 compared to fiscal 2021 is presented below. A discussion regarding our financial condition and results of operations for fiscal 2021 compared to fiscal 2020 can be found under Item 7 of Part II in our Annual Report on Form 10-K for the fiscal year ended July 31, 2021, filed with the SEC on September 8, 2021, which is available free of charge on the SEC's website at *www.sec.gov* and on the Investor Relations section of our corporate website at *investors.intuit.com*.

Financial Overview

(Dollars in millions, except per share amounts)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Total net revenue	$12,726	$9,633	$7,679	32%	25%
Operating income	2,571	2,500	2,176	3%	15%
Net income	2,066	2,062	1,826	—%	13%
Diluted net income per share	$7.28	$7.56	$6.92	(4%)	9%

Total net revenue increased $3.1 billion or 32% in fiscal 2022 compared with fiscal 2021. Our Small Business & Self-Employed segment revenue increased 38% primarily due to growth in our Online Ecosystem revenue, which included $762 million of revenue from Mailchimp. Revenue for our Consumer segment increased 10% primarily due to a shift in mix to our higher priced offerings including TurboTax Live and our Premier offering. Revenue for our Credit Karma segment increased $940 million in fiscal 2022 compared to fiscal 2021. This increase was primarily due to the fact that our fiscal 2021 results of operations included Credit Karma from the date of acquisition, which was December 3, 2020, while our fiscal 2022 results of operations include Credit Karma for the full reporting period. Additionally, Credit Karma revenue increased year over year primarily driven by growth in our credit card and personal loan verticals. See *"Segment Results"* later in this Item 7 for more information.

Operating income increased $71 million or 3% in fiscal 2022 compared with fiscal 2021. The increase was due to the higher revenue described above partially offset by an increase in expenses primarily for staffing, share-based compensation, marketing, and amortization of other acquired intangible assets. We also incurred a $141 million one-time charge related to our settlement with the 50 state attorneys general and the District of Columbia, entered into on May 4, 2022. See *"Operating Expenses"* later in this Item 7 and Note 14 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Net income increased $4 million in fiscal 2022 compared with fiscal 2021 due the increase in operating income described above and a slightly lower effective tax rate, which were partially offset by an increase in interest expense from borrowing $4.7 billion on a term loan in fiscal 2022. Additionally, we recorded a $30 million gain in fiscal 2021 from the sale of a note receivable that was previously written off. Diluted net income per share decreased 4% to $7.28 for fiscal 2022 due to the increase in the weighted average shares outstanding from the shares issued as part of the acquisition of Mailchimp in the second quarter of fiscal 2022, which was partially offset by the increase in net income.

Segment Results

The information below is organized in accordance with our four reportable segments. All of our segments operate primarily in the United States and sell primarily to customers in the United States. Total international net revenue was approximately 8%, 5%, and 4% of consolidated total net revenue for the twelve months ended July 31, 2022, 2021 and 2020.

On December 3, 2020, we acquired Credit Karma in a business combination and it operates as a separate reportable segment. We have included the results of operations of Credit Karma in our consolidated statements of operations from the date of acquisition. See Note 7 to the consolidated financial statements in Item 8 of this Annual Report for more information. Segment operating income for Credit Karma includes all direct expenses, which is different from our other reportable segments where we do not fully allocate corporate expenses.

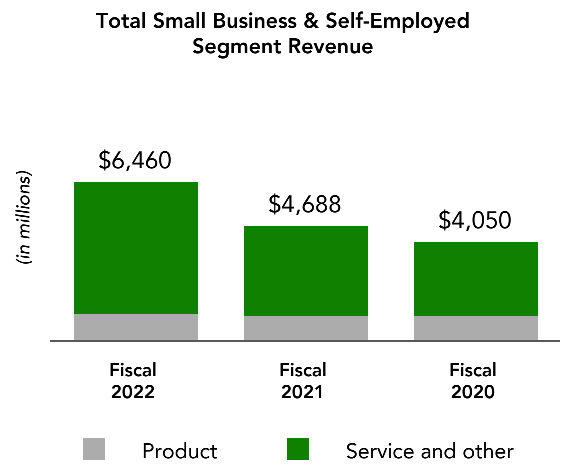
On November 1, 2021, we acquired Mailchimp in a business combination. Mailchimp is part of our Small Business & Self-Employed segment. We have included the results of operations of Mailchimp in our consolidated results of operations from the date of acquisition.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. We have included the results of Mint in the Consumer segment in the segment results below. Revenue and operating results for Mint are not significant, and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint will be included in the Credit Karma segment.

On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

Segment operating income is segment net revenue less segment cost of revenue and operating expenses. We include expenses such as corporate selling and marketing, product development, general and administrative, and non-employment related legal and litigation settlement costs, which are not allocated to specific segments, in unallocated corporate items as part of other corporate expenses. For Credit Karma, segment expenses include all direct expenses related to selling and marketing, product development, and general and administrative. Unallocated corporate items for all segments include share-based compensation, amortization of acquired technology, amortization of other acquired intangible assets, and goodwill and intangible asset impairment charges. These unallocated costs for all segments totaled $4.3 billion in fiscal 2022, $2.9 billion in fiscal 2021, and $2.3 billion in fiscal 2020. Unallocated costs increased in fiscal 2022 compared with fiscal 2021 due to increases in share-based compensation expense, general and administrative expense, amortization of other acquired intangible assets, amortization of acquired technology, product development, and selling and marketing expense. See Note 15 to the consolidated financial statements in Item 8 of this Annual Report for reconciliations of total segment operating income to consolidated operating income for each fiscal year presented.

Small Business & Self-Employed



Small Business & Self-Employed segment revenue includes both Online Ecosystem and Desktop Ecosystem revenue.

Our Online Ecosystem includes revenue from:

- QuickBooks Online, QuickBooks Live, QuickBooks Online Advanced and QuickBooks Self-Employed financial and business management offerings;
- Small business payroll services, including QuickBooks Online Payroll, Intuit Online Payroll, Intuit Full Service Payroll;
- Merchant payment processing services for small businesses who use online offerings;
- Mailchimp's e-commerce, marketing automation, and customer relationship management offerings;
- QuickBooks Commerce, QuickBooks Checking, and financing for small businesses.

Our Desktop Ecosystem includes revenue from:

- QuickBooks Desktop software subscriptions (QuickBooks Desktop Pro Plus, QuickBooks Desktop Premier Plus, and QuickBooks Enterprise, and ProAdvisor Program memberships for the accounting professionals who serve small businesses);
- QuickBooks Desktop packaged software products (Desktop Pro, Desktop for Mac, Desktop Premier, and QuickBooks Point of Sale);
- Desktop payroll products (QuickBooks Basic Payroll, QuickBooks Assisted Payroll and QuickBooks Enhanced Payroll);
- Merchant payment processing services for small businesses who use desktop offerings;
- Financial supplies; and
- Financing for small businesses.

Segment product revenue is primarily derived from revenue related to delivery of software licenses and the related updates, including version protection, for our QuickBooks Desktop subscriptions and desktop payroll offerings which are part of our Desktop Ecosystem. Segment service and other revenue is primarily derived from our Online Ecosystem revenue and revenue from the services and support that are provided as part of our QuickBooks Desktop subscription and desktop payroll offerings as well as merchant payment processing services.

(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Product revenue	$ 1,113	$ 1,085	$ 1,032		
Service and other revenue	5,347	3,603	3,018		
Total segment revenue	$ 6,460	$ 4,688	$ 4,050	38%	16%
% of total revenue	51%	49%	53%		
Segment operating income	$ 3,499	$ 2,590	$ 2,091	35%	24%
% of related revenue	54%	55%	52%		

Revenue classified by significant product and service offerings was as follows:

(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Net revenue:					
QuickBooks Online Accounting	$ 2,267	$ 1,699	$ 1,354	33%	25%
Online Services	2,171	1,051	828	107%	27%
Total Online Ecosystem	4,438	2,750	2,182	61%	26%
QuickBooks Desktop Accounting	851	789	755	8%	5%
Desktop Services and Supplies	1,171	1,149	1,113	2%	3%
Total Desktop Ecosystem	2,022	1,938	1,868	4%	4%
Total Small Business & Self-Employed	$ 6,460	$ 4,688	$ 4,050	38%	16%

Revenue for our Small Business & Self-Employed segment increased $1.8 billion or 38% in fiscal 2022 compared with fiscal 2021. The increase was primarily due to growth in Online Ecosystem revenue, which included $762 million of revenue from Mailchimp.

Online Ecosystem

Online Ecosystem revenue increased $1.7 billion or 61% in fiscal 2022 compared with fiscal 2021. QuickBooks Online Accounting revenue increased 33% in fiscal 2022 compared with fiscal 2021 primarily due to higher effective prices, an increase in customers, and a shift in mix to our higher priced offerings. Online Services revenue increased 107% in fiscal 2022 compared with fiscal 2021 primarily due to additional revenue from the Mailchimp offerings and an increase in revenue from our payroll and payments offerings. Online payroll revenue increased due to an increase in customers and a shift in mix to our full service offering. Online payments revenue increased due to an increase in charge volume per customer and an increase in customers.

Desktop Ecosystem

Desktop Ecosystem revenue increased $84 million or 4% in fiscal 2022 compared with fiscal 2021 primarily due to growth in our QuickBooks Desktop and Enterprise subscription offerings which was partially offset by a decrease in Desktop unit sales. In the first quarter of fiscal 2022, we discontinued our QuickBooks Desktop packaged software products and now sell predominantly on a subscription basis. Additionally, during fiscal 2022, there was an increase in revenue from our Desktop Payroll and Desktop Payments offerings.

Small Business & Self-Employed segment operating income increased $909 million or 35% in fiscal 2022 compared with fiscal 2021 primarily due to the increase in revenue described above, partially offset by higher expenses. We incurred higher expenses for staffing, marketing, and outside services.

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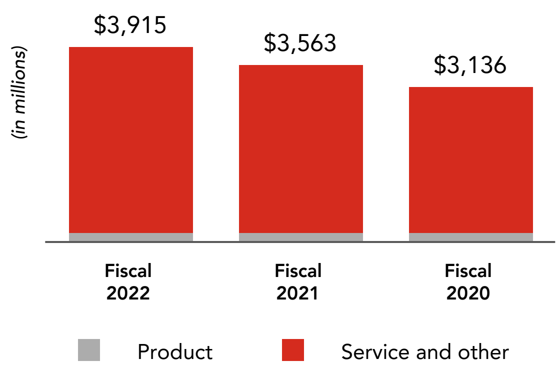
Consumer

Total Consumer Segment Revenue



Consumer segment product revenue is derived primarily from TurboTax desktop tax return preparation software and related form updates.

Consumer segment service and other revenue is derived primarily from TurboTax Online and TurboTax Live offerings, electronic tax filing services and connected services, and also from our Mint offering.

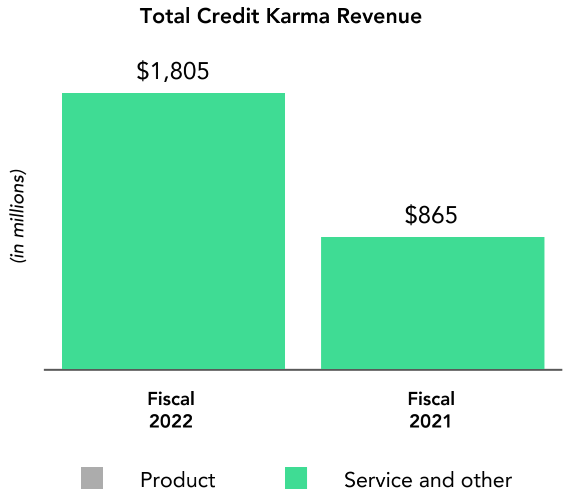
(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Product revenue	$ 208	$ 201	$ 203		
Service and other revenue	3,707	3,362	2,933		
Total segment revenue	$ 3,915	$ 3,563	$ 3,136	10%	14%
% of total revenue	31 %	37 %	41 %		
Segment operating income	$ 2,483	$ 2,237	$ 2,063	11%	8%
% of related revenue	63 %	63 %	66 %		

Revenue for our Consumer segment increased $352 million or 10% in fiscal 2022 compared with fiscal 2021 primarily due to a shift in mix to our higher priced product offerings including TurboTax Live and our Premier offering.

Consumer segment operating income increased $246 million or 11% in fiscal 2022 compared with fiscal 2021 due to the higher revenue described above, which was partially offset by higher expenses for marketing and staffing.

Effective August 1, 2022, our Mint offering is part of our Credit Karma segment.

Credit Karma



Credit Karma revenue is derived from cost-per-action transactions, which include the delivery of qualified links that result in completed actions such as credit card issuances and personal loan funding; and cost-per-click and cost-per-lead transactions, which include user clicks on advertisements or advertisements that allow for the generation of leads, and primarily relate to mortgage and insurance businesses.

(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Product revenue	$ —	$ —	$ —		
Service and other revenue	1,805	865	—		
Total segment revenue	$ 1,805	$ 865	$ —	109%	N/A
% of total revenue	14 %	9 %	— %		
Segment operating income	$ 531	$ 182	$ —	192%	N/A
% of related revenue	29 %	21 %	N/A		

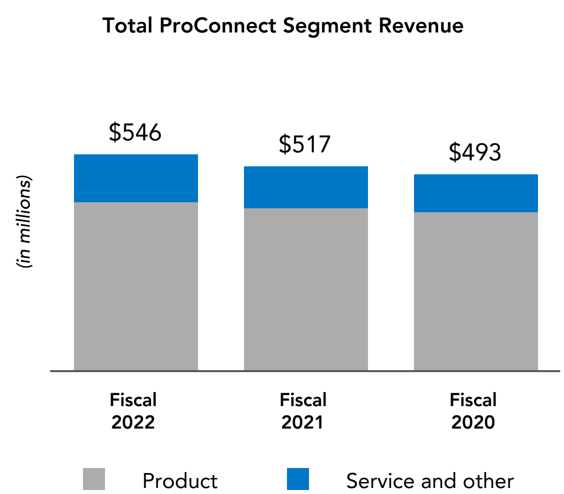
We acquired Credit Karma on December 3, 2020. Our results of operations include the operations of Credit Karma beginning on the date of acquisition.

Revenue for our Credit Karma segment increased $940 million in fiscal 2022 compared with fiscal 2021. Our fiscal 2021 results of operations include Credit Karma from the date of acquisition, which was December 3, 2020, and our fiscal 2022 results of operations include Credit Karma for the full fiscal year. Credit Karma revenue also increased in fiscal 2022 primarily driven by growth in our credit card and personal loan verticals.

Credit Karma segment operating income increased $349 million in fiscal 2022 compared with fiscal 2021, primarily due to the increase in revenue described above, which was partially offset by higher expenses for staffing and marketing.

Effective August 1, 2022, our Mint offering is part of our Credit Karma segment.

ProConnect



ProConnect segment product revenue is derived primarily from Lacerte, ProSeries, and ProFile desktop tax preparation software products and related form updates.

ProConnect segment service and other revenue is derived primarily from ProConnect Tax Online tax products, electronic tax filing service, connected services, and bank products.

(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020	2022-2021 % Change	2021-2020 % Change
Product revenue	$ 426	$ 412	$ 400		
Service and other revenue	120	105	93		
Total segment revenue	$ 546	$ 517	$ 493	6%	5%
% of total revenue	4 %	5 %	6 %		
Segment operating income	$ 383	$ 372	$ 346	3%	8%
% of related revenue	70 %	72 %	70 %		

Revenue for our ProConnect segment increased $29 million or 6% in fiscal 2022 compared with fiscal 2021 primarily due to a higher average revenue per customer and a shift in mix.

ProConnect segment operating income increased $11 million or 3% in fiscal 2022 compared with fiscal 2021 primarily due to the higher revenue described above, which was partially offset by higher expenses for staffing.

In August 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

Cost of Revenue

(Dollars in millions)	Fiscal 2022	% of Related Revenue	Fiscal 2021	% of Related Revenue	Fiscal 2020	% of Related Revenue
Cost of product revenue	$ 69	4%	$ 69	4%	$ 72	4%
Cost of service and other revenue	2,197	20%	1,564	20%	1,284	21%
Amortization of acquired technology	140	n/a	50	n/a	22	n/a
Total cost of revenue	$ 2,406	19%	$ 1,683	17%	$ 1,378	18%

Our cost of revenue has three components: (1) cost of product revenue, which includes the direct costs of manufacturing and shipping or electronically downloading our desktop software products; (2) cost of service and other revenue, which includes the direct costs associated with our online and service offerings, such as costs for data processing and storage capabilities from cloud providers, customer support costs, costs for the tax and bookkeeping experts that support our TurboTax Live and QuickBooks Live offerings, and costs related to credit score providers; and (3) amortization of acquired technology, which represents the cost of amortizing developed technologies that we have obtained through acquisitions over their useful lives.

Cost of product revenue as a percentage of product revenue was relatively consistent in fiscal 2022 compared with fiscal 2021. We expense costs of product revenue as they are incurred for delivered software, and we do not defer any of these costs when product revenue is deferred.

Cost of service and other revenue as a percentage of service and other revenue was relatively consistent in fiscal 2022 compared with fiscal 2021.

Operating Expenses

(Dollars in millions)	Fiscal 2022	% of Total Net Revenue	Fiscal 2021	% of Total Net Revenue	Fiscal 2020	% of Total Net Revenue
Selling and marketing	$ 3,526	29%	$ 2,644	28%	$ 2,048	27%
Research and development	2,347	18%	1,678	17%	1,392	18%
General and administrative	1,460	11%	982	10%	679	9%
Amortization of other acquired intangible assets	416	3%	146	2%	6	—%
Total operating expenses	$ 7,749	61%	$ 5,450	57%	$ 4,125	54%

Total operating expenses as a percentage of total net revenue increased in fiscal 2022 compared to fiscal 2021. Total net revenue increased $3.1 billion or 32% and total operating expenses increased $2.3 billion or 42%. Total staffing increased $585 million; total share-based compensation expense increased $478 million; total marketing increased $434 million; and total amortization of other acquired intangible assets increased $270 million, which was primarily related to Mailchimp and Credit Karma. We also incurred a $141 million one-time charge related to the company's settlement with the 50 state attorneys general and the District of Columbia, entered into on May 4, 2022.

Non-Operating Income and Expenses

Interest Expense

Interest expense of $81 million in fiscal 2022 consisted primarily of interest on our unsecured term loan, senior unsecured notes, and secured revolving credit facility. Interest expense of $29 million in fiscal 2021 consisted primarily of interest on our senior unsecured notes, secured revolving credit facility, unsecured term loan, and unsecured revolving credit facility. See Note 8 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Interest and Other Income, Net

(In millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020
Interest income [1]	$ 15	$ 11	$ 39
Net gain (loss) on executive deferred compensation plan assets [2]	(12)	28	5
Other [3]	49	46	(8)
Total interest and other income, net	$ 52	$ 85	$ 36

(1) Interest income increased in fiscal 2022 compared to fiscal 2021 due to higher average interest rates.

(2) In accordance with authoritative guidance, we record gains and losses associated with executive deferred compensation plan assets in interest and other income and gains and losses associated with the related liabilities in operating expenses. The total amounts recorded in operating expenses for each period are approximately equal to the total amounts recorded in interest and other income in those periods.

(3) In fiscal 2022, we recorded $47 million of net gains on other long-term investments. In fiscal 2021, we recorded a $30 million gain from the sale of a note receivable that was previously written off and net gains on other long-term investments of $17 million.

Income Taxes

Our effective tax rates for fiscal 2022 and fiscal 2021 were approximately 19% for both periods. Excluding the tax benefits related to share-based compensation, our effective tax rates for fiscal 2022 and fiscal 2021 were approximately 24%. This rate differed from the federal statutory rate of 21% primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the benefit we received from the federal research and experimentation credit. See Note 11 to the consolidated financial statements in Item 8 of this Annual Report for more information about our effective tax rates.

At July 31, 2022, we had net deferred tax liabilities of $608 million which included a valuation allowance for state research and experimentation tax credit carryforwards, foreign loss carryforwards, foreign intangible deferred tax assets and state operating loss carryforwards. See "Critical Accounting Policies and Estimates" earlier in this Item 7 and Note 11 to the consolidated financial statements in Item 8 of this Annual Report for more information.

A provision enacted as part of the 2017 Tax Cuts & Jobs Act requires companies to capitalize research and experimental expenditures for tax purposes in tax years beginning after December 31, 2021. This provision is applicable to us for our fiscal 2023. If this provision is not repealed or deferred, we expect our fiscal 2023 cash tax payments to increase significantly compared to our fiscal 2022.

The Inflation Reduction Act was enacted on August 16, 2022. This law, among other provisions, provides a corporate alternative minimum tax on adjusted financial statement income, which is effective for us beginning in fiscal 2024, and an excise tax on corporate stock repurchases, which is effective for our share repurchases after December 31, 2022. We are continuing to evaluate the impact it may have on our financial position and results of operations.

In the current global tax policy environment, the U.S. and other domestic and foreign governments continue to consider, and in some cases enact, changes in corporate tax laws. As changes occur, we account for finalized legislation in the period of enactment.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At July 31, 2022, our cash, cash equivalents and investments totaled $3.3 billion, a decrease of $589 million from July 31, 2021, due to the factors described in *"Statements of Cash Flows"* below. Our primary sources of liquidity have been cash from operations, which includes the collection of accounts receivable for products and services, the issuance of senior unsecured notes, and borrowings under our credit facilities. Our primary uses of cash have been for research and development programs, selling and marketing activities, acquisitions of businesses, repurchases of our common stock under our stock repurchase programs, the payment of cash dividends, debt service costs and debt repayment, and capital projects. As discussed in *"Executive Overview – Industry Trends and Seasonality"* earlier in this Item 7, our business is subject to significant seasonality. The balance of our cash, cash equivalents and investments generally fluctuates with that seasonal pattern. We believe the seasonality of our business is likely to continue in the future.

The following table summarizes selected measures of our liquidity and capital resources at the dates indicated:

(Dollars in millions)	July 31, 2022	July 31, 2021	$ Change	% Change
Cash, cash equivalents and investments	$ 3,281	$ 3,870	$ (589)	(15)%
Long-term investments	98	43	55	128 %
Short-term debt	499	—	499	NM
Long-term debt	6,415	2,034	4,381	215 %
Working capital	1,417	2,502	(1,085)	(43)%
Ratio of current assets to current liabilities	1.4 : 1	1.9 : 1		

NM - Not meaningful

We have historically generated significant cash from operations, and we expect to continue to do so during fiscal 2023. Our cash, cash equivalents, and investments totaled $3.3 billion at July 31, 2022, none of those funds were restricted, and approximately 90% of those funds were located in the U.S.

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019, and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $1 billion unsecured revolving credit facility that matures on November 1, 2026, and a $4.7 billion unsecured term loan that matures on November 1, 2024. On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. The $1 billion unsecured revolving credit facility is available to us for general corporate purposes and serves as a source of liquidity. See Note 8 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Our secured revolving credit facility is available to fund a portion of our loans to qualified small businesses. At July 31, 2022, $230 million was outstanding under the secured revolving credit facility. See *"Credit Facilities"* later in this Item 7 for more information.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments, and cash generated from operations will be sufficient to meet anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements, and other liquidity requirements associated with our operations for at least the next 12 months.

We expect to return excess cash generated by operations to our stockholders through payment of cash dividends, after taking into account our operating and strategic cash needs.

On December 3, 2020, we acquired Credit Karma. The fair value of the purchase consideration totaled $7.2 billion and included $3.4 billion in cash, 10.6 million shares of Intuit common stock with a fair value of $3.8 billion and assumed equity awards for services rendered through the acquisition date of $47 million. See *"Business Combinations"* below for more information.

On November 1, 2021, we acquired all of the outstanding equity of Mailchimp for total consideration of $12.0 billion, which included $5.7 billion in cash and 10.1 million shares of Intuit common stock with a value of approximately $6.3 billion. See Note 7 to the consolidated financial statements in Item 8 of this Annual Report for more information.

We evaluate, on an ongoing basis, the merits of acquiring technology or businesses, or establishing strategic relationships with and investing in other companies. Our strong liquidity profile enables us to quickly respond to these types of opportunities.

Statements of Cash Flows

The following table summarizes selected items from our consolidated statements of cash flows for fiscal 2022, fiscal 2021, and fiscal 2020. See the consolidated financial statements in Item 8 of this Annual Report for complete consolidated statements of cash flows for those periods.

(Dollars in millions)	Fiscal 2022	Fiscal 2021	Fiscal 2020
Net cash provided by (used in):			
Operating activities	$ 3,889	$ 3,250	$ 2,414
Investing activities	(5,421)	(3,965)	(97)
Financing activities	1,732	(3,176)	2,034
Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	(22)	13	(6)
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 178	$ (3,878)	$ 4,345

During fiscal 2022, we generated $3.9 billion in cash from operations. We also received $4.7 billion from borrowings under our term loan, $928 million for the net sales and maturities of investments, and $162 million from the issuance of common stock under employee stock plans. During the same period, we used $5.7 billion for the acquisition of a business, $1.9 billion for the repurchase of shares of our common stock under our stock repurchase programs, $774 million for the payment of cash dividends, $611 million for payments for employee taxes withheld upon vesting of restricted stock units, $414 million for net originations of term loans, and $229 million for capital expenditures.

During fiscal 2021, we generated $3.3 billion in cash from operations and $196 million from the issuance of common stock under employee stock plans. During the same period, we used $3.1 billion for the acquisitions of businesses, $1.3 billion for the repayment of debt, $1.0 billion for the repurchase of shares of our common stock under our stock repurchase programs, $710 million for the net purchases of investments, $646 million for the payment of cash dividends, $383 million for payments for employee taxes withheld upon vesting of restricted stock units, $125 million for capital expenditures, and $96 million for net originations of term loans.

Stock Repurchase Programs and Dividends on Common Stock

As described in Note 12 to the financial statements in Item 8 of this Annual Report, during fiscal 2022 and fiscal 2021, we continued to repurchase shares of our common stock under a series of repurchase programs that our Board of Directors has authorized. At July 31, 2022, we had authorization from our Board of Directors to expend up to an additional $1.5 billion for stock repurchases. On August 19, 2022, our Board approved an increased authorization to purchase up to an additional $2 billion of our common stock under the existing stock repurchase program. We currently expect to continue repurchasing our common stock on a quarterly basis; however, future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

We have continued to pay quarterly cash dividends on shares of our outstanding common stock. During fiscal 2022, we declared cash dividends that totaled $2.72 per share of outstanding common stock or approximately $781 million. In August 2022, our Board of Directors declared a quarterly cash dividend of $0.78 per share of outstanding common stock payable on October 18, 2022 to stockholders of records at the close of business on October 10, 2022. We currently expect to continue paying comparable cash dividends on a quarterly basis; however, future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Business Combinations

Mailchimp

On November 1, 2021, we acquired all of the outstanding equity of Mailchimp for total consideration of $12.0 billion, which included $5.7 billion in cash and 10.1 million shares of Intuit common stock with a value of approximately $6.3 billion. The fair value of the stock consideration is based on the October 29, 2021 closing price of Intuit common stock of $625.99.

Pursuant to the equity purchase agreement, we also issued approximately 583,000 restricted stock units (RSUs) in substitution of outstanding equity incentive awards. These RSUs have a grant date fair value of approximately $355 million and will be expensed over three years. Additionally, we issued approximately 325,000 RSUs with a total grant date fair value of approximately $211 million to Mailchimp employees, of which $151 million will be expensed over four years and $60 million was expensed during the first six months following the acquisition date.

Mailchimp is part of our Small Business & Self-Employed segment. We have included the financial results of Mailchimp in the consolidated financial statements from the date of acquisition.

Credit Karma

On December 3, 2020, we acquired Credit Karma for total consideration of $8.1 billion which included assumed equity awards and restricted shares subject to a revest provision.

The fair value of the purchase consideration totaled $7.2 billion and included $3.4 billion in cash, 10.6 million shares of Intuit common stock with a fair value of $3.8 billion and assumed equity awards for services rendered through the acquisition date of $47 million.

We also issued shares of common stock with a fair value of $275 million which are restricted due to a revest provision and will be expensed over a service period of three years. The share-based compensation expense related to these restricted shares is non-deductible for income tax purposes. Additionally, we assumed equity awards for future services with a fair value of $663 million that are being charged to expense over the remaining service periods, which average approximately three years.

The fair value of the stock consideration is based on the December 2, 2020 closing price of Intuit common stock of $355.49.

As part of the merger agreement, following the close of the transaction, we issued approximately $300 million of restricted stock units to the employees of Credit Karma, which will be charged to expense over a service period of four years.

Credit Karma operates as a separate reportable segment. We have included the financial results of Credit Karma in the consolidated financial statements from the date of acquisition. See Note 7 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Commitments for Senior Unsecured Notes

In June 2020, we issued $2 billion of senior unsecured notes comprised of the following:

- $500 million of 0.650% notes due July 2023;
- $500 million of 0.950% notes due July 2025;
- $500 million of 1.350% notes due July 2027; and
- $500 million of 1.650% notes due July 2030 (together, the Notes).

Interest is payable semiannually on January 15 and July 15 of each year. At July 31, 2022, our maximum commitment for interest payments under the Notes was $117 million through the maturity dates.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of July 31, 2022, we were compliant with all covenants governing the Notes. See Note 8 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Credit Facilities

Unsecured Revolving Credit Facility and Term Loan

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019 (2019 Credit Facility), and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $4.7 billion unsecured term loan that matures on November 1, 2024, and a $1 billion unsecured revolving credit facility that matures on November 1, 2026 (2021 Credit Facility).

Under the 2021 Credit Facility we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.1%, or (ii) the Secured Overnight Finance Rate (SOFR) plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. At July 31, 2022, no amounts were outstanding under the unsecured revolving credit facility. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility.

On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. Under this agreement we may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.125% or SOFR plus a margin that ranges from 0.625% to 1.125%. Actual margins under either election are based on our senior debt credit ratings. At July 31, 2022, $4.7 billion was outstanding under the term loan.

The 2021 Credit Facility includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of July 31, 2022, we were compliant with all required covenants.

Secured Revolving Credit Facility

On February 19, 2019, a subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses. The revolving credit facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. We have entered into several amendments to the secured revolving credit facility, most recently on July 18, 2022, primarily to increase the facility limit, extend the commitment term and maturity date and update the benchmark interest rate. Under the amended agreement, the facility limit is $500 million, of which $300 million is committed and $200 million is uncommitted. Advances accrue interest at adjusted simple SOFR plus 1.5%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.25% to 0.75%, depending on the total unused committed balance. The commitment term is through July 18, 2025, and the final maturity date is July 20, 2026. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of July 31, 2022, we were compliant with all required covenants. At July 31, 2022, $230 million was outstanding under this facility and the weighted-average interest rate was 3.96%, which includes the interest on any unused committed portion. The outstanding balance is secured by cash and receivables of the subsidiary totaling $615 million.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents and investments totaled $3.3 billion at July 31, 2022. Approximately 10% of those funds were held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in Canada, the United Kingdom, and India. We do not expect to pay incremental U.S. taxes on repatriation. We have recorded income tax expense for Canada, India, and Israel withholding taxes on earnings that are not permanently reinvested. In the event that funds from foreign operations are repatriated to the United States, we would pay withholding taxes at that time.

CONTRACTUAL OBLIGATIONS

The following table summarizes our known contractual obligations to make future payments at July 31, 2022:

	Payments Due by Period				
(In millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Amounts due under executive deferred compensation plan	$ 147	$ —	$ —	$ —	$ 147
Senior unsecured notes	500	500	500	500	2,000
Unsecured term loan	—	4,700	—	—	4,700
Secured revolving credit facility	—	—	230	—	230
Interest and fees due on debt	161	227	37	25	450
Operating leases (1)	64	198	143	323	728
Purchase obligations (2)	673	904	261	468	2,306
Total contractual obligations (3)	$ 1,545	$ 6,529	$ 1,171	$ 1,316	$ 10,561

(1) Includes operating leases for facilities and equipment. Amounts do not include $31 million of future sublease income. We had no significant finance leases at July 31, 2022. See Note 10 to the consolidated financial statements in Item 8 of this Annual Report for more information.

(2) Represents agreements to purchase products and services that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payments.

(3) Other long-term obligations on our consolidated balance sheet at July 31, 2022, included long-term income tax liabilities of $44 million which related primarily to unrecognized tax benefits. We have not included this amount in the table above because we cannot make a reasonably reliable estimate regarding the timing of settlements with taxing authorities, if any.

RECENT ACCOUNTING PRONOUNCEMENTS

For a description of recent accounting pronouncements and the potential impact of these pronouncements on our consolidated financial statements, see Note 1 to the financial statements in Item 8 of this Annual Report.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment Portfolio and Interest Rate Risk

We actively monitor market conditions and developments specific to the securities in which we invest. We believe that we take a conservative approach to investing our funds in that we invest only in highly-rated securities and diversify our portfolio of investments. While we believe we take prudent measures to mitigate investment-related risks, such risks cannot be fully eliminated because of market circumstances that are outside our control.

Our investments consist of instruments that meet quality standards that are consistent with our investment policy. This policy specifies that, except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments by limiting our holdings with any individual issuer. We do not hold derivative financial instruments or European sovereign debt in our portfolio of investments. See Note 2 and Note 3 to the consolidated financial statements in Item 8 of this Annual Report for a summary of the amortized cost and fair value of our investments by type of issue.

Our cash equivalents and investments are subject to market risk due to changes in interest rates. Interest rate movements affect the interest income we earn on cash equivalents and investments and the value of those investments. At July 31, 2022, our cash equivalents and investments totaled $2.5 billion and had a weighted average pre-tax yield of 1.976%. Total interest income for fiscal 2022 was $15 million. If the Federal Reserve Target Rate had increased by 25 basis points from the level of July 31, 2022, the value of our investments at that date would have decreased by approximately $2 million. If the Federal Reserve Target Rate had increased by 100 basis points from the level of July 31, 2022, the value of our investments at that date would have decreased by approximately $8 million.

We are also exposed to the impact of changes in interest rates as they affect our $5.7 billion unsecured credit facility, which includes a $1 billion unsecured revolving credit facility and a $4.7 billion unsecured term loan, and our $500 million secured revolving credit facility. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to the alternate base rate plus a margin that ranges from 0.0% to 0.1% or the Secured Overnight Finance Rate (SOFR) plus a margin that ranges from 0.69% to 1.1%. The unsecured term loan accrues interest at rates that are equal to the alternate base rate plus a margin that ranges from 0.0% to 0.125% or SOFR plus a margin that ranges from 0.625% to 1.125%. Actual margins under the unsecured credit facility are based on our senior debt credit ratings. Advances under the secured revolving credit facility accrue interest at a rate of adjusted simple SOFR plus 1.5%. Consequently, our interest expense fluctuates with changes in the general level of these interest rates. At July 31, 2022, no amounts were outstanding under the unsecured revolving credit facility, $4.7 billion was outstanding under the unsecured term loan, and $230 million was outstanding under the secured revolving credit facility. See Note 8 to the consolidated financial statements in Item 8 of this Annual Report for more information.

In June 2020, we issued $2 billion of senior unsecured notes (together, the Notes) which was comprised of the following: $500 million of 0.650% notes due in July 2023, $500 million of 0.950% notes due in July 2025, $500 million of 1.350% notes due in July 2027, and $500 million of 1.650% notes due in July 2030. We carry these Notes at face value less unamortized discount and unamortized debt issuance costs on our consolidated balance sheet. Since these Notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these Notes fluctuates when interest rates change. See Note 2 and Note 8 to the consolidated financial statements in Item 8 of this Annual Report for more information.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are generally the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate revenue, costs and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest and other income in our consolidated statements of operations.

Since we translate foreign currencies (primarily Canadian dollars, Indian rupees, and British pounds) into U.S. dollars for financial reporting purposes, currency fluctuations can have an impact on our financial results. The historical impact of currency fluctuations on our financial results has generally been immaterial. We believe that our exposure to currency exchange fluctuation risk is not significant because our global subsidiaries invoice customers and satisfy their financial obligations almost exclusively in their local currencies. We believe the impact of currency fluctuations will continue to not be significant in the foreseeable future due to the reasons cited above. As of July 31, 2022, we did not engage in foreign currency hedging activities.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

1. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following financial statements are filed as part of this report:

2. INDEX TO FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements:

All other schedules not listed above have been omitted because they are inapplicable or are not required.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Intuit Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Intuit Inc. (the Company) as of July 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2022, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of July 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated September 2, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

	Determination of Distinct Performance Obligations in Revenue Contracts
Description of the Matter	As described in Note 1 to the consolidated financial statements, the Company enters into contracts with customers that often include promises to transfer multiple products and services. The Company has generally concluded that software licenses and services are separate performance obligations and revenues from software licenses and services are recognized as those products and services are provided. Given the nature of the Company's product and service offerings, there is complexity in determining whether software licenses and services are considered performance obligations that should be accounted for separately or together. Auditing the Company's determination of distinct performance obligations related to its various product and service offerings involved complex auditor judgment. In particular, significant judgment was required when assessing whether the promised products and services are separate performance obligations or inputs to a combined performance obligation due to the evaluation of the interdependency or interrelation of the promised products and services within each contract.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the Company's processes, as they relate to the determination of distinct performance obligations. We also obtained an understanding of the Company's product and service offerings and tested the application of the revenue recognition accounting model to determine distinct performance obligations. Among other audit procedures, we evaluated whether the performance obligations identified by the Company were capable of being distinct and distinct in the context of the contract through review of contracts, discussions with management, observing product demonstrations and review of the Company's website and other marketing materials. More specifically, we evaluated the Company's determination of whether the contract was to deliver (1) multiple promised products or services that constitute separate performance obligations or (2) a single performance obligation that is comprised of the combined products or services. That is, considering the utility, integration, interrelation or interdependence of the products and services, we evaluated whether the multiple promised products and services that were delivered to the customer were outputs or inputs to a combined item.
	Accounting for Acquisition of Mailchimp
Description of the Matter	As described in Note 7 to the consolidated financial statements, during the year ended July 31, 2022, the Company completed its acquisition of Mailchimp for a total purchase price of $12.0 billion, which was accounted for as a business combination. Auditing the Company's accounting for its acquisition of Mailchimp was complex due to the significant estimation uncertainty in determining the fair value of customer lists, purchased technology, and trade names/trademarks intangible assets, and judgment involved in applying the acquisition method of accounting to specific facts and circumstances of the acquisition. The significant estimation uncertainty was primarily due to the sensitivity of the respective fair values to underlying assumptions about the future performance of the acquired business. The significant assumptions used to estimate the fair values of the intangible assets based on forecasted results included revenue growth rates and operating margins. Each of these assumptions was subjective and involved significant judgment as they are forward looking and could be affected by future economic and market conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over its accounting for acquisitions, such as controls over the application of acquisition accounting, and the measurement of customer lists, purchased technology, and trade names/trademarks intangible assets, including the underlying assumptions used to develop such estimates, and application of the acquisition method of accounting to specific facts and circumstances of the acquisition. To test the estimated fair value of the customer lists, purchased technology, and trade names/ trademarks intangible assets, we performed substantive audit procedures that included, among others, evaluating the Company's selection of valuation methodologies with the assistance of our valuation specialists and application of acquisition accounting, and evaluating the significant assumptions used by the Company to develop the forecasted revenue growth rates and projected operating margins. For example, we compared the significant assumptions to current industry, market and economic trends, and to the historical results of the acquired business and tested the completeness and accuracy of the underlying data used by management in the valuation.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1990.

San Jose, California
September 2, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Intuit Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Intuit Inc.'s internal control over financial reporting as of July 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Intuit Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of July 31, 2022, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Mailchimp, which is included in the July 31, 2022 consolidated financial statements of the Company and constituted less than one percent of both total and net assets, as of July 31, 2022 and six percent of revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Mailchimp.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of July 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2022, and the related notes and the financial statement schedule listed in the Index at Item 15(a) and our report dated September 2, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
September 2, 2022

INTUIT INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)	Twelve Months Ended July 31, 2022	2021	2020
Net revenue:			
Product	$ 1,747	$ 1,698	$ 1,635
Service and other	10,979	7,935	6,044
Total net revenue	12,726	9,633	7,679
Costs and expenses:			
Cost of revenue:			
Cost of product revenue	69	69	72
Cost of service and other revenue	2,197	1,564	1,284
Amortization of acquired technology	140	50	22
Selling and marketing	3,526	2,644	2,048
Research and development	2,347	1,678	1,392
General and administrative	1,460	982	679
Amortization of other acquired intangible assets	416	146	6
Total costs and expenses	10,155	7,133	5,503
Operating income	2,571	2,500	2,176
Interest expense	(81)	(29)	(14)
Interest and other income, net	52	85	36
Income before income taxes	2,542	2,556	2,198
Income tax provision	476	494	372
Net income	$ 2,066	$ 2,062	$ 1,826
Basic net income per share	$ 7.38	$ 7.65	$ 6.99
Shares used in basic per share calculations	280	270	261
Diluted net income per share	$ 7.28	$ 7.56	$ 6.92
Shares used in diluted per share calculations	284	273	264
Cash dividends declared per common share	$ 2.72	$ 2.36	$ 2.12

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Net income	$ 2,066	$ 2,062	$ 1,826
Other comprehensive income (loss), net of income taxes:			
Unrealized gain (loss) on available-for-sale debt securities	(10)	(3)	5
Foreign currency translation gain (loss)	(26)	11	(1)
Total other comprehensive income (loss), net	(36)	8	4
Comprehensive income	$ 2,030	$ 2,070	$ 1,830

See accompanying notes.

INTUIT INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except par value; shares in thousands)	July 31, 2022	July 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,796	$ 2,562
Investments	485	1,308
Accounts receivable, net of allowance for doubtful accounts of $31 and $96	446	391
Notes receivable	509	132
Income taxes receivable	93	123
Prepaid expenses and other current assets	287	184
Current assets before funds receivable and amounts held for customers	4,616	4,700
Funds receivable and amounts held for customers	431	457
Total current assets	5,047	5,157
Long-term investments	98	43
Property and equipment, net	888	780
Operating lease right-of-use assets	549	380
Goodwill	13,736	5,613
Acquired intangible assets, net	7,061	3,252
Long-term deferred income tax assets	11	8
Other assets	344	283
Total assets	$ 27,734	$ 15,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 499	$ —
Accounts payable	737	623
Accrued compensation and related liabilities	576	530
Deferred revenue	808	684
Other current liabilities	579	361
Current liabilities before funds payable and amounts due to customers	3,199	2,198
Funds payable and amounts due to customers	431	457
Total current liabilities	3,630	2,655
Long-term debt	6,415	2,034
Long-term deferred income tax liabilities	619	525
Operating lease liabilities	542	380
Other long-term obligations	87	53
Total liabilities	11,293	5,647
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value Authorized - 1,345 shares total; 145 shares designated Series A; 250 shares designated Series B Junior Participating Issued and outstanding - None	—	—
Common stock, $0.01 par value Authorized - 750,000 shares Outstanding - 281,932 shares at July 31, 2022 and 273,235 shares at July 31, 2021	3	3
Additional paid-in capital	17,722	10,545
Treasury stock, at cost	(14,805)	(12,951)
Accumulated other comprehensive loss	(60)	(24)
Retained earnings	13,581	12,296
Total stockholders' equity	16,441	9,869
Total liabilities and stockholders' equity	$ 27,734	$ 15,516

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in millions, shares in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2019	**260,180**	**$ 3**	**$ 5,772**	**$ (11,611)**	**$ (36)**	**$ 9,621**	**$ 3,749**
Comprehensive income	—	—	—	—	4	1,826	1,830
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	2,736	—	(31)	—	—	—	(31)
Stock repurchases under stock repurchase programs	(1,176)	—	—	(318)	—	—	(318)
Dividends and dividend rights declared ($2.12 per share)	—	—	—	—	—	(562)	(562)
Share-based compensation expense	—	—	438	—	—	—	438
Balance at July 31, 2020	**261,740**	**3**	**6,179**	**(11,929)**	**(32)**	**10,885**	**5,106**
Comprehensive income	—	—	—	—	8	2,062	2,070
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	2,593	—	(187)	—	—	—	(187)
Stock repurchases under stock repurchase programs	(2,422)	—	—	(1,022)	—	—	(1,022)
Dividends and dividend rights declared ($2.36 per share)	—	—	—	—	—	(651)	(651)
Share-based compensation expense	—	—	755	—	—	—	755
Issuance of stock in business combination	11,324	—	3,798	—	—	—	3,798
Balance at July 31, 2021	**273,235**	**3**	**10,545**	**(12,951)**	**(24)**	**12,296**	**9,869**
Comprehensive income	—	—	—	—	(36)	2,066	2,030
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	2,361	—	(448)	—	—	—	(448)
Stock repurchases under stock repurchase programs	(3,754)	—	—	(1,854)	—	—	(1,854)
Dividends and dividend rights declared ($2.72 per share)	—	—	—	—	—	(781)	(781)
Share-based compensation expense	—	—	1,309	—	—	—	1,309
Issuance of stock in business combination	10,090	—	6,316	—	—	—	6,316
Balance at July 31, 2022	**281,932**	**$ 3**	**$ 17,722**	**$ (14,805)**	**$ (60)**	**$ 13,581**	**$ 16,441**

See accompanying notes.

INTUIT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Cash flows from operating activities:			
Net income	$ 2,066	$ 2,062	$ 1,826
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	187	166	189
Amortization of acquired intangible assets	559	197	29
Non-cash operating lease cost	83	62	60
Share-based compensation expense	1,308	753	435
Deferred income taxes	120	(42)	(179)
Other	2	(39)	6
Total adjustments	2,259	1,097	540
Originations of loans held for sale	—	(41)	(566)
Sale and principal payments of loans held for sale	—	143	482
Changes in operating assets and liabilities:			
Accounts receivable	(31)	(104)	(59)
Income taxes receivable	29	(51)	53
Prepaid expenses and other assets	(121)	30	(31)
Accounts payable	(95)	206	33
Accrued compensation and related liabilities	(357)	(70)	100
Deferred revenue	71	22	38
Operating lease liabilities	(83)	(66)	(61)
Other liabilities	151	22	59
Total changes in operating assets and liabilities	(436)	(11)	132
Net cash provided by operating activities	**3,889**	**3,250**	**2,414**
Cash flows from investing activities:			
Purchases of corporate and customer fund investments	(830)	(1,489)	(701)
Sales of corporate and customer fund investments	1,524	229	130
Maturities of corporate and customer fund investments	234	550	596
Purchases of property and equipment	(157)	(53)	(59)
Capitalization of internal use software	(72)	(72)	(78)
Acquisitions of businesses, net of cash acquired	(5,682)	(3,064)	—
Originations of term loans to small businesses	(933)	(232)	(243)
Principal repayments of term loans from small businesses	519	136	287
Other	(24)	30	(29)
Net cash used in investing activities	**(5,421)**	**(3,965)**	**(97)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	4,700	—	1,983
Proceeds from borrowings under unsecured revolving credit facility	—	—	1,000
Repayments on borrowings under unsecured revolving credit facility	—	(1,000)	—
Proceeds from borrowings under secured revolving credit facility	182	—	—
Repayment of debt	—	(338)	(50)
Proceeds from issuance of stock under employee stock plans	162	196	211
Payments for employee taxes withheld upon vesting of restricted stock units	(611)	(383)	(244)
Cash paid for purchases of treasury stock	(1,861)	(1,005)	(323)
Dividends and dividend rights paid	(774)	(646)	(561)

INTUIT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Net change in funds receivable and funds payable and amounts due to customers	(56)	2	19
Other	(10)	(2)	(1)
Net cash provided by (used in) financing activities	**1,732**	**(3,176)**	**2,034**
Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	(22)	13	(6)
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	**178**	**(3,878)**	**4,345**
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	2,819	6,697	2,352
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 2,997**	**$ 2,819**	**$ 6,697**
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the consolidated balance sheets to the total amounts reported on the consolidated statements of cash flows			
Cash and cash equivalents	$ 2,796	$ 2,562	$ 6,442
Restricted cash and restricted cash equivalents included in funds receivable and amounts held for customers	201	257	255
Total cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 2,997**	**$ 2,819**	**$ 6,697**
Supplemental disclosure of cash flow information:			
Interest paid	$ 67	$ 30	$ 14
Income taxes paid	$ 303	$ 578	$ 493
Supplemental schedule of non-cash investing activities:			
Issuance of common stock in business combinations	$ 6,316	$ 3,798	$ —

See accompanying notes.

INTUIT INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Intuit helps consumers and small businesses prosper by delivering financial management and compliance products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us serve small business customers.

Our global technology platform, which includes TurboTax, Credit Karma, QuickBooks, and Mailchimp, is designed to help consumers and small businesses manage their finances, save money, pay off debt and do their taxes. For those customers who run small businesses, we are focused on helping them find and keep customers, get paid faster, pay their employees, manage and get access to capital, and ensure that their books are done right. ProSeries and Lacerte are our leading tax preparation offerings for professional accountants. Incorporated in 1984 and headquartered in Mountain View, California, we sell our products and services primarily in the United States.

Basis of Presentation

These consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have reclassified certain immaterial amounts previously reported in our financial statements to conform to the current presentation.

We acquired Credit Karma on December 3, 2020. We have included the results of operations for Credit Karma in our consolidated statements of operations from the date of acquisition. Credit Karma operates as a separate reportable segment. See Note 15, "*Segment Information,*" for more information.

We acquired Mailchimp on November 1, 2021. We have included the results of operations for Mailchimp in our consolidated statements of operations from the date of acquisition. Mailchimp is part of our Small Business & Self-Employed segment. See Note 7, "*Business Combinations,*" for more information.

On August 1 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants. See Note 15, "*Segment Information,*" for more information.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. See Note 15, "*Segment Information,*" for more information.

Seasonality

Our Consumer and ProConnect offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are typically concentrated in the period from November through April. This seasonal pattern typically results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively.

In fiscal 2022, the IRS began accepting returns on January 24, 2022, and the tax filing deadline was April 18, 2022. However, in fiscal 2021, the IRS began accepting returns on February 12, 2021, and the tax filing deadline was May 17, 2021. In fiscal 2020, the IRS began accepting returns on January 27, 2020, and the tax filing deadline was July 15, 2020. As a result of the extensions of the tax filing deadlines in 2021 and 2020, a significant amount of our fiscal 2021 and 2020 Consumer segment and ProConnect segment revenues were recognized in the fourth quarter as compared to the third quarter of fiscal 2022.

Use of Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we make certain judgments, estimates, and assumptions that affect the amounts reported in our financial statements and the disclosures made in the accompanying notes. For example, we use judgments and estimates in determining how revenue should be recognized. These judgments and estimates include identifying performance obligations, determining if the performance obligations are distinct, determining the standalone sales price (SSP) and timing of revenue recognition for each distinct performance obligation, and estimating variable consideration to be included in the transaction price. We use estimates in determining the collectibility of accounts receivable and notes receivable, the appropriate levels of various accruals including accruals for litigation contingencies, the discount rate used to calculate lease liabilities, the amount of our worldwide tax provision, the realizability of deferred tax assets, the credit losses of available-for-sale debt securities, reserves for losses, and the fair value of assets acquired and liabilities assumed for business combinations. We also use estimates in determining the remaining economic lives and fair values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates. Additionally, in the context of the ongoing global COVID-19 pandemic, while there has been no material impact on our estimates to date, in future periods, facts and circumstances could change and impact our estimates.

Revenue Recognition

We derive revenue from the sale of software subscriptions, hosted services, payroll services, merchant payment processing services, packaged software products, live expert advice, financing for small businesses, delivery of qualified links, financial supplies and hardware. We enter into contracts with customers that include promises to transfer various products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized when the promised goods or services are transferred to customers, in an amount that reflects the consideration allocated to the respective performance obligation.

Nature of Products and Services

Online Offerings

Our online offerings include TurboTax Online and TurboTax Live, ProConnect Tax Online, QuickBooks Online, online payroll, and merchant payment processing services for small businesses who use our online offerings. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

These online offerings provide customers with the right to use the hosted software over the contract period without taking possession of the software and are billed on either a subscription or consumption basis. Revenue related to our online offerings that are billed on a subscription basis is recognized ratably over the contract period. Revenue related to online offerings that are billed on a consumption basis, is recognized when the customer consumes the related service.

Desktop Offerings

Our desktop offerings consist of our QuickBooks Desktop products, which include both software subscriptions and packaged software products, our consumer and professional tax desktop products, which include TurboTax, Lacerte and ProSeries, our desktop payroll products, and merchant payment processing services for small businesses who use our desktop offerings.

Our QuickBooks Desktop software subscriptions include a term software license, version protection, enhancements, support and various connected services. We recognize revenue for the software license and version protection at the time they are delivered and recognize revenue for support and connected services over the subscription term as the services are provided. We have determined that the enhancements included in our QuickBooks Desktop software subscriptions are immaterial within the context of the contract. In the first quarter of fiscal 2022, we discontinued our QuickBooks Desktop packaged software products and now sell predominantly on a subscription basis.

Our QuickBooks Desktop packaged software products include a perpetual software license as well as enhancements and connected services. We recognize revenue for our QuickBooks Desktop packaged software products at the time the software license is delivered. We have determined that the enhancements and connected services included in our QuickBooks Desktop packaged software products are immaterial within the context of the contract.

Our consumer and professional tax packaged desktop software products include an on-premise tax software license, related tax form updates, electronic filing service and connected services. We recognize revenue for the software license and related tax form updates, as one performance obligation, over the period the forms and updates are delivered. We recognize revenue for our electronic filings service and connected services as those services are provided.

We also sell some of our QuickBooks Desktop packaged software products and consumer tax packaged desktop software products in non-consignment and consignment arrangements to certain retailers. For these retailers, we begin recognizing revenue at the later of when control has transferred to the retailer or customer, or upon activation of the software subscriptions by the customer.

Our desktop payroll products are sold as software subscriptions and include a term software license with a stand-ready obligation to maintain compliance with current payroll tax laws, support and connected services. The term software license and stand-ready obligation to maintain compliance with current payroll tax laws is considered one performance obligation. Each of the performance obligations is considered distinct and control is transferred to the customer over the subscription term. As a result, revenue is recognized ratably over the subscription term as services are provided.

We offer merchant payment processing services as a separately paid connected service for our QuickBooks Desktop packaged software products and software subscriptions, and revenue is recognized as the services are provided to the customers.

Other Solutions

Revenue from our Credit Karma segment is primarily comprised of revenue from the delivery of qualified links that result in completed actions, or cost-per-action transactions. Credit Karma also generates revenue from cost-per-click and cost-per-lead transactions. All revenue from our Credit Karma segment is included in service and other revenue on our consolidated statement of operations.

Cost-per-action revenue is earned based on a pre-determined fee for approved actions such as when credit cards are issued or when personal loans and other loans to businesses are funded. Revenue is recognized when a lead is generated that results in one of these approved actions.

Cost-per-click and cost-per-lead revenue is primarily related to mortgage and insurance businesses. Cost-per-click revenue is earned as users click on our customers' advertisements and is recognized based on the number of clicks recorded each month. Cost-per-lead revenue is earned via customer advertisements that allow the generation of leads from consumers interested in the advertised products and is recognized at the time a consumer request or lead is delivered to the customer.

Revenue from the sale of our financial supplies, such as printed check stock and hardware, such as retail point-of-sale equipment and credit card readers for mobile phones, is recognized when control is transferred to the customer which is generally when the products are shipped.

We also have revenue-sharing and royalty arrangements with third-party partners and recognize this revenue as earned based upon reporting provided to us by our partners. In instances where we do not have reporting from our partners, we estimate revenue based on information available to us at the time.

Product Revenue and Service and Other Revenue

Product revenue includes revenue from: QuickBooks Desktop software licenses and version protection; consumer and professional tax desktop licenses and the related form updates; desktop payroll licenses and related updates; and financial supplies.

Service and other revenue includes revenue from: our online offerings discussed above; our Credit Karma offerings; support, electronic filing services and connected services included with our desktop offerings; merchant payment processing services for our desktop offerings; and revenue-sharing and royalty arrangements.

We record revenue net of sales tax obligations. For payroll services, we generally require customers to remit payroll tax funds to us in advance of the payroll date via electronic funds transfer. We include in total net revenue the interest earned on these funds between the time that we collect them from customers and the time that we remit them to outside parties. Revenue for electronic payment processing services that we provide to merchants is recorded net of interchange fees charged by credit card associations.

Judgments and Estimates

Our contracts with customers often include promises to transfer multiple products and services to a customer. In determining how revenue should be recognized, a five-step process is used, which requires judgment and estimates. These judgments and estimates include identifying performance obligations in the contract, determining whether the performance obligations are distinct, determining the SSP for each distinct performance obligation, determining the timing of revenue recognition for distinct performance obligations and estimating the amount of variable consideration to include in the transaction price.

The functionality of the software licenses included in our consumer and professional tax and payroll desktop offerings is dependent on the related enhancements and updates included in these offerings. Judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the related updates and recognized over time.

Our contracts with customers include promises to transfer various products and services, which are generally capable of being distinct performance obligations. In many cases SSPs for distinct performance obligations are based on directly observable pricing. In instances where the SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs.

Our consumer and professional tax desktop products include an on-premise tax software license and related tax form updates that are recognized as the forms and updates are delivered. We measure progress towards complete satisfaction of the software license and related tax form updates using an output method based on the timing of when the tax forms are delivered.

We generally provide refunds to customers for product returns and subscription cancellations. We also provide promotional discounts and incentive rebates on retail and distribution sales. These refunds, discounts and incentive rebates are accounted for as variable consideration when estimating the amount of revenue to recognize. Refunds are estimated based on historical experience and current business and economic indicators and updated at the end of each reporting period as additional information becomes available to the extent that it is probable that a significant reversal of any incremental revenue will not occur. Discounts and incentive rebates are estimated based on distributors' and retailers' performance against the terms and conditions of the rebate programs.

Deferred Revenue

We record deferred revenue when we have entered into a contract with a customer and cash payments are received or due prior to transfer of control or satisfaction of the related performance obligation. During the twelve months ended July 31, 2022, we recognized revenue of $684 million, that was included in deferred revenue at July 31, 2021. During the twelve months ended July 31, 2021, we recognized revenue of $652 million, that was included in deferred revenue at July 31, 2020.

Our performance obligations are generally satisfied within 12 months of the initial contract date. As of July 31, 2022 and 2021, the deferred revenue balance related to performance obligations that will be satisfied after 12 months was $6 million and $8 million, respectively, and is included in other long-term obligations on our consolidated balance sheets.

Assets Recognized from the Costs to Obtain a Contract with a Customer

Our internal sales commissions are considered incremental costs of obtaining the contract with a customer. Internal sales commissions for subscription offerings where we expect the benefit of those costs to continue longer than one year are capitalized and amortized ratably over the period of benefit, which ranges from three to four years. Total capitalized costs to obtain a contract are not significant and are included in prepaid expenses and other current assets and other assets on our consolidated balance sheets.

We apply a practical expedient to expense costs incurred to obtain a contract with a customer when the period of benefit is less than one year. These costs primarily include internal and external sales commissions for our consumer and professional tax offerings.

Shipping and Handling

We record the amounts we charge our customers for the shipping and handling of our software products as product revenue and we record the related costs as cost of product revenue in our consolidated statements of operations.

Customer Service and Technical Support

We include the costs of customer service and technical support associated with our online or hosted offerings in cost of service and other revenue line in our consolidated statements of operations. We also include the costs of providing technical support for our desktop offerings in cost of service and other revenue. We include the costs of customer service related to desktop offerings in selling and marketing expense in our consolidated statements of operations. Customer service and technical support costs include costs associated with performing order processing, answering customer inquiries by telephone and through websites, e-mail and other electronic means, and providing technical support assistance to customers. We expense the cost of providing this support as incurred.

Software Development Costs

We expense software development costs as we incur them until technological feasibility has been established, at which time those costs are capitalized until the product is available for general release to customers. To date, our software has been available for general release concurrent with the establishment of technological feasibility and, accordingly, we have not capitalized any development costs. Costs we incur to enhance our existing products or after the general release of the service using the product are expensed in the period they are incurred and included in research and development expense in our consolidated statements of operations.

Internal Use Software

We capitalize costs related to development of hosted services that we provide to our customers and internal use of enterprise-level business and finance software in support of our operational needs. Costs incurred in the application development phase are capitalized and amortized on a straight-line basis over their useful lives, which are generally three to six years. Costs related to planning and other preliminary project activities and to post-implementation activities are expensed as incurred. We test these assets for impairment whenever events or changes in circumstances occur that could impact their recoverability.

Advertising

We expense all advertising costs as we incur them to selling and marketing expense in our consolidated statements of operations. We recorded advertising expense of approximately $1.6 billion for the twelve months ended July 31, 2022, $1.1 billion for the twelve months ended July 31, 2021, and $778 million for the twelve months ended July 31, 2020.

Leases

Our leases are primarily operating leases for office facilities. We do not have significant finance leases. We determine if an arrangement is a lease and classify it as either a finance or operating lease at lease inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on our consolidated balance sheets.

Operating lease liabilities are recognized at the lease commencement date based on the present value of the future minimum lease payments over the lease term. Our leases generally do not have a readily determinable implicit rate, therefore we use our incremental borrowing rate at the commencement date in determining the present value of future payments. Our incremental borrowing rate is determined based on a yield curve derived from publicly traded bond offerings for companies with similar credit ratings to us. Our lease terms may include options to purchase, extend or terminate the lease when it is reasonably certain that we will exercise that option. We account for the lease and non-lease components as a single lease component.

We measure ROU assets based on the corresponding lease liabilities adjusted for any initial direct costs and prepaid lease payments made to the lessor before or at the commencement date, net of lease incentives. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease payments are not included in the calculation of the ROU asset and lease liability and are recognized as lease expense is incurred. Our variable lease payments generally relate to amounts paid to lessors for common area maintenance under our real estate leases.

Our subleases generally do not relieve us of our primary obligations under the corresponding head lease. As a result, we account for the head lease based on the original assessment at inception. We determine if the sublease arrangement is either a sales-type, direct financing, or operating lease at inception. If the total remaining lease cost on the head lease for the term of the sublease is greater than the anticipated sublease income, the ROU asset is assessed for impairment. Our subleases are generally operating leases and we recognize sublease income on a straight-line basis over the sublease term.

Capitalization of Interest Expense

We capitalize interest on capital projects, including facilities build-out projects and internal use computer software projects. Capitalization commences with the first expenditure for the project and continues until the project is substantially complete and ready for its intended use. We amortize capitalized interest to depreciation expense using the straight-line method over the same lives as the related assets. Capitalized interest was not significant for any period presented.

Foreign Currency

The functional currencies of our international operating subsidiaries are generally the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their revenue, costs and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our consolidated balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest and other income in our consolidated statements of operations. Translation gains and losses and transaction gains and losses were not significant for any period presented.

Income Taxes

We estimate our income taxes based on the various jurisdictions where we conduct business. Significant judgment is required in determining our worldwide income tax provision. We estimate our current tax liability and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which we show on our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be realized. To the extent we believe that realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding income tax expense in our consolidated statement of operations.

We review the need for a valuation allowance to reflect uncertainties about whether we will be able to utilize some of our deferred tax assets before they expire. The valuation allowance analysis is based on our estimates of taxable income for the jurisdictions in which we operate and the periods over which our deferred tax assets will be realizable. While we have considered future taxable income in assessing the need for a valuation allowance for the periods presented, we could be required to record a valuation allowance to take into account additional deferred tax assets that we may be unable to realize. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we record the increase.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not of being sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results.

A description of our accounting policies associated with tax-related contingencies and valuation allowances assumed as part of a business combination is provided under *"Business Combinations"* below.

Computation of Net Income Per Share

We compute basic net income per share using the weighted average number of common shares outstanding during the period. We compute diluted net income per share using the weighted average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of the shares issuable upon the exercise of stock options and upon the vesting of restricted stock units (RSUs) under the treasury stock method.

We include stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price for our common stock, and RSUs with unrecognized compensation expense that is less than the average market price for our common stock, in the calculation of diluted net income per share. We exclude stock options with combined exercise prices and unrecognized compensation expense that are greater than the average market price for our common stock, and RSUs with unrecognized compensation expense that is greater than the average market price for our common stock, from the calculation of diluted net income per share because their effect is anti-dilutive. Under the treasury stock method, the amount that must be paid to exercise stock options and the amount of compensation expense for future service that we have not yet recognized for stock options and RSUs are assumed to be used to repurchase shares.

All of the RSUs we grant have dividend rights. Dividend rights are accumulated and paid when the underlying RSUs vest. Since the dividend rights are subject to the same vesting requirements as the underlying equity awards they are considered a contingent transfer of value. Consequently, the RSUs are not considered participating securities and we do not present them separately in earnings per share.

The following table presents the composition of shares used in the computation of basic and diluted net income per share for the periods indicated.

	Twelve Months Ended July 31,		
(In millions, except per share amounts)	**2022**	**2021**	**2020**
Numerator:			
Net income	$ 2,066	$ 2,062	$ 1,826
Denominator:			
Shares used in basic per share amounts:			
Weighted average common shares outstanding	280	270	261
Shares used in diluted per share amounts:			
Weighted average common shares outstanding	280	270	261
Dilutive common equivalent shares from stock options and restricted stock awards	4	3	3
Dilutive weighted average common shares outstanding	284	273	264
Basic and diluted net income per share:			
Basic net income per share	$ 7.38	$ 7.65	$ 6.99
Diluted net income per share	$ 7.28	$ 7.56	$ 6.92
Shares excluded from diluted net income per share:			
Weighted average stock options and restricted stock units that have been excluded from dilutive common equivalent shares outstanding due to their anti-dilutive effect	1	—	—

Cash Equivalents and Investments

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. In all periods presented, cash equivalents consist primarily of money market funds and time deposits. Investments consist primarily of investment-grade available-for-sale debt securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments by limiting our holdings with any individual issuer.

We use the specific identification method to compute gains and losses on investments. We record unrealized gains and losses on investments, net of tax, in accumulated other comprehensive income in the stockholders' equity section of our consolidated balance sheets and reflect unrealized gain and loss activity in other comprehensive income on our consolidated statement of comprehensive income. We generally classify available-for-sale debt securities as current assets based upon our ability and intent to use any and all of these securities as necessary to satisfy the significant short-term liquidity requirements that may arise from the highly seasonal nature of our businesses. Because of our significant business seasonality, stock repurchase programs, and acquisition opportunities, cash flow requirements may fluctuate dramatically from quarter to quarter and require us to use a significant amount of the investments we hold as available-for-sale.

Accounts Receivable and Allowances for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and are not interest bearing. We maintain an allowance for doubtful accounts to reserve for credit losses. In determining the amount of the allowance, we consider our historical level of credit losses, current economic trends that might impact the level of future credit losses, customer-specific information, and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. We make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. When we determine that amounts are uncollectible we write them off against the allowance.

Funds Receivable and Amounts Held for Customers and Funds Payable and Amounts Due to Customers

Funds receivable and amounts held for customers represents funds receivable from third-party payment processors for customer transactions and cash held on behalf of our customers that is invested in cash and cash equivalents and investment-grade available-for-sale debt securities, restricted for use solely for the purpose of satisfying amounts we owe on behalf of our customers. Funds payable and amounts due to customers consist of amounts we owe on behalf of our customers, such as direct deposit payroll funds and payroll taxes.

Property and Equipment

Property and equipment is stated at the lower of cost or realizable value, net of accumulated depreciation. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which range from two to 30 years. We amortize leasehold improvements using the straight-line method over the lesser of their estimated useful lives or remaining lease terms. We include the amortization of assets that are recorded under finance leases in depreciation expense. We review property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We did not record any significant property or equipment impairment charges during the twelve months ended July 31, 2022, 2021, or 2020.

Business Combinations

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination).

Under the acquisition method of accounting we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and we charge them to general and administrative expense as they are incurred. Under the acquisition method we also account for acquired company restructuring activities that we initiate separately from the business combination.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

Under the acquisition method of accounting for business combinations, if we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense. This accounting applies to all of our acquisitions regardless of acquisition date.

Goodwill, Acquired Intangible Assets and Other Long-Lived Assets

Goodwill

We record goodwill when the fair value of consideration transferred in a business combination exceeds the fair value of the identifiable assets acquired and liabilities assumed. Goodwill and other intangible assets that have indefinite useful lives are not amortized, but we test them for impairment annually during our fourth fiscal quarter and whenever an event or change in circumstances indicates that the carrying value of the asset may not be recoverable.

In accordance with authoritative guidance, we define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We consider and use all valuation methods that are appropriate in estimating the fair value of our reporting units and generally use a weighted combination of income and market approaches. Under the income approach, we estimate the fair value of each reporting unit based on the present value of future cash flows. We use a number of assumptions in our discounted cash flow model, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a rate of return that considers the relative risk of achieving the cash flows and the time value of money. Under the market approach, we estimate the fair value of each reporting unit based on market multiples of revenue, operating income, and earnings for comparable publicly traded companies engaged in similar businesses. If the estimated fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired.

If the carrying value of the net assets assigned to a reporting unit exceeds the estimated fair value of the unit, we would record an impairment loss equal to the difference. We recorded no goodwill impairment charges for the twelve months ended July 31, 2022, 2021 or 2020.

Acquired Intangible Assets and Other Long-Lived Assets

We generally record acquired intangible assets that have finite useful lives, such as purchased technology, in connection with business combinations. We amortize the cost of acquired intangible assets on a straight-line basis over their estimated useful lives, which range from two to fifteen years. We review intangible assets that have finite useful lives and other long-lived assets whenever an event or change in circumstances indicates that the carrying value of the asset may not be recoverable. We estimate the recoverability of these assets by comparing the carrying amount of the asset to the future undiscounted cash flows that we expect the asset to generate. We estimate the fair value of assets that have finite useful lives based on the present value of future cash flows for those assets. If the carrying value of an asset with a finite life exceeds its estimated fair value, we would record an impairment loss equal to the difference. Impairment charges for acquired intangible assets and other long-lived assets were not significant for the twelve months ended July 31, 2022, 2021 or 2020.

Share-Based Compensation Plans

We estimate the fair value of stock options granted using a lattice binomial model and a multiple option award approach. We amortize the fair value of stock options on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

RSUs granted typically vest based on continued service. We value these time-based RSUs at the date of grant using the intrinsic value method. We amortize the fair value of time-based RSUs on a straight-line basis over the service period. Certain RSUs granted to senior management vest based on the achievement of pre-established performance or market goals. We estimate the fair value of performance-based RSUs at the date of grant using the intrinsic value method and the probability that the specified performance criteria would be met. Each quarter we update our assessment of the probability that the specified performance criteria will be achieved and adjust our estimate of the fair value of the performance-based RSUs if necessary. We amortize the fair values of performance-based RSUs over the requisite service period for each separately vesting tranche of the award. We estimate the fair value of market-based RSUs at the date of grant using a Monte Carlo valuation methodology and amortize those fair values over the requisite service period for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based RSUs at the date of grant incorporates into the valuation the possibility that the market condition may not be satisfied. Provided that the requisite service is rendered, the total fair value of the market-based RSUs at the date of grant must be recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria. All of the RSUs we grant have dividend rights that are subject to the same vesting requirements as the underlying equity awards, so we do not adjust the intrinsic (market) value of our RSUs for dividends.

See Note 12, *"Stockholders' Equity,"* for a description of our share-based compensation plans and more information on the assumptions we use to calculate the fair value of share-based compensation.

Concentration of Credit Risk and Significant Customers and Suppliers

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

We are also subject to risks related to changes in the value of our significant balance of investments. Our portfolio of investments consists of investment-grade securities. Except for direct obligations of the United States government, securities issued by agencies of the United States government and money market funds, we diversify our investments by limiting our holdings with any individual issuer.

We sell a portion of our products through third-party retailers and distributors. As a result, we face risks related to the collectibility of our accounts receivable. To appropriately manage this risk, we perform ongoing evaluations of customer credit and limit the amount of credit extended as we deem appropriate, but generally do not require collateral. We maintain reserves for estimated credit losses and these losses have historically been within our expectations. However, since we cannot predict future changes in the financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate. No customer accounted for 10% or more of total net revenue for the twelve months ended July 31, 2022, 2021 or 2020, nor did any customer account for 10% or more of total accounts receivable at July 31, 2022 or July 31, 2021.

We rely primarily on one third-party vendor to perform the manufacturing and distribution functions for our retail desktop software products. We also have a key single-source vendor that prints and fulfills orders for most of our financial supplies business. While we believe that relying on key vendors improves the efficiency and reliability of our business operations, relying on any one vendor for a significant aspect of our business can have a significant negative impact on our revenue and profitability if that vendor fails to perform at acceptable service levels for any reason, including financial difficulties of the vendor.

Accounting Standards Recently Adopted

Business Combinations - In October 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2021-08, *"Business Combinations—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805)."* This standard requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities from acquired contracts using the revenue recognition guidance under Accounting Standards Codification Topic 606 in order to align the recognition of a contract liability with the definition of a performance obligation. This approach differs from the current requirement to measure contract assets and contract liabilities acquired in a business combination at fair value. We elected to early adopt this standard in the second quarter of our fiscal year that began August 1, 2021. The adoption of ASU 2021-08 did not have a material impact on our consolidated financial statements.

Accounting Standards Not Yet Adopted

We do not expect that any other recently issued accounting pronouncements will have a significant effect on our financial statements.

2. Fair Value Measurements

Fair Value Hierarchy

The authoritative guidance defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. When determining fair value, we consider the principal or most advantageous market for an asset or liability and assumptions that market participants would use when pricing the asset or liability. In addition, we consider and use all valuation methods that are appropriate in estimating the fair value of an asset or liability.

The authoritative guidance establishes a fair value hierarchy that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. In general, the authoritative guidance requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of its fair value. The three levels of input defined by the authoritative guidance are as follows:

- **Level 1** uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.
- **Level 2** uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar assets or liabilities: quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.
- **Level 3** uses one or more unobservable inputs that are supported by little or no market activity and that are significant to the determination of fair value. Level 3 assets and liabilities include those whose fair values are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes financial assets and financial liabilities that we measured at fair value on a recurring basis at the dates indicated, classified in accordance with the fair value hierarchy described above.

	At July 31, 2022			At July 31, 2021		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Assets:						
Cash equivalents, primarily money market funds and time deposits	$ 1,835	$ —	$ 1,835	$ 1,660	$ —	$ 1,660
Available-for-sale debt securities:						
Municipal bonds	—	—	—	—	38	38
Corporate notes	—	589	589	—	1,400	1,400
U.S. agency securities	—	96	96	—	70	70
Total available-for-sale securities	—	685	685	—	1,508	1,508
Total assets measured at fair value on a recurring basis	$ 1,835	$ 685	$ 2,520	$ 1,660	$ 1,508	$ 3,168
Liabilities:						
Senior unsecured notes[(1)]	$ —	$ 1,838	$ 1,838	$ —	$ 1,986	$ 1,986

(1) Carrying value on our consolidated balance sheets were $1.99 billion at both July 31, 2022 and July 31, 2021. See Note 8, *"Debt"* for more information.

The following table summarizes our cash equivalents and available-for-sale debt securities by balance sheet classification and level in the fair value hierarchy at the dates shown:

	At July 31, 2022			At July 31, 2021		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Cash equivalents:						
In cash and cash equivalents	$ 1,835	$ —	$ 1,835	$ 1,660	$ —	$ 1,660
Available-for-sale debt securities:						
In investments	$ —	$ 485	$ 485	$ —	$ 1,308	$ 1,308
In funds receivable and amounts held for customers	—	200	200	—	200	200
Total available-for-sale debt securities	$ —	$ 685	$ 685	$ —	$ 1,508	$ 1,508

We value our Level 1 assets, consisting primarily of money market funds and time deposits, using quoted prices in active markets for identical instruments.

Financial assets whose fair values we measure on a recurring basis using Level 2 inputs consist of municipal bonds, corporate notes and U.S. agency securities. We measure the fair values of these assets with the help of a pricing service that either provides quoted market prices in active markets for identical or similar securities or uses observable inputs for their pricing without applying significant adjustments. Our fair value processes include controls designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by a secondary pricing service or investment manager, validation of pricing sources and models, review of key model inputs, analysis of period-over-period price fluctuations, and independent recalculation of prices where appropriate.

Financial liabilities whose fair values we measure using Level 2 inputs consist of senior unsecured notes. See Note 8, "*Debt*" for more information. We measure the fair value of our senior unsecured notes based on their trading prices and the interest rates we could obtain for other borrowings with similar terms.

There were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during the twelve months ended July 31, 2022, 2021 or 2020.

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

Assets measured at fair value on a non-recurring basis include reporting units measured at fair value in a goodwill impairment test and our long-term investments.

Estimates of fair value for reporting units fall under Level 3 of the fair value hierarchy. During the fourth quarters of fiscal 2022, fiscal 2021, and fiscal 2020, we performed our annual goodwill impairment tests. Using the methodology described in Note 1, we determined that the estimated fair values of all of our reporting units exceeded their carrying values and that they were not impaired.

Long-term investments represent non-marketable equity securities in privately held companies that do not have a readily determinable fair value. They are accounted for at cost and adjusted based on observable price changes from orderly transactions for identical or similar investments of the same issuer or impairment. These investments are classified as Level 3 in the fair value hierarchy because we estimate the value of these investments using a valuation method based on observable transaction price changes at the transaction date. We recognized $54 million and $17 million of upward adjustments during the twelve months ended July 31, 2022 and July 31, 2021, respectively. There were no upward adjustments during the twelve months ended July 31, 2020. Impairments recognized during the twelve months ended July 31, 2022, July 31, 2021 and July 31, 2020 were immaterial. Cumulative upward adjustments were $71 million and cumulative impairments were immaterial through July 31, 2022 for measurement alternative investments held as of July 31, 2022. As of July 31, 2022 and July 31, 2021, the carrying value of long-term investments was $98 million and $43 million, respectively.

3. Cash and Cash Equivalents, Investments, and Funds Receivable and Amounts Held for Customers

The following table summarizes our cash and cash equivalents, investments and funds receivable and amounts held for customers by balance sheet classification at the dates indicated.

	July 31, 2022		July 31, 2021	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on consolidated balance sheets:				
Cash and cash equivalents	$ 2,796	$ 2,796	$ 2,562	$ 2,562
Investments	490	485	1,305	1,308
Funds receivable and amounts held for customers	435	431	456	457
Total cash and cash equivalents, investments, and funds receivable and amounts held for customers	$ 3,721	$ 3,712	$ 4,323	$ 4,327

The following table summarizes our cash and cash equivalents, investments and relevant portion of funds receivable and amounts held for customers by investment category at the dates indicated. As of July 31, 2022, this excludes $30 million of funds receivable included in funds receivable and amounts held for customers not measured and recorded at fair value.

	July 31, 2022		July 31, 2021	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Type of issue:				
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 2,997	$ 2,997	$ 2,819	$ 2,819
Available-for-sale debt securities:				
Municipal bonds	—	—	37	38
Corporate notes	597	589	1,397	1,400
U.S. agency securities	97	96	70	70
Total available-for-sale debt securities	694	685	1,504	1,508
Total cash, cash equivalents, restricted cash, restricted cash equivalents, and investments	$ 3,691	$ 3,682	$ 4,323	$ 4,327

We include realized gains and losses on our available-for-sale debt securities in interest and other income or expense on our consolidated statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the twelve months ended July 31, 2022, 2021 and 2020 were not significant.

We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income or loss in the stockholders' equity section of our consolidated balance sheets, except for certain unrealized losses described below. Gross unrealized gains and losses on our available-for-sale debt securities at July 31, 2022 and July 31, 2021 were not significant.

For available-for sale debt securities in an unrealized loss position, we determine whether a credit loss exists. The estimate of the credit loss is determined by considering available information relevant to the collectibility of the security and information about past events, current conditions, and reasonable and supportable forecasts. The allowance for credit loss is recorded to interest and other income on our consolidated statement of operations, not to exceed the amount of the unrealized loss. Any excess unrealized loss greater than the credit loss at a security level is recognized in accumulated other comprehensive income or loss in the stockholders' equity section of our consolidated balance sheets. We determined there were no credit losses related to available-for-sale securities as of July 31, 2022. Unrealized losses on available-for-sale debt securities at July 31, 2022 were not significant. We do not intend to sell these investments. In addition, it is more likely than not that we will not be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following table summarizes our available-for-sale debt securities, included in investments and relevant portion of funds receivable and amounts held for customers, classified by the stated maturity date of the security at the dates indicated.

	July 31, 2022		July 31, 2021	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 316	$ 313	$ 551	$ 553
Due within two years	298	293	550	551
Due within three years	79	78	398	398
Due after three years	1	1	5	6
Total available-for-sale debt securities	$ 694	$ 685	$ 1,504	$ 1,508

The following table summarizes our funds receivable and amounts held for customers by asset category at the dates indicated.

(In millions)	July 31, 2022	July 31, 2021	July 31, 2020	July 31, 2019
Restricted cash and restricted cash equivalents	$ 201	$ 257	$ 255	$ 236
Restricted available-for-sale debt securities and funds receivable	230	200	200	200
Total funds receivable and amounts held for customers	$ 431	$ 457	$ 455	$ 436

4. Notes Receivable and Allowances for Loan Losses

Notes receivable consist of term loans to small businesses. The term loans are not secured and are recorded at amortized cost, net of allowances for loan losses. We maintain an allowance for loan losses to reserve for potentially uncollectible notes receivable. We evaluate the creditworthiness of our term loan portfolio on an individual loan basis, based on a data analytics risk model that evaluates trends related to revenue, debt payments and negative events in the previous 12 months and applies a loss rate at the time of loan origination. The average is then applied against the outstanding portfolio. The loss rate and underlying model are updated periodically to reflect actual loan performance and changes to inherent risk assumptions. We make judgments about the known and inherent risks in the loan portfolio, adverse situations that may affect borrowers' ability to repay and current and future economic conditions. When we determine that amounts are uncollectible, we write them off against the allowance. As of July 31, 2022 and July 31, 2021, the net notes receivable balance was $540 million and $139 million, respectively. The current portion is included in notes receivable and the long term portion is included in other assets on our consolidated balance sheets. As of July 31, 2022 and July 31, 2021, the allowances for loan losses were not material.

We consider a loan to be delinquent when the payments are one day past due. We place delinquent loans on nonaccrual status and stop accruing interest revenue. Loans are returned to accrual status if they are brought current or have performed in accordance with the contractual terms for a reasonable period of time and, in our judgment, will continue to make periodic principal and interest payments as per contractual terms. Past due amounts are not material for all periods presented.

Interest revenue is earned on loans originated and held to maturity in accordance with the specified period of time and defined interest rate noted in the loan contract. Interest revenue is recorded net of amortized direct origination costs and is included in service and other revenue on our consolidated statements of operations. Interest revenue was not material for all periods presented.

5. Property and Equipment

Property and equipment consisted of the following at the dates indicated:

(Dollars in millions)	Life in Years	July 31, 2022	July 31, 2021
Equipment	3-5	$ 208	$ 199
Computer software	2-6	911	899
Furniture and fixtures	5	101	96
Leasehold improvements	2-16	366	350
Land	NA	79	79
Buildings	5-30	378	375
Capital in progress	NA	283	122
		2,326	2,120
Less accumulated depreciation and amortization		(1,438)	(1,340)
Total property and equipment, net		$ 888	$ 780

NA = Not Applicable

Capital in progress at July 31, 2022 and 2021, consisted primarily of costs related to various buildings and site improvements that have not yet been placed into service.

As discussed in Note 1, *"Description of Business and Summary of Significant Accounting Policies – Internal Use Software,"* we capitalize costs related to the development of computer software for internal use. We capitalized internal use software costs totaling $72 million for the twelve months ended July 31, 2022; $72 million for the twelve months ended July 31, 2021; and $78 million for the twelve months ended July 31, 2020. These amounts included capitalized labor costs of $13 million, $30 million, and $40 million, respectively. Costs related to internal use software projects are included in the capital in progress category of property and equipment until project completion, at which time they are transferred to the computer software category.

6. Goodwill and Acquired Intangible Assets

Goodwill

Changes in the carrying value of goodwill by reportable segment during the twelve months ended July 31, 2022 and July 31, 2021 were as shown in the following table. Our reportable segments are described in Note 15, *"Segment Information."*

(In millions)	Balance July 31, 2020	Goodwill Acquired	Foreign Currency Translation	Balance July 31, 2021	Goodwill Acquired	Foreign Currency Translation	Balance July 31, 2022
Small Business & Self-Employed	$ 1,518	$ 59	$ 1	$ 1,578	$ 8,115	$ (4)	$ 9,689
Consumer	42	—	—	42	10	(1)	51
Credit Karma	—	3,898	—	3,898	5	(4)	3,899
ProConnect	94	—	1	95	2	—	97
Totals	$ 1,654	$ 3,957	$ 2	$ 5,613	$ 8,132	$ (9)	$ 13,736

Goodwill is net of accumulated impairment losses of $114 million, which were recorded prior to July 31, 2020 and are included in our Consumer segment. The increase in goodwill during the twelve months ended July 31, 2022 was primarily due to the acquisition of Mailchimp. The increase in goodwill during the twelve months ended July 31, 2021 was primarily due to the acquisition of Credit Karma.

Acquired Intangible Assets

The following table shows the cost, accumulated amortization and weighted average life in years for our acquired intangible assets at the dates indicated. The increases in intangible assets during the twelve months ended July 31, 2022 were primarily related to the acquisition of Mailchimp. See Note 7, "*Business Combinations.*" The weighted average lives are calculated for assets that are not fully amortized.

(Dollars in millions)	Customer Lists / User Relationships	Purchased Technology	Trade Names and Logos	Covenants Not to Compete or Sue	Total
At July 31, 2022:					
Cost	$ 6,197	$ 1,612	$ 680	$ 42	$ 8,531
Accumulated amortization	(748)	(593)	(87)	(42)	(1,470)
Acquired intangible assets, net	$ 5,449	$ 1,019	$ 593	$ —	$ 7,061
Weighted average life in years	14	8	13	0	13
At July 31, 2021:					
Cost	$ 3,038	$ 686	$ 400	$ 42	$ 4,166
Accumulated amortization	(377)	(455)	(41)	(41)	(914)
Acquired intangible assets, net	$ 2,661	$ 231	$ 359	$ 1	$ 3,252
Weighted average life in years	15	5	15	3	14

The following table shows the expected future amortization expense for our acquired intangible assets at July 31, 2022. Amortization of purchased technology is charged to amortization of acquired technology in our consolidated statements of operations. Amortization of other acquired intangible assets such as customer lists is charged to amortization of other acquired intangible assets in our consolidated statements of operations. If impairment events occur, they could accelerate the timing of acquired intangible asset charges.

(In millions)	Expected Future Amortization Expense
Twelve months ending July 31,	
2023	$ 646
2024	624
2025	622
2026	620
2027	594
Thereafter	3,955
Total expected future amortization expense	$ 7,061

7. Business Combinations

Mailchimp

On November 1, 2021, we acquired all of the outstanding equity of Mailchimp, a global customer engagement and marketing platform for growing small and mid-market businesses. We acquired Mailchimp to help deliver on the vision of an innovative, end-to-end customer growth platform for small and mid-market businesses. Mailchimp is part of our Small Business & Self-Employed segment. We have included the financial results of Mailchimp in the consolidated financial statements from the date of acquisition. Pro forma information related to this acquisition has not been presented, as the effect of the acquisition on our consolidated results of operations was not material. Our results of operations for the twelve months ended July 31, 2022 included $762 million of revenue attributable to Mailchimp. For the twelve months ended July 31, 2022, we recorded professional fees associated with the acquisition of $63 million in general and administrative expenses.

The fair value of the purchase consideration totaled $12.0 billion, which included $5.7 billion in cash and 10.1 million shares of Intuit common stock with a value of approximately $6.3 billion. The fair value of the stock consideration is based on the October 29, 2021 closing price of Intuit common stock of $625.99.

Pursuant to the equity purchase agreement we also issued approximately 583,000 RSUs in substitution of outstanding equity incentive awards. These RSUs have a grant date fair value of $355 million and will be expensed over three years. Additionally, we issued approximately 325,000 RSUs with a total grant date fair value of $211 million to Mailchimp employees, of which $151 million will be expensed over four years and $60 million was expensed during the first six months following the acquisition date.

The preliminary allocation of the Mailchimp purchase price is as follows:

(In millions)	Amount
Cash and cash equivalents	$ 42
Investments	126
Accounts receivable, net	25
Income taxes receivable	1
Prepaid expenses and other current assets	24
Long-term investments	1
Property and equipment, net	15
Operating lease right-of-use assets	31
Goodwill	8,101
Intangible assets	4,340
Long-term deferred income tax assets	6
Other assets	1
Accounts payable	(163)
Accrued compensation and related liabilities	(409)
Deferred revenue	(52)
Other current liabilities	(68)
Long-term portion of operating lease liabilities	(20)
Other long-term obligations	(5)
Total preliminary purchase price allocation	$ 11,996

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of Mailchimp and the synergies expected to be achieved. This goodwill is assigned to the Small Business & Self-Employed segment and substantially all is deductible for income tax purposes. The fair values assigned to tangible assets acquired and liabilities assumed are preliminary based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

Intangible assets consist of customer lists, purchased technology, and trade names/trademarks. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is 12.0 years. The following table presents the details of identifiable intangible assets acquired.

(In millions, except years)	Estimated Useful Life	Amount
Customer lists	13 years	$ 3,160
Purchased technology	9 years	900
Trade names/trademarks	10 years	280
Total identifiable intangible assets		$ 4,340

Credit Karma

On December 3, 2020, we acquired all of the outstanding shares of Credit Karma, a consumer technology platform. We acquired Credit Karma to help consumers unlock smart money decisions and accelerate our mission of powering prosperity around the world, by creating a personal financial assistant that helps consumers find the right financial products, put more money in their pockets and access financial expertise and education. Credit Karma is a separate reportable segment. See Note 15, "*Segment Information,*" for more information. We have included the financial results of Credit Karma in the consolidated financial statements from the date of acquisition. For the twelve months ended July 31, 2021 and July 31, 2020, the transaction costs associated with the acquisition were approximately $31 million and $28 million, respectively, and were recorded in general and administrative expenses.

We acquired Credit Karma for total consideration of $8.1 billion, which included assumed equity awards and restricted shares subject to a revest provision.

The fair value of the purchase consideration totaled $7.2 billion and included $3.4 billion in cash, 10.6 million shares of Intuit common stock with a fair value of $3.8 billion and assumed equity awards for services rendered through the acquisition date of $47 million.

We also issued shares of common stock with a fair value of $275 million which are restricted due to a revest provision, and will be expensed over a service period of three years. The share-based compensation expense related to these restricted shares is non-deductible for income tax purposes. Additionally, we assumed equity awards for future services with a fair value of $663 million that are being charged to expense over the remaining service periods, which average approximately three years.

The fair value of the stock consideration is based on the December 2, 2020 closing price of Intuit common stock of $355.49.

As part of the merger agreement, following the close of the transaction, we issued approximately $300 million of restricted stock units to the employees of Credit Karma, which is being charged to expense over a service period of four years.

The allocation of the Credit Karma purchase price is as follows:

(In millions)	Amount
Cash and cash equivalents	$ 436
Accounts receivable, net	141
Income taxes receivable	59
Prepaid expenses and other current assets	7
Long-term investments	3
Property and equipment, net	63
Operating lease right-of-use assets	167
Goodwill	3,898
Intangible assets	3,372
Other assets	81
Accounts payable	(86)
Accrued compensation and related liabilities	(113)
Other current liabilities	(24)
Operating lease liabilities	(172)
Long-term deferred income tax liabilities	(627)
Other long-term obligations	(10)
Total purchase price allocation	$ 7,195

The excess of purchase consideration over the fair value of the net assets acquired was recorded as goodwill, which is primarily attributed to the assembled workforce of Credit Karma and the synergies expected to be achieved. This goodwill is assigned to the new Credit Karma segment and is non-deductible for income tax purposes. We completed the purchase price allocation for the Credit Karma acquisition during the second quarter of fiscal 2022 with no material adjustments from our preliminary purchase price allocation.

Intangible assets consist of user relationships, trade names/trademarks, purchased technology, and partner relationships. We amortize purchased intangible assets on a straight-line basis over their respective useful lives. The weighted average life of the total acquired identifiable intangible assets is 14.4 years. The following table presents the details of identifiable intangible assets acquired.

(In millions, except years)	Estimated Useful Life	Amount
User relationships	15 years	$ 2,781
Trade names/Trademarks	15 years	375
Purchased technology	6 years	216
Total identifiable intangible assets		$ 3,372

The following table summarizes the long-term deferred income tax assets and liabilities included in the purchase price allocation above:

(In millions)	Amount
Intangibles	$ (851)
Federal and state net operating loss carryforwards	138
Federal research and experimentation credit carryforwards	51
Other, net	35
Total net long-term deferred income tax liabilities	$ (627)

8. Debt

The carrying value of our debt was as follows at the dates indicated:

(In millions)	July 31, 2022	July 31, 2021	Effective Interest Rate
Senior unsecured notes issued June 2020:			
0.650% notes due July 2023	$ 500	$ 500	0.837%
0.950% notes due July 2025	500	500	1.127%
1.350% notes due July 2027	500	500	1.486%
1.650% notes due July 2030	500	500	1.767%
Term loan	4,700	—	
Secured revolving credit facility	230	48	
Total principal balance of long-term debt	6,930	2,048	
Unamortized discount and debt issuance costs	(16)	(14)	
Total carrying value of long-term debt	$ 6,914	$ 2,034	
Short-term debt	$ 499	$ —	
Long-term debt	$ 6,415	$ 2,034	

Senior Unsecured Notes

In June 2020, we issued four series of senior unsecured notes (together, the Notes) pursuant to a public debt offering. The proceeds from the issuance were $1.98 billion, net of debt discount of $2 million and debt issuance costs of $15 million.

Interest is payable semiannually on January 15 and July 15 of each year. The discount and debt issuance costs are amortized to interest expense over the term of the Notes under the effective interest method. We paid $23 million and $24 million of interest on the Notes during the twelve months ended July 31, 2022 and 2021, respectively.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of July 31, 2022, we were compliant with all covenants governing the Notes.

Unsecured Credit Facility

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019 (2019 Credit Facility), and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $4.7 billion unsecured term loan that matures on November 1, 2024, and a $1 billion unsecured revolving credit facility that matures on November 1, 2026 (2021 Credit Facility).

The 2021 Credit Facility includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of July 31, 2022, we were compliant with all required covenants.

Term Loan. On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. Under this agreement we may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.125% or SOFR plus a margin that ranges from 0.625% to 1.125%. Actual margins under either election will be based on our senior debt credit ratings. Interest on the term loan is payable monthly. At July 31, 2022, $4.7 billion was outstanding under the term loan. The carrying value of the term loan is net of debt issuance costs of $5 million as of July 31, 2022 and approximates its fair value. We paid $42 million of interest on the term loan during the twelve months ended July 31, 2022. We paid $2 million and $9 million of interest on our previous term loan under the 2019 Credit Facility during the twelve months ended July 31, 2021 and 2020, respectively.

Unsecured Revolving Credit Facility. The 2021 Credit Facility includes a $1 billion unsecured revolving credit facility that will expire on November 1, 2026. Under this agreement we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.1%, or (ii) the Secured Overnight Finance Rate (SOFR) plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. At July 31, 2022, no amounts were outstanding under the unsecured revolving credit facility. We paid no interest on the unsecured revolving credit facility during the twelve months ended July 31, 2022. We paid $1 million and $2 million of interest on our previous unsecured revolving credit facility during the twelve months ended July 31, 2021 and 2020, respectively.

Secured Revolving Credit Facility

On February 19, 2019, a subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses. The revolving credit facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. We have entered into several amendments to the secured revolving credit facility, most recently on July 18, 2022, primarily to increase the facility limit, extend the commitment term and maturity date and update the benchmark interest rate. Under the amended agreement, the facility limit is $500 million, of which $300 million is committed and $200 million is uncommitted. Advances accrue interest at adjusted daily simple SOFR plus 1.5%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.25% to 0.75%, depending on the total unused committed balance. The commitment term is through July 18, 2025, and the final maturity date is July 20, 2026. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of July 31, 2022, we were compliant with all required covenants. At July 31, 2022, $230 million was outstanding under this facility and the weighted-average interest rate was 3.96%, which includes the interest on any unused committed portion. The outstanding balance is secured by cash and receivables of the subsidiary totaling $615 million. Interest on the facility is payable monthly. We paid $2 million, $3 million, and $3 million of interest on the secured revolving credit facility during each of the twelve months ended July 31, 2022, 2021 and 2020, respectively.

Future principal payments for long-term debt at July 31, 2022 were as shown in the table below.

(In millions)

Fiscal year ending July 31,		
2023	$	500
2024		—
2025		5,200
2026		230
2027		500
Thereafter		500
Total future principal payments for long-term debt	$	6,930

9. Other Liabilities and Commitments

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

(In millions)	July 31, 2022	July 31, 2021
Executive deferred compensation plan liabilities	$ 147	$ 153
Accrued settlement for state attorneys general	141	—
Sales, property, and other taxes	40	5
Current portion of operating lease liabilities	84	66
Reserve for returns and credits	25	21
Amounts due for share repurchases	10	17
Merchant and consumer payments processing reserves	21	10
Reserve for promotional discounts and rebates	6	10
Current portion of dividend payable	12	9
Interest payable	11	1
Income taxes payable	8	3
Other	74	66
Total other current liabilities	$ 579	$ 361

Other Long-Term Obligations

Other long-term obligations were as follows at the dates indicated:

(In millions)	July 31, 2022	July 31, 2021
Income tax liabilities	$ 44	$ 24
Dividend payable	12	8
Deferred revenue	6	8
Other	25	13
Total other long-term obligations	$ 87	$ 53

Unconditional Purchase Obligations

In the ordinary course of business we enter into certain unconditional purchase obligations with our suppliers. These are agreements to purchase products and services that are enforceable, legally binding, and specify terms that include fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payments.

Annual minimum commitments under purchase obligations at July 31, 2022 were as shown in the table below.

(In millions)	Purchase Obligations
Fiscal year ending July 31,	
2023	$ 673
2024	434
2025	470
2026	233
2027	28
Thereafter	468
Total commitments	$ 2,306

10. Leases

We lease office facilities under non-cancellable operating lease arrangements. Our facility leases generally provide for periodic rent increases and may contain escalation clauses and renewal options. Our leases have remaining lease terms of up to 20 years, which include options to extend that are reasonably certain of being exercised. Some of our leases include one or more options to extend the leases for up to 10 years per option which we are not reasonably certain to exercise. The options to extend are generally at rates to be determined in accordance with the agreements. Options to extend the lease are included in the lease liability if they are reasonably certain of being exercised. We do not have significant finance leases.

We sublease certain office facilities to third parties. These subleases have remaining lease terms of up to 8 years, some of which include one or more options to extend the subleases for up to 5 years per option.

In March 2020, we entered into an agreement to terminate an office facility lease and related sublease, which were due to expire in 2025 and 2022, respectively. As a result, we reduced our operating lease right-of-use assets and lease liabilities by $61 million during the twelve months ended July 31, 2020.

The components of lease expense were as follows:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Operating lease cost [1]	$ 105	$ 75	$ 69
Variable lease cost	15	11	13
Sublease income	(17)	(16)	(22)
Total net lease cost	$ 103	$ 70	$ 60

[1] Includes short-term leases, which are not significant for the twelve months ended July 31, 2022, 2021 or 2020.

Supplemental cash flow information related to operating leases was as follows:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities	$ 104	$ 76	$ 70
Right-of-use assets obtained in exchange for new operating lease liabilities [1]	$ 238	$ 60	$ 346

[1] For the twelve months ended July 31, 2020, this includes $319 million for operating leases existing on August 1, 2019 and $27 million for operating leases that commenced during fiscal 2020.

Other information related to operating leases was as follows at the dates indicated:

	July 31,		
	2022	2021	2020
Weighted-average remaining lease term for operating leases	8.1 years	6.8 years	5.5 years
Weighted-average discount rate for operating leases	2.9 %	2.3 %	3.1 %

Future minimum lease payments under non-cancellable operating leases as of July 31, 2022 were as follows:

(In millions)	Operating Leases [1]
Fiscal year ending July 31,	
2023	$ 64
2024	105
2025	93
2026	76
2027	67
Thereafter	323
Total future minimum lease payments	728
Less imputed interest	(102)
Present value of lease liabilities	$ 626

[1] Non-cancellable sublease proceeds for the fiscal years ending July 31, 2023, 2024, 2025, 2026, 2027, and thereafter of $11 million, $10 million, $5 million, $1 million, $1 million, and $3 million, respectively, are not included in the table above.

Supplemental balance sheet information related to operating leases was as follows at the date indicated:

	July 31,	
(In millions)	2022	2021
Operating lease right-of-use assets	$ 549	$ 380
Other current liabilities	$ 84	$ 66
Operating lease liabilities	542	380
Total operating lease liabilities	$ 626	$ 446

11. Income Taxes

The provision for income taxes consisted of the following for the periods indicated:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Current:			
Federal	$ 253	$ 399	$ 372
State	93	121	79
Foreign	31	17	21
Total current	377	537	472
Deferred:			
Federal	85	(33)	(47)
State	18	(11)	(47)
Foreign	(4)	1	(6)
Total deferred	99	(43)	(100)
Total provision for income taxes	$ 476	$ 494	$ 372

We recognized excess tax benefits on share-based compensation of $134 million, $126 million, and $90 million in the provision for income taxes for the twelve months ended July 31, 2022, 2021, and 2020, respectively.

The sources of income before the provision for income taxes consisted of the following for the periods indicated:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
United States	$ 2,433	$ 2,497	$ 2,206
Foreign	109	59	(8)
Total	$ 2,542	$ 2,556	$ 2,198

Differences between income taxes calculated using the federal statutory income tax rate and the provision for income taxes were as follows for the periods indicated:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Income before income taxes	$ 2,542	$ 2,556	$ 2,198
Statutory federal income tax	$ 534	$ 537	$ 462
State income tax, net of federal benefit	87	87	25
Federal research and experimentation credits	(94)	(70)	(54)
Share-based compensation	54	38	22
Federal excess tax benefits related to share-based compensation	(112)	(105)	(79)
Effects of non-U.S. operations	4	4	13
Other, net	3	3	(17)
Total provision for income taxes	$ 476	$ 494	$ 372

The state income tax line in the table above includes excess tax benefits related to share-based compensation of $22 million, $21 million and $11 million for the twelve months ended July 31, 2022, 2021 and 2020, respectively.

In the current global tax policy environment, the U.S. and other domestic and foreign governments continue to consider, and in some cases enact, changes in corporate tax laws. As changes occur, we account for finalized legislation in the period of enactment.

Significant deferred tax assets and liabilities were as follows at the dates indicated:

	July 31,	
(In millions)	2022	2021
Deferred tax assets:		
Accruals and reserves not currently deductible	$ 84	$ 48
Operating lease liabilities	168	113
Accrued and deferred compensation	84	132
Loss and tax credit carryforwards	224	282
Intangible assets	25	33
Share-based compensation	97	59
Other, net	23	16
Total gross deferred tax assets	705	683
Valuation allowance	(244)	(205)
Total deferred tax assets	461	478
Deferred tax liabilities:		
Operating lease right-of-use assets	149	96
Intangibles	868	844
Property and equipment	9	10
Other, net	43	45
Total deferred tax liabilities	1,069	995
Net deferred tax assets (liabilities)	$ (608)	$ (517)

The components of total net deferred tax assets (liabilities), net of valuation allowances, as shown on our consolidated balance sheets were as follows at the dates indicated:

	July 31,	
(In millions)	2022	2021
Long-term deferred income tax assets	$ 11	$ 8
Long-term deferred income tax liabilities	(619)	(525)
Net deferred tax assets (liabilities)	$ (608)	$ (517)

We have provided a valuation allowance related to state research and experimentation tax credit carryforwards, foreign loss carryforwards, foreign intangible deferred tax assets and state operating loss carryforwards that we believe are unlikely to be realized. Changes in the valuation allowance during the twelve months ended July 31, 2022 and July 31, 2021 were primarily related to state research and experimentation tax credit carryforwards, foreign intangible deferred tax assets, foreign loss carryforwards and state operating loss carryforwards.

At July 31, 2022, we had total federal net operating loss carryforwards of approximately $22 million that will start to expire in fiscal 2032. Utilization of the net operating losses is subject to annual limitation. The annual limitation may result in the expiration of net operating losses before utilization.

At July 31, 2022, we had total state net operating loss carryforwards of approximately $86 million for which we have recorded a deferred tax asset of $6 million and a valuation allowance of $3 million. The state net operating loss carryforwards will start to expire in fiscal 2028. Utilization of the net operating losses is subject to annual limitation. The annual limitation may result in the expiration of net operating losses before utilization.

At July 31, 2022, we had Singapore operating loss carryforwards of approximately $78 million, Brazil operating loss carryforwards of approximately $69 million and United Kingdom operating loss carryforwards of approximately $36 million which have an indefinite carryforward period. We maintain a full valuation allowance with respect to operating losses in Singapore, Brazil and United Kingdom jurisdictions, as there is not sufficient evidence of future sources of taxable income required to utilize such carryforwards.

At July 31, 2022, we had federal research and experimentation credit carryforwards of approximately $3 million that will start to expire in fiscal 2039. Utilization of the Federal research and experimentation credit is subject to annual limitation. The annual limitation may result in the expiration of the Federal research and experimentation credit before utilization.

At July 31, 2022, we had California research and experimentation credit carryforwards of approximately $289 million. The California research and experimentation credit will carryforward indefinitely. We recorded a full valuation on the related deferred tax asset, as we believe it is more likely than not that these credits will not be utilized.

Unrecognized Tax Benefits

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows for the periods indicated:

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Gross unrecognized tax benefits, beginning balance	$ 190	$ 101	$ 120
Increases related to tax positions from prior fiscal years, including acquisitions	9	69	2
Decreases related to tax positions from prior fiscal years	(13)	—	(35)
Increases related to tax positions taken during current fiscal year	31	31	21
Settlements with tax authorities	—	—	(1)
Lapse of statute of limitations	(1)	(11)	(6)
Gross unrecognized tax benefits, ending balance	$ 216	$ 190	$ 101

The total amount of our unrecognized tax benefits at July 31, 2022 was $216 million. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of $123 million. We do not believe that it is reasonably possible that there will be a significant increase or decrease in unrecognized tax benefits over the next 12 months.

We file U.S. federal, U.S. state, and foreign tax returns. Our major tax jurisdictions are the U.S. federal jurisdiction and California. For U.S. federal tax returns, we are no longer subject to tax examinations for fiscal 2017 and for years prior to fiscal 2016. For California tax returns, we are no longer subject to tax examination for years prior to fiscal 2016.

We recognize interest and penalties related to unrecognized tax benefits within the provision for income taxes. Amounts accrued at July 31, 2022 and July 31, 2021 for the payment of interest and penalties were not significant. The amounts of interest and penalties that we recognized during the twelve months ended July 31, 2022, 2021 and 2020 were also not significant.

We offset a $89 million and $75 million long-term liability for uncertain tax positions against our long-term income tax receivable at July 31, 2022 and July 31, 2021, respectively. The long-term income tax receivable at July 31, 2022 and July 31, 2021 was primarily related to the government's approval of a method of accounting change request for fiscal 2018 and a refund claim related to Credit Karma's alternative minimum tax credit that was recorded as part of the acquisition.

12. Stockholders' Equity

Stock Repurchase Programs and Treasury Shares

Intuit's Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. Under these programs, we repurchased 3.8 million shares of our common stock for $1.9 billion during the twelve months ended July 31, 2022. Included in this amount were $10 million of repurchases which occurred in late July 2022 and settled in August 2022. At July 31, 2022, we had authorization from our Board of Directors to expend up to an additional $1.5 billion for stock repurchases. On August 19, 2022, our Board approved a new stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. Future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

Our treasury shares are repurchased at the market price on the trade date; accordingly, all amounts paid to reacquire these shares have been recorded as treasury stock on our consolidated balance sheets. Repurchased shares of our common stock are held as treasury shares until they are reissued or retired. When we reissue treasury stock, if the proceeds from the sale are more than the average price we paid to acquire the shares we record an increase in additional paid-in capital. Conversely, if the proceeds from the sale are less than the average price we paid to acquire the shares, we record a decrease in additional paid-in capital to the extent of increases previously recorded for similar transactions and a decrease in retained earnings for any remaining amount.

In the past we have satisfied option exercises and restricted stock unit vesting under our employee equity incentive plans by reissuing treasury shares, and we may do so again in the future. During the second quarter of fiscal 2014, we began issuing new shares of common stock to satisfy option exercises and RSU vesting under our 2005 Equity Incentive Plan. We have not yet determined the ultimate disposition of the shares that we have repurchased in the past, and consequently we continue to hold them as treasury shares.

Dividends on Common Stock

During fiscal 2022, we declared cash dividends that totaled $2.72 per share of outstanding common stock or approximately $781 million. In August 2022, our Board of Directors declared a quarterly cash dividend of $0.78 per share of outstanding common stock payable on October 18, 2022 to stockholders of record at the close of business on October 10, 2022. Future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Description of 2005 Equity Incentive Plan and Credit Karma, Inc. 2015 Equity Incentive Plan

Our stockholders initially approved our 2005 Equity Incentive Plan (2005 Plan) on December 9, 2004. On January 20, 2022, our stockholders approved an Amended and Restated 2005 Equity Incentive Plan (Restated 2005 Plan) that expires on January 20, 2032. Under the Restated 2005 Plan, we are permitted to grant incentive and non-qualified stock options, restricted stock awards, RSUs, stock appreciation rights and stock bonus awards to our employees, non-employee directors, and consultants. The Compensation and Organizational Development Committee of our Board of Directors or its delegates determine who will receive grants, when those grants will be exercisable, their exercise price and other terms. We are permitted to issue up to 159.5 million shares under the Restated 2005 Plan, including 3,366,512 shares that were previously available for issuance prior to January 20, 2022 under the Credit Karma Plan, described below, adjusted for the fungible ratio of the Restated 2005 Plan. The plan provides a fungible share reserve. Each stock option granted on or after November 1, 2010 reduces the share reserve by one share and each restricted stock award or restricted stock unit granted reduces the share reserve by 2.3 shares. Stock options forfeited and returned to the pool of shares available for grant increase the pool by one share for each share forfeited. Restricted stock awards and RSUs forfeited and returned to the pool of shares available for grant increase the pool by 2.3 shares for each share forfeited. Shares withheld for income taxes upon vesting of RSUs that were granted on or after July 21, 2016 are also returned to the pool of shares available for grant. Stock options granted under the 2005 Plan and the Restated 2005 Plan typically vest over three to four years based on continued service and have a seven year term. RSUs granted under those plans typically vest over three to four years based on continued service. Certain RSUs granted to senior management vest based on the achievement of pre-established performance or market goals.

In connection with our acquisition of Credit Karma on December 3, 2020, we assumed the Credit Karma, Inc. 2015 Equity Incentive Plan, as amended (Credit Karma Plan), under which the assumed equity awards were granted. See Note 7, *"Business Combinations,"* for more information on the Credit Karma acquisition and the related equity awards assumed. Under the Restated 2005 Plan, effective January 20, 2022, shares available under the Credit Karma Plan became available for grant under the Restated 2005 Plan and no shares may be granted out of the Credit Karma Plan.

Through January 20, 2022, the Credit Karma Plan provided a fungible share reserve. Each restricted stock unit granted reduced the share reserve by one share. RSUs forfeited and returned to the pool of shares available for grant increased the pool by one share for each share forfeited. Shares withheld for income taxes upon vesting of RSUs were also returned to the pool of shares available for grant. After January 20, 2022, shares forfeited and returned to the pool from grants issued out of the Credit Karma Plan will increase the pool by 2.3 shares for each share forfeited.

At July 31, 2022, there were approximately 26.3 million shares available for grant under the Restated 2005 Plan and no awards may be granted out of the Credit Karma Plan.

Description of Employee Stock Purchase Plan

On November 26, 1996, our stockholders initially adopted our Employee Stock Purchase Plan (ESPP) under Section 423 of the Internal Revenue Code. The ESPP permits our eligible employees to make payroll deductions to purchase our stock on regularly scheduled purchase dates at a discount. Our stockholders have approved amendments to the ESPP to permit the issuance of up to 23.8 million shares under the ESPP, which expires upon the earliest to occur of (a) termination of the ESPP by the Board, or (b) issuance of all the shares of Intuit's common stock reserved for issuance under the ESPP. Offering periods under the ESPP are six months in duration and composed of two consecutive three-month accrual periods. Shares are purchased at 85% of the lower of the closing price for Intuit common stock on the first day of the offering period or the last day of the accrual period.

Under the ESPP, employees purchased 326,961 shares of Intuit common stock during the twelve months ended July 31, 2022; 405,268 shares during the twelve months ended July 31, 2021; and 449,999 shares during the twelve months ended July 31, 2020. At July 31, 2022, there were 723,955 shares available for issuance under this plan.

Share-Based Compensation Expense

The following table summarizes the total share-based compensation expense that we recorded in operating income for the periods shown.

	Twelve Months Ended July 31,		
(In millions except per share amounts)	2022	2021	2020
Cost of product revenue	$ 2	$ 1	$ 1
Cost of service and other revenue	144	68	59
Selling and marketing	309	183	116
Research and development	521	281	151
General and administrative	332	220	108
Total share-based compensation expense	1,308	753	435
Income tax benefit	(396)	(269)	(173)
Decrease in net income	$ 912	$ 484	$ 262
Decrease in net income per share:			
Basic	$ 3.26	$ 1.79	$ 1.00
Diluted	$ 3.21	$ 1.77	$ 0.99

We capitalized $1 million, $2 million, and $3 million in share-based compensation related to internal use software projects during the twelve months ended July 31, 2022, 2021, and 2020.

Determining Fair Value

Valuation and Amortization Methods

RSUs granted typically vest based on continued service. We value these time-based RSUs at the date of grant using the intrinsic value method. We amortize the fair value of time-based RSUs on a straight-line basis over the service period. These time-based RSUs accounted for approximately 85% of our total share-based compensation expense during the twelve months ended July 31, 2022. Certain RSUs granted to senior management vest based on the achievement of pre-established performance or market goals. We estimate the fair value of performance-based RSUs at the date of grant using the intrinsic value method and the probability that the specified performance criteria will be met. Each quarter we update our assessment of the probability that the specified performance criteria will be achieved and adjust our estimate of the fair value of the performance-based RSUs if necessary. We amortize the fair values of performance-based RSUs over the requisite service period for each separately vesting tranche of the award. We estimate the fair value of market-based RSUs at the date of grant using a Monte Carlo valuation methodology and amortize those fair values over the requisite service period for each separately vesting tranche of the award. The Monte Carlo methodology that we use to estimate the fair value of market-based RSUs at the date of grant incorporates into the valuation the possibility that the market condition may not be satisfied. Provided that the requisite service is rendered, the total fair value of the market-based RSUs at the date of grant must be recognized as compensation expense even if the market condition is not achieved. However, the number of shares that ultimately vest can vary significantly with the performance of the specified market criteria. All of the RSUs we grant have dividend rights that are subject to the same vesting requirements as the underlying equity awards, so we do not adjust the market price of our stock on the date of grant for dividends.

We estimate the fair value of stock options granted using a lattice binomial model and a multiple option award approach. Our stock options have various restrictions, including vesting provisions and restrictions on transfer, and are often exercised prior to their contractual maturity. We believe that lattice binomial models are more capable of incorporating the features of our stock options than closed-form models such as the Black Scholes model. The use of a lattice binomial model requires the use of extensive actual employee exercise behavior and a number of complex assumptions including the expected volatility of our stock price over the term of the options, risk-free interest rates and expected dividends. We amortize the fair value of options on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

Expected Term. The expected term of options granted represents the period of time that they are expected to be outstanding and is a derived output of the lattice binomial model. The expected term of stock options is impacted by all of the underlying assumptions and calibration of our model. The lattice binomial model assumes that option exercise behavior is a function of the option's remaining vested life and the extent to which the market price of our common stock exceeds the option exercise price. The lattice binomial model estimates the probability of exercise as a function of these two variables based on the history of exercises and cancellations on all past option grants made by us.

Expected Volatility. We estimate the volatility of our common stock at the date of grant based on the implied volatility of one-year and two-year publicly traded options on our common stock. Our decision to use implied volatility was based upon the availability of actively traded options on our common stock and our assessment that implied volatility is more representative of future stock price trends than historical volatility.

Risk-Free Interest Rate. We base the risk-free interest rate that we use in our option valuation model on the implied yield in effect at the time of option grant on constant maturity U.S. Treasury issues with equivalent remaining terms.

Dividends. We use an annualized expected dividend yield in our option valuation model. We paid quarterly cash dividends during all years presented and currently expect to continue to pay cash dividends in the future.

Forfeitures. We adjust share-based compensation expense for actual forfeitures as they occur.

We used the following assumptions to estimate the fair value of stock options granted and shares purchased under our Employee Stock Purchase Plan for the periods indicated:

	Twelve Months Ended July 31,		
	2022	2021	2020
Assumptions for stock options:			
Expected volatility	35 %	29 %	32 %
Weighted average expected volatility	35 %	29 %	32 %
Risk-free interest rate	2.73 %	0.62 %	0.20 %
Expected dividend yield	0.61 %	0.45 %	0.70 %
Assumptions for ESPP:			
Expected volatility (range)	26% - 39%	31% - 36%	23% - 72%
Weighted average expected volatility	23 %	34 %	39 %
Risk-free interest rate (range)	0.04% - 0.44%	0.02% - 0.17%	0.24% - 2.23%
Expected dividend yield	0.47% - 0.59%	0.60% - 0.75%	0.74% - 0.95%

Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our plans for the fiscal periods indicated was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2019	**21,058**
Restricted stock units granted [(1)]	(6,111)
Options granted	(382)
Share-based awards canceled/forfeited/expired [(1)(2)]	3,482
Balance at July 31, 2020	**18,047**
Shares available for grant under the Credit Karma Plan	4,298
Restricted stock units granted [(1)]	(9,191)
Options granted	(323)
Share-based awards canceled/forfeited/expired [(1)(2)]	4,020
Balance at July 31, 2021	**16,851**
Additional shares authorized	19,903
Restricted stock units granted [(1)]	(14,868)
Options granted	(400)
Share-based awards canceled/forfeited/expired [(1)(2)]	4,774
Balance at July 31, 2022	**26,260**

(1) RSUs granted from the pool of shares available for grant under our Restated 2005 Plan reduce the pool by 2.3 shares for each share granted. RSUs forfeited and returned to the pool of shares available for grant under the Restated 2005 Plan increase the pool by 2.3 shares for each share forfeited. Through January 20, 2022, shares granted from the Credit Karma Plan reduce the pool by one share for each share granted and shares forfeited and returned to the pool from the Credit Karma Plan increase the pool by one share for each share forfeited. Beginning January 20, 2022, shares forfeited and returned to the pool from the Credit Karma Plan increase the pool by 2.3 shares for each share forfeited. No shares were granted from the Credit Karma Plan after January 20, 2022.

(2) Stock options and RSUs canceled, expired or forfeited under our Restated 2005 Plan and Credit Karma Plan are returned to the pool of shares available for grant. Under the Restated 2005 Plan, shares withheld for income taxes upon vesting of RSUs that were granted on or after July 21, 2016 are also returned to the pool of shares available for grant. Stock options and RSUs canceled, expired or forfeited under older expired plans are not returned to the pool of shares available for grant. Under the Credit Karma Plan, shares withheld for income taxes are also returned to the pool of shares available for grant.

Restricted Stock Unit and Restricted Stock Activity

A summary of RSU and restricted stock activity for the periods indicated was as follows:

(Shares in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2019	**5,683**	**$186.22**
Granted	2,657	271.80
Vested	(2,039)	180.40
Forfeited	(637)	154.91
Nonvested at July 31, 2020	**5,664**	**231.97**
Assumed through acquisition	1,998	355.49
Granted[(1)]	3,877	431.82
Restricted stock subject to revest provisions issued in connection with acquisition	775	355.49
Vested	(2,242)	262.23
Forfeited	(1,034)	251.41
Nonvested at July 31, 2021	**9,038**	**345.86**
Granted[(2)]	6,634	466.12
Vested	(3,154)	351.80
Forfeited	(1,051)	351.15
Nonvested at July 31, 2022	**11,467**	**$413.32**

(1) This includes 809,000 RSUs granted to the employees of Credit Karma in connection with the acquisition with a grant date fair value of $300 million. See Note 7, "*Business Combinations.*"

(2) This includes approximately 583,000 RSUs granted to the employees of Mailchimp in substitution of outstanding equity incentive awards with a grant date fair value of $355 million and approximately 325,000 RSUs granted to the employees of Mailchimp in connection with the acquisition with a grant date fair value of $211 million. See Note 7, "*Business Combinations.*"

Additional information regarding our RSUs is shown in the table below.

	Twelve Months Ended July 31,		
(In millions)	2022	2021	2020
Total fair market value of shares vested	$ 1,658	$ 942	$ 620
Share-based compensation for RSUs	$ 1,248	$ 708	$ 382
Total tax benefit related to RSU share-based compensation expense	$ 375	$ 225	$ 134
Cash tax benefits realized for tax deductions for RSUs	$ 334	$ 221	$ 139

At July 31, 2022, there was $4.3 billion of unrecognized compensation cost related to non-vested RSUs and restricted stock with a weighted average vesting period of 3.1 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Stock Option Activity

A summary of stock option activity for the periods indicated was as follows:

(Shares in thousands)	Options Outstanding: Number of Shares	Options Outstanding: Weighted Average Exercise Price Per Share
Balance at July 31, 2019	**3,374**	**$150.75**
Granted	382	303.94
Exercised	(993)	111.82
Canceled or expired	(82)	188.39
Balance at July 31, 2020	**2,681**	**185.83**
Granted	323	525.51
Exercised	(718)	128.39
Canceled or expired	(82)	264.53
Balance at July 31, 2021	**2,204**	**251.48**
Granted	400	448.59
Exercised	(242)	164.94
Canceled or expired	(70)	426.22
Balance at July 31, 2022	**2,292**	**$289.62**

Information regarding stock options outstanding as of July 31, 2022 is summarized below:

	Number of Shares (in thousands)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value (in millions)
Options outstanding	2,292	3.98	$289.62	$361
Options exercisable	1,440	2.74	$209.73	$328

The aggregate intrinsic values at July 31, 2022 are calculated as the difference between the exercise price of the underlying options and the market price of our common stock for shares that were in-the-money at that date. In-the-money options at July 31, 2022 were options that had exercise prices that were lower than the $456.17 market price of our common stock at that date.

Additional information regarding our stock options and ESPP shares is shown in the table below.

(In millions except per share amounts)	Twelve Months Ended July 31, 2022	2021	2020
Weighted average fair value of options granted (per share)	$ 136.76	$ 122.16	$ 74.85
Total grant date fair value of options vested	$ 25	$ 17	$ 23
Aggregate intrinsic value of options exercised	$ 78	$ 179	$ 159
Share-based compensation expense for stock options and ESPP	$ 60	$ 45	$ 53
Total tax benefit for stock option and ESPP share-based compensation	$ 21	$ 44	$ 39
Cash received from option exercises	$ 40	$ 92	$ 111
Cash tax benefits realized related to tax deductions for non-qualified option exercises and disqualifying dispositions under all share-based payment arrangements	$ 37	$ 48	$ 39

At July 31, 2022, there was $98 million of unrecognized compensation cost related to non-vested stock options with a weighted average vesting period of 3.3 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Accumulated Other Comprehensive Loss

Comprehensive income consists of two elements, net income and other comprehensive income (loss). Other comprehensive income (loss) items are recorded in the stockholders' equity section of our consolidated balance sheets and excluded from net income. Our other comprehensive income (loss) consists of unrealized gains and losses on marketable debt securities classified as available-for-sale and foreign currency translation adjustments for subsidiaries with functional currencies other than the U.S. dollar.

The following table shows the components of accumulated other comprehensive loss, net of income taxes, in the stockholders' equity section of our consolidated balance sheets at the dates indicated.

	July 31,	
(In millions)	2022	2021
Unrealized gain (loss) on available-for-sale debt securities	$ (7)	$ 3
Foreign currency translation adjustments	(53)	(27)
Total accumulated other comprehensive loss	$ (60)	$ (24)

13. Benefit Plans

Non-Qualified Deferred Compensation Plan

Intuit's Executive Deferred Compensation Plan provides that executives who meet minimum compensation requirements are eligible to defer up to 75% of their salaries and up to 75% of their bonuses. We have agreed to credit the participants' contributions with earnings that reflect the performance of certain independent investment funds. We do not guarantee above-market interest on account balances. We may also make discretionary employer contributions to participant accounts in certain circumstances. The timing, amounts, and vesting schedules of employer contributions are at the sole discretion of the Compensation and Organizational Development Committee of our Board of Directors or its delegate. The benefits under this plan are unsecured and are general assets of Intuit. Participants are generally eligible to receive payment of their vested benefit at the end of their elected deferral period or after termination of their employment with Intuit for any reason or at a later date to comply with the restrictions of Section 409A of the Internal Revenue Code. Participants may elect to receive their payments in a lump sum or installments. Discretionary company contributions and the related earnings vest completely upon the participant's disability, death, or a change in control of Intuit. We made no employer contributions to the plan for any period presented.

We had liabilities related to this plan of $147 million at July 31, 2022 and $153 million at July 31, 2021. We have matched the plan liabilities with similar-performing assets, which are primarily investments in life insurance contracts. These assets are recorded in other long-term assets while liabilities related to obligations are recorded in other current liabilities on our consolidated balance sheets.

401(k) Plans

In the United States, employees who participate in the Intuit Inc. 401(k) Plan may currently contribute up to 50% of pre-tax compensation, subject to Internal Revenue Service limitations and the terms and conditions of the plan. We match a portion of employee contributions, currently 125% up to six percent of salary, subject to Internal Revenue Service limitations.

Additionally, Credit Karma employees in the United States who participate in the Credit Karma 401(k) Plan may currently contribute up to 90% of pre-tax compensation, subject to Internal Revenue Service limitations and the terms and conditions of the plan. We match a portion of Credit Karma employee contributions, currently 100% up to six percent of salary, subject to Internal Revenue Service limitations.

Matching contributions for both plans were $118 million for the twelve months ended July 31, 2022; $80 million for the twelve months ended July 31, 2021; and $69 million for the twelve months ended July 31, 2020.

14. Legal Proceedings

Beginning in May 2019, various legal proceedings were filed and certain regulatory inquiries were commenced in connection with our provision and marketing of free online tax preparation programs. We believe that the allegations contained within these legal proceedings are without merit and continue to defend our interests in them. These proceedings included, among others, multiple putative class actions that were consolidated into a single putative class action in the Northern District of California in September 2019 (the Intuit Free File Litigation). In August 2020, the Ninth Circuit Court of Appeals ordered that the putative class action claims be resolved through arbitration. In May 2021, the Intuit Free File Litigation was dismissed on a non-class basis after we entered into an agreement that resolved the matter on an individual non-class basis for an immaterial amount, without any admission of wrongdoing.

These proceedings also included individual demands for arbitration that were filed beginning in October 2019. On February 23, 2022 and May 23, 2022, we entered into settlement agreements that will resolve all of these pending arbitration claims, without any admission of wrongdoing. The ultimate amount that we are required to pay under these agreements will depend on the number of claimants that provide releases of claims thereunder. During the twelve months ended July 31, 2022, we accrued an immaterial amount based on our estimate of the probable payments we could make under these agreements. While we believe our accrual is adequate, the final payments required under these agreements could differ from our recorded estimate.

In June 2021, we received a demand and draft complaint from the Federal Trade Commission (FTC) and certain state attorneys general relating to the ongoing inquiries described above. On March 29, 2022, the FTC filed an action in federal court seeking a temporary restraining order and a preliminary injunction enjoining certain Intuit business practices pending resolution of the FTC's administrative complaint seeking to permanently enjoin certain Intuit business practices (the FTC Actions). On April 22, 2022, the Northern District of California denied the FTC's requests for a temporary restraining order and a preliminary injunction. On August 22, 2022, the FTC filed a motion for summary decision in the administrative action that, if granted, would decide that matter in favor of the FTC before a trial was held. On August 30, 2022, we filed our response to the FTC's motion. While we continue to believe that the allegations contained in the FTC's administrative complaint are without merit, the defense and resolution of this matter could involve significant costs to us. The state attorneys general did not join the FTC Actions and, on May 4, 2022, we entered into a settlement agreement with the attorneys general of the 50 states and the District of Columbia, admitting no wrongdoing, that resolved the states' inquiry, as well as actions brought by the Los Angeles City Attorney and the Santa Clara County (California) Counsel. As part of this agreement, we agreed to pay $141 million and made certain commitments regarding our advertising and marketing practices. For the twelve months ended July 31, 2022, we recorded this payment as a one-time charge.

In view of the complexity and ongoing and uncertain nature of the outstanding proceedings and inquiries, at this time we are unable to estimate a reasonably possible financial loss or range of financial loss that we may incur to resolve or settle the remaining matters.

To date, the legal and other fees we have incurred related to these proceedings and inquiries have not been material. The ongoing defense and any resolution or settlement of these proceedings and inquiries could involve significant costs to us.

Intuit is subject to certain routine legal proceedings, including class action lawsuits, as well as demands, claims, government inquiries and threatened litigation, that arise in the normal course of our business, including assertions that we may be infringing patents or other intellectual property rights of others. Our failure to obtain necessary licenses or other rights, or litigation arising out of intellectual property claims could adversely affect our business. We currently believe that, in addition to any amounts accrued, the amount of potential losses, if any, for any pending claims of any type (either alone or combined) will not have a material impact on our consolidated financial statements. The ultimate outcome of any legal proceeding is uncertain and, regardless of outcome, legal proceedings can have an adverse impact on Intuit because of defense costs, negative publicity, diversion of management resources and other factors.

15. Segment Information

We have defined four reportable segments, described below, based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as our Chief Executive Officer and our Chief Financial Officer. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings.

On December 3, 2020, we acquired Credit Karma in a business combination and it operates as a separate reportable segment. We have included the results of operations of Credit Karma in our consolidated statements of operations from the date of acquisition. See Note 7, "*Business Combinations,*" for more information. Segment operating income for Credit Karma includes all direct expenses, which is different from our other reportable segments where we do not fully allocate corporate expenses.

On November 1, 2021, we acquired Mailchimp in a business combination. Mailchimp is part of our Small Business & Self-Employed segment and its revenue is primarily included within Online Services in the revenue disaggregation below. We have included the results of operations of Mailchimp in our consolidated statements of operations from the date of acquisition.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. We have included the results of Mint in the Consumer segment in the segment results below. Revenue and operating results for Mint are not significant, and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint will be included in the Credit Karma segment.

On August 1 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our QuickBooks offerings include financial and business management online services and desktop software, payroll solutions, time tracking, merchant payment processing solutions, and financing for small businesses. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada. Our Mint offering is a personal finance offering which helps customers track their finances and daily financial behaviors.

***Credit Karma*:** This segment serves consumers with a personal finance platform that provides personalized recommendations of credit card, home, auto and personal loans, and insurance products; online savings and checking accounts through an FDIC member bank partner; and access to their credit scores and reports, credit and identity monitoring, credit report dispute, and data-driven resources.

***ProConnect*:** This segment serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada.

All of our segments operate primarily in the United States and sell primarily to customers in the United States. Total international net revenue was approximately 8%, 5%, and 4% of consolidated total net revenue for the twelve months ended July 31, 2022, 2021 and 2020.

For our Small Business & Self-Employed, Consumer, and ProConnect reportable segments, we include expenses such as corporate selling and marketing, product development, general and administrative, and non-employment related legal and litigation settlement costs, which are not allocated to specific segments, in unallocated corporate items as part of other corporate expenses. For our Credit Karma reportable segment, segment expenses include all direct expenses related to selling and marketing, product development, and general and administrative. Unallocated corporate items for all segments include share-based compensation, amortization of acquired technology, amortization of other acquired intangible assets, and goodwill and intangible asset impairment charges.

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1. Except for goodwill and purchased intangible assets, we do not generally track assets by reportable segment and, consequently, we do not disclose total assets by reportable segment. See Note 6, *"Goodwill and Acquired Intangible Assets,"* for goodwill by reportable segment.

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The following table shows our financial results by reportable segment for the periods indicated.

(In millions)	Twelve Months Ended July 31, 2022	2021	2020
Net revenue:			
Small Business & Self-Employed	$ 6,460	$ 4,688	$ 4,050
Consumer	3,915	3,563	3,136
Credit Karma	1,805	865	—
ProConnect	546	517	493
Total net revenue	$ 12,726	$ 9,633	$ 7,679
Operating income:			
Small Business & Self-Employed	$ 3,499	$ 2,590	$ 2,091
Consumer	2,483	2,237	2,063
Credit Karma	531	182	—
ProConnect	383	372	346
Total segment operating income	6,896	5,381	4,500
Unallocated corporate items:			
Share-based compensation expense	(1,308)	(753)	(435)
Other corporate expenses	(2,461)	(1,932)	(1,861)
Amortization of acquired technology	(140)	(50)	(22)
Amortization of other acquired intangible assets	(416)	(146)	(6)
Total unallocated corporate items	(4,325)	(2,881)	(2,324)
Total operating income	$ 2,571	$ 2,500	$ 2,176

Revenue classified by significant product and service offerings was as follows:

(In millions)	Twelve Months Ended July 31, 2022	2021	2020
Net revenue:			
QuickBooks Online Accounting	$ 2,267	$ 1,699	$ 1,354
Online Services	2,171	1,051	828
Total Online Ecosystem	4,438	2,750	2,182
QuickBooks Desktop Accounting	851	789	755
Desktop Services and Supplies	1,171	1,149	1,113
Total Desktop Ecosystem	2,022	1,938	1,868
Small Business & Self-Employed	6,460	4,688	4,050
Consumer	3,915	3,563	3,136
Credit Karma	1,805	865	—
ProConnect	546	517	493
Total net revenue	$ 12,726	$ 9,633	$ 7,679

INTUIT INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In millions)	Beginning Balance	Additions Charged to Expense/ Revenue	Deductions	Ending Balance
Year ended July 31, 2022				
Allowance for doubtful accounts	$ 96	$ 74	$ (139)	$ 31
Reserve for returns and credits	21	183	(179)	25
Reserve for promotional discounts and rebates	10	64	(68)	6
Year ended July 31, 2021				
Allowance for doubtful accounts	$ 12	$ 92	$ (8)	$ 96
Reserve for returns and credits	24	168	(171)	21
Reserve for promotional discounts and rebates	11	62	(63)	10
Year ended July 31, 2020				
Allowance for doubtful accounts	$ 3	$ 68	$ (59)	$ 12
Reserve for returns and credits	24	170	(170)	24
Reserve for promotional discounts and rebates	11	73	(73)	11

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, Intuit's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that as of the end of the period covered by this Annual Report on Form 10-K our disclosure controls and procedures as defined under Exchange Act Rules 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of July 31, 2022 based on the guidelines established in *Internal Control – Integrated Frame*work issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In accordance with guidance issued by the Securities and Exchange Commission, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Our management's evaluation of internal control over financial reporting excluded the internal control activities of Mailchimp, which we acquired on November 1, 2021, as discussed in Note 7, "Business Combinations" of the Notes to the Consolidated Financial Statements. We have included the financial results of this acquisition in the consolidated financial statements from the date of acquisition. Total revenue subject to Mailchimp's internal control over financial reporting represented six percent of our consolidated total revenues for the fiscal year ended July 31, 2022. Total assets and net assets subject to Mailchimp's internal control over financial reporting represent less than one percent of both our consolidated total assets and net assets as of July 31, 2022.

Based on the results of our evaluation, our management has concluded that our internal control over financial reporting was effective as of July 31, 2022 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit and Risk Committee of Intuit's Board of Directors.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of July 31, 2022. Their report is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

Except as noted above, there was no change in our internal control over financial reporting during the period ended July 31, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and that they are effective at the reasonable assurance level. However, no matter how well conceived and executed, a control system can provide only reasonable and not absolute assurance that the objectives of the control system are met. The design of any control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. There are also limitations that are inherent in any control system. These limitations include the realities that breakdowns can occur because of errors in judgment or mistakes, and that controls can be circumvented by individual persons, by collusion of two or more people, or by management override of the controls. Because of these inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B - OTHER INFORMATION

None.

ITEM 9C - DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We maintain a Code of Conduct and Ethics that applies to all employees, including all officers. We also maintain a Board of Directors Code of Ethics that applies to all members of our Board of Directors. Our Code of Conduct and Ethics and Board of Directors Code of Ethics incorporate guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. Our Code of Conduct and Ethics and Board of Directors Code of Ethics are published on our Investor Relations website at https://investors.intuit.com/corporate-governance/conduct-and-guidelines/default.aspx. We disclose amendments to certain provisions of our Code of Conduct and Ethics and Board of Directors Code of Ethics, or waivers of such provisions granted to executive officers and directors, on this website.

The other information required by this Item 10 regarding directors is incorporated by reference from the information contained in our Proxy Statement to be filed with the U.S. Securities and Exchange Commission in connection with the solicitation of proxies for our 2023 Annual Meeting of Stockholders (the "2023 Proxy Statement") under the sections entitled "Proposal No. 1 - Election of Directors – Our Board Nominees," "Corporate Governance," and "Delinquent Section 16(a) Reports." Certain information required by this Item 10 regarding executive officers is set forth in Item 1 of Part I of this report under the heading "Information about our Executive Officers."

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated by reference from the information contained in our 2023 Proxy Statement under the sections entitled "Compensation and Organizational Development Committee Report," "Compensation Discussion and Analysis," "Director Compensation," "Equity Compensation Plan Information," and "Executive Compensation Tables."

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is incorporated by reference from the information contained in our 2023 Proxy Statement under the sections entitled "Stock Ownership Information" and "Executive Compensation Tables."

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated by reference from the information contained in our 2023 Proxy Statement under the sections entitled "Corporate Governance – Director Independence" and "Transactions with Related Persons."

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICE

The information required by this Item 14 is incorporated by reference from the information contained in our 2023 Proxy Statement under the section entitled "Proposal No. 3 – Ratification of Selection of Independent Registered Public Accounting Firm."

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements – See Index to Consolidated Financial Statements in Part II, Item 8.
2. Financial Statement Schedules – See Index to Consolidated Financial Statements in Part II, Item 8.
3. Exhibits

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form/File No.	Date
2.01	Equity Purchase Agreement, dated September 13, 2021, by and among Intuit Inc., a Delaware corporation, The Rocket Science Group LLC, a Georgia limited liability company, VERP Holdings I, LLC, a Georgia limited liability company, VERP Holdings II, LLC, a Georgia limited liability company, DMK RSG, LLC, a Delaware limited liability company, DMK Life LLC, a Delaware limited liability company, DMK 10 LLC, a Delaware limited liability company, DMK 20 LLC, a Delaware limited liability company, DMK RSG Holdco LLC, a Delaware limited liability company, and Benjamin Chestnut, an individual resident of the State of Georgia, as the Sellers' Representative*		8-K	9/13/2021
3.01	Restated Intuit Certificate of Incorporation, dated as of January 19, 2000		10-Q	6/14/2000
3.02	Bylaws of Intuit, as amended and restated effective May 5, 2016		8-K	5/9/2016
4.01	Form of Specimen Certificate for Intuit's Common Stock		10-K	9/15/2009
4.02	Description of Common Stock		10-K	8/30/2019
4.03	Indenture, dated as of June 29, 2020, between Intuit and U.S. Bank National Association, as trustee		8-K	6/29/2020
4.04	Form of 0.650% Senior Note due 2023		8-K	6/29/2020
4.05	Form of 0.950% Senior Note due 2025		8-K	6/29/2020
4.06	Form of 1.350% Senior Note due 2027		8-K	6/29/2020
4.07	Form of 1.650% Senior Note due 2030		8-K	6/29/2020
10.01+	Intuit Inc. Amended and Restated 2005 Equity Incentive Plan, as amended through January 20, 2022		10-Q	3/2/2022
10.02+	Intuit Inc. Amended and Restated 2005 Equity Incentive Plan, as amended through January 19, 2017		S-8 333-215639	1/20/2017
10.03+	Intuit Inc. Amended and Restated 2005 Equity Incentive Plan, as amended through January 23, 2014		S-8 333-193551	1/24/2014
10.04+	Forms of Equity Grant Agreements:CEO Performance-Based Restricted Stock Unit; Executive Performance-Based Restricted Stock Unit	X		

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form/File No.	Date
10.05+	Forms of Equity Grant Agreements: Executive Chairman Non-Qualified Stock Option; Executive Chairman Service-Based Restricted Stock Unit; Executive Chairman Performance-Based Restricted stock Unit; CEO Performance-Based Restricted Stock Unit; Executive Performance-Based Restricted Stock Unit; Service-Based Restricted Stock Unit (non-focal)		10-K	9/8/2021
10.06+	Forms of Equity Grant Agreements: Executive Chair and EVP Service-Based Restricted Stock Unit; Executive Chair and EVP TSR Performance-Based Restricted Stock Unit; CEO Service-Based Restricted Stock Unit; CEO TSR Performance-Based Restricted Stock Unit		10-K	8/31/2020
10.07+	Forms of Equity Grant Agreements: Executive Chair and EVP Restricted Stock Unit, and CEO Restricted Stock Unit		10-K	8/30/2019
10.08+	Form of Executive Chair Restricted Stock Unit Agreement - service-based vesting		10-Q	2/22/2019
10.09+	Forms of Equity Grant Agreements: EVP-SVP TSR Performance-Based Restricted Stock Unit, CEO TSR Performance-Based Restricted Stock Unit, EVP Time-Based Restricted Stock Unit, CEO Restricted Stock Unit, Stock Option - 4 year vest, Time-Based RSU - 4 year vest (focal), New Hire Time-Based Restricted Stock Unit - 4 year vest		10-K	8/31/2018
10.10+	Forms of Equity Grant Agreements: Restricted Stock Unit, CEO TSR Performance-Based Restricted Stock Unit, CEO Restricted Stock Unit, Executive TSR Performance-Based Restricted Stock Unit, EVP Restricted Stock Unit, Restricted Stock Unit - MSPP Purchased, Restricted Stock Unit- MSPP Matching, Stock Option		10-K	9/1/2017
10.11+	Forms of Equity Grant Agreements: CEO Restricted Stock Unit, CEO TSR Performance-Based Restricted Stock Unit, Executive Restricted Stock Unit, EVP/SVP TSR Performance-Based Restricted Stock Unit, Restricted Stock Unit, and Stock Option Agreement		10-K	9/1/2016
10.12+	Form of Amended and Restated 2005 Equity Incentive Plan Non-Qualified Stock Option Grant Agreement: New Hire, Promotion, Retention or Focal Grant		10-K	9/13/2013
10.13+	Credit Karma, Inc. 2015 Equity Incentive Plan, as amended		S-8 333-251096	12/3/2020
10.14+	Form of Restricted Stock Unit Agreement under the Credit Karma, Inc. 2015 Equity Incentive Plan		S-8 333-251096	12/3/2020
10.15+	Form of Restricted Stock Unit Agreement under the Credit Karma, Inc. 2015 Equity Incentive Plan		S-8 333-251096	12/3/2020
10.16+	Form of Restricted Stock Unit Agreement under the Credit Karma, Inc. 2015 Equity Incentive Plan		S-8 333-251096	12/3/2020
10.17+	Intuit Inc. Employee Stock Purchase Plan, as amended through January 19, 2022		10-Q	3/2/2022
10.18+	Intuit Inc. Amended Non-Employee Director Compensation Program, effective January 20, 2022		8-K	1/24/2022
10.19+	Description of Non-Employee Director Compensation, approved October 31, 2018 and effective January 17, 2019		10-Q	11/20/2018
10.20+	Description of Non-Employee Director Compensation, approved October 19, 2017 and effective January 18, 2018		10-Q	11/20/2017
10.21+	Non-employee Director Compensation Program, effective January 21, 2016		10-Q	2/25/2016

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form/File No.	Date
10.22+	Forms of Non-employee Director Restricted Stock Unit Agreements		10-Q	11/20/2017
10.23+	Form of Director Restricted Stock Units Conversion Grant Agreement		10-Q	3/1/2013
10.24+	Fourth Amended and Restated Management Stock Purchase Program		10-Q	2/22/2019
10.25+	Intuit Executive Relocation Policy		10-K	8/31/2018
10.26+	Intuit Inc. Non-qualified Deferred Compensation Plan, effective January 1, 2009		10-Q	11/20/2017
10.27+	Intuit Inc. 2005 Executive Deferred Compensation Plan, effective January 1, 2005		10-Q	12/10/2004
10.28+	Intuit Executive Deferred Compensation Plan, effective March 15, 2002		10-Q	5/31/2002
10.29+	Amended and Restated Intuit Inc. Performance Incentive Plan, adopted October 28, 2020		10-Q	11/19/2020
10.30+	Form of Indemnification Agreement entered into by Intuit with each of its directors and certain officers		10-Q	2/23/2017
10.31+	Letter regarding Terms of Employment by and between Intuit Inc. and Michelle Clatterbuck dated January 19, 2018		8-K	1/23/2018
10.32+	Letter Regarding Terms of Employment by and between Intuit Inc. and Sasan Goodarzi, dated November 15, 2018		10-Q	11/20/2018
10.33+	Employment memo dated November 7, 2018 to J. Alexander Chriss dated November 7, 2018 and effective January 1, 2019.		10-K	8/30/2019
10.34+	Employment memo dated November 7, 2018 to Marianna Tessel and effective January 1, 2019		10-K	8/31/2020
10.35	Credit Agreement, dated as of November 1, 2021, by and among Intuit Inc., the lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, BofA Securities Inc. and The Bank of Nova Scotia, as co-syndication agents, and JPMorgan Chase Bank, N.A., BofA Securities Inc. and The Bank of Nova Scotia, as joint lead arrangers and joint bookrunners		8-K	11/1/2021
10.36	Assurance of Voluntary Compliance, dated May 4, 2022, by and between Intuit Inc. and the Attorney General of the State of New York	X		
10.37	Schedule identifying agreements substantially identical to the Assurance of Voluntary Compliance filed as Exhibit 10.36 hereto	X		
10.38#	Master Services Agreement between Intuit and Arvato Services, Inc., dated May 28, 2003		10-K	9/19/2003
10.39	Second Amendment to Master Service Agreement between Intuit and Arvato Services, Inc., effective May 29, 2007		10-K	9/14/2007
10.40#	Amendment 3 to Master Services Agreement between Intuit and Arvato Services, Inc., effective April 1, 2008		10-Q	5/30/2008
10.41#	Amendment 5 to the Master Services Agreement between Intuit and Arvato Digital Services LLC effective August 19, 2010		10-Q	12/6/2010

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference Form/File No.	Date
10.42	Amended and Restated Amendment Seven to the Master Service Agreement by and between Intuit and Arvato Digital Services effective September 1, 2013		10-Q	11/22/2013
10.43	Amendment 8 to the Master Services Agreement between Intuit and Arvato Digital Services LLC effective August 1, 2014		10-K	9/12/2014
10.44	Lease Agreement dated as of July 31, 2003 between Intuit and Charleston Properties for 2475, 2500, 2525, 2535 and 2550 Garcia Avenue, Mountain View, CA		10-K	9/19/2003
10.45	Lease Agreement dated as of July 31, 2003 between Intuit and Charleston Properties for 2650, 2675, 2700 and 2750 Coast Avenue and 2600 Casey Avenue, Mountain View, California		10-K	9/19/2003
10.46	Second Amendment to Lease Agreement Phase 1, effective January 1, 2011, between Intuit Inc. and Charleston Properties		10-Q	3/1/2011
10.47	Third Amendment to Lease Agreement Phase 2, effective January 1, 2011, between Intuit Inc. and Charleston Properties		10-Q	3/1/2011
21.01	List of Intuit's Subsidiaries	X		
23.01	Consent of Independent Registered Public Accounting Firm	X		
24.01	Power of Attorney (see signature page)	X		
31.01	Certification of Chief Executive Officer	X		
31.02	Certification of Chief Financial Officer	X		
32.01*	Section 1350 Certification (Chief Executive Officer)	X		
32.02*	Section 1350 Certification (Chief Financial Officer)	X		
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X		
101.SCH	XBRL Taxonomy Extension Schema	X		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X		
101.LAB	XBRL Taxonomy Extension Label Linkbase	X		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X		
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X		
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X		

\+ Indicates a management contract or compensatory plan or arrangement.

\# We have requested confidential treatment for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission (SEC). We omitted such portions from this filing and filed them separately with the SEC.

* This certification is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Intuit specifically incorporates it by reference.

ITEM 16 - FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

INTUIT INC.

Dated:	September 2, 2022	By:	/s/ MICHELLE M. CLATTERBUCK
			Michelle M. Clatterbuck
			Executive Vice President and Chief Financial Officer (Principal Financial Officer)

POWER OF ATTORNEY

By signing this Annual Report on Form 10-K below, I hereby appoint each of Sasan K. Goodarzi and Michelle M. Clatterbuck as my attorney-in-fact to sign all amendments to this Form 10-K on my behalf, and to file this Form 10-K (including all exhibits and other documents related to the Form 10-K) with the Securities and Exchange Commission. I authorize each of my attorneys-in-fact to (1) appoint a substitute attorney-in-fact for himself and (2) perform any actions that he believes are necessary or appropriate to carry out the intention and purpose of this Power of Attorney. I ratify and confirm all lawful actions taken directly or indirectly by my attorneys-in-fact and by any properly appointed substitute attorneys-in-fact.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
Principal Executive Officer:		
/s/ SASAN K. GOODARZI Sasan K. Goodarzi	President, Chief Executive Officer and Director	September 2, 2022
Principal Financial Officer:		
/s/ MICHELLE M. CLATTERBUCK Michelle M. Clatterbuck	Executive Vice President and Chief Financial Officer	September 2, 2022
Principal Accounting Officer:		
/s/ LAUREN D. HOTZ Lauren D. Hotz	Senior Vice President and Chief Accounting Officer	September 2, 2022
Additional Directors:		
/s/ EVE BURTON Eve Burton	Director	September 2, 2022
/s/ SCOTT D. COOK Scott D. Cook	Director	September 2, 2022
/s/ RICHARD DALZELL Richard Dalzell	Director	September 2, 2022
/s/ TEKEDRA MAWAKANA Tekedra Mawakana	Director	September 2, 2022
/s/ DEBORAH LIU Deborah Liu	Director	September 2, 2022
/s/ SUZANNE NORA JOHNSON Suzanne Nora Johnson	Chair of the Board of Directors	September 2, 2022
/s/ DENNIS D. POWELL Dennis D. Powell	Director	September 2, 2022
/s/ BRAD D. SMITH Brad D. Smith	Director	September 2, 2022
/s/ THOMAS SZKUTAK Thomas Szkutak	Director	September 2, 2022
/s/ RAUL VAZQUEZ Raul Vazquez	Director	September 2, 2022
/s/ JEFF WEINER Jeff Weiner	Director	September 2, 2022

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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 April 30, 2023
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 0-21180

INTUIT

turbotax credit karma quickbooks mailchimp

INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware	77-0034661
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

2700 Coast Avenue, Mountain View, CA 94043
(Address of principal executive offices, including zip code)

(650) 944-6000
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	INTU	Nasdaq Global Select Market

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 ☐

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 ☑ 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.

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 ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 280,059,722 shares of Common Stock, $0.01 par value, were outstanding at May 16, 2023.

INTUIT INC.
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Intuit, QuickBooks, TurboTax, Credit Karma, and Mailchimp, among others, are registered trademarks and/or registered service marks of Intuit Inc., or one of its subsidiaries, in the United States and other countries. Other parties’ marks are the property of their respective owners.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Please also see the section entitled "Risk Factors" in Item 1A of Part II of this Quarterly Report for important information to consider when evaluating these statements. All statements in this report, other than statements that are purely historical, are forward-looking statements. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “forecast,” “estimate,” “seek,” and similar expressions also identify forward-looking statements. In this report, forward-looking statements include, without limitation, the following:

- our expectations and beliefs regarding future conduct and growth of the business;
- statements regarding the impact of macroeconomic conditions on our business;
- our beliefs and expectations regarding seasonality, competition and other trends that affect our business;
- our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities;
- our expectation that we will continue to invest significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities;
- our expectation that we will work with the broader industry and government to protect our customers from fraud;
- our expectation that we will generate significant cash from operations;
- our expectation that total service and other revenue as a percentage of our total revenue will continue to grow;
- our expectations regarding the development of future products, services, business models and technology platforms and our research and development efforts;
- our assumptions underlying our critical accounting policies and estimates, including our judgments and estimates regarding revenue recognition; the fair value of goodwill; and expected future amortization of acquired intangible assets;
- our intention not to sell our investments and our belief that it is more likely than not that we will not be required to sell them before recovery at par;
- our belief that the investments we hold are not other-than-temporarily impaired;
- our belief that we take prudent measures to mitigate investment-related risks;
- our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;
- our assessments and estimates that determine our effective tax rate;
- our belief that our income tax valuation allowance is sufficient;
- our belief that it is not reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months;
- our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements and other liquidity requirements associated with our operations for at least the next 12 months;
- our expectation that we will return excess cash generated by operations to our stockholders through repurchases of our common stock and the payment of cash dividends, after taking into account our operating and strategic cash needs;
- our judgments and assumptions relating to our loan portfolio;
- our belief that the credit facilities will be available to us should we choose to borrow under them;
- our expectations regarding acquisitions and their impact on business and strategic priorities;
- statements regarding the impact of the COVID-19 pandemic on our business; and
- our assessments and beliefs regarding the future developments and outcomes of pending legal proceedings and inquiries by regulatory authorities, the liability, if any, that Intuit may incur as a result of those proceedings and inquiries, and the impact of any potential losses or expenses associated with such proceedings or inquiries on our financial statements.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this report and in our other filings with the Securities and Exchange Commission before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this Quarterly Report and, except as required by law, we undertake no obligation to revise or update any forward-looking statement for any reason.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(In millions, except per share amounts)	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Net revenue:				
Product	$ 583	$ 554	$ 1,617	$ 1,476
Service and other	5,435	5,078	10,039	8,836
Total net revenue	6,018	5,632	11,656	10,312
Costs and expenses:				
Cost of revenue:				
Cost of product revenue	17	18	55	53
Cost of service and other revenue	924	764	2,253	1,654
Amortization of acquired technology	40	42	122	99
Selling and marketing	1,203	1,227	2,922	2,719
Research and development	604	600	1,859	1,720
General and administrative	332	465	959	1,126
Amortization of other acquired intangible assets	120	121	362	295
Total costs and expenses	3,240	3,237	8,532	7,666
Operating income	2,778	2,395	3,124	2,646
Interest expense	(66)	(21)	(180)	(49)
Interest and other income (loss), net	22	(1)	50	44
Income before income taxes	2,734	2,373	2,994	2,641
Income tax provision	647	579	699	519
Net income	$ 2,087	$ 1,794	$ 2,295	$ 2,122
Basic net income per share	$ 7.44	$ 6.35	$ 8.17	$ 7.60
Shares used in basic per share calculations	281	282	281	279
Diluted net income per share	$ 7.38	$ 6.28	$ 8.11	$ 7.48
Shares used in diluted per share calculations	283	286	283	284

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

	Three Months Ended		Nine Months Ended	
(In millions)	April 30, 2023	April 30, 2022	April 30, 2023	April 30, 2022
Net income	$ 2,087	$ 1,794	$ 2,295	$ 2,122
Other comprehensive income (loss), net of income taxes:				
Unrealized gain (loss) on available-for-sale debt securities	1	(5)	1	(10)
Foreign currency translation gain (loss)	1	(14)	(2)	(19)
Total other comprehensive income (loss), net	2	(19)	(1)	(29)
Comprehensive income	$ 2,089	$ 1,775	$ 2,294	$ 2,093

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(In millions)	April 30, 2023	July 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,745	$ 2,796
Investments	523	485
Accounts receivable, net	717	446
Notes receivable	700	509
Income taxes receivable	2	93
Prepaid expenses and other current assets	574	287
Current assets before funds receivable and amounts held for customers	6,261	4,616
Funds receivable and amounts held for customers	388	431
Total current assets	6,649	5,047
Long-term investments	102	98
Property and equipment, net	938	888
Operating lease right-of-use assets	485	549
Goodwill	13,778	13,736
Acquired intangible assets, net	6,580	7,061
Long-term deferred income tax assets	13	11
Other assets	376	344
Total assets	$ 28,921	$ 27,734
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 501	$ 499
Accounts payable	921	737
Accrued compensation and related liabilities	625	576
Deferred revenue	829	808
Income taxes payable	653	8
Other current liabilities	498	571
Current liabilities before funds payable and amounts due to customers	4,027	3,199
Funds payable and amounts due to customers	388	431
Total current liabilities	4,415	3,630
Long-term debt	6,109	6,415
Long-term deferred income tax liabilities	190	619
Operating lease liabilities	499	542
Other long-term obligations	116	87
Total liabilities	11,329	11,293
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	18,760	17,725
Treasury stock, at cost	(16,307)	(14,805)
Accumulated other comprehensive loss	(61)	(60)
Retained earnings	15,200	13,581
Total stockholders' equity	17,592	16,441
Total liabilities and stockholders' equity	$ 28,921	$ 27,734

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY *(unaudited)*

	Three Months Ended April 30, 2023					
(In millions, except per share amount and shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at January 31, 2023	**280,668**	**$ 18,392**	**$ (15,824)**	**$ (63)**	**$ 13,337**	**$ 15,842**
Comprehensive income	—	—	—	2	2,087	2,089
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	743	(51)	—	—	—	(51)
Stock repurchases under stock repurchase programs	(1,144)	—	(483)	—	—	(483)
Dividends and dividend rights declared ($0.78 per share)	—	—	—	—	(224)	(224)
Share-based compensation expense	—	419	—	—	—	419
Balance at April 30, 2023	**280,267**	**$ 18,760**	**$ (16,307)**	**$ (61)**	**$ 15,200**	**$ 17,592**

	Nine Months Ended April 30, 2023					
(In millions, except per share amount and shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2022	**281,932**	**$ 17,725**	**$ (14,805)**	**$ (60)**	**$ 13,581**	**$ 16,441**
Comprehensive income	—	—	—	(1)	2,295	2,294
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	1,993	(229)	—	—	—	(229)
Stock repurchases	(3,658)	—	(1,502)	—	—	(1,502)
Dividends and dividend rights declared ($2.34 per share)	—	—	—	—	(676)	(676)
Share-based compensation expense	—	1,264	—	—	—	1,264
Balance at April 30, 2023	**280,267**	**$ 18,760**	**$ (16,307)**	**$ (61)**	**$ 15,200**	**$ 17,592**

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY *(unaudited)*

(In millions, except per share amount and shares in thousands)	Three Months Ended April 30, 2022					
	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at January 31, 2022	**283,000**	**$ 17,202**	**$ (13,808)**	**$ (34)**	**$ 12,235**	**$ 15,595**
Comprehensive income	—	—	—	(19)	1,794	1,775
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	502	(69)	—	—	—	(69)
Stock repurchases under stock repurchase programs	(1,029)	—	(489)	—	—	(489)
Dividends and dividend rights declared ($0.68 per share)	—	—	—	—	(197)	(197)
Share-based compensation expense	—	346	—	—	—	346
Balance at April 30, 2022	**282,473**	**$ 17,479**	**$ (14,297)**	**$ (53)**	**$ 13,832**	**$ 16,961**

(In millions, except per share amount and shares in thousands)	Nine Months Ended April 30, 2022					
	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2021	**273,235**	**$ 10,548**	**$ (12,951)**	**$ (24)**	**$ 12,296**	**$ 9,869**
Comprehensive income	—	—	—	(29)	2,122	2,093
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	1,593	(348)	—	—	—	(348)
Stock repurchases under stock repurchase programs	(2,445)	—	(1,346)	—	—	(1,346)
Dividends and dividend rights declared ($2.04 per share)	—	—	—	—	(586)	(586)
Share-based compensation expense	—	963	—	—	—	963
Issuance of stock in a business combination	10,090	6,316	—	—	—	6,316
Balance at April 30, 2022	**282,473**	**$ 17,479**	**$ (14,297)**	**$ (53)**	**$ 13,832**	**$ 16,961**

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(In millions)	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Cash flows from operating activities:		
Net income	$ 2,295	$ 2,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	127	142
Amortization of acquired intangible assets	484	396
Non-cash operating lease cost	68	62
Share-based compensation expense	1,264	962
Deferred income taxes	(389)	106
Other	48	(21)
Total adjustments	**1,602**	**1,647**
Changes in operating assets and liabilities:		
Accounts receivable	(269)	(323)
Income taxes receivable	91	117
Prepaid expenses and other assets	(286)	(88)
Accounts payable	212	86
Accrued compensation and related liabilities	45	(392)
Deferred revenue	18	(2)
Income taxes payable	646	195
Operating lease liabilities	(59)	(62)
Other liabilities	(91)	250
Total changes in operating assets and liabilities	**307**	**(219)**
Net cash provided by operating activities	**4,204**	**3,550**
Cash flows from investing activities:		
Purchases of corporate and customer fund investments	(566)	(583)
Sales of corporate and customer fund investments	196	1,448
Maturities of corporate and customer fund investments	335	177
Purchases of property and equipment	(220)	(168)
Acquisitions of businesses, net of cash acquired	(33)	(5,682)
Originations and purchases of loans	(1,600)	(613)
Principal repayments of loans	1,365	320
Other	(26)	(9)
Net cash used in investing activities	**(549)**	**(5,110)**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	4,700
Repayment of debt	(509)	—
Proceeds from borrowings under secured revolving credit facilities	212	122
Repayments on borrowings under secured revolving credit facilities	(22)	—
Proceeds from issuance of stock under employee stock plans	150	116
Payments for employee taxes withheld upon vesting of restricted stock units	(376)	(465)
Cash paid for purchases of treasury stock	(1,495)	(1,337)
Dividends and dividend rights paid	(667)	(580)
Net change in funds receivable and funds payable and amounts due to customers	(196)	82
Other	(1)	(9)
Net cash provided by (used in) financing activities	**(2,904)**	**2,629**

Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	2	(18)
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	**753**	**1,051**
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	2,997	2,819
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 3,750**	**$ 3,870**
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the condensed consolidated balance sheets to the total amounts reported on the condensed consolidated statements of cash flows		
Cash and cash equivalents	$ 3,745	$ 3,531
Restricted cash and restricted cash equivalents included in funds receivable and amounts held for customers	5	339
Total cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 3,750**	**$ 3,870**
Supplemental schedule of non-cash investing activities:		
Issuance of common stock in a business combination	$ —	$ 6,316

See accompanying notes.

INTUIT INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Intuit helps consumers and small businesses prosper by delivering financial management and compliance products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us serve small business customers.

Our global financial technology platform, which includes TurboTax, Credit Karma, QuickBooks, and Mailchimp, is designed to help consumers and small businesses manage their finances, save money, pay off debt and do their taxes. For those customers who run small businesses, we are also focused on helping them find and keep customers, get paid faster, pay their employees, manage and get access to capital, and ensure that their books are done right. ProSeries and Lacerte are our leading tax preparation offerings for professional accountants. Incorporated in 1984 and headquartered in Mountain View, California, we sell our products and services primarily in the United States.

Basis of Presentation

These condensed consolidated financial statements include the financial statements of Intuit and its wholly-owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for the interim periods presented. We have reclassified certain amounts previously reported in our financial statements that were not material to conform to the current presentation.

We acquired The Rocket Science Group LLC (Mailchimp) on November 1, 2021. We have included the results of operations for Mailchimp in our condensed consolidated statements of operations from the date of acquisition. We have completed the purchase price allocation for the Mailchimp acquisition as of January 31, 2023, with no material adjustments from those disclosed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022. Our Mailchimp offerings are part of our Small Business & Self-Employed segment.

On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants. See Note 12, "*Segment Information*," for more information.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. See Note 12, "*Segment Information*," for more information.

These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022. Results for the nine months ended April 30, 2023 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2023 or any other future period.

Seasonality

Our Consumer and ProTax offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are typically concentrated in the period from November through April. This seasonal pattern results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022. There have been no changes to our significant accounting policies during the first nine months of fiscal 2023.

Use of Estimates

In preparing our condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we make certain judgments, estimates, and assumptions that affect the amounts reported in our financial statements and the disclosures made in the accompanying notes. For example, we use judgments and estimates in determining how revenue should be recognized. These judgments and estimates include identifying performance obligations, determining if the performance obligations are distinct, determining the standalone sales price (SSP) and timing of revenue recognition for each distinct performance obligation, and estimating variable consideration to be included in the transaction price. We use estimates in determining the collectibility of accounts receivable and notes receivable, the appropriate levels of various accruals including accruals for litigation contingencies, the discount rate used to calculate lease liabilities, the amount of our worldwide tax provision, the realizability of deferred tax assets, the credit losses of available-for-sale debt securities, reserves for losses, and the fair value of assets acquired and liabilities assumed for business combinations. We also use estimates in determining the remaining economic lives and fair values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates.

Computation of Net Income Per Share

We compute basic net income or loss per share using the weighted-average number of common shares outstanding during the period. We compute diluted net income per share using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of the shares issuable upon the exercise of stock options and upon the vesting of restricted stock units (RSUs) under the treasury stock method.

We include stock options with combined exercise prices and unrecognized compensation expense that are less than the average market price for our common stock, and RSUs with unrecognized compensation expense that is less than the average market price for our common stock, in the calculation of diluted net income per share. We exclude stock options with combined exercise prices and unrecognized compensation expense that are greater than the average market price for our common stock, and RSUs with unrecognized compensation expense that is greater than the average market price for our common stock, from the calculation of diluted net income per share because their effect is anti-dilutive. Under the treasury stock method, the amount that must be paid to exercise stock options and the amount of compensation expense for future service that we have not yet recognized for stock options and RSUs are assumed to be used to repurchase shares.

All of the RSUs we grant have dividend rights. Dividend rights are accumulated and paid when the underlying RSUs vest. Since the dividend rights are subject to the same vesting requirements as the underlying equity awards, they are considered a contingent transfer of value. Consequently, the RSUs are not considered participating securities and we do not present them separately in earnings per share.

In loss periods, basic net loss per share and diluted net loss per share are the same since the effect of potential common shares is anti-dilutive and therefore excluded.

The following table presents the composition of shares used in the computation of basic and diluted net income per share for the periods indicated.

(In millions, except per share amounts)	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Numerator:				
Net income	$ 2,087	$ 1,794	$ 2,295	$ 2,122
Denominator:				
Shares used in basic per share amounts:				
Weighted-average common shares outstanding	281	282	281	279
Shares used in diluted per share amounts:				
Weighted-average common shares outstanding	281	282	281	279
Dilutive common equivalent shares from stock options and restricted stock awards	2	4	2	5
Dilutive weighted-average common shares outstanding	283	286	283	284
Basic and diluted net income per share:				
Basic net income per share	$ 7.44	$ 6.35	$ 8.17	$ 7.60
Diluted net income per share	$ 7.38	$ 6.28	$ 8.11	$ 7.48
Shares excluded from diluted net income per share:				
Weighted-average stock options and restricted stock units that have been excluded from dilutive common equivalent shares outstanding due to their anti-dilutive effect	2	2	2	1

Deferred Revenue

We record deferred revenue when we have entered into a contract with a customer, and cash payments are received or due prior to transfer of control or satisfaction of the related performance obligation. During the three and nine months ended April 30, 2023, we recognized revenue of $85 million and $778 million, respectively, that was included in deferred revenue at July 31, 2022. During the three and nine months ended April 30, 2022, we recognized revenue of $78 million and $657 million, respectively, that was included in deferred revenue at July 31, 2021.

Our performance obligations are generally satisfied within 12 months of the initial contract date. As of April 30, 2023 and July 31, 2022, the deferred revenue balance related to performance obligations that will be satisfied after 12 months was $4 million and $6 million, respectively, and is included in other long-term obligations on our condensed consolidated balance sheets.

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three or nine months ended April 30, 2023 or April 30, 2022. No customer accounted for 10% or more of gross accounts receivable at April 30, 2023 or July 31, 2022.

Accounting Standards Not Yet Adopted

We do not expect that any recently issued accounting pronouncements will have a significant effect on our financial statements.

2. Fair Value Measurements

Fair Value Hierarchy

The authoritative guidance defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. When determining fair value, we consider the principal or most advantageous market for an asset or liability and assumptions that market participants would use when pricing the asset or liability. In addition, we consider and use all valuation methods that are appropriate in estimating the fair value of an asset or liability.

The authoritative guidance establishes a fair value hierarchy that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities. In general, the authoritative guidance requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of its fair value. The three levels of input defined by the authoritative guidance are as follows:

- **Level 1** uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.
- **Level 2** uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.
- **Level 3** uses one or more unobservable inputs that are supported by little or no market activity and that are significant to the determination of fair value. Level 3 assets and liabilities include those whose fair values are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes financial assets and financial liabilities that we measured at fair value on a recurring basis at the dates indicated, classified in accordance with the fair value hierarchy described above.

	April 30, 2023			July 31, 2022		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Assets:						
Cash equivalents, primarily money market funds and time deposits	$ 3,051	$ —	$ 3,051	$ 1,835	$ —	$ 1,835
Available-for-sale debt securities:						
Corporate notes	—	591	591	—	589	589
U.S. agency securities	—	132	132	—	96	96
Total available-for-sale debt securities	—	723	723	—	685	685
Total assets measured at fair value on a recurring basis	$ 3,051	$ 723	$ 3,774	$ 1,835	$ 685	$ 2,520
Liabilities:						
Senior unsecured notes[(1)]	$ —	$ 1,817	$ 1,817	$ —	$ 1,838	$ 1,838

[(1)] Carrying value on our condensed consolidated balance sheets at April 30, 2023 and July 31, 2022 was $1.99 billion. See Note 6, *"Debt,"* for more information.

The following table summarizes our cash equivalents and available-for-sale debt securities by balance sheet classification and level in the fair value hierarchy at the dates indicated.

	April 30, 2023			July 31, 2022		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Cash equivalents:						
In cash and cash equivalents	$ 3,051	$ —	$ 3,051	$ 1,835	$ —	$ 1,835
In funds receivable and amounts held for customers	—	—	—	—	—	—
Total cash equivalents	$ 3,051	$ —	$ 3,051	$ 1,835	$ —	$ 1,835
Available-for-sale debt securities:						
In investments	$ —	$ 523	$ 523	$ —	$ 485	$ 485
In funds receivable and amounts held for customers	—	200	200	—	200	200
Total available-for-sale debt securities	$ —	$ 723	$ 723	$ —	$ 685	$ 685

We value our Level 1 assets, consisting primarily of money market funds and time deposits, using quoted prices in active markets for identical instruments.

Financial assets whose fair values we measure on a recurring basis using Level 2 inputs consist of corporate notes and U.S. agency securities. We measure the fair values of these assets with the help of a pricing service that either provides quoted market prices in active markets for identical or similar securities or uses observable inputs for their pricing without applying significant adjustments. Our fair value processes include controls designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by a secondary pricing service or investment manager, validation of pricing sources and models, review of key model inputs, analysis of period-over-period price fluctuations, and independent recalculation of prices where appropriate.

Financial liabilities whose fair values we measure using Level 2 inputs consist of senior unsecured notes. See Note 6, *"Debt,"* for more information. We measure the fair value of our senior unsecured notes based on their trading prices and the interest rates we could obtain for other borrowings with similar terms.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended April 30, 2023.

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

Long-term investments represent non-marketable equity securities in privately held companies that do not have a readily determinable fair value. They are accounted for at cost and adjusted based on observable price changes from orderly transactions for identical or similar investments of the same issuer or impairment. These investments are classified as Level 3 in the fair value hierarchy because we estimate the value of these investments using a valuation method based on observable transaction price changes at the transaction date. We recognized no upward adjustments during the three and nine months ended April 30, 2023. We recognized $8 million and $54 million of upward adjustments during the three and nine months ended April 30, 2022, respectively. Impairments recognized during the three and nine months ended April 30, 2023 and April 30, 2022 were not material. Cumulative upward adjustments were $71 million, and cumulative impairments were not material through April 30, 2023 for measurement alternative investments held as of April 30, 2023. The carrying value of long-term investments on our condensed consolidated balance sheets was $102 million and $98 million at April 30, 2023 and July 31, 2022, respectively.

3. Cash and Cash Equivalents, Investments, and Funds Receivable and Amounts Held for Customers

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. In all periods presented, cash equivalents consist primarily of money market funds and time deposits. Investments consist primarily of investment-grade available-for-sale debt securities. Funds receivable and amounts held for customers represents funds receivable from third-party payment processors for customer transactions and cash held on behalf of our customers that is invested in cash and cash equivalents and investment-grade available-for-sale securities, restricted for use solely for the purpose of satisfying amounts we owe on behalf of our customers. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments in debt securities by limiting our holdings with any individual issuer.

The following table summarizes our cash and cash equivalents, investments, and funds receivable and amounts held for customers by balance sheet classification at the dates indicated.

	April 30, 2023		July 31, 2022	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on condensed consolidated balance sheets:				
Cash and cash equivalents	$ 3,745	$ 3,745	$ 2,796	$ 2,796
Investments	526	523	490	485
Funds receivable and amounts held for customers	391	388	435	431
Total cash and cash equivalents, investments, and funds receivable and amounts held for customers	$ 4,662	$ 4,656	$ 3,721	$ 3,712

The following table summarizes our cash and cash equivalents, investments, and relevant portion of funds receivable and amounts held for customers by investment category at the dates indicated. As of April 30, 2023 and July 31, 2022, this excludes $183 million and $30 million, respectively, of funds receivable included on our condensed consolidated balance sheets in funds receivable and amounts held for customers not measured and recorded at fair value.

	April 30, 2023		July 31, 2022	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Type of issue:				
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 3,750	$ 3,750	$ 2,997	$ 2,997
Available-for-sale debt securities:				
Corporate notes	596	591	597	589
U.S. agency securities	133	132	97	96
Total available-for-sale debt securities	729	723	694	685
Total cash, cash equivalents, restricted cash, restricted cash equivalents, and investments	$ 4,479	$ 4,473	$ 3,691	$ 3,682

We use the specific identification method to compute gains and losses on investments. We include realized gains and losses on our available-for-sale debt securities in interest and other income on our condensed consolidated statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the nine months ended April 30, 2023 and April 30, 2022 were not material.

We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income or loss in the stockholders' equity section of our condensed consolidated balance sheets, except for certain unrealized losses described below. Gross unrealized gains and losses on our available-for-sale debt securities at April 30, 2023 and July 31, 2022 were not material.

For available-for sale debt securities in an unrealized loss position, we determine whether a credit loss exists. The estimate of the credit loss is determined by considering available information relevant to the collectibility of the security and information about past events, current conditions, and reasonable and supportable forecasts. The allowance for credit loss is recorded to interest and other income on our condensed consolidated statement of operations, not to exceed the amount of the unrealized loss. Any excess unrealized loss greater than the allowance for credit loss at a security level is recognized in accumulated other comprehensive income or loss in the stockholders' equity section of our condensed consolidated balance sheets. We determined there were no credit losses related to available-for-sale debt securities as of April 30, 2023. Unrealized losses on available-for-sale debt securities at April 30, 2023 were not material. We do not intend to sell these investments. In addition, it is more likely than not that we will not be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following table summarizes our available-for-sale debt securities, included in investments and relevant portion of funds receivable and amounts held for customers, classified by the stated maturity date of the security at the dates indicated.

	April 30, 2023		July 31, 2022	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 406	$ 402	$ 316	$ 313
Due within two years	167	165	298	293
Due within three years	156	156	79	78
Due after three years	—	—	1	1
Total available-for-sale debt securities	$ 729	$ 723	$ 694	$ 685

The following table summarizes our funds receivable and amounts held for customers by asset category at the dates indicated.

(In millions)	April 30, 2023	July 31, 2022
Restricted cash and restricted cash equivalents	$ 5	$ 201
Restricted available-for-sale debt securities and funds receivable	383	230
Total funds receivable and amounts held for customers	$ 388	$ 431

(In millions)	April 30, 2022	July 31, 2021
Restricted cash and restricted cash equivalents	$ 339	$ 257
Restricted available-for-sale debt securities and funds receivable	200	200
Total funds receivable and amounts held for customers	$ 539	$ 457

4. Notes Receivable and Allowances for Loan Losses

Notes receivable consist primarily of term loans to small businesses and refund advance loans to consumers. As of April 30, 2023 and July 31, 2022, the net notes receivable balance was $759 million and $540 million, respectively. The current portion is included in notes receivable and the long-term portion is included in other assets on our condensed consolidated balance sheets. As of April 30, 2023 and July 31, 2022, the allowances for loan losses were not material.

Term Loans to Small Businesses

We provide financing to small businesses via term loans. The term loans are not secured and are recorded at amortized cost, net of allowances for loan losses. As of April 30, 2023 and July 31, 2022, the net notes receivable balance for term loans to small businesses was $752 million and $540 million, respectively. We maintain an allowance for loan losses to reserve for potentially uncollectible notes receivable. We evaluate the creditworthiness of our term loan portfolio on a pooled basis due to its composition of small, homogeneous loans with similar general credit risk and characteristics and apply a loss rate at the time of loan origination. The loss rate and underlying model are updated periodically to reflect actual loan performance and changes to assumptions. We make judgments about the known and inherent risks in the loan portfolio, adverse situations that may affect borrowers' ability to repay and current and future economic conditions. When we determine that amounts are uncollectible, we write them off against the allowance. As of April 30, 2023 and July 31, 2022, the allowances for loan losses on term loans to small businesses were not material.

We consider a loan to be delinquent when the payments are one day past due. We place delinquent loans on nonaccrual status and stop accruing interest revenue. Loans are returned to accrual status if they are brought current or have performed in accordance with the contractual terms for a reasonable period of time and, in our judgment, will continue to make periodic principal and interest payments as per contractual terms. Past due amounts were not material for all periods presented.

Interest revenue is earned on loans originated and held to maturity in accordance with the specified period of time and defined interest rate noted in the loan contract. Interest revenue is recorded net of amortized direct origination costs and is included in service and other revenue on our condensed consolidated statements of operations. Interest revenue was not material for all periods presented.

Refund Advance Loans

Refund advance loans are loans available to eligible TurboTax customers based on a customer's anticipated income tax refund, at no-cost to the customer. The loans are repaid from the customer's income tax refund, which is generally received within three to four weeks after acceptance of the customer's income tax return by the IRS. We partner with a third-party issuing bank to originate the loans and subsequently purchase full participating interests in those loans. The refund advance loans are not secured and are recorded at amortized cost, net of an allowance for loan losses. As of April 30, 2023, the net notes receivable balance for refund advance loans was not material. We had no refund advance loans outstanding as of July 31, 2022. We maintain an allowance for loan losses to reserve for potentially uncollectible loans. We evaluate the likelihood of repayment on a pooled basis due to its composition of small, homogeneous loans with similar general credit risk and characteristics and apply a loss rate at the time of loan purchase. The loss rate and underlying model are updated periodically to reflect actual loan performance and changes to assumptions. When we determine that amounts are uncollectible, we write them off against the allowance. As of April 30, 2023, the allowance for loan losses on refund advance loans was not material.

5. Acquired Intangible Assets

The following table shows the cost, accumulated amortization and weighted-average life in years for our acquired intangible assets at the dates indicated. The weighted-average lives are calculated for assets that are not fully amortized.

(Dollars in millions)	Customer Lists / User Relationships	Purchased Technology	Trade Names and Logos	Covenants Not to Compete or Sue	Total
At April 30, 2023:					
Cost	$ 6,197	$ 1,615	$ 680	$ 42	$ 8,534
Accumulated amortization	(1,070)	(715)	(127)	(42)	(1,954)
Acquired intangible assets, net	$ 5,127	$ 900	$ 553	$ —	$ 6,580
Weighted-average life in years	14	8	13	0	13
At July 31, 2022:					
Cost	$ 6,197	$ 1,612	$ 680	$ 42	$ 8,531
Accumulated amortization	(748)	(593)	(87)	(42)	(1,470)
Acquired intangible assets, net	$ 5,449	$ 1,019	$ 593	$ —	$ 7,061
Weighted-average life in years	14	8	13	0	13

The following table shows the expected future amortization expense for our acquired intangible assets at April 30, 2023. Amortization of purchased technology is charged to amortization of acquired technology in our condensed consolidated statements of operations. Amortization of other acquired intangible assets, such as customer lists, is charged to amortization of other acquired intangible assets in our condensed consolidated statements of operations. If impairment events occur, they could accelerate the timing of acquired intangible asset charges.

(In millions)	Expected Future Amortization Expense
Twelve months ending July 31,	
2023 (excluding the nine months ended April 30, 2023)	$ 161
2024	626
2025	624
2026	620
2027	594
Thereafter	3,955
Total expected future amortization expense	$ 6,580

6. Debt

The carrying value of our debt was as follows at the dates indicated:

(In millions)	April 30, 2023	July 31, 2022	Effective Interest Rate
Senior unsecured notes issued June 2020:			
0.650% notes due July 2023	$ 500	$ 500	0.837%
0.950% notes due July 2025	500	500	1.127%
1.350% notes due July 2027	500	500	1.486%
1.650% notes due July 2030	500	500	1.767%
Term loan	4,200	4,700	
Secured revolving credit facilities	421	230	
Total principal balance of debt	6,621	6,930	
Unamortized discount and debt issuance costs	(11)	(16)	
Net carrying value of debt	$ 6,610	$ 6,914	
Short-term debt	$ 501	$ 499	
Long-term debt	$ 6,109	$ 6,415	

Future principal payments for debt at April 30, 2023 were as shown in the table below.

(In millions)	
Fiscal year ending July 31,	
2023 (excluding the nine months ended April 30, 2023)	$ 501
2024	—
2025	4,700
2026	420
2027	500
Thereafter	500
Total future principal payments for debt	$ 6,621

Senior Unsecured Notes

In June 2020, we issued four series of senior unsecured notes (together, the Notes) pursuant to a public debt offering. The proceeds from the issuance were $1.98 billion, net of debt discount of $2 million and debt issuance costs of $15 million.

Interest is payable semiannually on January 15 and July 15 of each year. The discount and debt issuance costs are amortized to interest expense over the term of the Notes under the effective interest method. We paid $12 million in interest on the Notes during each of the nine months ended April 30, 2023 and 2022.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of April 30, 2023, we were compliant with all covenants governing the Notes.

Unsecured Credit Facility

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019 (2019 Credit Facility), and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $4.7 billion unsecured term loan that matures on November 1, 2024, and a $1 billion unsecured revolving credit facility that matures on November 1, 2026 (2021 Credit Facility).

The 2021 Credit Facility includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of April 30, 2023, we were compliant with all required covenants.

Term Loan. On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. Under this agreement, we may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.125%, or (ii) the Secured Overnight Finance Rate (SOFR) plus a margin that ranges from 0.625% to 1.125%. Actual margins under either election will be based on our senior debt credit ratings. Interest on the term loan is payable monthly. At April 30, 2023, $4.2 billion was outstanding under the term loan. The carrying value of the term loan approximates its fair value. We paid $164 million and $21 million in interest on the term loan during the nine months ended April 30, 2023 and 2022, respectively.

Unsecured Revolving Credit Facility. The 2021 Credit Facility includes a $1 billion unsecured revolving credit facility that will expire on November 1, 2026. Under this agreement, we may increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times, subject to customary conditions including lender approval. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.1%, or (ii) SOFR plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. At April 30, 2023, no amounts were outstanding under the unsecured revolving credit facility. We paid no interest on the unsecured revolving credit facility during each of the nine months ended April 30, 2023 and 2022.

Secured Revolving Credit Facilities

2019 Secured Facility. On February 19, 2019, a subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses (the 2019 Secured Facility). The 2019 Secured Facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. We have entered into several amendments to this facility, most recently on May 9, 2023. These amendments primarily increase the facility limit, extend the commitment term and maturity date, and update the benchmark interest rate. Under the amended 2019 Secured Facility, the facility limit is $500 million, of which $300 million is committed and $200 million is uncommitted. Advances accrue interest at adjusted daily simple SOFR plus 1.5%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.25% to 0.75%, depending on the total unused committed balance. The commitment term is through July 18, 2025, and the final maturity date is July 20, 2026. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of April 30, 2023, we were compliant with all required covenants. At April 30, 2023, $301 million was outstanding under the 2019 Secured Facility and the weighted-average interest rate was 6.41%. The outstanding balance is secured by cash and receivables of the subsidiary totaling $866 million. Interest on the 2019 Secured Facility is payable monthly. We paid $11 million of interest on this secured revolving credit facility during the nine months ended April 30, 2023 and $1 million during the nine months ended April 30, 2022.

2022 Secured Facility. On October 12, 2022, another subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses (the 2022 Secured Facility). The 2022 Secured Facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. Under the agreement, the facility limit is $500 million, of which $150 million is committed and $350 million is uncommitted. Advances accrue interest at SOFR plus 1.3%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.2% to 0.4%, depending on the total unused committed balance. The commitment term is through October 12, 2024, and the final maturity date is October 13, 2025. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of April 30, 2023, we were compliant with all required covenants. At April 30, 2023, $120 million was outstanding under the 2022 Secured Facility and the weighted-average interest rate was 6.16%, which includes the interest on the unused committed portion. The outstanding balance is secured by cash and receivables of the subsidiary totaling $338 million. Interest on the 2022 Secured Facility is payable monthly. We paid $2 million of interest on this secured revolving credit facility during the nine months ended April 30, 2023.

7. Other Liabilities and Commitments

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

(In millions)	April 30, 2023	July 31, 2022
Executive deferred compensation plan liabilities	$ 157	$ 147
Current portion of operating lease liabilities	87	84
Sales, property, and other taxes	83	40
Reserve for returns, credits, and promotional discounts	66	31
Accrued settlement for state attorneys general	—	141
Other	105	128
Total other current liabilities	$ 498	$ 571

The balances of several of our other current liabilities, particularly our reserves for product returns, credits, and promotional discounts, are affected by the seasonality of our business. See Note 1, *"Description of Business and Summary of Significant Accounting Policies – Seasonality,"* for more information.

Other Long-Term Obligations

Other long-term obligations were as follows at the dates indicated:

(In millions)	April 30, 2023	July 31, 2022
Income tax liabilities	$ 78	$ 44
Dividend payable	16	12
Deferred revenue	4	6
Other	18	25
Total other long-term obligations	$ 116	$ 87

Unconditional Purchase Obligations

We describe our unconditional purchase obligations in Note 9 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022. There were no significant changes outside the ordinary course of business in our purchase obligations during the nine months ended April 30, 2023.

8. Leases

We lease office facilities under non-cancellable operating lease arrangements. Our facility leases generally provide for periodic rent increases and may contain escalation clauses and renewal options. Our leases have remaining lease terms of up to 19 years, which include options to extend that are reasonably certain of being exercised. Some of our leases include one or more options to extend the leases for up to 10 years per option, which we are not reasonably certain to exercise. The options to extend are generally at rates to be determined in accordance with the agreements. Options to extend the lease are included in the lease liability if they are reasonably certain of being exercised. We do not have material finance leases.

We sublease certain office facilities to third parties. These subleases have remaining lease terms of up to 7 years, some of which include one or more options to extend the subleases for up to 5 years per option.

The components of lease expense were as follows:

	Three Months Ended		Nine Months Ended	
(In millions)	April 30, 2023	April 30, 2022	April 30, 2023	April 30, 2022
Operating lease cost [(1)]	$ 33	$ 25	$ 97	$ 71
Variable lease cost	6	4	15	11
Sublease income	(3)	(4)	(9)	(14)
Total net lease cost	$ 36	$ 25	$ 103	$ 68

[(1)] Includes short-term leases, which were not material for each of the three and nine months ended April 30, 2023 and 2022.

Supplemental cash flow information related to operating leases was as follows:

	Nine Months Ended	
(In millions)	April 30, 2023	April 30, 2022
Cash paid for amounts included in the measurement of operating lease liabilities	$ 73	$ 77
Right-of-use assets obtained in exchange for operating lease liabilities	$ 23	$ 81

Other information related to operating leases was as follows at the dates indicated:

	April 30, 2023	July 31, 2022
Weighted-average remaining lease term for operating leases	8.0 years	8.1 years
Weighted-average discount rate for operating leases	3 %	2.9 %

Future minimum lease payments under non-cancellable operating leases as of April 30, 2023 were as follows:

(In millions)	Operating Leases (1)
Fiscal year ending July 31,	
2023 (excluding the nine months ended April 30, 2023)	$ 20
2024	77
2025	95
2026	78
2027	70
Thereafter	340
Total future minimum lease payments	680
Less imputed interest	(94)
Present value of lease liabilities	$ 586

(1) Non-cancellable sublease proceeds for the remainder of the fiscal year ending July 31, 2023 and the fiscal years ending July 31, 2024, 2025, 2026, 2027, and thereafter of $3 million, $11 million, $6 million, $1 million, $1 million, and $3 million, respectively, are not included in the table above.

Supplemental balance sheet information related to operating leases was as follows at the dates indicated:

(In millions)	April 30, 2023	July 31, 2022
Operating lease right-of-use assets	$ 485	$ 549
Other current liabilities	$ 87	$ 84
Operating lease liabilities	499	542
Total operating lease liabilities	$ 586	$ 626

9. Income Taxes

Effective Tax Rate

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period.

For the three and nine months ended April 30, 2023, we recognized excess tax benefits on share-based compensation of $17 million and $15 million, respectively, in our provision for income taxes. For the three and nine months ended April 30, 2022, we recognized excess tax benefits on share-based compensation of $26 million and $135 million, respectively, in our provision for income taxes.

Our effective tax rates for the three and nine months ended April 30, 2023 were approximately 24% and 23%, respectively. Excluding discrete tax items primarily related to share-based compensation tax benefits, including those mentioned above, our effective tax rate for both periods was approximately 24%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

Our effective tax rates for the three and nine months ended April 30, 2022 were approximately 24% and 20%, respectively. Excluding discrete tax items primarily related to share-based compensation tax benefits, including those mentioned above, our effective tax rate for both periods was approximately 26%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

Under the 2017 Tax Cuts & Jobs Act, research and development costs are no longer fully deductible and are required to be capitalized and amortized for U.S. tax purposes effective August 1, 2022. The mandatory capitalization requirement significantly increases our deferred tax assets and income taxes payable for fiscal 2023.

In the current global tax policy environment, the U.S. and other domestic and foreign governments continue to consider, and in some cases enact, changes in corporate tax laws. As changes occur, we account for finalized legislation in the period of enactment.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2022 was $216 million. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of $123 million. There were no material changes to these amounts during the three and nine months ended April 30, 2023. We do not believe that it is reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months.

We offset an $85 million and $89 million long-term liability for uncertain tax positions against our long-term income tax receivable at April 30, 2023 and July 31, 2022, respectively. The long-term income tax receivable at April 30, 2023 and July 31, 2022 was primarily related to the government's approval of a method of accounting change request for fiscal 2018 and a refund claim related to Credit Karma's alternative minimum tax credit that was recorded as part of the acquisition.

10. Stockholders' Equity

Stock Repurchase Programs and Treasury Shares

Intuit's Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. During the nine months ended April 30, 2023, we repurchased a total of 3.7 million shares for $1.5 billion under these programs. Included in this amount were $17 million of repurchases which occurred in late April 2023 and settled in early May 2023. On August 19, 2022, our Board approved an increase in the authorization under the existing stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. At April 30, 2023, we had authorization from our Board of Directors for up to $2.0 billion in stock repurchases. Future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

Our treasury shares are repurchased at the market price on the trade date; accordingly, all amounts paid to reacquire these shares have been recorded as treasury stock on our condensed consolidated balance sheets. Any direct costs to acquire treasury stock are recorded to treasury stock on our condensed consolidated balance sheets. Repurchased shares of our common stock are held as treasury shares until they are reissued or retired. When we reissue treasury stock, if the proceeds from the sale are more than the average price we paid to acquire the shares, we record an increase in additional paid-in capital. Conversely, if the proceeds from the sale are less than the average price we paid to acquire the shares, we record a decrease in additional paid-in capital to the extent of increases previously recorded for similar transactions and a decrease in retained earnings for any remaining amount.

In the past, we have satisfied option exercises and restricted stock unit vesting under our employee equity incentive plans by reissuing treasury shares, and we may do so again in the future. During the second quarter of fiscal 2014, we began issuing new shares of common stock to satisfy option exercises and RSU vesting under our 2005 Equity Incentive Plan. We have not yet determined the ultimate disposition of the shares that we have repurchased in the past, and consequently we continue to hold them as treasury shares.

Dividends on Common Stock

During the nine months ended April 30, 2023, we declared quarterly cash dividends that totaled $2.34 per share of outstanding common stock for a total of $676 million. In May 2023, our Board of Directors declared a quarterly cash dividend of $0.78 per share of outstanding common stock payable on July 18, 2023 to stockholders of record at the close of business on July 10, 2023. Future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Share-Based Compensation Expense

The following table summarizes the total share-based compensation expense that we recorded in operating income for the periods shown.

(In millions)	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Cost of revenue	$ 114	$ 40	$ 291	$ 105
Selling and marketing	96	85	310	232
Research and development	116	138	384	379
General and administrative	93	83	279	246
Total share-based compensation expense	$ 419	$ 346	$ 1,264	$ 962

We capitalized no share-based compensation related to internal-use software projects during the nine months ended April 30, 2023 and $1 million during the nine months ended April 30, 2022.

Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our plans for the nine months ended April 30, 2023 was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2022	26,260
Restricted stock units granted [1]	(3,265)
Options granted	—
Share-based awards canceled/forfeited/expired [1] [2]	3,661
Balance at April 30, 2023	26,656

(1) RSUs granted from the pool of shares available for grant under our 2005 Equity Incentive Plan reduce the pool by 2.3 shares for each share granted. RSUs forfeited and returned to the pool of shares available for grant under the 2005 Equity Incentive Plan increase the pool by 2.3 shares for each share forfeited.

(2) Stock options and RSUs canceled, expired or forfeited under our 2005 Equity Incentive Plan are returned to the pool of shares available for grant. Under the 2005 Equity Incentive Plan, shares withheld for income taxes upon vesting of RSUs that were granted on or after July 21, 2016 are also returned to the pool of shares available for grant. Stock options and RSUs canceled, expired or forfeited under older expired plans are not returned to the pool of shares available for grant.

Restricted Stock Unit and Restricted Stock Activity

A summary of RSU and restricted stock activity for the nine months ended April 30, 2023 was as follows:

(Shares in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2022	11,467	$ 413.32
Granted	1,419	417.34
Vested	(2,574)	405.30
Forfeited	(646)	340.84
Nonvested at April 30, 2023	9,666	$ 420.89

At April 30, 2023, there was approximately $3.5 billion of unrecognized compensation cost related to non-vested RSUs and restricted stock with a weighted-average vesting period of 2.7 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Stock Option Activity

A summary of stock option activity for the nine months ended April 30, 2023 was as follows:

	Options Outstanding	
(Shares in thousands)	Number of Shares	Weighted Average Exercise Price Per Share
Balance at July 31, 2022	2,292	$ 289.62
Granted	—	—
Exercised	(338)	149.51
Canceled or expired	(24)	368.72
Balance at April 30, 2023	1,930	$ 313.14
Exercisable at April 30, 2023	1,265	$ 245.55

At April 30, 2023, there was approximately $71 million of unrecognized compensation cost related to non-vested stock options with a weighted-average vesting period of 2.7 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

11. Legal Proceedings

Beginning in May 2019, various legal proceedings were filed and certain regulatory inquiries were commenced in connection with our provision and marketing of free online tax preparation programs. We believe that the allegations contained within these legal proceedings are without merit and continue to defend our interests in them. These proceedings included, among others, multiple putative class actions that were consolidated into a single putative class action in the Northern District of California in September 2019 (the Intuit Free File Litigation). In August 2020, the Ninth Circuit Court of Appeals ordered that the putative class action claims be resolved through arbitration. In May 2021, the Intuit Free File Litigation was dismissed on a non-class basis after we entered into an agreement that resolved the matter on an individual non-class basis, without any admission of wrongdoing, for an amount that was not material. These proceedings also include a class action lawsuit that was filed in the Ontario (Canada) Superior Court of Justice on August 25, 2022.

These proceedings also included individual demands for arbitration that were filed beginning in October 2019. As of January 31, 2023, we settled all of these arbitration claims, without any admission of wrongdoing, for an amount that was not material. In June 2021, we received a demand and draft complaint from the Federal Trade Commission (FTC) and certain state attorneys general relating to the ongoing inquiries described above. On March 29, 2022, the FTC filed an action in federal court seeking a temporary restraining order and a preliminary injunction enjoining certain Intuit business practices pending resolution of the FTC's administrative complaint seeking to permanently enjoin certain Intuit business practices (the FTC Actions). On April 22, 2022, the Northern District of California denied the FTC's requests for a temporary restraining order and a preliminary injunction. Beginning on March 27, 2023, a final hearing on the administrative action was held before an administrative law judge at the FTC. That hearing concluded in April 2023, and the parties are now engaged in post-trial briefing. While we continue to believe that the allegations contained in the FTC's administrative complaint are without merit, the defense and resolution of this matter could involve significant costs to us. The state attorneys general did not join the FTC Actions and, on May 4, 2022, we entered into a settlement agreement with the attorneys general of the 50 states and the District of Columbia, admitting no wrongdoing, that resolved the states' inquiry, as well as actions brought by the Los Angeles City Attorney and the Santa Clara County (California) Counsel. As part of this agreement, we agreed to pay $141 million and made certain commitments regarding our advertising and marketing practices. We recorded this as a one-time charge in the quarter ended April 30, 2022 and paid the full amount to the fund administrator in the quarter ended January 31, 2023.

In view of the complexity and ongoing and uncertain nature of the outstanding proceedings and inquiries, at this time we are unable to estimate a reasonably possible financial loss or range of financial loss that we may incur to resolve or settle the remaining matters.

To date, the legal and other fees we have incurred related to these proceedings and inquiries have not been material. The ongoing defense and any resolution or settlement of these proceedings and inquiries could involve significant costs to us.

Intuit is subject to certain routine legal proceedings, including class action lawsuits, as well as demands, claims, government inquiries and threatened litigation, that arise in the normal course of our business, including assertions that we may be infringing patents or other intellectual property rights of others. Our failure to obtain necessary licenses or other rights, or litigation arising out of intellectual property claims could adversely affect our business. We currently believe that, in addition to any amounts accrued, the amount of potential losses, if any, for any pending claims of any type (either alone or combined) will not have a material impact on our consolidated financial statements. The ultimate outcome of any legal proceeding is uncertain and, regardless of outcome, legal proceedings can have an adverse impact on Intuit because of defense costs, negative publicity, diversion of management resources and other factors.

12. Segment Information

We have defined our four reportable segments, described below, based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as our Chief Executive Officer and our Chief Financial Officer. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings.

On November 1, 2021, we acquired Mailchimp in a business combination. Our Mailchimp offerings are part of our Small Business & Self-Employed segment and its revenue is primarily included within Online Services in the revenue disaggregation below. We have included the results of operations of Mailchimp in our condensed consolidated statements of operations from the date of acquisition.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. Revenue and operating results for Mint are not material and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint are included in the Credit Karma segment.

On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our QuickBooks offerings include financial and business management online services and desktop software, payroll solutions, time tracking, merchant payment processing solutions, and financing for small businesses. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada.

***Credit Karma*:** This segment serves consumers with a personal finance platform that provides personalized recommendations of credit card, home, auto and personal loans, and insurance products; online savings and checking accounts through an FDIC member bank partner; and access to their credit scores and reports, credit and identity monitoring, credit report dispute, and data-driven resources. Our Mint offering is a personal finance offering which helps customers track their finances and daily financial behaviors.

***ProTax*:** This segment serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada.

All of our segments operate primarily in the United States and sell primarily to customers in the United States. Total international net revenue was approximately 6% and 8% of consolidated net revenue for the three and nine months ended April 30, 2023, respectively. Total international net revenue was approximately 6% and 7% for the three and nine months ended April 30, 2022, respectively.

We include expenses such as corporate selling and marketing, product development, general and administrative, and non-employment related legal and litigation settlement costs, which are not allocated to specific segments, in unallocated corporate items as part of other corporate expenses. For our Credit Karma reportable segment, segment expenses include all direct expenses related to selling and marketing, product development, and general and administrative. Unallocated corporate items for all segments include share-based compensation, amortization of acquired technology, amortization of other acquired intangible assets, goodwill and intangible asset impairment charges, and professional fees and transaction charges related to business combinations.

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 and in Note 1, *"Description of Business and Summary of Significant Accounting Policies – Significant Accounting Policies"* in this Quarterly Report on Form 10-Q. Except for goodwill and purchased intangible assets, we do not generally track assets by reportable segment and, consequently, we do not disclose total assets by reportable segment.

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The following table shows our financial results by reportable segment for the periods indicated.

(In millions)	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Net revenue:				
Small Business & Self-Employed	$ 2,021	$ 1,667	$ 5,906	$ 4,691
Consumer	3,341	3,239	4,007	3,770
Credit Karma	410	468	1,210	1,330
ProTax	246	258	533	521
Total net revenue	$ 6,018	$ 5,632	$ 11,656	$ 10,312
Operating income:				
Small Business & Self-Employed	$ 1,122	$ 836	$ 3,322	$ 2,530
Consumer	2,531	2,447	2,719	2,489
Credit Karma	111	104	301	414
ProTax	203	213	408	397
Total segment operating income	3,967	3,600	6,750	5,830
Unallocated corporate items:				
Share-based compensation expense	(419)	(346)	(1,264)	(962)
Other corporate expenses	(610)	(696)	(1,878)	(1,828)
Amortization of acquired technology	(40)	(42)	(122)	(99)
Amortization of other acquired intangible assets	(120)	(121)	(362)	(295)
Total unallocated corporate items	(1,189)	(1,205)	(3,626)	(3,184)
Total operating income	$ 2,778	$ 2,395	$ 3,124	$ 2,646

Revenue classified by significant product and service offerings was as follows:

(In millions)	Three Months Ended April 30, 2023	Three Months Ended April 30, 2022	Nine Months Ended April 30, 2023	Nine Months Ended April 30, 2022
Net revenue:				
QuickBooks Online Accounting	$ 723	$ 578	$ 2,087	$ 1,644
Online Services	745	614	2,121	1,514
Total Online Ecosystem	1,468	1,192	4,208	3,158
QuickBooks Desktop Accounting	280	201	807	637
Desktop Services and Supplies	273	274	891	896
Total Desktop Ecosystem	553	475	1,698	1,533
Small Business & Self-Employed	2,021	1,667	5,906	4,691
Consumer	3,341	3,239	4,007	3,770
Credit Karma	410	468	1,210	1,330
ProTax	246	258	533	521
Total net revenue	$ 6,018	$ 5,632	$ 11,656	$ 10,312

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. This should allow the readers of this report to obtain a comprehensive understanding of our businesses, strategies, current trends, and future prospects. Our MD&A includes the following sections:

- ***Executive Overview:*** High level discussion of our operating results and some of the trends that affect our business.
- ***Critical Accounting Policies and Estimates:*** Significant changes since our most recent Annual Report on Form 10-K that we believe are important to understanding the assumptions and judgments underlying our financial statements.
- ***Results of Operations:*** A more detailed discussion of our revenue and expenses.
- ***Liquidity and Capital Resources:*** Discussion of key aspects of our condensed consolidated statements of cash flows, changes in our condensed consolidated balance sheets, and our financial commitments.

You should note that this MD&A contains forward-looking statements that involve risks and uncertainties. Please see the section entitled "Forward-Looking Statements" immediately preceding Part I of this Quarterly Report for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the financial statements and related notes in Part I, Item 1 of this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

On November 1, 2021, we acquired all of the outstanding equity of The Rocket Science Group LLC (Mailchimp). Our Mailchimp offerings are part of our Small Business & Self-Employed segment. We have included the results of operations of Mailchimp in our condensed consolidated statements of operations from the date of acquisition.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. Revenue and operating results for Mint are not material and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint are included in the Credit Karma segment.

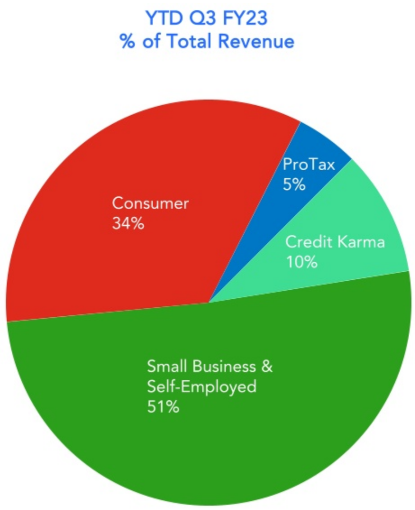
On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

EXECUTIVE OVERVIEW

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results as well as our future prospects. This summary is not intended to be exhaustive, nor is it a substitute for the detailed discussion and analysis provided elsewhere in this Quarterly Report on Form 10-Q.

About Intuit

Intuit helps consumers and small businesses prosper by delivering financial management and compliance products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us serve small business customers. We organize our businesses into four reportable segments – Small Business & Self-Employed, Consumer, Credit Karma, and ProTax.



***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our QuickBooks offerings include financial and business management online services and desktop software, payroll solutions, time tracking, merchant payment processing solutions, and financing for small businesses. Our Mailchimp offerings include e-commerce, marketing automation, and customer relationship management.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada.

***Credit Karma*:** This segment serves consumers with a personal finance platform that provides personalized recommendations of credit card, home, auto and personal loan, and insurance products; online savings and checking accounts through an FDIC member bank partner; and access to their credit scores and reports, credit and identity monitoring, credit report dispute, and data-driven resources. Our Mint offering is a personal finance offering which helps customers track their finances and daily financial behaviors.

***ProTax*:** This segment serves professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, and ProConnect Tax Online in the U.S., and ProFile and ProTax Online in Canada.

Our Business and Growth Strategy

At Intuit, our strategy starts with customer obsession. We listen to and observe our customers, understand their challenges, and then use advanced technology, including artificial intelligence (AI), to develop innovative solutions to help consumers and small businesses prosper. Our strategy for delivering on our bold goals is to be an AI-driven expert platform where we and others can solve our customers' most important problems. We plan to accelerate the development of the platform by applying AI in three key areas:

- An Open Platform: None of us can do it alone, including Intuit. The best way to deliver for customers is by creating an open, collaborative platform. It's the power of partnerships that accelerates the world's success. Our open technology platform integrates with partners so, together, we can deliver value and benefits that matter the most to our customers.
- Application of AI: AI helps our customers work smarter because we can automate, predict and personalize their experience. Using AI technologies, we are: leveraging machine learning to build decision engines and algorithms that learn from rich datasets to transform user experiences; applying knowledge engineering and turning compliance rules into code; and using natural language processing to revolutionize how customers interact with products and services.
- Incorporating Experts: One of the biggest problems our customers face is lack of confidence. Even with current advances in technology that deliver personalized tools and insights, many customers want to connect with a real person to help give them the confidence they are making the right decision. By bringing experts onto our platform we can solve this massive problem for customers. The power of our virtual expert platform allows us to scale the intelligence of our products, elevating experts to advisors and delivering big benefits for customers.

As we build our AI-driven expert platform, we prioritize our resources on five strategic priorities across the company. These priorities focus on solving the problems that matter most to customers and include:

- **Revolutionizing speed to benefit:** When customers use our products and services, we use the power of data-driven customer insights to help deliver value instantly and aim to make interactions with our offerings frictionless, without the need for customers to manually enter data. We are accelerating the application of AI and investing in decentralized technologies such as blockchain and cryptocurrency, with a goal to revolutionize the customer experience and help customers put more money in their pockets faster. This priority is foundational across our business, and execution against it positions us to succeed with our other four strategic priorities.

- **Connecting people to experts:** The largest problem our customers face is lack of confidence to file their own taxes or to manage their books. To build their confidence, we connect our customers to experts. We offer customers access to experts to help them make important decisions – and experts, such as accountants, gain access to new customers so they can grow their businesses.

  We are also expanding how we think about virtual experiences by exploring metaverse technologies and broadening the segments we serve beyond tax and accounting, to play a more meaningful role in our customers' lives.
- **Unlocking smart money decisions:** We are creating a comprehensive, self-driving financial platform that propels our members forward wherever they are on their financial journey, so our members can understand their financial picture, make smart financial decisions, and stick to their financial plan in the near and long term.
- **Be the center of small business growth:** We are focused on helping customers grow their businesses by offering a broad, seamless set of tools that are designed to help them get and retain customers, get paid faster, manage and get access to capital, pay employees with confidence, and use third-party apps to help run their businesses. At the same time, we want to position ourselves to better serve product-based businesses to benefit customers who sell products through multiple channels.
- **Disrupt the small business mid-market:** We aim to disrupt the mid-market with QuickBooks Online Advanced, our online offering designed to address the needs of small business customers with 10 to 100 employees. This offering enables us to increase retention of these larger customers, and attract new mid-market customers who are over-served by available offerings.

Industry Trends and Seasonality

Industry Trends

AI is transforming multiple industries, including financial technology. Disruptive start-ups, emerging ecosystems and mega-platforms are harnessing new technology to create personalized experiences, deliver data-driven insights and increase speed of service. These shifts are creating a more dynamic and highly competitive environment where customer expectations are shifting around the world as more services become digitized and the array of choices continues to increase.

Seasonality

Our Consumer and ProTax offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are typically concentrated in the period from November through April. This seasonal pattern results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively.

We expect the seasonality of our Consumer and ProTax businesses to continue to have a significant impact on our quarterly financial results in the future.

Key Challenges and Risks

Our growth strategy depends upon our ability to initiate and embrace disruptive technology trends, to enter new markets, and to drive broad adoption of the products and services we develop and market. Our future growth also increasingly depends on the strength of our third-party business relationships and our ability to continue to develop, maintain and strengthen new and existing relationships. To remain competitive and continue to grow, we are investing significant resources in our product development, marketing, and sales capabilities, and we expect to continue to do so in the future. Much of our future success also depends on our ability to continue to attract, retain and develop highly skilled employees in a highly competitive talent environment.

As we offer more online services, the ongoing operation and availability of our platforms and systems and those of our external service providers is becoming increasingly important. Because we help customers manage their financial lives, we face risks associated with the hosting, collection, use, and retention of personal customer information and data. We are investing significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities, and we expect to continue to do so in the future.

We operate in industries that are experiencing an increasing amount of fraudulent activities by malicious third parties. We implement additional security measures, and we continue to work with state and federal governments to implement industry-wide security and anti-fraud measures, including sharing information regarding suspicious activity. We received ISO 27001 certification for a portion of our systems, and we continue to invest in security measures and to work with the broader industry and government to protect our customers against this type of fraud.

For a complete discussion of the most significant risks and uncertainties affecting our business, please see “Forward-Looking Statements” immediately preceding Part I and “Risk Factors” in Item 1A of Part II of this Quarterly Report.

Overview of Financial Results

The most important financial indicators that we use to assess our business are revenue growth for the company as a whole and for each reportable segment; operating income growth for the company as a whole; earnings per share; and cash flow from operations. We also track certain non-financial drivers of revenue growth and, when material, identify them in the applicable discussions of segment results below. Service offerings are a significant part of our business. Our total service and other revenue was approximately $11 billion or 86% of our total revenue in fiscal 2022 and we expect our total service and other revenue to continue to grow in the future.

Key highlights for the first nine months of fiscal 2023 include the following:

Revenue of **$11.7 B** up 13% from the same period of fiscal 2022	Small Business & Self-Employed revenue of **$5.9 B** up 26% from the same period of fiscal 2022	Consumer revenue of **$4.0 B** up 6% from same period of fiscal 2022
Operating income of **$3.1 B** up 18% from the same period of fiscal 2022	Net income of **$2.3 B** up 8% from the same period of fiscal 2022	Diluted net income per share of **$8.11** up 8% from the same period of fiscal 2022

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss, and net income or loss, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no significant changes in those critical accounting policies and estimates during the first nine months of fiscal 2023. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit and Risk Committee of our Board of Directors.

RESULTS OF OPERATIONS

Financial Overview

(Dollars in millions, except per share amounts)	Q3 FY23	Q3 FY22	$ Change	% Change	YTD Q3 FY23	YTD Q3 FY22	$ Change	% Change
Total net revenue	$ 6,018	$ 5,632	$ 386	7 %	$ 11,656	$ 10,312	$ 1,344	13 %
Operating income	2,778	2,395	383	16 %	3,124	2,646	478	18 %
Net income	2,087	1,794	293	16 %	2,295	2,122	173	8 %
Diluted net income per share	$ 7.38	$ 6.28	$ 1.10	18 %	$ 8.11	$ 7.48	$ 0.63	8 %

Current Fiscal Quarter

Total net revenue for the third quarter of fiscal 2023 increased $386 million or 7% compared with the same quarter of fiscal 2022. Our Small Business & Self-Employed segment revenue increased during the quarter primarily due to growth in our Online Ecosystem revenue. Consumer revenue increased primarily due to a shift in mix to our higher-priced product offerings including our TurboTax Live and Premium offerings, as well as higher effective prices, partially offset by a decrease in total returns. These increases were offset by a decrease in Credit Karma segment revenue primarily due to decreases in our personal loan, home loan, auto loan, and auto insurance verticals. See "*Segment Results*" later in this Item 2 for more information about the results for all of our reportable segments.

Operating income for the third quarter of fiscal 2023 increased $383 million or 16% compared to the same quarter of fiscal 2022. The increase in operating income was due to the increase in revenue described above and relatively stable expenses. Higher expenses for staffing and share-based compensation were offset by a one-time charge related to a settlement recorded in the previous fiscal year and a decrease in marketing expenses. See "*Cost of Revenue*" and "*Operating Expenses*" later in this Item 2 for more information.

Net income for the third quarter of fiscal 2023 increased $293 million or 16% compared with the same quarter of fiscal 2022. The increase in net income was primarily due to the increase in operating income described above, partially offset by increases in tax expense and interest expense. Interest expense increased as a result of higher interest rates on our term loan. Diluted net income per share increased to $7.38 for the third quarter of fiscal 2023 compared to $6.28 for the same quarter of fiscal 2022, in line with the increase in net income.

Fiscal Year to Date

Total net revenue for the first nine months of fiscal 2023 increased $1.3 billion or 13% compared with the same period of fiscal 2022. Our Small Business & Self-Employed segment revenue increased during the period due to growth in our Online Ecosystem revenue. Our fiscal 2022 Online Ecosystem revenue includes Mailchimp revenue from the date of acquisition, which was November 1, 2021, and our fiscal 2023 Online Ecosystem revenue includes Mailchimp revenue for the full reporting period. Revenue for our Consumer segment increased compared to the same period in fiscal 2022 primarily due to a shift in mix to our higher-priced product offerings including our TurboTax Live and Premium offerings, as well as higher effective prices, partially offset by a decrease in total returns. These increases were offset by a decrease in Credit Karma segment revenue primarily due to decreases in our personal loan, home loan, auto loan, and auto insurance verticals. See "*Segment Results*" later in this Item 2 for more information about the results for all of our reportable segments.

Operating income for the first nine months of fiscal 2023 increased $478 million or 18% compared with the same period of fiscal 2022. The increase in operating income was due to the increase in revenue described above, partially offset by an increase in expenses. Expenses increased primarily due to staffing, share-based compensation, and amortization of other acquired intangible assets, partially offset by a one-time charge related to a settlement recorded in the previous fiscal year and a decrease in marketing expenses. See *"Cost of Revenue"* and *"Operating Expenses"* later in this Item 2 for more information.

Net income for the first nine months of fiscal 2023 increased $173 million or 8% compared with the same period of fiscal 2022. The increase in net income was primarily due to the increase in operating income described above, partially offset by increases in tax expense and interest expense. The increase in tax expense is primarily due to the increase in operating income and lower excess tax benefits on share-based compensation for the first nine months of fiscal 2023 compared with the same period of fiscal 2022. Interest expense increased as a result of higher interest rates on our term loan and the term loan was outstanding during the entire nine month period of fiscal 2023, compared to only six months during the nine month period of fiscal 2022. Diluted net income per share increased to $8.11 for the first nine months of fiscal 2023 compared to $7.48 for the same period in fiscal in 2022, in line with the increase in net income.

Segment Results

The information below is organized in accordance with our four reportable segments. See *"Executive Overview – About Intuit"* earlier in this Item 2 and Note 12 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report for more information. All of our segments operate and sell to customers primarily in the United States. Total international net revenue was approximately 6% and 8% for the three and nine months ended April 30, 2023, respectively. Total international net revenue was approximately 6% and 7% for the three and nine months ended April 30, 2022, respectively.

On November 1, 2021, we acquired Mailchimp in a business combination. Our Mailchimp offerings are part of our Small Business & Self-Employed segment. We have included the results of operations of Mailchimp in our condensed consolidated statements of operations from the date of acquisition.

On August 1, 2022, to better align our personal finance strategy, our Mint offering moved from our Consumer segment to our Credit Karma segment. Revenue and operating results for Mint are not material and the previously reported segment results have not been reclassified. Effective August 1, 2022, the operating results for Mint are included in the Credit Karma segment.

On August 1, 2022, we renamed our ProConnect segment as the ProTax segment. This segment continues to serve professional accountants.

Segment operating income or loss is segment net revenue less segment cost of revenue and operating expenses. See *"Executive Overview – Industry Trends and Seasonality"* earlier in this Item 2 for a description of the seasonality of our business. We include expenses such as corporate selling and marketing, product development, general and administrative, and non-employment related legal and litigation settlement costs, which are not allocated to specific segments, in unallocated corporate items as part of other corporate expenses. For our Credit Karma reportable segment, segment expenses include all direct expenses related to selling and marketing, product development, and general and administrative. Unallocated corporate items for all segments include share-based compensation, amortization of acquired technology, amortization of other acquired intangible assets, goodwill and intangible asset impairment charges, and professional fees and transaction charges related to business combinations. These unallocated corporate items for all segments totaled $3.6 billion in the first nine months of fiscal 2023 and $3.2 billion in the first nine months of fiscal 2022. Unallocated corporate items increased in the fiscal 2023 period primarily due to increases in share-based compensation expense, corporate selling and marketing expense, and corporate product development, partially offset by a one-time charge related to a settlement recorded in the previous fiscal year. See Note 12 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report for reconciliations of total segment operating income or loss to consolidated operating income or loss for each fiscal period presented.

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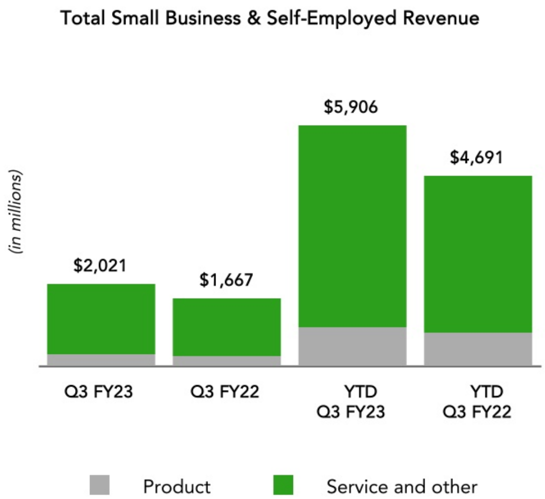
Small Business & Self-Employed



Small Business & Self-Employed segment includes both Online Ecosystem and Desktop Ecosystem revenue.

Our Online Ecosystem includes revenue from:

- QuickBooks Online, QuickBooks Live, QuickBooks Online Advanced and QuickBooks Self-Employed financial and business management offerings;
- QuickBooks Online Payroll;
- Merchant payment processing services for small businesses who use online offerings;
- Mailchimp's e-commerce, marketing automation, and customer relationship management offerings;
- QuickBooks Checking; and
- Financing for small businesses.

Our Desktop Ecosystem includes revenue from:

- QuickBooks Desktop software subscriptions (QuickBooks Desktop Pro Plus, QuickBooks Desktop Premier Plus, and QuickBooks Enterprise, and ProAdvisor Program memberships for the accounting professionals who serve small businesses);
- Desktop payroll products (QuickBooks Basic Payroll, QuickBooks Assisted Payroll and QuickBooks Enhanced Payroll);
- Merchant payment processing services for small businesses who use desktop offerings;
- QuickBooks Point of Sale;
- Financial supplies; and
- Financing for small businesses.

Segment product revenue is primarily derived from revenue related to delivery of software licenses and the related updates, including version protection, for our QuickBooks Desktop subscriptions and desktop payroll offerings which are part of our Desktop Ecosystem. Segment service and other revenue is primarily derived from our Online Ecosystem revenue and revenue from the services and support that are provided as part of our QuickBooks Desktop subscription and desktop payroll offerings, as well as merchant payment processing services.

(Dollars in millions)	Q3 FY23	Q3 FY22	% Change	YTD Q3 FY23	YTD Q3 FY22	% Change
Product revenue	$ 317	$ 247	28 %	$ 990	$ 858	15 %
Service and other revenue	1,704	1,420	20 %	4,916	3,833	28 %
Total segment revenue	$ 2,021	$ 1,667	21 %	$ 5,906	$ 4,691	26 %
% of total revenue	34 %	30 %		51 %	45 %	
Segment operating income	$ 1,122	$ 836	34 %	$ 3,322	$ 2,530	31 %
% of related revenue	56 %	50 %		56 %	54 %	

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Revenue classified by significant product and service offerings was as follows:

(Dollars in millions)	Q3 FY23	Q3 FY22	% Change	YTD Q3 FY23	YTD Q3 FY22	% Change
Net revenue:						
QuickBooks Online Accounting	$ 723	$ 578	25 %	$ 2,087	$ 1,644	27 %
Online Services	745	614	21 %	2,121	1,514	40 %
Total Online Ecosystem	1,468	1,192	23 %	4,208	3,158	33 %
QuickBooks Desktop Accounting	280	201	39 %	807	637	27 %
Desktop Services and Supplies	273	274	— %	891	896	(1)%
Total Desktop Ecosystem	553	475	16 %	1,698	1,533	11 %
Total Small Business & Self-Employed	$ 2,021	$ 1,667	21 %	$ 5,906	$ 4,691	26 %

Revenue for our Small Business & Self-Employed segment increased $354 million or 21% in the third quarter of fiscal 2023 and $1.2 billion or 26% in the first nine months of fiscal 2023 compared with the same periods of fiscal 2022. The increase in both periods was primarily due to growth in Online Ecosystem revenue. Our fiscal 2022 Online Ecosystem revenue includes Mailchimp revenue from the date of acquisition, which was November 1, 2021, and our fiscal 2023 Online Ecosystem revenue includes Mailchimp revenue for the full reporting period.

Online Ecosystem Revenue

Online Ecosystem revenue increased 23% in the third quarter of fiscal 2023 compared with the same period of fiscal 2022. QuickBooks Online Accounting revenue increased 25% in the third quarter of fiscal 2023 primarily due to an increase in customers, higher effective prices, and a shift in mix to our higher-priced offerings. Online Services revenue increased 21% in the third quarter of fiscal 2023 primarily due to an increase in revenue from our Mailchimp, payroll, and payments offerings. Mailchimp revenue increased due to higher effective prices and customer growth. Online payroll revenue increased due to an increase in customers and a shift in mix to higher-end offerings. Online payments revenue increased due to an increase in customers and an increase in total payment volume per customer.

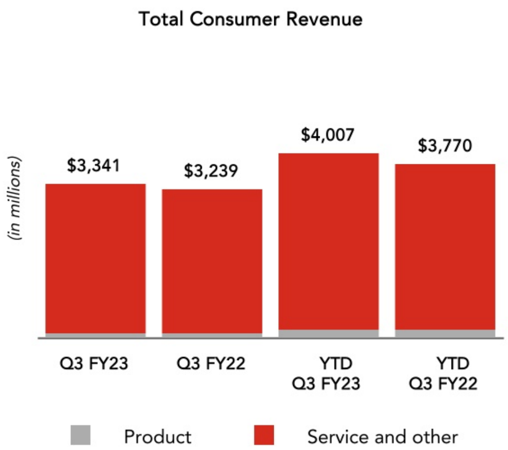
Online Ecosystem revenue increased 33% in the first nine months of fiscal 2023 compared with the same period of fiscal 2022. QuickBooks Online Accounting revenue increased 27% in the first nine months of fiscal 2023 primarily due to an increase in customers, higher effective prices, and a shift in mix to our higher-priced offerings. Online Services revenue increased 40% in the first nine months of fiscal 2023 primarily from higher Mailchimp revenue due to the timing of our acquisition in the second quarter of fiscal 2022 and increases in revenue from our payroll and payments offerings. Online payroll revenue increased due to an increase in customers and a shift in mix to higher-end offerings. Online payments revenue increased due to an increase in customers and an increase in total payment volume per customer.

Desktop Ecosystem Revenue

Desktop Ecosystem revenue increased 16% in the third quarter of fiscal 2023 and 11% in the first nine months of fiscal 2023 compared with the same periods of fiscal 2022. The increase was primarily due to growth in our QuickBooks Desktop and Enterprise subscription offerings. In the first quarter of fiscal 2022, we discontinued our QuickBooks Desktop packaged software products and now sell only on a subscription basis.

Small Business & Self-Employed segment operating income increased $286 million or 34% in the third quarter of fiscal 2023 and $792 million or 31% in the first nine months of fiscal 2023 compared with the same periods of fiscal 2022, primarily due to the increases in revenue described above, which were partially offset by higher staffing expenses, sales related expenses, and outside services expenses.

Consumer



Consumer segment product revenue is derived primarily from TurboTax desktop tax return preparation software and related form updates.

Consumer segment service and other revenue is derived primarily from TurboTax Online and TurboTax Live offerings, electronic tax filing services and connected services.

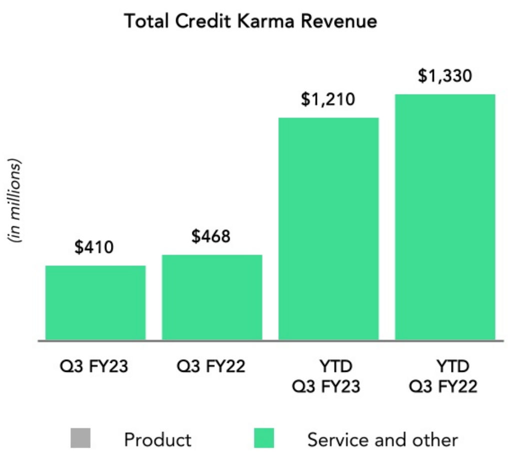
(Dollars in millions)	Q3 FY23	Q3 FY22	% Change	YTD Q3 FY23	YTD Q3 FY22	% Change
Product revenue	$ 104	$ 131	(21)%	$ 205	$ 203	1 %
Service and other revenue	3,237	3,108	4 %	3,802	3,567	7 %
Total segment revenue	$ 3,341	$ 3,239	3 %	$ 4,007	$ 3,770	6 %
% of total revenue	55 %	57 %		34 %	37 %	
Segment operating income	$ 2,531	$ 2,447	3 %	$ 2,719	$ 2,489	9 %
% of related revenue	76 %	76 %		68 %	66 %	

Revenue for our Consumer segment increased $237 million or 6% in the first nine months of fiscal 2023 compared with the same period of fiscal 2022, primarily due to a shift in mix to our higher-priced product offerings including our TurboTax Live and Premium offerings, as well as higher effective prices, partially offset by a decrease in total returns.

Consumer segment operating income increased $230 million or 9% in the first nine months of fiscal 2023 compared with the same period of fiscal 2022, primarily due to the increase in revenue described above and relatively stable expenses. Higher selling expenses were offset by lower marketing expenses.

Effective August 1, 2022, our Mint offering is part of our Credit Karma segment.

Credit Karma



Credit Karma revenue is primarily derived from cost-per-action transactions, which include the delivery of qualified links that result in completed actions such as credit card issuances and personal loan funding; and cost-per-click and cost-per-lead transactions, which include user clicks on advertisements or advertisements that allow for the generation of leads, and primarily relate to mortgage and insurance businesses. Credit Karma also includes revenue from our Mint offering.

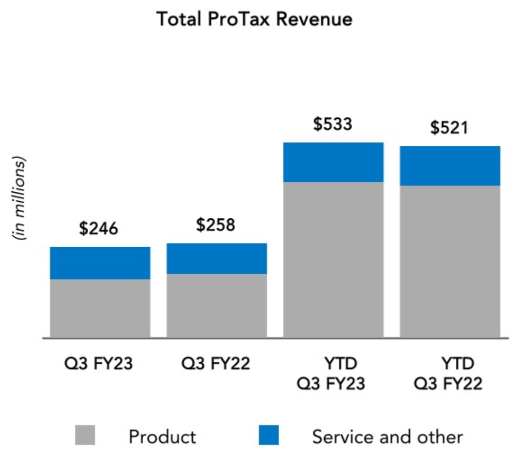
(Dollars in millions)	Q3 FY23	Q3 FY22	% Change	YTD Q3 FY23	YTD Q3 FY22	% Change
Product revenue	$ —	$ —	N/A	$ —	$ —	N/A
Service and other revenue	410	468	(12)%	1,210	1,330	(9)%
Total segment revenue	$ 410	$ 468	(12)%	$ 1,210	$ 1,330	(9)%
% of total revenue	7 %	8 %		10 %	13 %	
Segment operating income	$ 111	$ 104	7 %	$ 301	$ 414	(27)%
% of related revenue	27 %	22 %		25 %	31 %	

Revenue for our Credit Karma segment decreased $58 million or 12% in the third quarter of fiscal 2023 and $120 million or 9% in the first nine months of fiscal 2023 compared to the same periods of fiscal 2022, primarily due to decreases in our personal loan, home loan, auto loan, and auto insurance verticals, partially offset by an increase in our credit card vertical. Economic uncertainty and rising interest rates continue to influence the lending behaviors of our partners.

Credit Karma segment operating income increased $7 million or 7% in the third quarter of fiscal 2023 and decreased $113 million or 27% in the first nine months of fiscal 2023 compared to the same periods of fiscal 2022 primarily due to the decrease in revenue described above and lower expenses. Lower marketing expenses were partially offset by higher staffing expenses.

Effective August 1, 2022, our Mint offering is part of our Credit Karma segment.

ProTax



ProTax segment product revenue is derived primarily from Lacerte, ProSeries, and ProFile desktop tax preparation software products and related form updates.

ProTax segment service and other revenue is derived primarily from ProTax Online tax products, electronic tax filing service, connected services and bank products.

(Dollars in millions)	Q3 FY23	Q3 FY22	% Change	YTD Q3 FY23	YTD Q3 FY22	% Change
Product revenue	$ 162	$ 176	(8)%	$ 422	$ 415	2 %
Service and other revenue	84	82	2 %	111	106	5 %
Total segment revenue	$ 246	$ 258	(5)%	$ 533	$ 521	2 %
% of total revenue	4 %	5 %		5 %	5 %	
Segment operating income	$ 203	$ 213	(5)%	$ 408	$ 397	3 %
% of related revenue	83 %	83 %		77 %	76 %	

Revenue for our ProTax segment increased $12 million or 2% in the first nine months of fiscal 2023 compared with the same period of fiscal 2022, primarily due to a shift in mix to higher-value customers, as well as higher effective prices.

ProTax segment operating income increased 3% in the first nine months of fiscal 2023 compared with the same period of fiscal 2022 primarily due to the increase in revenue described above and relatively stable expenses.

Cost of Revenue

(Dollars in millions)	Q3 FY23	% of Related Revenue	Q3 FY22	% of Related Revenue	YTD Q3 FY23	% of Related Revenue	YTD Q3 FY22	% of Related Revenue
Cost of product revenue	$ 17	3 %	$ 18	3 %	$ 55	3 %	$ 53	4 %
Cost of service and other revenue	924	17 %	764	15 %	2,253	22 %	1,654	19 %
Amortization of acquired technology	40	n/a	42	n/a	122	n/a	99	n/a
Total cost of revenue	$ 981	16 %	$ 824	15 %	$ 2,430	21 %	$ 1,806	18 %

Our cost of revenue has three components: (1) cost of product revenue, which includes the direct costs of manufacturing and shipping or electronically downloading our desktop software products; (2) cost of service and other revenue, which includes the direct costs associated with our online and service offerings, such as costs for data processing and storage capabilities from cloud providers, ongoing production support costs, customer support costs, costs for the tax and bookkeeping experts that support our TurboTax Live and QuickBooks Live offerings, and costs related to credit score providers; and (3) amortization of acquired technology which represents the cost of amortizing developed technologies that we have obtained through acquisitions, over their useful lives.

Cost of product revenue as a percentage of product revenue was relatively consistent in the third quarter and first nine months of fiscal 2023 compared with the same periods of fiscal 2022. Costs of product revenue are expensed as incurred, and we do not defer any of these costs when product revenue is deferred.

Cost of service and other revenue as a percentage of service and other revenue increased in both the third quarter and first nine months of fiscal 2023 compared with the same periods of fiscal 2022. The increase is primarily due to an increase in share-based compensation expense and the decrease in revenue for Credit Karma described above.

Operating Expenses

(Dollars in millions)	Q3 FY23	% of Total Net Revenue	Q3 FY22	% of Total Net Revenue	YTD Q3 FY23	% of Total Net Revenue	YTD Q3 FY22	% of Total Net Revenue
Selling and marketing	$ 1,203	20 %	$ 1,227	22 %	$ 2,922	26 %	$ 2,719	26 %
Research and development	604	10 %	600	11 %	1,859	16 %	1,720	17 %
General and administrative	332	6 %	465	8 %	959	8 %	1,126	11 %
Amortization of other acquired intangible assets	120	2 %	121	2 %	362	3 %	295	3 %
Total operating expenses	$ 2,259	38 %	$ 2,413	43 %	$ 6,102	52 %	$ 5,860	57 %

Current Fiscal Quarter

Total operating expenses as a percentage of total net revenue decreased in the third quarter of fiscal 2023 compared to the same period of fiscal 2022. Total net revenue for the third quarter of fiscal 2023 increased $386 million or 7% while total operating expenses for the quarter decreased $154 million or 6%. The decrease in total operating expenses was primarily due to decreases of $141 million for a one-time charge related to a settlement recorded in the previous fiscal year and $73 million for marketing, which were partially offset by an increase of $77 million for staffing due to higher headcount.

Fiscal Year to Date

Total operating expenses as a percentage of total net revenue decreased in the first nine months of fiscal 2023 compared to the same period of fiscal 2022. Total net revenue for the first nine months of fiscal 2023 increased $1.3 billion or 13% while total operating expenses for the period increased $242 million or 4%. The increase in total operating expenses was primarily due to increases of $308 million for staffing due to higher headcount, $116 million for share-based compensation, and $67 million for amortization of other acquired intangible assets, which were partially offset by decreases of $141 million for a one-time charge related to a settlement recorded in the previous fiscal year and $77 million for marketing.

Non-Operating Income and Expenses

Interest Expense

Interest expense of $180 million for the first nine months of fiscal 2023 consisted primarily of interest on our unsecured term loan, senior unsecured notes, and secured revolving credit facilities. Interest expense of $49 million for the first nine months of fiscal 2022 consisted primarily of interest on our senior unsecured notes, unsecured term loan, and secured revolving credit facility. Interest expense for the first nine months of fiscal 2023 increased compared to the same period of fiscal 2022, primarily due to higher interest rates on our term loan and the term loan was outstanding during the entire nine month period of fiscal 2023, compared to only six months during the nine month period of fiscal 2022.

Interest and Other Income, Net

(In millions)	Q3 FY23	Q3 FY22	YTD Q3 FY23	YTD Q3 FY22
Interest income [1]	$ 28	$ 2	$ 57	$ 7
Net gain (loss) on executive deferred compensation plan assets [2]	1	(11)	2	(11)
Other [3]	(7)	8	(9)	48
Total interest and other income (loss), net	$ 22	$ (1)	$ 50	$ 44

(1) Interest income in the third quarter and first nine months of fiscal 2023 increased compared to the same periods of fiscal 2022 primarily due to higher average invested balances and higher average interest rates.

(2) In accordance with authoritative guidance, we record gains and losses associated with executive deferred compensation plan assets in interest and other income and gains and losses associated with the related liabilities in operating expenses. The total amounts recorded in operating expenses for each period are approximately equal to the total amounts recorded in interest and other income in those periods.

(3) In each of the three and nine months ended April 30, 2023, we recorded $6 million of losses on other long-term investments. In the three and nine months ended April 30, 2022, we recorded $8 million and $47 million of net gains on other long-term investments, respectively.

Income Taxes

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period.

For the three and nine months ended April 30, 2023, we recognized excess tax benefits on share-based compensation of $17 million and $15 million, respectively, in our provision for income taxes. For the three and nine months ended April 30, 2022, we recognized excess tax benefits on share-based compensation of $26 million and $135 million, respectively, in our provision for income taxes.

Our effective tax rates for the three and nine months ended April 30, 2023 were approximately 24% and 23%, respectively. Excluding discrete tax items primarily related to share-based compensation tax benefits, including those mentioned above, our effective tax rate for both periods was approximately 24%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

Our effective tax rates for the three and nine months ended April 30, 2022 were approximately 24% and 20%, respectively. Excluding discrete tax items primarily related to share-based compensation tax benefits, including those mentioned above, our effective tax rate for both periods was approximately 26%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

Under the 2017 Tax Cuts & Jobs Act, research and development costs are no longer fully deductible and are required to be capitalized and amortized for U.S. tax purposes effective August 1, 2022. Due to the delay in deductibility of research and development costs resulting from the mandatory capitalization provision, we expect our deferred tax assets and cash tax payments related to fiscal 2023 to increase significantly.

The Inflation Reduction Act was enacted on August 16, 2022. This law, among other provisions, provides a corporate alternative minimum tax on adjusted financial statement income, which is effective for us beginning in fiscal 2024. We are continuing to evaluate the impact it may have on our financial position and results of operations.

In the current global tax policy environment, the U.S. and other domestic and foreign governments continue to consider, and in some cases enact, changes in corporate tax laws. As changes occur, we account for finalized legislation in the period of enactment.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At April 30, 2023, our cash, cash equivalents, and investments totaled $4.3 billion, an increase of $987 million from July 31, 2022 due to the factors discussed under *“Statements of Cash Flows”* below. Our primary sources of liquidity have been cash from operations, which entails the collection of accounts receivable for products and services, the issuance of senior unsecured notes, and borrowings under our credit facilities. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs and debt repayment, repurchases of our common stock under our stock repurchase programs, and the payment of cash dividends. As discussed in *“Executive Overview – Industry Trends and Seasonality”* earlier in this Item 2, our business is subject to significant seasonality. The balance of our cash, cash equivalents, and investments generally fluctuates with that seasonal pattern. We believe the seasonality of our business is likely to continue in the future.

The following table summarizes selected measures of our liquidity and capital resources at the dates indicated:

(Dollars in millions)	April 30, 2023	July 31, 2022	$ Change	% Change
Cash, cash equivalents, and investments	$ 4,268	$ 3,281	$ 987	30 %
Long-term investments	$ 102	$ 98	$ 4	4 %
Short-term debt	$ 501	$ 499	$ 2	— %
Long-term debt	$ 6,109	$ 6,415	$ (306)	(5)%
Working capital	$ 2,234	$ 1,417	$ 817	58 %
Ratio of current assets to current liabilities	1.5 : 1	1.4 : 1		

We have historically generated significant cash from operations and we expect to continue to do so in the future. Our cash, cash equivalents, and investments totaled $4.3 billion at April 30, 2023. None of those funds were restricted and approximately 89% of those funds were located in the U.S.

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019 and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $4.7 billion unsecured term loan that matures on November 1, 2024, and a $1 billion unsecured revolving credit facility that matures on November 1, 2026. On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. At April 30, 2023, $4.2 billion was outstanding under the term loan. See Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report for more information.

Our secured revolving credit facilities are available to fund a portion of our loans to qualified small businesses. At April 30, 2023, $421 million was outstanding under both secured revolving credit facilities.

Under the 2017 Tax Cuts & Jobs Act, research and development costs are no longer fully deductible and are required to be capitalized and amortized for U.S. tax purposes effective August 1, 2022. We expect the mandatory capitalization requirement to significantly increase our cash tax payments related to fiscal 2023. The recent IRS disaster-area tax relief allows for the deferral of payments of the remaining fiscal 2023 federal estimated taxes to the first quarter of fiscal 2024. We expect to pay approximately $700 million related to this deferral during the first quarter of fiscal 2024.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments, and cash generated from operations will be sufficient to meet anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements, and other liquidity requirements associated with our operations for at least the next 12 months.

We expect to return excess cash generated by operations to our stockholders through repurchases of our common stock and payment of cash dividends, after taking into account our operating and strategic cash needs.

We evaluate, on an ongoing basis, the merits of acquiring technology or businesses, or establishing strategic relationships with and investing in other companies. Our strong liquidity profile enables us to quickly respond to these types of opportunities.

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Statements of Cash Flows

The following table summarizes selected items from our condensed consolidated statements of cash flows for the first nine months of fiscal 2023 and fiscal 2022. See the financial statements in Part I, Item 1 of this Quarterly Report for complete condensed consolidated statements of cash flows for those periods.

	Nine Months Ended		
(Dollars in millions)	April 30, 2023	April 30, 2022	$ Change
Net cash provided by (used in):			
Operating activities	$ 4,204	$ 3,550	$ 654
Investing activities	(549)	(5,110)	4,561
Financing activities	(2,904)	2,629	(5,533)
Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	2	(18)	20
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 753	$ 1,051	$ (298)

Our primary sources and uses of cash were as follows:

Nine Months Ended

April 30, 2023

Sources of cash:

- Operations
- Proceeds from secured revolving credit facilities
- Issuance of common stock under employee stock plans

Uses of cash:

- Repurchases of shares of our common stock
- Payment of cash dividends and dividend rights
- Repayments on unsecured term loan and secured revolving credit facilities
- Payment of accrued bonuses for fiscal 2022
- Net originations of term loans to small businesses and purchases of participating interests in loans to consumers
- Capital expenditures
- Net purchases of corporate and customer fund investments

April 30, 2022

Sources of cash:

- Proceeds from unsecured term loan and secured revolving credit facility
- Operations
- Net sales and maturities of corporate and customer fund investments
- Issuance of common stock under employee stock plans

Uses of cash:

- Acquisitions of businesses
- Repurchases of shares of our common stock
- Payment of cash dividends and dividend rights
- Payment of accrued bonuses for fiscal 2021
- Capital expenditures
- Net originations of term loans to small businesses

Stock Repurchase Programs, Treasury Shares, and Dividends on Common Stock

As described in Note 10 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report, during the first nine months of fiscal 2023, we repurchased 3.7 million shares of our common stock under repurchase programs that our Board of Directors has authorized. On August 19, 2022, our Board approved an increase in the authorization under the existing stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. At April 30, 2023, we had authorization from our Board of Directors for up to $2.0 billion for stock repurchases. We currently expect to continue repurchasing our common stock on a quarterly basis; however, future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

We have continued to pay quarterly cash dividends on shares of our outstanding common stock. During the nine months ended April 30, 2023, we declared quarterly cash dividends that totaled $2.34 per share of outstanding common stock for a total of $676 million. In May 2023, our Board of Directors declared a quarterly cash dividend of $0.78 per share of outstanding common stock payable on July 18, 2023 to stockholders of record at the close of business on July 10, 2023. We currently expect to continue paying comparable cash dividends on a quarterly basis. However, future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Commitments for Senior Unsecured Notes

In June 2020, we issued $2 billion of senior unsecured notes comprised of the following:

- $500 million of 0.650% notes due July 2023;
- $500 million of 0.950% notes due July 2025;
- $500 million of 1.350% notes due July 2027; and
- $500 million of 1.650% notes due July 2030 (together, the Notes).

Interest is payable semiannually on January 15 and July 15 of each year. At April 30, 2023, our maximum commitment for interest payments under the Notes was $106 million through the maturity dates.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of April 30, 2023, we were compliant with all covenants governing the Notes. See Note 6 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report for more information.

Credit Facilities

Unsecured Revolving Credit Facility and Term Loan

On November 1, 2021, we terminated our amended and restated credit agreement dated May 2, 2019 (2019 Credit Facility), and entered into a credit agreement with certain institutional lenders with an aggregate principal amount of $5.7 billion, which includes a $4.7 billion unsecured term loan that matures on November 1, 2024, and a $1 billion unsecured revolving credit facility that matures on November 1, 2026 (2021 Credit Facility).

Under the 2021 Credit Facility, we may increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times, subject to customary conditions including lender approval. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.1%, or (ii) the Secured Overnight Finance Rate (SOFR) plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. At April 30, 2023, no amounts were outstanding under the unsecured revolving credit facility. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility.

On November 1, 2021, we borrowed the full $4.7 billion under the unsecured term loan to fund a portion of the cash consideration for the acquisition of Mailchimp. Under this agreement, we may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either (i) the alternate base rate plus a margin that ranges from 0.0% to 0.125%, or (ii) SOFR plus a margin that range from 0.625% to 1.125%. Actual margins under either election will be based on our senior debt credit ratings. At April 30, 2023, $4.2 billion was outstanding under the term loan.

The 2021 Credit Facility includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of April 30, 2023, we were compliant with all required covenants.

Secured Revolving Credit Facilities

On February 19, 2019, a subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses (the 2019 Secured Facility). The 2019 Secured Facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. We have entered into several amendments to this facility, most recently on May 9, 2023. These amendments primarily increase the facility limit, extend the commitment term and maturity date, and update the benchmark interest rate. Under the amended 2019 Secured Facility, the facility limit is $500 million, of which $300 million is committed and $200 million is uncommitted. Advances accrue interest at adjusted daily simple SOFR plus 1.5%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.25% to 0.75%, depending on the total unused committed balance. The commitment term is through July 18, 2025, and the final maturity date is July 20, 2026. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of April 30, 2023, we were compliant with all required covenants. At April 30, 2023, $301 million was outstanding under the 2019 Secured Facility and the weighted-average interest rate was 6.41%. The outstanding balance is secured by cash and receivables of the subsidiary totaling $866 million.

On October 12, 2022, another subsidiary of Intuit entered into a secured revolving credit facility with a lender to fund a portion of our loans to qualified small businesses (the 2022 Secured Facility). The 2022 Secured Facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. Under the agreement, the facility limit is $500 million, of which $150 million is committed and $350 million is uncommitted. Advances accrue interest at SOFR plus 1.3%. Unused portions of the committed credit facility accrue interest at a rate ranging from 0.2% to 0.4%, depending on the total unused committed balance. The commitment term is through October 12, 2024, and the final maturity date is October 13, 2025. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of April 30, 2023, we were compliant with all required covenants. At April 30, 2023, $120 million was outstanding under the 2022 Secured Facility and the weighted-average interest rate was 6.16%, which includes the interest on the unused committed portion. The outstanding balance is secured by cash and receivables of the subsidiary totaling $338 million.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents, and investments totaled $4.3 billion at April 30, 2023. Approximately 11% of those funds were held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in the United Kingdom, India, and Canada. We do not expect to pay incremental U.S. taxes on repatriation. We have recorded income tax expense for Canada, India, and Israel withholding taxes on earnings that are not permanently reinvested. In the event that funds from foreign operations are repatriated to the United States, we would pay withholding taxes at that time.

Contractual Obligations

We presented our contractual obligations at July 31, 2022 in our Annual Report on Form 10-K for the fiscal year then ended. There were no material changes outside the ordinary course of business to our contractual obligations during the nine months ended April 30, 2023.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, if any, and the potential impact of these pronouncements on our condensed consolidated financial statements, see Note 1 to the financial statements in Part I, Item 1 of this Quarterly Report.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to our quantitative and qualitative disclosures about market risk during the nine months ended April 30, 2023. See Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 for a detailed discussion of our market risks.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, Intuit's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures as defined under Exchange Act Rules 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and that they are effective at the reasonable assurance level. However, no matter how well conceived and executed, a control system can provide only reasonable and not absolute assurance that the objectives of the control system are met. The design of any control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. There are also limitations that are inherent in any control system. These limitations include the realities that breakdowns can occur because of errors in judgment or mistakes, and that controls can be circumvented by individual persons, by collusion of two or more people, or by management override of the controls. Because of these inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

See Note 11 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings.

ITEM 1A - RISK FACTORS

Our businesses routinely encounter and address risks, many of which could cause our future results to be materially different than we presently anticipate. Below, we describe significant factors, events and uncertainties that make an investment in our securities risky, categorized solely for ease of reference as strategic, operational, legal and compliance, and financial risks. The following events and consequences could have a material adverse effect on our business, growth, prospects, financial condition, results of operations, cash flows, liquidity, reputation and credit rating, and the trading price of our common stock could decline. These risks are not the only ones we face. We could also be affected by other events, factors or uncertainties that are presently unknown to us or that we do not currently consider to present significant risks to our business. These risks may be amplified by the effects of global developments, conditions or events like inflationary pressures, the Russia-Ukraine war and the COVID-19 pandemic, which have caused significant global economic instability and uncertainty.

STRATEGIC RISKS

We face intense competitive pressures that may harm our operating results.

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. Our competitors and potential competitors range from large and established entities to emerging start-ups. Our competitors may introduce superior products and services, reduce prices, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. In addition, we face competition from existing companies, with large established consumer user-bases and broad-based platforms, who may change or expand the focus of their business strategies and marketing to target our customers, including small businesses, tax and personal financial management customers.

We also face competition from companies with a variety of business models, including increased competition from providers of free offerings, particularly in our tax, accounting, payments and personal finance platform businesses. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers as effectively as competitors with different business models. In addition, other providers of free offerings may provide features that we do not offer and customers who have formerly paid for our products and services may elect to use our competitors' free offerings instead. These competitive factors may diminish our revenue and profitability, and harm our ability to acquire and retain customers.

Our consumer tax business also faces significant potential competition from the public sector, where we face the risk of federal and state taxing authorities proposing revenue raising strategies that involve developing and providing government tax software or other government return preparation systems at public expense. These or similar programs may be introduced or expanded in the future, which may change the voluntary compliance tax system in ways that could cause us to lose customers and revenue. The IRS Free File Program is currently the sole means by which the IRS offers tax software directly to taxpayers and its continuation depends on a number of factors, including continued broad public awareness of and access to the free program and continued private industry donations, as well as continued government support. The Free File Program operates under an agreement that is scheduled to expire in October 2025. In May 2023, the IRS announced a plan to begin a pilot project for the 2024 filing season to assess customer support and technology needs of a direct online tax filing system and the IRS's ability to overcome the potential operational challenges of such a system. Through this or other programs, the federal government could become a publicly funded direct competitor of the U.S. tax services industry and of Intuit. Government funded services that curtail or eliminate the role of taxpayers in preparing their own taxes could potentially have material and adverse revenue implications on us.

Future revenue growth depends upon our ability to adapt to technological change as well as global trends in the way customers access software offerings and successfully introduce new and enhanced products, services and business models.

We operate in industries that are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To meet the changing needs of our customers and partners and attract and retain top technical talent, we must continue to innovate, develop new products and features, and enhance our ability to solve customer problems with emerging technologies, such as artificial intelligence and blockchain. We have and will continue to devote significant resources to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies.

Our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. As we continue to introduce and expand our new business models, including offerings that are free to end users, our customers may not perceive value in the additional benefits and services we offer beyond our free offering and may choose not to pay for those additional benefits or we may be unsuccessful in increasing customer adoption of these offerings or our risk profile may change, resulting in loss of revenue.

We also provide additional customer benefits by utilizing customer data available to us through our existing offerings, and the growth of our business depends, in part, on our existing customers expanding their use of our products and services. If we are not able to effectively utilize our customers' data to provide them with value or develop and clearly demonstrate the value of new or upgraded products or services to our customers, our revenues may be harmed.

While we offer our products on a variety of hardware platforms, if we cannot continue adapting our products to tablet and mobile devices, or if our competitors can adapt their products more quickly than us, our business could be harmed. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on mobile devices and we may need to devote significant resources to the creation, support, and maintenance of such offerings. Further, legislation or regulatory changes may mandate changes in our products that make them less attractive to users.

In some cases, we may expend a significant amount of resources and management attention on offerings that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. We have also invested, and in the future, expect to invest in new business models, geographies, strategies and initiatives. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the initiatives and inadequate return on investments. Because these new initiatives are inherently risky, they may not be successful and may harm our financial condition and operating results.

We rely on third-party intellectual property in our products and services.

Many of our products and services include intellectual property of third parties, which we license under agreements that may need to be renewed or renegotiated from time to time. We may not be able to obtain licenses to these third-party technologies or content on reasonable terms, or at all. If we are unable to obtain the rights necessary to use this intellectual property in our products and services, we may not be able to provide the affected offerings, and customers who are currently using the affected product may be disrupted, which may in turn harm our future financial results, damage our brand, and result in customer loss. Also, we and our customers have been and may continue to be subject to infringement claims as a result of the third-party intellectual property incorporated in our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

Some of our offerings include third-party software that is licensed under so-called “open source” licenses, some of which may include a requirement that, under certain circumstances, we make available, or grant licenses to, any modifications or derivative works we create based upon the open source software. Although we have established internal review and approval processes to mitigate these risks, we cannot be sure that all open source software is submitted for approval prior to use in our products. Many of the risks associated with usage of open source may not be eliminated and, if not properly addressed, may harm our business.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services and brand.

Our patents, trademarks, trade secrets, copyrights, domain names and other intellectual property rights are important assets for us. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. The efforts that we take to protect our proprietary rights may not always be sufficient or effective. Protecting our intellectual property rights is costly and time consuming and may not be successful in every location. Any significant impairment of our intellectual property rights could harm our business, our brand and our ability to compete.

Policing unauthorized use and copying of our products is difficult, expensive and time consuming. Current U.S. laws that prohibit copying give us only limited practical protection from software piracy and the laws of many other countries provide very little protection. We frequently encounter unauthorized copies of our software being sold through online marketplaces. Although we continue to evaluate and put in place technology solutions to attempt to lessen the impact of piracy and engage in efforts to educate consumers and public policy leaders on these issues and cooperate with industry groups in their efforts to combat piracy, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to events or activities attributed to us, members of our workforce, agents, third parties we rely on, or our users, may tarnish our reputation and reduce the value of our brands. Our brand value also depends on our ability to provide secure and trustworthy products and services as well as our ability to protect and use our customers' data in a manner that meets their expectations. In addition, a security incident that results in unauthorized disclosure of our customers' sensitive data could cause material reputational harm.

We have public environmental, social and governance (ESG) commitments, including our goals to increase the diversity of our workforce, create and prepare individuals for jobs and have a positive impact on the climate. Our ability to achieve these goals is subject to numerous risks that may be outside of our control. Our failure or perceived failure to achieve our ESG goals or maintain ESG practices that meet evolving stakeholder expectations could harm our reputation, adversely impact our ability to attract and retain employees or customers and expose us to increased scrutiny from the investment community and enforcement authorities. Our reputation also may be harmed by the perceptions that our customers, employees and other stakeholders have about our action or inaction on social, ethical, or political issues. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands and could also reduce our stock price.

Our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions.

We have acquired and may continue to acquire companies, products, technologies and talent that complement our strategic direction, both in and outside the United States. Acquisitions involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology, data assets and operations into our business and maintain uniform standards, controls, policies, and procedures;
- inability to realize synergies or anticipated benefits expected to result from an acquisition within the expected time frame or at all;
- disruption of our ongoing business and distraction of management;
- challenges retaining the key employees, customers, resellers and other business partners of the acquired operation;
- the internal control environment of an acquired entity may not be consistent with our standards or with regulatory requirements, and may require significant time and resources to align or rectify;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies;
- failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- to the extent we use debt to fund acquisitions or for other purposes, our interest expense and leverage will increase significantly, and to the extent we issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share will be diluted.

We have divested and may in the future divest certain assets or businesses that no longer fit with our strategic direction or growth targets. Divestitures involve significant risks and uncertainties, including:

- inability to find potential buyers on favorable terms;
- failure to effectively transfer liabilities, contracts, facilities and employees to buyers;
- requirements that we retain or indemnify buyers against certain liabilities and obligations;
- the possibility that we will become subject to third-party claims arising out of such divestiture;
- challenges in identifying and separating the intellectual property, systems and data to be divested from the intellectual property, systems and data that we wish to retain;
- inability to reduce fixed costs previously associated with the divested assets or business;
- challenges in collecting the proceeds from any divestiture;
- disruption of our ongoing business and distraction of management;

- loss of key employees who leave us as a result of a divestiture; and
- if customers or partners of the divested business do not receive the same level of service from the new owners, our other businesses may be adversely affected, to the extent that these customers or partners also purchase other products offered by us or otherwise conduct business with our retained business.

In addition, any acquisition or divestiture that we announce may not be completed if closing conditions are not satisfied. Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. In particular, if we are unable to successfully operate together with any company that we acquire to achieve shared growth opportunities or combine reporting or other processes within the expected time frame or at all, there may be a material and adverse effect on the benefits that we expect to achieve as a result of the acquisition, and we could experience additional costs or loss of revenue. Moreover, adverse changes in market conditions and other factors, including those listed above, may cause an acquisition to be dilutive to Intuit's operating earnings per share for a period of time. Any dilution of our non-GAAP diluted earnings per share could cause the price of shares of Intuit Common Stock to decline or grow at a reduced rate.

OPERATIONAL RISKS

Security incidents, improper access to or disclosure of our data or customers' data, or other cyberattacks on our systems could harm our reputation and adversely affect our business.

We host, collect, use and retain large amounts of sensitive and personal customer and workforce data, including credit card information, tax return information, bank account numbers, credit report information, login credentials and passwords, personal and business financial data and transactions data, social security numbers and payroll information, as well as our confidential, nonpublic business information. We use commercially available security technologies and security and business controls to limit access to and use of such sensitive data. Although we expend significant resources to create security protections designed to shield this data against potential theft and security breaches, such measures cannot provide absolute security.

Our technologies, systems, and networks have been subject to, and are increasingly likely to continue to be the target of, cyberattacks, computer viruses, ransomware or other malware, worms, social engineering, malicious software programs, insider threats, and other cybersecurity incidents that could result in the unauthorized release, gathering, monitoring, use, loss or destruction of sensitive and personal data of our customers and our workforce, or Intuit's sensitive business data or cause temporary or sustained unavailability of our software and systems. While we maintain cybersecurity insurance, our insurance may not be sufficient to cover all liabilities described herein. These types of incidents can be caused by malicious third parties, acting alone or in groups, or more sophisticated organizations including nation-states or state-sponsored organizations, and the risks could be elevated in connection with the Russia-Ukraine war. Customers who fail to update their systems, continue to run software that we no longer support, fail to install security patches on a timely basis or inadequately use security controls create vulnerabilities and make it more difficult for us to detect and prevent these kinds of attacks. We are increasingly incorporating open source software into our products, and there may be vulnerabilities in open source software that make it susceptible to cyberattacks. In addition, because the techniques used to obtain unauthorized access to sensitive information change frequently, and are becoming more sophisticated and are often not able to be detected until after a successful attack, we may be unable to anticipate these techniques or implement adequate preventive measures. Although this is an industry-wide problem that affects software and hardware across platforms, it may increasingly affect our offerings because cyber-criminals tend to focus their efforts on well-known offerings that are popular among customers and hold sensitive personal or financial information, like our digital money offerings, and we expect them to continue to do so.

Further, the security measures that we implement may not be able to prevent unauthorized access to our products and our customers' account data. While we require annual security training for our workforce, malicious third parties have in the past, and may in the future, be able to fraudulently induce members of our workforce, customers or users by social engineering means, such as email phishing, to disclose sensitive information in order to gain access to our systems. It is also possible that unauthorized access to or disclosure of customer data may occur due to inadequate use of security controls by our customers or our workforce. Accounts created with weak or recycled passwords could allow cyber-attackers to gain access to customer data. Unauthorized persons could gain access to customer accounts if customers do not maintain effective access controls of their systems and software. In addition, we have and will continue to experience new and more frequent attempts by malicious third parties to fraudulently gain access to our systems, such as through increased email phishing of our workforce.

Criminals may also use stolen identity information obtained outside of our systems to gain unauthorized access to our customers' data. We have experienced such instances in the past and as the accessibility of stolen identity information increases, generally, we may experience further instances of unauthorized access to our systems through the use of stolen identity information of our customers or our workforce in the future. Further, our customers may choose to use the same login credentials across multiple products and services unrelated to our products. Such customers' login credentials may be stolen from products offered by third-party service providers unrelated to us and the stolen identity information may be used by a malicious third party to access our products, which could result in disclosure of confidential information. In addition, our shift to a hybrid workplace model, where our workforce will spend a portion of their time working in our offices and a portion of their time working from home, introduces operational complexity that exacerbates our security-related risks.

Our efforts to protect data may also be unsuccessful due to software bugs (whether open source or proprietary code), break-ins, workforce error or other threats that evolve.

Further, because we have created an ecosystem where customers can have one identity across multiple Intuit products, a security incident may give access to increased amounts of customer data. This may result in disclosure of confidential information, loss of customer confidence in our products, possible litigation, material harm to our reputation and financial condition, disruption of our or our customers' business operations and a decline in our stock price. From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, actual or perceived vulnerabilities in our infrastructure, our software or third-party software components that are distributed with our products or fraudulent activity by unauthorized persons utilizing our products with stolen customer identity information. The existence of such vulnerabilities or fraudulent activity, even if they do not result in a security breach, may undermine customer confidence as well as the confidence of government agencies that regulate our offerings. Such perceived vulnerabilities could also seriously harm our business by tarnishing our reputation and brand and limiting the adoption of our products and services and could cause our stock price to decline.

Additionally, Credit Karma is subject to an order issued in 2014 by the Federal Trade Commission (FTC) that, among other things, requires maintenance of a comprehensive security program relating to the development and management of new and existing products and services and biannual independent security assessments for 20 years from the date of the order. To the extent Credit Karma shares data covered by the order with Intuit, the order may apply to Intuit with respect to such data. Credit Karma's failure to fulfill the requirements of the FTC's order could result in fines, penalties, regulatory inquiries, investigations and claims, and negatively impact our business and reputation.

A cybersecurity incident affecting the third parties we rely on could expose us or our customers to a risk of loss or misuse of confidential information and significantly damage our reputation.

We depend on a number of third parties, including vendors, developers and partners who are critical to our business. We or our customers may grant access to customer data to these third parties to help deliver customer benefits, or to host certain of our and our customers' sensitive and personal data. In addition, we share sensitive, nonpublic business information (including, for example, materials relating to financial, business and legal strategies) with other vendors in the ordinary course of business.

While we conduct background checks of our workforce, conduct reviews of partners, developers and vendors and use commercially available technologies to limit access to systems and data, it is possible that malicious third parties may misrepresent their intended use of data or may circumvent our controls, resulting in accidental or intentional disclosure or misuse of our customer or workforce data. Further, while we conduct due diligence on the security and business controls of our third-party partners, we may not have the ability to effectively monitor or oversee the implementation of these control measures. Malicious third parties may be able to circumvent these security and business controls or exploit vulnerabilities that may exist in these controls, resulting in the disclosure or misuse of sensitive business and personal customer or workforce information and data. In addition, malicious actors may attempt to use the information technology supply chain to compromise our systems by, for example, introducing malware through software updates.

A security incident involving third parties we rely on may have serious negative consequences for our businesses, including disclosure of sensitive customer or workforce data, or confidential or competitively sensitive information regarding our business, including intellectual property and other proprietary data; make our products more vulnerable to fraudulent activity; cause temporary or sustained unavailability of our software and systems; result in possible litigation, fines, penalties and damages; result in loss of customer confidence; cause material harm to our reputation and brands; lead to further regulation and oversight by federal or state agencies; cause adverse financial condition; and result in a reduced stock price.

Concerns about the current privacy and cybersecurity environment, generally, could deter current and potential customers from adopting our products and services and damage our reputation.

The continued occurrence of cyberattacks and data breaches on governments, businesses and consumers in general indicates that we operate in an external environment where cyberattacks and data breaches are becoming increasingly common. If the global cybersecurity environment worsens, and there are increased instances of security breaches of third-party offerings where consumers' data and sensitive information is compromised, consumers may be less willing to use online offerings, particularly offerings like ours in which customers often share sensitive financial data. In addition, the increased availability of data obtained as a result of breaches of third-party offerings could make our own products more vulnerable to fraudulent activity. Even if our products are not affected directly by such incidents, any such incident could damage our reputation and deter current and potential customers from adopting our products and services or lead customers to cease using online and connected software products to transact financial business altogether.

If we are unable to effectively combat the increasing amount and sophistication of fraudulent activities by malicious third parties, we may suffer losses, which may be substantial, and lose the confidence of our customers and government agencies and our revenues and earnings may be harmed.

The online tax preparation, payroll, payments, lending, marketing automation and personal financial management industries have been experiencing an increasing amount of fraudulent activities by malicious third parties, and those fraudulent activities are becoming increasingly sophisticated. Although we do not believe that any of this activity is uniquely targeted at our products or businesses, this type of fraudulent activity may adversely impact our tax, payroll, payments, lending, marketing automation and personal financial management businesses, and the risk is heightened when our workforce is working from home. In addition to any losses that may result from such fraud, which may be substantial, a loss of confidence by our customers or by governmental agencies in our ability to prevent fraudulent activity may seriously harm our business and damage our brand. If we cannot adequately combat such fraudulent activity, governmental authorities may refuse to allow us to continue to offer the affected services, or these services may otherwise be adversely impacted, which could include federal or state tax authorities refusing to allow us to process our customers' tax returns electronically, resulting in a significant adverse impact on our earnings and revenue. As fraudulent activities become more pervasive and increasingly sophisticated, and fraud detection and prevention measures must become correspondingly more complex to combat them across the various industries in which we operate, we may implement risk control mechanisms that could make it more difficult for legitimate customers to obtain and use our products, which could result in lost revenue and negatively impact our earnings.

If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our business may be harmed.

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll, payments and personal financial management businesses. Despite our efforts to ensure that effective processing systems and controls are in place to handle transactions appropriately, it is possible that we may make errors or that funds may be misappropriated due to fraud. The likelihood of any such error or misappropriation is magnified as we increase the volume and speed of the transactions we process. If we are unable to effectively manage our systems and processes, or if there is an error in our products, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our reputation, the willingness of customers to use our products, and our financial results. In our payments processing service business, if a disputed transaction between a merchant and its customer is not resolved in favor of the merchant, we may be required to pay those amounts to the payment or credit card network and these payments may exceed the amount of the customer reserves established to make such payments.

Business interruption or failure of our information technology and communication systems may impair the availability of our products and services, which may damage our reputation and harm our future financial results.

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our products and our underlying technical infrastructure. As we continue to grow our online services, we become more dependent on the continuing operation and availability of our information technology and communications systems and those of our external service providers, including, for example, third-party Internet-based or cloud computing services. We do not have redundancy for all of our systems, and our disaster recovery planning may not account for all eventualities. We have designed a significant portion of our software and computer systems to utilize data processing and storage capabilities provided by public cloud providers. If any public cloud service that we use is unavailable to us for any reason, our customers may not be able to access certain of our cloud products or features, which could significantly impact our operations, business, and financial results.

Failure of our systems or those of our third-party service providers, may result in interruptions in our service and loss of data or processing capabilities, all of which may cause a loss in customers, refunds of product fees, material harm to our reputation and operating results.

Our tax businesses must effectively handle extremely heavy customer demand during critical peak periods. We face significant risks in maintaining adequate service levels during these peak periods when we have historically derived a substantial portion of our overall revenue from the tax businesses. Any interruptions in our online tax preparation or electronic filing service at any time during the tax season, particularly during a peak period, could result in significantly decreased revenue, lost customers, unexpected refunds of customer charges, negative publicity and increased operating costs, any of which could significantly harm our business, financial condition and results of operations.

We rely on internal systems and external systems maintained by manufacturers, distributors and other service providers to take and fulfill customer orders, handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems may prevent us or our service providers from accepting and fulfilling customer orders or cause company and customer data to be unintentionally disclosed. Our continuing efforts to upgrade and expand our network security and other information systems as well as our high-availability capabilities are costly, and problems with the design or implementation of system enhancements may harm our business and our results of operations.

Our business operations, information technology and communications systems are vulnerable to damage or interruption from natural disasters, climate change, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses and malware, computer denial of service attacks, terrorist attacks, public health emergencies and other events beyond our control. For example, we shifted to operations under a hybrid workplace model where our workforce spends a portion of their time working in our offices and a portion of their time working from home. This model has introduced new execution risks and we may experience longer-term disruptions to our operations as we evolve our workplace model, any of which may impair our ability to perform critical functions or could make it considerably more difficult to develop, enhance and support our products and services.

In addition, our corporate headquarters and other critical business operations are located near major seismic faults. In the event of a major natural or man-made disaster, our insurance coverage may not completely compensate us for our losses and our future financial results may be materially harmed.

We regularly invest resources to update and improve our internal information technology systems and software platforms. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems and software platforms disrupt our operations, our business could be harmed.

We rely on our network infrastructure, data hosting, public cloud and software-as-a-service providers, and internal technology systems for many of our development, marketing, operational, support, sales, accounting and financial reporting activities. We are continually investing resources to update and improve these systems and environments in order to meet existing needs, as well as the growing and changing requirements of our business and customers. If we experience prolonged delays or unforeseen difficulties in updating and upgrading our systems and architecture, we may experience outages and may not be able to deliver certain offerings and develop new offerings and enhancements that we need to remain competitive. Such improvements and upgrades are often complex, costly and time consuming. In addition, such improvements can be challenging to integrate with our existing technology systems, or may uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in outages, disruption in our business operations, loss of revenue or damage to our reputation.

If we are unable to develop, manage and maintain critical third-party business relationships, our business may be adversely affected.

Our growth is increasingly dependent on the strength of our business relationships and our ability to continue to develop, manage and maintain new and existing relationships with third-party partners. We rely on various third-party partners, including software and service providers, suppliers, credit reporting bureaus, vendors, manufacturers, distributors, accountants, contractors, financial institutions, core processors, licensing partners and development partners, among others, in many areas of our business in order to deliver our offerings and operate our business. Credit Karma generates revenue from its relationships with financial institution partners, which are subject to particular risks that affect their willingness to offer their products on Credit Karma's platform, such as adverse economic conditions and an increasing complexity in the regulatory environment. We also rely on third parties to support the operation of our business by maintaining our physical facilities, equipment, power systems and infrastructure. In certain instances, these third-party relationships are sole source or limited source relationships and can be difficult to replace or substitute depending on the level of integration of the third party's products or services into, or with, our offerings and/or the general availability of such third party's products and services. In addition, there may be few or no alternative third-party providers or vendors in the market. Further, there can be no assurance that we will be able to adequately retain third-party contractors engaged to help us operate our business.

Additionally, the business operations of our third-party partners and the third-party partners who support them have been and could continue to be disrupted by the effects of uncertain macroeconomic environment and global events. If our third-party partners are unable to help us operate our business, our business and financial results may be negatively impacted. The failure of third parties to provide acceptable and high quality products, services and technologies or to update their products, services and technologies may result in a disruption to our business operations and our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Alternative arrangements and services may not be available to us on commercially reasonable terms or at all, or we may experience business interruptions upon a transition to an alternative partner.

Although we have strict standards for our suppliers and business partners to comply with the law and company policies regarding workplace and employment practices, data use and security, environmental compliance, intellectual property licensing and other applicable regulatory and compliance requirements, we cannot control their day-to-day practices. Any violation of laws or implementation of practices regarded as unethical could result in supply chain disruptions, canceled orders, terminations of or damage to key relationships, and damage to our reputation.

In particular, we have relationships with banks, credit unions and other financial institutions that support certain critical services we offer to our customers. If macroeconomic conditions or other factors cause any of these institutions to fail, consolidate, stop providing certain services or institute cost-cutting efforts, our business and financial results may suffer and we may be unable to offer those services to our customers. For example, if one of the counterparty financial institutions with whom we have significant deposits were to become insolvent, placed into receivership, or file for bankruptcy, our ability to recover our assets from such counterparty may be limited, which could negatively impact our results of operations and financial condition.

We increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers. Any adverse changes by these third parties could adversely affect our financial results.

Competition for our key employees is intense and we may not be able to attract, retain and develop the highly skilled employees we need to support our strategic objectives.

Much of our future success depends on the continued service and availability of skilled employees, including members of our executive team, and those in technical and other key positions. Experienced individuals with skill sets in software as a service, financial technology, mobile technologies, data science, artificial intelligence and data security are in high demand and we have faced and will continue to face intense competition globally to attract and retain a diverse workforce with these and other skills that are critical to our success. This is especially the case in California and India where a significant number of our employees are located. The compensation and incentives we have available to attract, retain and motivate employees may not meet the expectations of current and prospective employees as the competition for talent intensifies. For example, our equity awards may become less effective if our stock price decreases or increases at a slower rate than our talent competitors'. In addition, if we were to issue significant additional equity to attract or retain employees, the ownership of our existing stockholders would be diluted and our related expenses would increase. Other factors may make it more challenging for us to continue to successfully attract, retain and develop key employees. For example, current and prospective employees may seek new or different opportunities based on mobility, location flexibility or any challenges we face in achieving our publicly stated workforce diversity goals.

The COVID-19 pandemic has caused significant economic instability and uncertainty and the extent to which it will impact our business, results of operations and financial condition is uncertain and difficult to predict.

The COVID-19 pandemic has caused economic instability and uncertainty globally and, in fiscal 2020, had a temporary negative impact on our business. The severity and duration of the pandemic's impact on our business and financial performance will depend on many factors beyond our control, including the emergence and virulence of new variants of the COVID-19 virus, the related responses of governments and businesses, and the availability, effectiveness and adoption of vaccines and treatments. Potential and current negative impacts of the pandemic include, but are not limited to, the following:

- There are new and more frequent attempts by malicious third parties seeking to take advantage of our employees while working remotely to fraudulently gain access to our systems, which could cause us to expend significant resources to remediate and could damage our reputation.
- The complexity of resuming operations in our offices under a hybrid workplace model may adversely impact the productivity, health and well-being of our workforce and exacerbate security and execution risks that could cause us to lose the confidence of our customers and government agencies and harm our revenues and earnings.
- Potential disruption of services on which we rely to deliver our services to our customers, such as our third-party customer success partners and financial institutions, could prevent us or our service providers from delivering critical services to our customers or accepting and fulfilling customer orders, any of which could materially and adversely affect our business or reputation.
- Failure to realize some or all of the anticipated benefits of our mergers and acquisitions activities for reasons related to the pandemic may cause us to experience losses that result in significant harm to our operating results or financial condition.
- There could be increased volatility in our stock price related to the pandemic, which could result in the loss of some or all of the value of an investment in Intuit.

These and other potential negative impacts relating to the COVID-19 pandemic are described further in these risk factors.

If we experience significant product accuracy or quality problems or delays in product launches, it may harm our revenue, earnings and reputation.

Our customers rely on the accuracy of our offerings. All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable and potentially late tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products may contain errors that could unexpectedly interfere with the operation of the software or result in incorrect calculations. The complexity of the tax laws on which our products are based may also make it difficult for us to consistently deliver offerings that contain the features, functionality and level of accuracy that our customers expect. When we encounter problems, we may be required to modify our code, work with state tax administrators to communicate with affected customers, assist customers with amendments, distribute patches to customers who have already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products either late in our development cycle or after release, it may cause us to delay our product launch date or suspend product availability until such issues can be fixed. Any major defects, launch delays or product suspensions may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or other payments, including those resulting from our accuracy guarantee in our tax preparation products. For example, an error in our tax products could cause a compliance error for taxpayers, including the over or underpayment of their federal or state tax liability. While our accuracy guarantee commits us to reimburse penalties and interest paid by customers due solely to calculation errors in our tax preparation products, such errors may result in additional burdens on third parties that we may need to address or that may cause us to suspend the availability of our products until such errors are addressed. This could also affect our reputation, the willingness of customers to use our products, and our financial results. Further, as we develop our platform to connect people to experts, such as connecting TurboTax customers with tax experts through our TurboTax Live offering, or connecting QuickBooks customers with bookkeepers through our QuickBooks Live offering, we face the risk that these experts may provide advice that is erroneous, ineffective or otherwise unsuitable. Any such deficiency in the advice given by these experts may cause harm to our customers, a loss of customer confidence in our offerings or harm to our reputation or financial results. Moreover, as we continue to incorporate emerging technologies, like AI and blockchain, into our offerings, they may not function as designed or have unintended consequences, any of which could subject us to new or enhanced competitive harm, legal liability, regulatory scrutiny or reputational harm.

Our international operations are subject to increased risks which may harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

- different or more restrictive privacy, data protection, data localization, and other laws that could require us to make changes to our products, services and operations, such as mandating that certain types of data collected in a particular country be stored and/or processed within that country;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- geopolitical events, including natural disasters or severe weather events (including those caused or exacerbated by climate change), acts of war and terrorism (including the Russia-Ukraine war and any related political or economic responses), and public health emergencies, including divergent governmental responses thereto across the jurisdictions in which we operate;
- compliance with sanctions and import or export regulations, including those arising from the Russia-Ukraine war;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and laws and regulations of other jurisdictions prohibiting corrupt payments to government officials and other third parties;
- antitrust and competition regulations;
- potentially adverse tax developments;
- economic uncertainties relating to European sovereign and other debt;
- trade barriers and changes in trade regulations;
- political or social unrest, economic instability, repression, or human rights issues; and
- risks related to other government regulation or required compliance with local laws.

Violations of the rapidly evolving and complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions or sanctions against us, our officers or our broader workforce, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, we cannot be sure that our workforce, contractors and agents are in compliance with our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business, operating results, and financial condition.

Climate change may have an impact on our business.

While we seek to mitigate our business risks associated with climate change by establishing robust environmental programs and partnering with organizations that are also focused on mitigating their own climate-related risks, we recognize that there are inherent climate-related risks wherever business is conducted. Any of our primary workplace locations may be vulnerable to the adverse effects of climate change. For example, our offices globally have historically experienced, and are projected to continue to experience, climate-related events at an increasing frequency, including drought, water scarcity, heat waves, cold waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. Furthermore, it is more difficult to mitigate the impact of these events on our employees to the extent they work from home. Changing market dynamics, global policy developments and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers and the business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations. Additionally, failure to uphold, meet or make timely forward progress against our public commitments and goals related to climate action could adversely affect our reputation with suppliers and customers, financial performance or ability to recruit and retain talent.

LEGAL AND COMPLIANCE RISKS

Increasing and changing government regulation of our businesses may harm our operating results.

We are subject to federal, state, local and international laws and regulations that affect our and our customers' activities, including, without limitation, labor, advertising and marketing, tax, financial services, data privacy and security, electronic funds transfer, money transmission, lending, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, intellectual property ownership and infringement, import and export requirements, anti-bribery and anti-corruption, insurance, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health and safety, and other regulated activities. There have been significant new regulations and heightened focus by the government on many of these areas. As we expand our products and services and evolve our business models, both domestically and internationally, we may become subject to additional government regulation or increased regulatory scrutiny. For example, the regulation of emerging technologies that we may incorporate into our offerings, such as artificial intelligence and blockchain, is still an evolving area, and it is possible that we could become subject to new regulations that negatively impact our operations and results. Further, regulators (both in the U.S. and in other jurisdictions in which we operate) may adopt new laws or regulations, change existing regulations, or their interpretation of existing laws or regulations may differ from ours. We are and may continue to be subject to pandemic-related protocols and restrictions that impact our workforce and workplaces. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, changes in the cybersecurity environment, litigation by the government or private entities, changes to or new interpretations of existing laws may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our tax businesses or offer our tax products and services. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply. We are also required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing services.

Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Complex and evolving regulation of privacy and data protection could result in claims, changes to our business practices, penalties or increased cost of operations or otherwise harm our business.

Regulations related to the provision of online services are continually evolving as federal, state and foreign governments adopt new or modify existing laws and regulations addressing data privacy, cybersecurity, the collection, processing, storage, transfer and use of data, and the use of AI. These include, for example, the EU's General Data Protection Regulation (GDPR), the California Consumer Protection Act (CCPA), the California Privacy Rights Act that amended the CCPA in January 2023 and the Virginia Consumer Data Protection Act that became effective in January 2023. These laws and regulations may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. In our efforts to meet the various data privacy regulations that apply to us, we have made and continue to make certain operational changes to our products and business practices. If we are unable to engineer products that meet these evolving requirements or help our customers meet their obligations under these or other new data regulations, we might experience reduced demand for our offerings. Further, penalties for non-compliance with these laws may be significant.

In addition, the evolution of global privacy treaties and frameworks has created compliance uncertainty and increased complexity. For example, the judicial invalidation of the EU-U.S. and Swiss-U.S. Privacy Shield frameworks that we relied on to transfer data has created additional compliance challenges for the transfer of EU personal data to the U.S. While we rely on alternative methods for the transfer of this data, ongoing legal challenges to these and other transfer mechanisms could cause us to incur costs or change our business practices in a manner adverse to our business.

Other governmental authorities throughout the U.S. and around the world are considering similar types of legislative and regulatory proposals concerning data protection. Each of these privacy, security and data protection laws and regulations could impose significant limitations, require changes to our business, require notification to customers or workers of a security breach, restrict our use or storage of personal information, or cause changes in customer purchasing behavior that may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may make customers less likely to purchase our products and may harm our future financial results. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages. We have incurred, and may continue to incur, significant expenses to comply with existing privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

We are frequently a party to litigation and regulatory inquiries which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.

We are subject to various legal proceedings (including class action lawsuits), claims and regulatory inquiries that have arisen out of the ordinary conduct of our business and are not yet resolved and additional proceedings, claims and inquiries may arise in the future. The number and significance of these proceedings, claims and inquiries may increase as our businesses evolve. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in costly litigation, damage awards, consent decrees, injunctive relief or increased costs of business; require us to change our business practices or products; require significant amounts of management time; result in diversion of significant operations resources; or otherwise harm our business and future financial results. For further information about specific litigation, see Part II, Item 1, "*Legal Proceedings.*"

Third parties claiming that we infringe their proprietary rights may cause us to incur significant legal expenses and prevent us from selling our products.

We may become increasingly subject to infringement claims, including patent, copyright, trade secret, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the intellectual property rights of others. We have received a number of allegations of intellectual property infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon the intellectual property held by third parties. Some of these claims are the subject of pending litigation against us and against some of our customers. These claims may involve patent holding companies or other adverse intellectual property owners who have no relevant product revenues of their own, and against whom our own intellectual property may provide little or no deterrence. The ultimate outcome of any allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

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

The laws relating to the liability of online services companies for information such as online content disseminated through their services are subject to frequent challenges. In spite of settled law in the U.S., claims are made against online services companies by parties who disagree with the content. Where our online content is accessed on the internet outside of the U.S., challenges may be brought under foreign laws which do not provide the same protections for online services companies as in the U.S. These challenges in either U.S. or foreign jurisdictions may give rise to legal claims alleging defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through the services. Certain of our services include content generated by users of our online services. Although this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

FINANCIAL RISKS

Our tax business is highly seasonal and our quarterly results fluctuate significantly.

Our tax offerings have significant seasonal patterns. Revenue from income tax preparation products and services has historically been heavily concentrated from November through April, as the tax filing deadline for the IRS and many states is traditionally in April. This seasonality has caused significant fluctuations in our quarterly financial results. In addition, the effects of these fluctuations have been and may in the future be further exacerbated by changes to the traditional opening and closing dates of the tax season. For example, the IRS and many states extended their tax filing deadlines to May 17, 2021 for the 2020 tax year and to July 15, 2020 for the 2019 tax year due to conditions created by the pandemic. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of other factors, including factors that may affect the timing of revenue recognition. These include the timing of the availability of federal and state tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions; changes to our offerings that result in the inclusion or exclusion of ongoing services; changes in product pricing strategies or product sales mix; changes in customer behavior; and the timing of our discontinuation of support for older product offerings. Other factors that may affect our quarterly or annual financial results include the timing of acquisitions, divestitures, and goodwill and acquired intangible asset impairment charges. Any fluctuations in our operating results may adversely affect our stock price.

If actual customer refunds for our offerings exceed the amount we have reserved, our future financial results may be harmed.

Like many software companies, we refund customers for product returns and subscription and service cancellations. We establish reserves against revenue in our financial statements based on estimated customer refunds. We closely monitor this refund activity in an effort to maintain adequate reserves. In the past, customer refunds have not differed significantly from these reserves. However, if we experience actual customer refunds or an increase in risks of collecting customer payments that significantly exceed the amount we have reserved, it may result in lower net revenue.

Unanticipated changes in our income tax rates or other indirect tax may affect our future financial results.

Our future effective income tax rates may be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, by changes in our stock price, or by changes in tax laws or their interpretation. In August 2022, the Inflation Reduction Act of 2022 was signed into law. This law, among other things, provides for a corporate alternative minimum tax on adjusted financial statement income (effective for us beginning in fiscal 2024), and an excise tax on corporate stock repurchases (effective for our share repurchases after January 1, 2023), and we are continuing to evaluate the impact it may have on our financial position and results of operations. There are several proposed changes to U.S. and non-U.S. tax legislation and the ultimate enactment of any of them could have a negative impact on our effective tax rate. Foreign governments may enact tax laws, including in response to guidelines issued by international organizations such as the Organization for Economic Cooperation and Development, that could result in further changes to global taxation and materially affect our financial position and results of operations. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

An increasing number of states and foreign jurisdictions have adopted laws or administrative practices, that impose new taxes on all or a portion of gross revenue or other similar amounts or impose additional obligations to collect transaction taxes such as sales, consumption, value added, or similar taxes. We may not have sufficient lead time to build systems and processes to collect these taxes properly, or at all. Failure to comply with such laws or administrative practices, or a successful assertion by such states or foreign jurisdictions requiring us to collect taxes where we do not, could result in material tax liabilities, including for past sales, as well as penalties and interest.

Adverse global economic conditions could harm our business and financial condition.

Adverse macroeconomic conditions, and perceptions or expectations about current or future conditions, such as inflation, slowing growth, rising interest rates, rising unemployment and recession, could negatively affect our business and financial condition. These macroeconomic conditions or global events, such as political instability and war, have caused, and could, in the future, cause disruptions and volatility in global financial markets, increased rates of default and bankruptcy, decreases in consumer and small business spending and other unforeseen consequences. It is difficult to predict the impact of such events on our partners, customers, members, or economic markets more broadly, which have been and will continue to be highly dependent upon the actions of governments and businesses in response to macroeconomic events, and the effectiveness of those actions. For example, in response to increasing inflation, the U.S. Federal Reserve has continuously raised interest rates since 2022 and signaled it expects additional rate increases in the future. Additionally, adverse developments that affect financial institutions could lead to liquidity challenges and further instability in the financial markets. Moreover, because the majority of our revenue is derived from sales within the U.S., economic conditions in the U.S. have an even greater impact on us than companies with a more diverse international presence. Macroeconomic conditions, and perceptions or expectations about current or future conditions, could cause potential new customers not to purchase or to delay purchasing our products and services, and could cause our existing customers to discontinue purchasing or delay upgrades of our existing products and services. In addition, financial institution partners have decreased or suspended their activity on Credit Karma’s platform and may continue to do so, and increased interest rates may make offers from Credit Karma’s financial institution partners less attractive to Credit Karma's members. Members may decrease their engagement on the platform or their creditworthiness could be negatively impacted, reducing members' ability to qualify for credit cards and loans. Decreased consumer spending levels could also reduce payment processing volumes causing reductions in our payments revenue. High unemployment has caused, and could in the future cause, a significant decrease in the number of tax returns filed, which may have a significant effect on the number of tax returns we prepare and file. In addition, weakness in the end-user consumer and small business markets could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us, which could increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Adverse economic conditions may also increase the costs of operating our business, including vendor, supplier and workforce expenses. Any of the foregoing could harm our business and negatively impact our future financial results.

We provide capital to small businesses, which exposes us to certain risk, and may cause us material financial or reputational harm.

We provide capital to qualified small businesses, which exposes us to the risk of our borrowers’ inability to repay such loans. We have also entered into credit arrangements with financial institutions to obtain the capital we provide under this offering. Any termination or interruption in the financial institutions’ ability to lend to us could interrupt our ability to provide capital to qualified small businesses. Further, our credit decisioning, pricing, loss forecasting, scoring and other models used to evaluate loan applications may contain errors or may not adequately assess creditworthiness of our borrowers, or may be otherwise ineffective, resulting in incorrect approvals or denials of loans. It is also possible that loan applicants could provide false or incorrect information. Moreover, adverse macroeconomic conditions may have a significant impact on small businesses and may increase the likelihood that our borrowers are unable to repay their loans. If any of the foregoing events were to occur, our reputation, relationships with borrowers, collections of loans receivable and financial results could be harmed.

Amortization of acquired intangible assets and impairment charges may cause significant fluctuation in our net income.

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were $556 million in fiscal 2022; $196 million in fiscal 2021; and $28 million in fiscal 2020. Although under current accounting rules goodwill is not amortized, we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that may not have been reasonably foreseen in prior periods. At April 30, 2023, we had $13.8 billion in goodwill and $6.6 billion in net acquired intangible assets on our condensed consolidated balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

We have incurred indebtedness and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

As of April 30, 2023, we had an aggregate of $6.6 billion of indebtedness outstanding under our senior unsecured notes, senior unsecured credit facility, and secured credit facilities. Under the agreements governing our indebtedness, we are permitted to incur additional debt. This debt, and any debt that we may incur in the future, may adversely affect our financial condition and future financial results by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, share repurchases and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets or reduce or delay planned capital, operating or investment expenditures. Such measures may not be sufficient to enable us to service our debt.

Additionally, the agreements governing our indebtedness impose restrictions on us and require us to comply with certain covenants. For example, our credit facilities restrict the ability of our subsidiaries to incur indebtedness and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our credit facilities and the indenture governing our senior unsecured notes limit our ability to create liens our and subsidiaries' assets and engage in sale and leaseback transactions. If we breach any of these covenants and do not obtain a waiver from the lenders or the noteholders, as applicable, then, subject to applicable cure periods, any or all of our outstanding indebtedness may be declared immediately due and payable. There can be no assurance that any refinancing or additional financing would be available on terms that are favorable or acceptable to us, if at all.

Under the terms of our outstanding senior unsecured notes, we may be required to repurchase the notes for cash prior to their maturity in connection with the occurrence of certain changes of control that are accompanied by certain downgrades in the credit ratings of the notes. The repayment obligations under the notes may have the effect of discouraging, delaying or preventing a takeover of our company. If we were required to pay the notes prior to their scheduled maturity, it could have a negative impact on our cash position and liquidity and impair our ability to invest financial resources in other strategic initiatives.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. If our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our unsecured revolving credit facility may increase. In addition, adverse economic conditions or any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may negatively impact the terms of any such financing.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value.

We have a stock repurchase program under which we are authorized to repurchase our common stock. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Our repurchase program may be suspended or terminated at any time. Even if our stock repurchase program is fully implemented, it may not enhance long-term stockholder value. Also, the amount, timing, and execution of our stock repurchase programs may fluctuate based on our priorities for the use of cash for other purposes and because of changes in cash flows, tax laws, and the market price of our common stock.

Our stock price may be volatile and your investment could lose value.

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, security of our products, or legal proceedings can cause changes in our stock price. These factors, as well as general economic and political conditions, including the effects of a general slowdown in the global economy, inflationary pressures, the COVID-19 pandemic, the Russia-Ukraine war, and the timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes may adversely affect our stock price. Moreover, inflationary pressures, the COVID-19 pandemic and the Russia-Ukraine war have caused significant volatility in the global financial markets, which has resulted in significant volatility in our stock price recently. Further, any changes in the amounts or frequency of share repurchases or dividends may also adversely affect our stock price. A significant drop in our stock price could expose us to the risk of securities class actions lawsuits, which may result in substantial costs and divert management's attention and resources, which may adversely affect our business.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock repurchase activity during the three months ended April 30, 2023 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
February 1, 2023 through February 28, 2023	293,191	$ 416.11	293,191	$ 2,372,550,500
March 1, 2023 through March 31, 2023	483,941	$ 414.52	483,941	$ 2,171,948,926
April 1, 2023 through April 30, 2023	366,577	$ 437.57	366,577	$ 2,011,546,921
Total	1,143,709	$ 422.31	1,143,709	

Note: On August 20, 2021, our Board approved an increased authorization under our existing stock repurchase program to purchase up to an additional $2 billion of our common stock. On August 19, 2022, our Board approved an additional increase in the authorization under the existing stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. All of the shares repurchased during the three months ended April 30, 2023 were purchased under these plans. At April 30, 2023, we had authorization from our Board of Directors for up to $2.0 billion in stock repurchases.

ITEM 6 - EXHIBITS

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

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.

		INTUIT INC. **(Registrant)**
Date: May 23, 2023	By:	/s/ MICHELLE M. CLATTERBUCK
		Michelle M. Clatterbuck
		Executive Vice President and Chief Financial Officer (Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
10.01+	Transition Agreement between Intuit Inc. and Michelle M. Clatterbuck, dated February 17, 2023	X	
10.02+	Letter regarding Terms of Employment by and between Intuit Inc. and Sandeep Aujla, dated February 17, 2023 and effective August 1, 2023	X	
31.01	Certification of Chief Executive Officer	X	
31.02	Certification of Chief Financial Officer	X	
32.01*	Section 1350 Certification (Chief Executive Officer)	X	
32.02*	Section 1350 Certification (Chief Financial Officer)	X	
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X	
101.SCH	XBRL Taxonomy Extension Schema	X	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X	

+ Indicates a management contract or compensatory plan or arrangement.
* This exhibit is intended to be furnished and shall not be deemed “filed” for purposes of the Securities Exchange Act of 1934, as amended.

Exhibit 10.01+

February 17, 2023

Michelle Clatterbuck
Intuit Inc.
2700 Coast Avenue
Mountain View, CA 94043

Dear Michelle,

On behalf of Intuit, I want to thank you for your many years of service to Intuit, including as CFO for the past five years. This letter outlines the planned transition of your role with Intuit.

On July 31, 2023, you will transition out of your role as Intuit's Executive Vice President and Chief Financial Officer into a new role of Senior Finance Advisor. You will continue to be employed full time in this new role until July 31, 2024, when your employment will end, unless extended by mutual agreement between you and Intuit's Chief Executive Officer. Once you transition to your new role, you will report to Laura Fennell and will have the duties, responsibilities and authorities assigned to you by that individual, or her successor.

During the remainder of your employment the following terms will be in effect:

Fiscal 2023 Compensation. For the remainder of the current fiscal year 2023, your base salary and target bonus opportunity will remain unchanged from the amounts previously approved by the Compensation and Organizational Development Committee.

Base Salary. Beginning on August 1, 2023, your annualized base salary, in your new role, will be $125,000, and will be paid in accordance with Intuit's standard payroll procedures.

Annual Bonus. You will continue to be eligible to participate in Intuit's Performance Incentive Plan ("IPI"). Beginning on August 1, 2023, in your new role, your target IPI incentive opportunity will be equal to 10% of your new base salary.

Long-Term Incentives. Your previously granted equity awards will remain outstanding and eligible to vest in accordance with the applicable plan documents and governing award agreements subject to your continued employment or service with Intuit. You will not receive new awards under Intuit's equity incentive compensation programs.

Employee Benefits. You and your eligible dependents will continue to have the opportunity to participate in employee benefit plans offered generally to Intuit employees. In your new role, you will not be eligible to participate in the nonqualified deferred compensation program or the management stock purchase program for fiscal 2024 or beyond.

In exchange for your continued employment and associated compensation and benefits you will receive, you agree to sign the separation agreement attached as Exhibit A at the termination of your employment.

This letter supersedes the letter dated January 18, 2018, but all other terms of your employment remain subject to Intuit's standard policies and procedures, including the "at-will" nature of your employment. The Employee Intellectual Property Assignment and Confidentiality Agreement you signed continues to remain in effect.

Please review these terms to make sure they are consistent with your understanding. If so, please sign and date below.

Sincerely,

INTUIT INC.

By: __/s/ Laura Fennell______ Date: __2/17/2023____
Name: Laura Fennell
Title: EVP, Chief People & Places Officer

Acknowledged and Agreed:

/s/ Michelle Clatterbuck________ Date: __2/17/2023____
Michelle Clatterbuck

Exhibit 10.02+

February 17, 2023

Sandeep Aujla
Intuit Inc.
2535 Garcia Avenue
Mountain View, CA 94043

Dear Sandeep,

You are a valued leader and play a critical role in Intuit's mission to power prosperity around the world. I'm delighted to confirm your promotion to **Executive Vice President, Chief Financial Officer, effective August 1, 2023**. This promotion recognizes your trajectory changing performance and the critical impact you have had across Intuit.

I am pleased to provide you with details about your new compensation, which will also be effective, **August 1, 2023**. This offer is consistent with the current "tier one" compensation packages applicable for certain direct reports of the CEO and subject to approval by the Compensation and Organizational Development Committee of the Board.

Title	EVP, Chief Financial Officer
Base	$770,000
Target Bonus (% Salary)	120%
Target Total Cash	$1,694,000
Long-Term Incentives *	$11,000,000
Pro-Forma Target TDC	$12,694,000

There are three additional considerations that become effective with this promotion to the Company's highest management level:
1. Your stock ownership requirement increases from 1.5x your salary as an SVP to 5.0x your salary as an EVP/CFO. You will have three fiscal years to reach the stock ownership requirement following promotion.
2. Your compensation will be reported publicly, including in the proxy statement, through Section 16 reporting of your equity transactions (on Forms 3, 4 and 5) and to the California Secretary of State.
3. A member of the legal team will be scheduling time with you to review the above requirements applicable to your new EVP role.

I look forward to seeing your success and development in the EVP, CFO role. I am confident you will continue to be a role model leader and achieve great outcomes across Intuit.

Congratulations,

/s/ Sasan Goodarzi

Sasan Goodarzi
President and Chief Executive Officer

cc: Laura Fennell

**FY23 focal equity grant amount subject to approval of CODC*

Exhibit 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)

I, Sasan K. Goodarzi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuit 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 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 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 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 controls 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.

Date: May 23, 2023

By: /s/ Sasan K. Goodarzi
Sasan K. Goodarzi
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)

I, Michelle M. Clatterbuck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Intuit 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 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 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 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.

Date: May 23, 2023

By: /s/ MICHELLE M. CLATTERBUCK
Michelle M. Clatterbuck
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.01

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Intuit Inc. (the “Company”) on Form 10-Q for the quarter ended April 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Sasan K. Goodarzi, President and Chief Executive Officer of the Company, certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SASAN K. GOODARZI
Sasan K. Goodarzi
President and Chief Executive Officer

Date: May 23, 2023

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.02

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Intuit Inc. (the “Company”) on Form 10-Q for the quarter ended April 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Michelle M. Clatterbuck, Executive Vice President and Chief Financial Officer of the Company, certifies pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michelle M. Clatterbuck
Michelle M. Clatterbuck
Executive Vice President and Chief Financial Officer

Date: May 23, 2023

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

PayPal, Inc.

Plenty of Progress Made in Q2, But Transaction Margins Weigh on Sentiment

PYPL beat on the top-line, driven by outperformance in OVAS. Management highlighted that the eCom backdrop continues to improve, with many QTD metrics also painting a healthier picture. Despite this, a transaction margin miss is weighing heavily on sentiment, and will likely pressure shares in tomorrow's tape.

CORE	
PYPL	OVERWEIGHT
Americas Payments, Processors & IT Services	POSITIVE
Price Target	USD 92.00
Price (01-Aug-23)	USD 75.53
Potential Upside/Downside	+21.8%

Americas Payments, Processors & IT Services

Ramsey El-Assal
+1 212 526 7144
ramsey.el-assal@barclays.com
BCI, US

Owen Callahan
+1 212 526 4795
owen.callahan@barclays.com
BCI, US

John Coffey, CFA
+1 212 526 4119
john.coffey@barclays.com
BCI, US

Ryan Campbell
+1 212 526 8508
ryan.campbell1@barclays.com
BCI, US

Allison Gelman
+1 212 526 3367
allison.gelman@barclays.com
BCI, US

Shray Gurtata
+1 212 526 8904
shray.gurtata@barclays.com
BCI, US

Key takeaways: PYPL modestly beat top-line, helped by another strong performance in Other Value Added Services (OVAS), which landed at $731M, ~9 PPT ahead of consensus estimates of ~$665M. At the same time, transaction revenue missed Street estimates by ~1.2 PPT, coming in at $6.56B vs. the Street at $6.63B. Although total payment volume grew 10.8% y/y, transaction revenue was impacted by PYPL's lower Q2 transaction take rate of 1.73%—a -8 bps decline y/y. In this context, the company's transaction margins of ~45.9% also came in lower than Street estimates of ~46.9% and 2Q22 performance of ~48.7%. Transaction-related expenses of $3.94B, grew ~13% y/y, despite PYPL's externalization of its EU BNPL loan portfolio which lowered the firm's transaction and loan loss provisions. Separately, management reiterated the ~$1.9B cost savings target for FY23. Notably, PYPL reduced Q2 sales and marketing expense to $465M and general & administrative expense to $491M, ~$26M and ~$5.6M below Street estimates, respectively. Though the company still missed Q2 operating margin guide of ~22% by ~60 bps (largely due to higher credit provisioning). Adj EPS of $1.16 was in-line with both Street and Q2 guidance, helped by better than expected other income of $170M and share repurchases of ~$1.5B. Separately, PYPL left its FY23 guidance unchanged; the company also initiated 3Q23 guidance:

- **Q3 Revenue:** ~$7.4B, growing~8% at spot and FXN (vs. the Street at ~$7.3B)
- **Q3 Non-GAAP EPS:** $1.22-$1.24, growing 13%-14% (vs. the Street at ~$1.22)
- **Q3 Non-GAAP effective tax rate:** ~17%-18% (vs. the Street at ~17.6%)

Highlights in Q2: PYPL's Q2 TPV of $376.5B (up 10.8% y/y) beat Street estimates of $372.5B, with transactions per active account (a measure of user engagement) showing continued strength, growing ~12.2% y/y. International TPV, was a specific highlight in Q2, growing 14% y/y and accelerating notably vs. 1Q23 at 6% y/y. Total revenue was lifted by OVAS which grew

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Please see analyst certifications and important disclosures beginning on page 3 .
Completed: 03-Aug-23, 01:57 GMT Released: 03-Aug-23, 01:59 GMT Restricted - External

~36.9% to $731M, helped by an increase in interest income. PYPL also continued to successfully bring down costs in Q2, reducing non-transaction related operating expenses by 11% y/y on a non-GAAP basis. While reported FCF turned negative in Q2 to -$0.4B, this number includes a ~$1.2B negative impact from European BNPL loans originated as held for sale. The company flagged that the Q2 impact on FCF will eventually be offset by sale proceeds upon the close of the transaction, though we note PYPL is already seeing one key benefit: a ~$33M decrease in credit loss expense (no longer needing to provision for expected losses from sold loans). In addition, PYPL returned more capital to shareholder in Q2 via buybacks, increasing the company's total share repurchases in FY23 to $3B.

QTD metrics show solid start to Q3. We note PYPL provided QTD metrics, with July revenue growth coming in at a solid ~9% (FXN). In a similar context, the company's QTD metrics displayed healthy TPV growth of low teens (up from 10.8% in Q2), with branded checkout TPV growth of ~8% (FXN). On the call, management also highlighted that cooling inflation could drive upside to overall eCommerce growth. all together, management expects 2H23 TPV growth to accelerate compared to 1H23 on a y/y basis.

Items to monitor:

- **Key factors weigh on PYPL's transaction take rate/margins.** Transaction take rate was down ~11bps vs. 2Q22 to 1.74%, with the FY23 take rate expected to come down further. We note the company called out approximately two-thirds of the decline was driven by lower FX fees, lower gains from FX hedges, and the lapping of elevated contractual compensation from merchants (which was ~$75M). Management also flagged that hedge gains relative to 2Q22 were ~$72M lower in 2Q23 with an additional impact from the migration and consolidation of legacy PayPal payment services. In a similar context, PYPL noted that the transaction expense rate increased ~4bps primarily driven by volume mix due to a higher unbranded share of TPV. In this context, transaction margin came in at 45.9% — below Street estimates of 46.9%. Given the intense scrutiny of transaction margins and the evolving mix of the business, we believe underperformance in this metric specifically will weigh heavily on shares tomorrow.

- **Active accounts continued to decline sequentially, with return to growth on the horizon.** In Q2, PYPL saw its continued sequential decline of active accounts, which fell ~2M to 431M from 433M in 1Q23. We note that net new active accounts (NNAs) remain pressured due a churn perspective due to the company's focus on engagement, with management signaling a switch back to positive growth in FY24.

- **Executive search process nearing completion.** On the call, Management indicated the company was in the very final stages of the search process evaluating several candidates for CEO.

PayPal, Inc.

2Q23 Preview: Understanding the Potential of PPCP

| CORE

PYPL's transaction margins still face pressure in Q2, though global eCom data seems to read through positively in the quarter. Separately, we provide a revenue impact model for PayPal Complete Payments (PPCP) – a product that may drive more F24 upside than investors are anticipating.

PYPL	OVERWEIGHT
Americas Payments, Processors & IT Services	POSITIVE
Price Target	USD 92.00
Price (11-Jul-23)	USD 70.62
Potential Upside/Downside	+30.3%

Americas Payments, Processors & IT Services

Ramsey El-Assal
+1 212 526 7144
ramsey.el-assal@barclays.com
BCI, US

Owen Callahan
+1 212 526 4795
owen.callahan@barclays.com
BCI, US

John Coffey, CFA
+1 212 526 4119
john.coffey@barclays.com
BCI, US

Ryan Campbell
+1 212 526 8508
ryan.campbell1@barclays.com
BCI, US

Allison Gelman
+1 212 526 3367
allison.gelman@barclays.com
BCI, US

Shray Gurtata
+1 212 526 8904
shray.gurtata@barclays.com
BCI, US

Q2 Preview: Volume backdrop improving, though transaction margins still in focus

Branded volumes have upside potential. PYPL also indicated intra-quarter that the q/q acceleration of branded volume in Q1 did not yet benefit from new products and offerings (i.e. one-click checkout and auto-save customer account features) highlighted at the company's recent Management Meeting. In this context, we believe branded growth could see acceleration compared to Q1 levels (we are expecting 8%+ growth vs. 6.5% in Q1). Separately, we note that Macro eCommcerce trends across the US, UK, and EU (shown here) remain relatively strong, displaying another marginally positive read-through.

Transaction margins may remain pressured. On transaction margins, which remain a focal point for investors, we expect the continuation of y/y pressure in Q2 from headwinds such as FX hedging, domestic vs. cross-border mix, strong unbranded growth, and product migrations. We further expect these headwinds to intensify into Q3, before beginning to abate thereafter. At the same time, we note that intra-quarter, PYPL announced the sale of its EU BNPL portfolio (see, Further Thoughts on BNPL Loan Sale, 06/21/23), which should have a modestly positive impact on transaction margins.

Cost savings will remain in focus. In Q2, we expect cost savings to remain robust and a key focus on the earnings call. Intra-quarter, we note management flagged a handful more overlapping business units which should recognize synergies in the near term (i.e., PayPal Here and iZettle). In this context, we believe Opex efficiency plans/reductions will continue in Q2.

More information on executive search possible. Lastly, we continue to keep a tab on PYPL's ongoing executive search process. It is unclear whether more information might come during Q2 earnings, though we believe an announcement may be coming sooner rather than later in 2H.

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Please see analyst certifications and important disclosures beginning on page 10 .

Completed: 12-Jul-23, 16:21 GMT Released: 13-Jul-23, 04:10 GMT Restricted - External

PYPL Reports 2Q23 earnings on August 2nd after the close. We currently model 2Q23 net revenue of $7.27B (vs. the Street of $7.27B), adj. operating margin of 21.9% (vs. the Street of 22.0%), and adj. EPS of $1.16 (vs. the Street of $1.16).

PPCP is a significant improvement when it comes to SMB processing

PYPL released its unbranded SMB processing solution PayPal Pro in 2005 as a new product for small- and medium-sized businesses. Which, based on management commentary, has not been heavily invested in since its inception. Instead of upgrading PayPal Pro, management has alternatively focused on building an entirely new solution: PayPal Complete Payments Program (PPCP), with an improved user experience and value proposition. Prior to PPCP, outside of the basic payment acceptance architecture, PayPal Pro had little to no added functionality for SMBs accepting payments online. For example, PayPal Pro's features included a virtual terminal to accept PayPal Payments along with Visa, MasterCard, American Express, and Discover, with minimal merchant customization tools and limited payout options. In contrast to key competitors (i.e., Stripe; Not Covered), PayPal Pro does not have many other now standard add-on features such as: embedded user interface tools, omnichannel optionality, invoicing capabilities, dispute handling, financial reporting, accounting integrations, direct bank account deposits, payout management, permissions, third-party integrations, or 24/7 support, etc. Not to mention, Stripe enables payments from 14 different major debit and credit cards (vs. PayPal Pro at 4), 11 different BNPL & pay buttons (vs. PayPal Pro at 2), and 135+ currencies (vs. PayPal Pro at 26).

With PPCP, PayPal is now able to provide a product that has the technology integrations SMBs have come to expect from their payments provider. As shown in Figure 1, some of the critical upgrades incorporated in the advanced PPCP option, compared to the legacy system (PayPal Pro), include an enhanced merchant account with greater bookkeeping and transaction tracking, developer support, refund capabilities, fraud protection, one-touch checkout, and auto-save customer account features. In addition, PPCP now allows for alternative payment methods including Apple Pay and other digital wallets/buttons, offering merchants more ways to pay.

FIGURE 1. **Advanced Features of PayPal Complete Payments (PPCP)**

Features	Standard	Advanced
Accept PayPal payments (PayPal, Venmo, Pay Later options, and Checkout with Crypto)	✓	✓
Credit and debit card processing	Processed as a PayPal Payment*	Processed outside of PayPal Payments**
Customize customer checkout flow		✓
Local payment methods		✓
Alternative payment methods		✓
One-time sale transactions	✓	✓
Recurring payments	✓	✓
Optimized for mobile	✓	✓
Customer authentication through 3D Secure		✓
Options for full, partial, or multiple refunds and reversals		✓
Track your transactions from one dashboard		✓
Automatically update customer card information with Real-time account updater		✓
Save customer card, billing, and shipping info for fast checkout		✓
Set up automatic transfers to your bank account	✓	✓
Security		
Seller Protection on eligible transactions	✓	✓
Chargeback Protection		Optional Add-on
Fraud Protection on eligible transactions		✓
Requirements		
PayPal Business account	✓	✓
Approved application		✓
Developer support	✓	✓
Pricing		
PayPal Business account	Free	Free
PayPal payments	3.49% + $0.49 fixed fee per transaction	3.49% + $0.49 fixed fee per transaction
Credit and debit card payments	2.99% + $0.49 fixed fee per transaction	2.59% + $0.49 fixed fee per transaction
Apple Pay and alternative payment methods		2.59% + $0.49 fixed fee per transaction
Add Chargeback Protection		Additional 0.40% per transaction
Interchange pricing (IC++)		✓

*With PayPal Payments card transactions are managed by PayPal, simplifying compliance requirements **Credit and debit cards processed outside of PayPal Payments will be responsible for their respective compliance and chargebacks
Source: Barclays Research, Company Website

PYPL is also providing competitive processing rates. As shown in Figure 1, we note the headline rate is 2.49% + $0.49 fixed fee per transaction (2.99% + $0.49 fixed fee including chargeback protection) on a typical credit and debit card transaction. Stripe, as a comparison, displays a 2.90% + $0.30 fixed fee per transaction rate, though we note there is also an extra +0.5% fee for manually entered cards (which we believe encompasses a sizable number of online transactions) bringing up the fee on those transactions to 3.40% + the $0.30 fixed fee. Not to mention an additional 0.40% fee per transaction for chargeback protection. In addition, we note that PYPL also has an interchange-based pricing model, known as IC++, allowing slightly larger merchants greater pricing optionality with “cost plus” fees that fluctuate based on the interchange, card network, and processor costs (though admittedly, Stripe offers this too).

Scenario Analysis: PPCP looks set to drive 2024 upside

The first step in our analysis is to take PayPal Pro volumes as our starting point, because management's go-to-market strategy for PPCP is to sunset PayPal Pro while encouraging users to migrate to PPCP. To find the percentage of unbranded volume which currently comes from PayPal Pro, we start with PYPL's 4Q22 earnings presentation, in which unbranded processing accounted for ~30% of TPV. Management flagged that unbranded volume is 'predominantly' Braintree, so we estimate that PayPal Pro volume could be ~4% of unbranded volume. We arrive at this estimate by leveraging Braintree's 2022 volume growth of ~42% y/y and comparing that to total unbranded growth of 40% y/y. Assuming PayPal Pro grew at the rate of eCommerce growth (~8.3%), we deduce that PayPal pro could be ~4% of unbranded volume (or ~1.2% of TPV). We point out that this is additionally corroborated by Frank Keller (SVP of Merchant & Payments), who mentioned at an industry conference in March that Braintree is processing ~$400B in volume, which leads us to believe our PayPal Pro estimate is in a reasonable range of ~$10-$20B in annual FY22 volume.

The second step is to account for the churn from the transition period. In our opinion, we believe the migration could likely occur quite quickly given that ~50%+ of PayPal Pro volume is estimated to come through channel partners (i.e., WooCommerce, Wix, and Shopify). In this context, PYPL should be able to migrate subsets of its merchant base (i.e., those coming in through partner platforms) in larger tranches, rather than on a merchant-by-merchant basis. At the same time, we anticipate some level of attrition among PayPal Pro customers that fail to complete the migration to PPCP (i.e., they instead move to a competitor), which we estimate may reach ~10%.

Thus, our baseline 2023 PPCP estimate is effectively the 2022 PayPal Pro percentage of TPV estimate, adjusted downward for churn (as we are not projecting incremental PPCP growth in 2023). In the second step of our analysis, assuming the ~$16B of PPCP volume by FY23, we provide a scenario analysis to account for a potential FY24 revenue impact, as shown in Figure 2. On the y-axis, we provide a range of y/y growth estimates, and on the x-axis a scale of hypothetical take rates for PPCP volume.

FIGURE 2. FY24 PPCP Expectations Display Material Upside...

PPCP Incremental FY24 Revenue Impact ($)					
	PPCP Take Rate				
PPCP Volume Growth Y/Y	2.00%	2.50%	3.00%	3.50%	4.00%
20.0%	$387.9M	$484.9M	$581.9M	$678.9M	$775.9M
30.0%	$420.3M	$525.3M	$630.4M	$735.5M	$840.5M
40.0%	$452.6M	$565.7M	$678.9M	$792.0M	$905.2M
50.0%	$484.9M	$606.2M	$727.4M	$848.6M	$969.9M
60.0%	$517.3M	$646.6M	$775.9M	$905.2M	$1,034.5M

Source: Barclays Research, Company Filings

FIGURE 3. ...With Revenue Impacts that Could be Even more Pronounced

PPCP Incremental FY24 Revenue Impact (%)					
	PPCP Take Rate				
PPCP Volume Growth Y/Y	2.00%	2.50%	3.00%	3.50%	4.00%
20.0%	1.20%	1.50%	1.80%	2.10%	2.40%
30.0%	1.30%	1.63%	1.95%	2.28%	2.60%
40.0%	1.40%	1.75%	2.10%	2.45%	2.80%
50.0%	1.50%	1.88%	2.25%	2.63%	3.00%
60.0%	1.60%	2.00%	2.40%	2.80%	3.20%

Source: Barclays Research, Company Filings

Currently, PYPL is live with PPCP in the US and we expect the company to expand into the EU & Australia in 3Q23 and into adjacent geographies in FY24. We note that based on management commentary, PYPL believes the SMB long tail has a total addressable market of ~$750B. Though there are large competitors in the market, we see the unbranded SMB processing market as likely having sizable potential.

Another important concept is the sales lift associated with PPCP. PYPL has indicated that – given the addition of enhanced capabilities and value-added services – PPCP is set to drive sales lift from merchants who complete the migration. On this last point, management recently indicated (during their Management Meeting, 6/8/23) that WooCommerce merchants who adopted PPCP saw a ~40% increase in conversions. Our analysis below presumes a lower level of total TPV lift: namely, 15%. Thus, our scenario analysis plots a 20%-60% y/y growth rate for PPCP, which is comprised of a combination of: 1) sales lift from value added-services and enhanced user experience , 2) new merchants interested in PPCP's enhanced value proposition, and 3) general market growth. In this context, management commented (during the 4Q22 earnings call, 2/9/23) that they could eventually take ~20% of PYPL TPV through PPCP, though our estimates still remain far from this figure.

On PPCP's take rate, management indicated (during the Barclays Emerging Payments and FinTech Forum, 5/23/23) that PPCP should be accretive to PYPL's overall take rate, which is not surprising given the product's SMB focus as well as higher availability of value-added services. We expect a take rate greater than the current Street FY24 net take rate estimate of ~1.78%. The low end of our range presumes a take rate of 2.00% or just ~18 bps higher than current company average rates. The high end of our range is 4.00%, which is more in line with PYPL's highest-yielding past and present volume flows (e.g., EBAY and SMB Cross-Border).

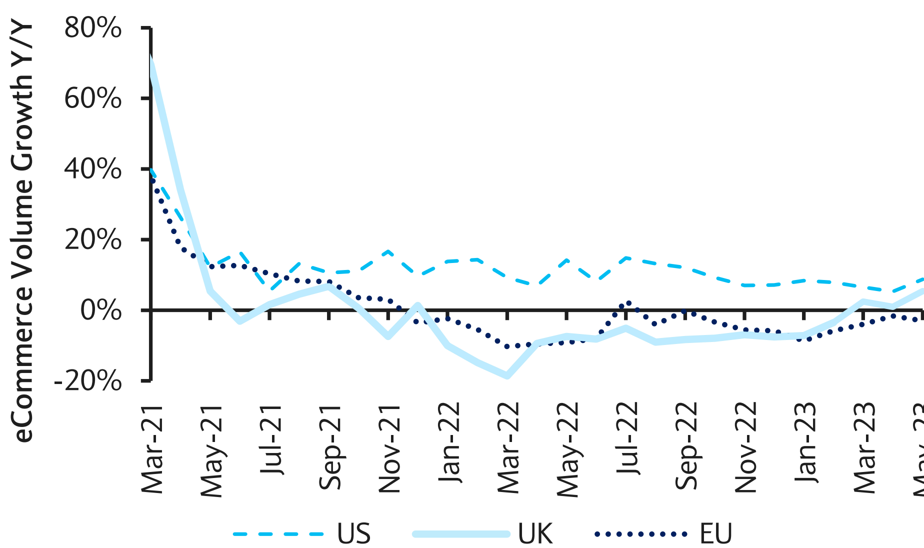
At the midpoints of our X- and Y-axis assumptions, we output ~$679M or ~2.10% in incremental FY24 revenues.

Leading Macro Indicators

Global eCommerce indicators show US, UK, & EU markets holding in; reads through positively to PYPL.

- **US:** Non-store (i.e., online) retail sales (US Census Bureau) growth held relatively steady at 7.1% y/y for April and May, a ~40 bps sequential decrease vs. 1Q23 growth of 7.6% y/y.
- **UK:** Internet retail sales (UK Office for National Statistics) in April and May improved to 3.1% y/y, a ~600 bps sequential increase vs. 1Q23 deceleration of -2.9% y/y.
- **EU:** Eurostat indicates EU eCommerce growth improved to -2.4% y/y in April and May, a sequential increase vs. 1Q23 deceleration of -6.2% y/y.

FIGURE 4. **Online retail sales y/y growth - March 2021 to May 2023**



Source: Barclays Research, US Census Bureau, UK Office for National Statistics, and Eurostat

Guidance

2Q23

- **Net Revenue Growth:** ~6.5%-7% at spot and ~7.5%-8% FXN
- **Non-GAAP Operating Margin:** ~22%
- **Non-GAAP EPS:** $1.15-$1.17 or ~24%-26% growth y/y
- **Non-GAAP Effective Tax Rate:** 19%-20%

FY23

- **Revenue:** 2H23 growth relatively in line with 1H23
- **Non-GAAP EPS:** ~$4.95 or ~20% growth y/y
- **Non-GAAP Operating Margin:** >100 bps expansion, reflecting greater contribution of unbranded processing volume to growth
- **Share Repurchases:** ~$5B
- **Non-GAAP Effective Tax Rate:** ~17%-19%

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PayPal, Inc.

Management Meeting Key Takeaways

| CORE

Earlier today, PYPL convened its Management Meeting in New York City. Our takeaways are below.

We appreciate your consideration in the ***Institutional Investor All-America & All-Canada Research*** *Survey 2023.* **View analysts »** **Vote for Barclays »**

Speakers: Dan Schulman (President & CEO); Peggy Alford (EVP, Global Sales & Merchant Services); John Kim (EVP, Chief Product Officer); and, Gabirelle Rabinovitch (SVP, Acting CFO).

Enhancing Payment Service Provider (PSP) business, and boosting unbranded margins. During the meeting, PYPL described key upcoming drivers of growth and margins in PSP and the unbranded business. From a product roadmap standpoint, PPCP (PayPal Complete Payments Program) is designed to enable new value-added product introductions and an entry into the SMB merchant segment. The SMB segment specifically was flagged as a critical area of growth that carries healthy transaction economics. On new value-added services, management noted payouts, FX-as-a-service, and risk-as-a-service as three key examples of how PYPL can also drive the company's cross-sell opportunity, specifically with unbranded partners, to provide further margin improvements. Additionally, PYPL emphasized geographic expansion, identifying Asia, the EU, and Brazil as markets that are prime for Braintree and PPCP penetration, while also noting that transaction economics in these regions are more favorable. While certain capabilities are now live in market, we expect the rollout—and associated margin improvements—of new product capabilities to be gradual in nature.

Branded growth set to continue accelerating. PYPL indicated that the q/q acceleration of branded volume in Q1 did not benefit from the new products and offerings described today. Therefore, management signaled that branded growth will accelerate vs. Q1 levels.

Management additionally focused on improving consumer experience and enabling unbranded one-click checkout. Management noted that there are ~21B cards issued (ex. China) and that PYPL has "vaulted" ~25% of the cards in circulation. Leveraging PYPL's ~35M merchant partners, management highlighted a keen focus on driving an improved consumer experience with the more specific goal of unlocking a frictionless one-click unbranded checkout. PYPL noted that when a consumer chooses to checkout with PayPal, merchants can expect a conversion rate improvement to nearly 90% when compared to guest checkout of ~50-60%. To drive this engagement and enhance utility, PYPL is implementing biometrics (ie, face ID authenticated payments) to further enhance one-click checkout, as well as adding other appealing features such as package tracking designed to improve the consumer experience.

PYPL	OVERWEIGHT
Americas Payments, Processors & IT Services	POSITIVE
Price Target	USD 92.00
Price (08-Jun-23)	USD 64.24
Potential Upside/Downside	+43.2%

Americas Payments, Processors & IT Services

Ramsey El-Assal
+1 212 526 7144
ramsey.el-assal@barclays.com
BCI, US

Owen Callahan
+1 212 526 4795
owen.callahan@barclays.com
BCI, US

John Coffey, CFA
+1 212 526 4119
john.coffey@barclays.com
BCI, US

Ryan Campbell
+1 212 526 8508
ryan.campbell1@barclays.com
BCI, US

Allison Gelman
+1 212 526 3367
allison.gelman@barclays.com
BCI, US

Shray Gurtata
+1 212 526 8904
shray.gurtata@barclays.com
BCI, US

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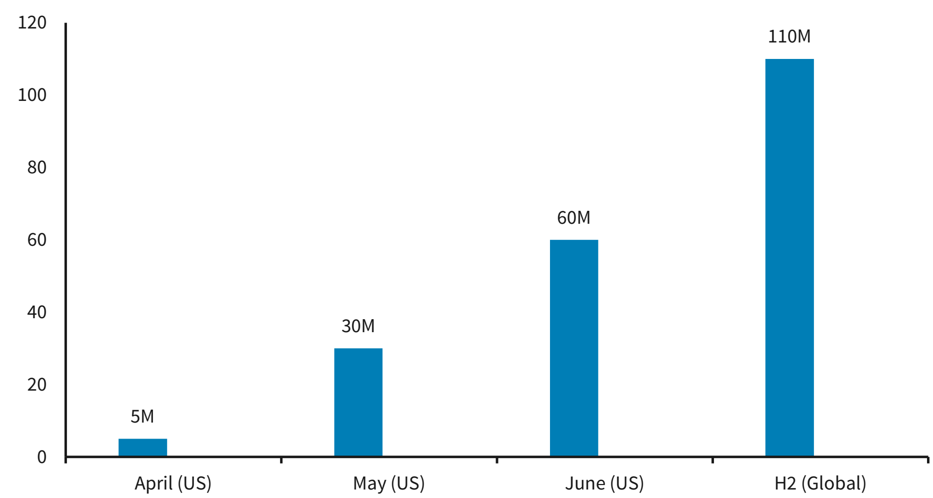
PYPL will also leverage merchant partners to drive user growth. With ~1B consumers still opting to use guest checkout services when making a purchase online, management displayed that PYPL can leverage the ~35M merchant partners to drive new user growth. With partner merchants, PYPL will begin to automatically save customers' guest checkout credentials in to PYPL's credential vault. This will enable consumers to have checkout credentials that are automatically synced and auto-populated across PYPL's merchant partners. The ultimate goal is to leverage vaulted credentials as a lead gen tool to sign up more PYPL users.

BNPL is another key growth lever. Since launching in 4Q20, PYPL's BNPL product has been used by over 32M PYPL users, with TPV of ~$32.7B. For the 300k merchants, this has led to a 12% lift in sales and a 55% increase in average order value. To unlock more growth, management noted that one of the key points of friction is the approval process necessary for consumer usage. To reduce this pain point, PYPL has begun to pre-approve its users for its BNPL product. As shown in Figure 1, PYPL expects to have ~60M US users pre-approved for BNPL and ~110M pre-approved globally by 2H23. On top of this, PYPL is intending to combine BNPL with cashback offers to promote awareness and provide greater incentives for use.

FIGURE 1. **PayPal User Pre-Approvals for BNPL**



Source: Company Filings. Barclays Research

PayPal, Inc.

Barclays Emerging Payments & Fintech Forum Key Takeaways

Today we hosted a fireside chat and investor meetings with PYPL acting CFO and SVP, Investor Relations and Treasurer, Gabrielle Rabinovitch. Our takeaways are below.

Presenter: Gabrielle Rabinovitch, acting CFO and SVP, Investor Relations and Treasurer

Key Takeaways:

- **Benefits expected from PPCP.** Management described the key drivers expected to bolster the margin profile of unbranded volumes. From a product roadmap standpoint, the conversion of merchants to PPCP (PayPal Complete Payments Program) should enable new value-added product introductions. Management noted that there has been some churn due to the transition, but given PPCP improved user experience and monetization opportunities, the new product/platform represents a net positive driver. Additionally, the company flagged that overseas expansion also represents a transaction margin tailwind.

- **Recent transaction margin pressure driven by some transient factors.** Management highlighted that the largest headwind to transaction margins in Q1 was to FX. Any weakening of USD strength should benefit transaction margins. Management also noted that loan losses were the second largest factor impacting the company's margin profile, driving ~130 bps of pressure. More specifically, the increased loan loss provisioning due to BNPL was a major impact on margins. The volume mix shift toward larger unbranded volumes — and the funding mix associated with those volumes — pressured TM as well.

- **Macro may appear incrementally stable.** PYPL previously expected to see some deceleration in volumes in the back half of the year. We felt that management sounded incrementally confident on macro conditions potentially stabilizing in the back half of the year, though the consumer remains under pressure (notably in the UK).

- **Continuing to improve efficiency.** The company indicated that opex efficiency plans/reductions would not be finished in FY23. Management sees more opportunity in non-transaction related cost take outs. On the same note, management sees particular opportunities in eliminating duplicate business line infrastructure. As an example, PayPal Here and iZettle, had been operating as two separate businesses, but will soon recognize synergies.

- **As focus shifts to engagement, expect to see a decline in yearly active accounts.** Management anticipates a y/y decline in actives in the low single digits for FY23, as the

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PYPL	OVERWEIGHT
Americas Payments, Processors & IT Services	POSITIVE
Price Target	USD 92.00
Price (16-May-23)	USD 60.80
Potential Upside/Downside	+51.3%

Americas Payments, Processors & IT Services

Ramsey El-Assal
+1 212 526 7144
ramsey.el-assal@barclays.com
BCI, US

Owen Callahan
+1 212 526 4795
owen.callahan@barclays.com
BCI, US

John Coffey, CFA
+1 212 526 4119
john.coffey@barclays.com
BCI, US

Ryan Campbell
+1 212 526 8508
ryan.campbell1@barclays.com
BCI, US

Allison Gelman
+1 212 526 3367
allison.gelman@barclays.com
BCI, US

Shray Gurtata
+1 212 526 8904
shray.gurtata@barclays.com
BCI, US

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company continues its strategic shift to a focus on engagement/the growth of its monthly active user base (~190 million monthly active unique users identified in Q1).

For further details including agenda, webcasts, and feedback from other presentations at the Barclays **Emerging Payments and Fintech Forum** please go to the conference website or type in keyword **PaymentsFinTech** on Barclays Live.