

**Development of Internet Gambling Regulations
Conference Call with PayPal**

Call Date: April 29, 2008

Call Time: 4:00pm EDT

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Unlike other large money transmitting businesses, PayPal does not employ agents to facilitate transactions. Instead, PayPal maintains customer account relationships with both payors and payees that, respectively, send and receive money through its service. Because PayPal's relationships are all account-based, it can check customer records over the course of the relationship to find patterns of illicit activity, such as the use of multiple accounts by the same individual, and IP address logging to see whether the account holder is typically using the account from the holder's stated location.

PayPal examines the IP addresses of its users so that it can block U.S. customers from accessing PayPal through one of its foreign sites where Internet gambling may be legal. Nevertheless, if a U.S. consumer were able to access a foreign PayPal site from which gambling were legal, PayPal's systems would detect that the person was using a U.S. issued credit card or bank account to fund that transaction, and thus block those gambling payments. PayPal maintains a history of payors' value transfers to fund their own PayPal accounts, and so any pre-funded value that originated from a U.S. source cannot be used to pay an Internet gambling business.

PayPal has established customer relationships with a few Internet gambling companies in Europe. PayPal requires these gambling businesses to adhere to the following practices:

- Employ geo-location technology to ensure that U.S. gamblers are not allowed to participate;
- Employ an effective age verification program to prevent minors' access;
- Demonstrate a comprehensive anti-money laundering program;
- Provide a legal opinion to PayPal that its business is legal and can accept customers from the nations in which it operates.

PayPal conducts ongoing due diligence to ensure that gaming sites' systems and controls are functioning according to specification, including reviews of Internet gambling companies' physical locations, websites, and compliance software.

Domestic websites that offer games of skill for money are allowed to establish accounts with PayPal. These sites must provide PayPal with a legal opinion stating that the site can lawfully operate in the states where it accepts customers. PayPal noted that these legal opinions sometimes provide conflicting interpretations of state law.

When PayPal discovers that an unauthorized website indicates acceptance of PayPal's service (in many instances one is told to send money to a third-party account), PayPal sends a "take-down notice" to the company that hosts the website, which states that a website the company is hosting is violating the Digital Millennium Copyright Act. Should the website host fail to take action, PayPal may ask major web search engines to remove the site from search results since it inappropriately displays PayPal's name in such results.

When PayPal acts as a merchant acquirer in a credit card transaction for a merchant, the transaction will receive a merchant category code of 'e-commerce' if the merchant's volume is below a certain threshold. Should the merchant exceed that threshold, its transactions will receive a merchant category code specific to its line of business.