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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

JEFFREY EDELMAN, Derivatively on
Behalf of CAREDX, INC.,

Plaintiff,

v.

MICHAEL D. GOLDBERG, REGINALD
SEETO, GEORGE BICKERSTAFF, FRED
COHEN, GRACE E. COLON, CHRISTINE
COURNOYER, WILLIAM HAGSTROM,
PETER MAAG, RALPH SNYDERMAN,
ARTHUR TORRES, HANNAH
VALANTINE, AND ANKUR DHINGRA,

Individual Defendants,

-and-

CAREDX, INC.,

Nominal Defendant.

Case No. 3:22-cv-5379

**VERIFIED STOCKHOLDER
DERIVATIVE COMPLAINT**

1 Plaintiff Jeffrey Edelman (“Plaintiff”), by his attorneys, submits this Verified Stockholder
2 Derivative Complaint for violations of securities laws, insider trading, breach of fiduciary duty,
3 waste of corporate assets, and unjust enrichment. Plaintiff alleges the following upon information
4 and belief, except as to the allegations specifically pertaining to Plaintiff, which are based on
5 personal knowledge. This complaint is also based on the investigation of Plaintiff’s counsel,
6 which included, among other things, a review of public filings with the U.S. Securities and
7 Exchange Commission (“SEC”) and a review of news reports, press releases, and other publicly
8 available sources.

9 **NATURE AND SUMMARY OF THE ACTION**

10 1. This is a stockholder derivative action brought by Plaintiff on behalf of Nominal
11 Defendant CareDx, Inc. (“CareDx” or the “Company”) against members of its board of directors
12 (the “Board”) and members of upper management. The wrongdoing alleged herein has caused
13 substantial damage to CareDx’s reputation, goodwill, and standing in the business community
14 and has exposed CareDx to substantial potential liability for violations of federal securities laws
15 and the costs associated with defending itself. The violations of the law outlined herein have
16 damaged CareDx in the form of, among other things, millions of dollars in losses to the
17 Company’s market capitalization.

18 2. This action seeks to remedy wrongdoing committed by CareDx’s directors and
19 officers from February 24, 2021 through the present (the “Relevant Period”).

20 3. CareDx is a diagnostics company that provides services and products to the organ
21 transplant recipient community, offering diagnostic testing services, products, and digital
22 healthcare software for transplant patients and care providers. The information gathered through
23 the Company’s surveillance and tests purportedly enables clinicians to make treatment decisions
24 in the event of signs of organ rejection.

25 4. During the Relevant Period, testing services for kidney and heart transplant
26 recipients represented at least 85% of the Company’s total revenues. This has been the case since
27 at least the beginning of 2020. The Company’s AlloSure® blood test for transplant recipients

1 was, and is, the Company's primary source of revenue.

2 5. For testing services, the Company receives a higher payment from Medicare
3 reimbursements than from commercial payers. Therefore, the number of tests for which the
4 Company was able to get Medicare reimbursement correlated with the Company's comparably
5 higher average sales price ("ASP") for testing services. ASP was not specifically reported, but
6 investors were able to calculate ASP by dividing testing service revenue by the number or volume
7 of reported tests per financial period.

8 6. Throughout the Relevant Period, CareDx reported growing revenue and strong
9 demand in the Company's testing services segment. In February 2021, the start of the Relevant
10 Period, the Company reported a 51% year-over-year increase in total revenue, with testing
11 services revenue seeing a material increase from \$104.6 million in 2019 to \$163.5 million in 2020,
12 a 56% year-over-year increase. Defendant Reginald Seeto ("Seeto"), the current CEO, informed
13 the public that the Company "should be focused" on the testing services segment. Defendants
14 presented the testing services segment as the Company's growth driver. Seeto described the
15 Company's testing services segment as having "a winning formula" that would allow the
16 Company to capture a massive total addressable market ("TAM").

17 7. Seeto and the other Individual Defendants (defined below) also emphasized to
18 investors the success of the Company's RemoTraC service, an at-home blood draw service that
19 the Company launched in response to the Covid-19 pandemic. The public was told throughout
20 the Relevant Period that the RemoTraC service was a massive success that gave the Company the
21 ability to "drive margins" for testing services.

22 8. During the Relevant Period, the Individual Defendants caused the Company to
23 issue materially false and misleading statements regarding testing services. Specifically, the
24 Individual Defendants failed to disclose that certain CareDx officers had engaged in a number of
25 improper and illegal schemes to inflate testing services revenue, including: (i) pushing protocols
26 for surveillance of organ rejection through inaccurate marketing materials and in violation of
27 Medicare standards; (ii) offering extravagant inducements or kickbacks to physicians and other

1 providers; and (iii) improperly bundling expensive testing services with other blood tests as part
2 of the RemoTraC service. As a result of this misconduct, CareDx would be subject to an
3 undisclosed risk of regulatory scrutiny and the Company's testing services revenue and demand
4 reported throughout the Relevant Period was artificially inflated. As a result, Defendants' positive
5 statements about the Company's business, operations, and prospects were materially false and
6 misleading and/or omitted material facts necessary to make those statements not false and
7 misleading.

8 9. On October 28, 2021, the truth began to emerge when CareDx filed its quarterly
9 report for the third quarter of 2021. Under the heading "United States Department of Justice and
10 United States Securities and Exchange Commission Investigation," the Company revealed for the
11 first time that CareDx was the subject of at least three government investigations. Specifically,
12 the Company had received: (1) a civil investigative demand ("CID") from the U.S. Department
13 of Justice ("DOJ") requesting the Company produce documents in connection with the DOJ's
14 False Claims Act investigation; (2) a subpoena from the SEC in relation to an of matters similar
15 to those identified in the CID and certain accounting and public reporting practices; and (3) an
16 information request from an unnamed state regulatory agency (collectively the "Government
17 Investigations").

18 10. On this news, the Company's stock price dropped from \$70.34 per share on
19 October 28, 2021 to \$51 per share on October 29, 2021. The stock continued to decline over the
20 next week reaching \$47.04 per share on November 5, 2021. This represented a 33% decline from
21 the closing price on October 28, 2021.

22 11. The Company then remained silent on the status of the Government Investigations
23 for several months. But investors learned more about the extent of the Company's misconduct
24 and the nature of the Government Investigations on April 15, 2022, when the Company's former
25 Head of Community Nephrology, Dr. Michael Olymbios, filed a complaint in California Superior
26 Court that provided details regarding: (1) misconduct, including the use of RemoTraC to
27 improperly bundle the Company's most expensive testing services, including AlloSure, with other
28

1 blood tests, that led to the Government Investigations; (2) Defendant Peter Maag’s (“Maag”), the
2 former CEO and current director on the Company’s Board, and Seeto’s knowledge of the
3 misconduct throughout the Relevant Period; and (3) their attempts to conceal the misconduct.

4 12. On this news, the Company’s stock price fell to \$35.41 per share on April 14, 2022
5 and continued to fall the next trading day reaching \$32.55 per share, a 14% decrease from the
6 closing price of \$38.02 on April 13, 2022.

7 13. On May 5, 2022, the Company announced its results for the first quarter of 2022.
8 The disclosure reported that testing service revenue fell well short of analysts’ expectations and
9 there was a 4.9% decline in ASP versus the last quarter of 2021.

10 14. On this news, the stock price fell to \$25.78 on May 6, 2022 and continued to fall
11 the following trading day descending to \$22.46, a 29% drop from the closing price on May 5,
12 2022.

13 15. The Individual Defendants breached their fiduciary duties by failing to correct
14 and/or causing the Company to fail to correct these false and misleading statements and omissions
15 of material fact. The Individual Defendants also willfully or recklessly caused the Company to
16 fail to maintain an adequate system of oversight, disclosure controls and procedures, and internal
17 controls over financial reporting.

18 16. As detailed herein, and as alleged in the ongoing federal securities class action in
19 the Northern District of California styled *Plumbers & Pipefitters Local Union #295 Pension Fund*
20 *v. CareDx, Inc. et al.*, Case No. 3:22-cv-03023, (the “Federal Securities Class Action”), CareDx’s
21 officers and directors substantially damaged the Company by making false and misleading
22 statements that omitted material adverse facts concerning the Company’s worsening business
23 prospects.

24 **JURISDICTION AND VENUE**

25 17. This Court has subject matter jurisdiction pursuant to 28 U.S.C. § 1331 because
26 Plaintiff’s claims raise a federal question under Section 14(a) of the Exchange Act, 15 U.S.C.
27 §78n(a)(1), Rule 14a-9 of the Exchange Act, 17 C.F.R. § 240.14a-9, and Section 20(a) of the

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