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*Counsel for Plaintiff*

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

SHANG PANG, derivatively on behalf of  
PAYPAL HOLDINGS, INC.,

Plaintiff,

v.

DANIEL H. SCHULMAN, JOHN D.  
RAINEY, AARON A. ANDERSON,  
JEFFREY KARBOWSKI, RODNEY C.  
ADKINS, WENCES CASARES,  
JONATHAN CHRISTODORO, JOHN J.  
DONAHOE, DAVID W. DORMAN,  
BELINDA J. JOHNSON, GAIL J.  
McGOVERN, DEBORAH M.  
MESSEMER, DAVID M. MOFFETT,  
ANN M. SARNOFF, FRANK D.  
YEARY,

Defendants,

and

PAYPAL HOLDINGS, INC.,

Nominal Defendant.

Case No.: 2:21-cv-00525-DSF-E

DEMAND FOR JURY TRIAL

**VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT**

## **INTRODUCTION**

Plaintiff Shang Pang (“Plaintiff”), by his undersigned attorneys, derivatively and on behalf of Nominal Defendant PayPal Holdings, Inc. (“PayPal” or the “Company”), files this Verified Shareholder Derivative Complaint against Individual Defendants Daniel H. Schulman (“Schulman”), John D. Rainey (“Rainey”), Aaron A. Anderson (“Anderson”), Jeffrey W. Karbowski (“Karbowski”), Rodney C. Adkins (“Adkins”), Wences Casares (“Casares”), Jonathan Christodoro (“Christodoro”), John J. Donahoe (“Donahoe”), David W. Dorman (“Dorman”), Belinda J. Johnson (“Johnson”), Gail J. McGovern (“McGovern”), Deborah M. Messemer (“Messemer”), David M. Moffett (“Moffett”), Ann M. Sarnoff (“Sarnoff”), Frank D. Yeary (“Yeary”) (collectively, the “Individual Defendants,” and together with PayPal, the “Defendants”) for breaches of their fiduciary duties as directors and/or officers of PayPal, unjust enrichment, abuse of control, gross mismanagement, waste of corporate assets, violations of Section 14(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), and against Defendants Schulman and Rainey for contribution under Sections 10(b) and 21D of the Exchange Act. As for Plaintiff’s complaint against the Defendants, Plaintiff alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of the Defendants’ public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding PayPal, legal filings, news reports, securities analysts’ reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

## **NATURE OF THE ACTION**

1. This is a shareholder derivative action that seeks to remedy wrongdoing

1 committed by PayPal's directors and officers from February 9, 2017 through July 28, 2021,  
2 both dates inclusive (the "Relevant Period").

3         2. PayPal is a Delaware Corporation based in San Jose, California that operates  
4 as a technology platform and digital payments company. The Company offers a variety of  
5 payment solutions, including consumer credit services through the Company's PayPal  
6 Credit offering, as well as debit card services.

7         3. PayPal Credit has previously been subject to regulatory scrutiny. In 2015, the  
8 Company entered into a Stipulated Final Judgment and Order ("Consent Order") with the  
9 Consumer Financial Protection Bureau ("CFPB") in which it settled regulatory claims  
10 arising from the Company's PayPal Credit practices between 2011 and 2015. The Consent  
11 Order obligated PayPal to pay \$15 million in redress to consumers and a \$10 million civil  
12 monetary penalty. The Consent Order further required PayPal to make various changes to  
13 PayPal Credit disclosures and related business practices.

14         4. Following the Company's entry into the Consent Order, and throughout the  
15 Relevant Period, the Individual Defendants made, or caused the Company to make,  
16 materially false and misleading statements concerning PayPal's business, operations, and  
17 prospects.

18         5. Specifically, during the Relevant Period, the Individual Defendants caused the  
19 Company to repeatedly tout its compliance with the Consent Order in filings with the SEC.  
20 In addition, the Individual Defendants caused the Company to acknowledge the Federal  
21 Reserve Board's rule capping debit card interchange fees and other related laws and  
22 regulations.

23         6. However, during the Relevant Period, the Individual Defendants failed to  
24 disclose compliance issues with PayPal Credit that led to an investigation by the CFPB (the  
25 "PayPal Credit Misconduct") and compliance issues with Regulation II of the Board of  
26 Governors of the Federal Reserve System governing debit card interchange fees that led to  
27 an investigation by the SEC (the "Debit Interchange Misconduct").  
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1           7.     The Individual Defendant's misrepresentations had the effect of misleading  
2 the investing public and artificially inflating the Company's stock during the Relevant  
3 Period, during which time three of the Individual Defendants benefitted from lucrative  
4 insider sales at artificially inflated prices for proceeds of approximately \$6.25 million.

5           8.     The truth emerged on July 29, 2021, when the Company filed its quarterly  
6 report on Form 10-Q with the SEC (the "2021Q2 10-Q"), in which the Company disclosed  
7 that it was subject to investigations by federal regulatory authorities. Specifically, the  
8 Company disclosed that it had received a civil investigative demand ("CID") "from the  
9 CFPB related to the marketing and use of PayPal Credit in connection with certain  
10 merchants that provide educational services." In addition, the Company disclosed that it  
11 had "responded to subpoenas and requests for information received from the [SEC] relating  
12 to whether the interchange rates paid to the bank that issues debit cards bearing our licensed  
13 brands were consistent with Regulation II of the Board of Governors of the Federal Reserve  
14 System, and to the reporting of marketing fees earned from the Company's branded card  
15 program."

16           9.     On this news, the Company's stock price fell by \$18.81 per share from its  
17 closing price of \$301.98 on July 28, 2021, to close at \$283.17 on July 29, 2021, a decline  
18 of approximately 6.23%.

19           10.    During the Relevant Period, the Individual Defendants breached their  
20 fiduciary duties by personally making and/or causing the Company to make to the investing  
21 public a series of materially false and misleading statements regarding the Company's  
22 business, operations, and prospects. Specifically, the Individual Defendants willfully or  
23 recklessly made and/or caused the Company to make false and misleading statements that  
24 failed to disclose, *inter alia*: (1) the PayPal Credit Misconduct; (2) the Debit Interchange  
25 Misconduct; (3) the Company's revenues from its PayPal Credit and debit card services  
26 were artificially inflated due to the PayPal Credit Misconduct and the Debit Interchange  
27 Misconduct and were therefore unsustainable; (4) as a result of the foregoing, the Company  
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1 was subject to an increased risk of regulatory investigations and enforcement actions; and  
2 (5) the Company failed to maintain internal controls. As a result of the foregoing, the  
3 Company's public statements were materially false and misleading at all relevant times.

4 11. The Individual Defendants also breached their fiduciary duties by failing to  
5 correct and/or causing the Company to fail to correct these false and misleading statements  
6 and omissions of material fact, while three of the Individual Defendants sold Company  
7 shares at inflated prices.

8 12. In further breach of their fiduciary duties, the Individual Defendants caused  
9 or permitted the Company to engage in the PayPal Credit Misconduct and the Debit  
10 Interchange Misconduct. As a result, the CFPB and the SEC undertook investigations into  
11 the PayPal Credit Misconduct and the Debit Interchange Misconduct.

12 13. Additionally, in breach of their fiduciary duties, the Individual Defendants  
13 caused the Company to fail to maintain adequate internal controls.

14 14. In light of the Individual Defendants' misconduct—which has subjected the  
15 Company, its Chief Executive Officer ("CEO"), and its Chief Financial Officer ("CFO")  
16 to a federal securities fraud class action lawsuit pending in the United States District Court  
17 for the Northern District of California (the "Securities Class Action") and which has further  
18 subjected the Company to the need to undertake intake internal investigations, the need to  
19 implement adequate internal controls, losses from the waste of corporate assets, and losses  
20 due to the unjust enrichment of Individual Defendants who were improperly  
21 overcompensated by the Company and/or who benefitted from the wrongdoing alleged  
22 herein—the Company will have to expend many millions of dollars.

23 15. The Company has been substantially damaged as a result of the Individual  
24 Defendants' knowing or highly reckless breaches of fiduciary duty and other misconduct.

25 16. In light of the breaches of fiduciary duty engaged in by the Individual  
26 Defendants, most of whom are the Company's current directors, of the collective  
27 engagement in fraud and misconduct by the Company's directors, of the substantial  
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