



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ARTUR SCHABACK, individually on  
behalf of himself, and derivatively on  
behalf of Paxful Holdings, Inc,

Plaintiff/  
Counterclaim-Defendant,

v.

MOHAMED AZAB YOUSSEF,

Defendant/  
Counterclaim-Plaintiff,

and

PAXFUL HOLDINGS, INC.,

Nominal Defendant/  
Nominal Counterclaim-  
Defendant.

**REDACTED PUBLIC VERSION**  
**DATED: March 17, 2023**

C.A. No. 2023-0026-PAF

**DEFENDANT/COUNTERCLAIM-PLAINTIFF MOHAMED AZAB  
YOUSSEF'S ANSWER TO AMENDED AND SUPPLEMENTAL VERIFIED  
COMPLAINT AND VERIFIED AMENDED COUNTERCLAIMS**

Defendant/Counterclaim-Plaintiff Mohamed Azab Youssef ("Defendant" or "Youssef"), by and through his undersigned counsel, hereby responds to the Amended and Supplemental Verified Complaint ("Amended Complaint") filed by Plaintiff/Counterclaim-Defendant Artur Schaback ("Schaback" or "Plaintiff"). Defendant files this Answer to the Amended Complaint without waiver of any rights

under the Rules of the Court of Chancery, including the right to amend or supplement this Answer without leave of Court.

Defendant is simultaneously seeking dismissal of the Amended Complaint in its entirety, as he did with Plaintiff's original Verified Complaint (the "Original Complaint"). To the extent Defendant answers any of the allegations in the Amended Complaint, Defendant's answers generally repeat his responses to those allegations that have been carried over from the Original Complaint. By repeating those responses to the allegations in the Original Complaint, Defendant is not conceding that such allegations are part of the narrow claims that the Court ruled on January 25, 2023, and again on February 23, 2023, were expedited, or that such allegations or claims are not subject to Defendant's motion to dismiss the Amended Complaint in its entirety.

Defendant is not responding to any new allegations or claims in the Amended Complaint in reliance upon the Court's February 23, 2023 ruling that none of the new allegations or claims in the Amended Complaint are part of the expedited phase of this case, and because Defendant is simultaneously moving to dismiss such allegations and claims. To the extent Defendant responds to any allegation or claim in the Amended Complaint, Defendant's responses are provided only on behalf of himself and not any other person or entity.

Except for those allegations expressly admitted herein, Defendant denies each and every allegation in the Amended Complaint, including those contained in the Amended Complaint's introductory paragraph, headings, footnotes, and/or any documents incorporated by reference therein. Defendant's use of the defined terms in the Amended Complaint should not be interpreted as, and is not, an admission that (i) Defendant agrees with Plaintiff's characterization or use of the defined terms, (ii) the defined terms are accurate, or (iii) the documents or items described by the defined terms actually exist. Defendant uses these defined terms solely for purposes of responding to the allegations of the Amended Complaint. Defendant further responds to the specific allegations in the Amended Complaint as follows:

### **NATURE OF THE ACTION**

1. This case concerns a series of egregious, unauthorized, and self-interested actions taken by Defendant Ray Youssef ("Ray" or "Youssef") to manipulate the corporate machinery of Paxful, a peer-to-peer platform for buying and selling digital currencies, in clear breach of his fiduciary duties as the Company's Chief Executive Officer ("CEO") and one of the two directors on Paxful's board of directors (the "Board"). Defendant Ogene, who was at all pertinent times Paxful's highest-ranking legal officer, knowingly facilitated Youssef's extensive fiduciary breaches that involve, among other things, the looting of the Company's coffers.

**ANSWER:** The allegations in the first sentence of Paragraph 1 contain Plaintiff's characterization of this action, to which no response is required. To the extent these allegations require a response, they are denied, except Youssef admits that Paxful is a peer-to-peer platform for buying and selling digital currencies and that he is

Paxful's CEO and one of two directors on Paxful's Board. The allegations in the second sentence of Paragraph 1 are outside the scope of the expedited phase of this action and, moreover, are subject to a motion to dismiss and, therefore, do not require a response.

2. Schaback brings this Amended and Supplemental Verified Complaint in light of new facts demonstrating that, since Youssef and Ogene intentionally froze-out Schaback from all Company information specifically to avoid Schaback from discovering their misconduct, Youssef and Ogene engaged in a brazen unlawful [REDACTED] that is ongoing.

**ANSWER:** The allegations in Paragraph 2 are outside the scope of the expedited phase of this action and, moreover, are subject to a motion to dismiss and, therefore, do not require a response.

3. As the Court noted at the January 25, 2023 telephonic hearing, "[o]n September 14, 2022, Youssef proposed that he would buy out Paxful's other stockholders for [REDACTED], collectively, or alternatively he proposed that the other stockholders could buy him out for [REDACTED]. The other stockholders did not accept either proposal." Tr. at 6:9-14.

**ANSWER:** The allegations in Paragraph 3 are outside the scope of the expedited phase of this action and, moreover, are subject to a motion to dismiss and, therefore, do not require a response.

4. Last week, on February 16, 2023, the Court-ordered and duly authorized neutral Company counsel provided Schaback with read-only access to the Company's QuickBooks accounting files. Aided by that disclosure, which Youssef and Ogene had previously and deliberately denied Schaback, Schaback learned that Youssef and Ogene have taken roughly [REDACTED] [REDACTED] to pay Youssef. They did so through a series of unauthorized,

unlawful, non-ordinary course self-dealing transactions to sham entities ultimately controlled by Youssef and his co-conspirators and to Youssef's friends and associates. Those transactions continued – and indeed accelerated – in the run up to this litigation, and they continued apace after the entry of the Court's Status Quo Order. Youssef and Ogene even continued transferring Company employees to new entities formed to house Paxful's business – without involvement or participation of Schaback or the Company's other stockholders. While Paxful remains a valuable Company, [REDACTED] In the extreme circumstances presented, Schaback is constrained to request the prompt appointment of a Receiver for Paxful.

**ANSWER:** The allegations in Paragraph 4 are outside the scope of the expedited phase of this action and, moreover, are subject to a motion to dismiss and, therefore, do not require a response.

5. Youssef has a long and storied history of illegal behavior, some of which has resulted in criminal convictions and jail time. Among other things, within the past few years he was convicted of drug trafficking (a felony) and served a sentence lasting several months in an Estonian prison. Since then, he has become demonstrably paranoid such that, for example, he is unwilling even to answer a basic interrogatory in this action concerning his residential address.

**ANSWER:** The allegations in Paragraph 5 are outside the scope of the expedited phase of this action and, moreover, are subject to a motion to dismiss and, therefore, do not require a response.

6. This case, however, focuses on actions taken in connection with recent schemes whereby Youssef sought and obtained unfettered domination and control over the Company and its assets. Indeed, with Ogene's assistance, Youssef and his cohorts engaged in widespread embezzlement that if unchecked will leave the Company [REDACTED]

**ANSWER:** Youssef denies the allegations in the first sentence of Paragraph 6. The allegations in the second sentence of Paragraph 6 are outside the scope of the

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