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

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8 \_\_\_\_\_, Individually and on  
9 Behalf of All Others Similarly Situated,

10 Plaintiff,

11 vs.

12 PAYPAL HOLDINGS, INC., DANIEL H.  
13 SCHULMAN, JOHN D. RAINEY JR., and  
14 HAMED SHAHBAZI,

15 Defendants

Case No.

**CLASS ACTION COMPLAINT FOR  
VIOLATION OF THE FEDERAL  
SECURITIES LAWS**

JURY TRIAL DEMANDED

16 Plaintiff \_\_\_\_\_ (“Plaintiff”), individually and on behalf of all other persons similarly  
17 situated, by Plaintiff’s undersigned attorneys, for Plaintiff’s complaint against Defendants (defined  
18 below), alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts,  
19 and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by  
20 and through Plaintiff’s attorneys, which included, among other things, a review of the Defendants’  
21 public documents, conference calls and announcements made by Defendants, United States Securities  
22 and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding PayPal  
23 Holdings, Inc. (“PayPal” or the “Company”), analysts’ reports and advisories about the Company, and  
24 information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will  
25 exist for the allegations set forth herein after a reasonable opportunity for discovery.  
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## NATURE OF THE ACTION

1  
2 1. This is a federal securities class action on behalf of a class consisting of all persons other  
3 than Defendants who purchased or otherwise acquired common shares of PayPal between February 14,  
4 2017 and December 1, 2017, both dates inclusive (the “Class Period”). Plaintiff seeks to recover  
5 compensable damages caused by Defendants’ violations of the federal securities laws and to pursue  
6 remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”)  
7 and Rule 10b-5 promulgated thereunder.  
8

9 2. PayPal Holdings, Inc. operates as a technology platform company that provides online  
10 payment systems through a variety of services on behalf of consumers and merchants. Founded in  
11 1998, the Company is headquartered in San Jose, California. The Company’s common stock trades on  
12 the NASDAQ Global Stock Market (“NASDAQ”) under the ticker symbol “PYPL.”  
13

14 3. On February 14, 2017, PayPal announced an agreement to purchase TIO Networks Corp.  
15 (“TIO”) for \$233 million (the “TIO Acquisition”). TIO is a bill-pay management company that  
16 processed roughly \$7 billion in bill payments on behalf of 14 million customers in 2016. On July 18,  
17 2017, PayPal announced the completion of the TIO Acquisition.  
18

19 4. Throughout the Class Period, Defendants made materially false and misleading  
20 statements regarding the Company’s business, operational and compliance policies. Specifically,  
21 Defendants made false and/or misleading statements and/or failed to disclose that: (i) TIO’s data  
22 security program was inadequate to safeguard the personally identifiable information of its users; (ii)  
23 the foregoing vulnerabilities threatened continued operation of TIO’s platform; (iii) PayPal’s revenues  
24 derived from its TIO services were thus unsustainable; (iv) consequently, PayPal had overstated the  
25 benefits of the TIO acquisition; and (v) as a result, PayPal’s public statements were materially false and  
26 misleading at all relevant times.  
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1           5.       On November 10, 2017, PayPal suspended its TIO services, pending a security review,  
2 stating that it had discovered security vulnerabilities on the TIO platform and that the TIO data security  
3 program did not meet PayPal's standards.

4           6.       On December 1, 2017, post-market, PayPal disclosed that personally identifiable  
5 information—including names, addresses, bank-account details, and Social Security numbers—for  
6 roughly 1.6 million TIO users had potentially been compromised as a result of the previously  
7 announced security vulnerabilities.

8  
9           7.       On this news, PayPal's share price fell \$4.33, or 5.75%, to close at \$70.97 on December  
10 4, 2017, the following trading day.

11           8.       As a result of Defendants' wrongful acts and omissions, and the precipitous decline in  
12 the market value of the Company's common shares, Plaintiff and other Class members have suffered  
13 significant losses and damages.

14  
15                                 **JURISDICTION AND VENUE**

16           9.       The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the  
17 Exchange Act (15 U.S.C. §§78j(b) and §78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17  
18 C.F.R. §240.10b-5).

19           10.      This Court has jurisdiction over the subject matter of this action under 28 U.S.C. §1331  
20 and §27 of the Exchange Act.

21           11.      Venue is proper in this Judicial District pursuant to §27 of the Exchange Act (15 U.S.C.  
22 §78aa) and 28 U.S.C. §1391(b). PayPal's principal executive offices are located within this Judicial  
23 District.  
24

25           12.      In connection with the acts, conduct and other wrongs alleged in this Complaint,  
26 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,  
27  
28

1 including but not limited to, the United States mail, interstate telephone communications and the  
2 facilities of the national securities exchange.

### 3 **PARTIES**

4 13. Plaintiff, as set forth in the accompanying Certification, purchased PayPal securities at  
5 artificially inflated prices during the Class Period and was damaged upon the revelation of the alleged  
6 corrective disclosure.

7  
8 14. Defendant PayPal is incorporated in Delaware, and the Company's principal executive  
9 offices are located at 2211 North First Street, San Jose, California 95131. PayPal's common stock  
10 trades on the NASDAQ under the ticker symbol "PYPL."

11 15. Defendant Daniel H. Schulman ("Schulman") has served at all relevant times as  
12 PayPal's Chief Executive Officer ("CEO"), President and Director.

13  
14 16. Defendant John D. Rainey Jr. has served at all relevant times as PayPal's Chief Financial  
15 Officer and Executive Vice President.

16 17. Defendant Hamed Shahbazi ("Shahbazi") served as Chairman and CEO of TIO at all  
17 relevant times prior to the TIO Acquisition. Following the TIO Acquisition, Shahbazi has served at all  
18 relevant times as Vice President of Bill Pay and General Manager, PayPal Canada Bill Pay Services. In  
19 that capacity, Shahbazi has continued to direct the operations of PayPal's TIO services.

20  
21 18. The Defendants referenced above in ¶¶ 15-17 are sometimes referred to herein  
22 collectively as the "Individual Defendants."

### 23 **SUBSTANTIVE ALLEGATIONS**

#### 24 **Background**

25  
26 19. PayPal operates as a technology platform company that provides online payment  
27 systems through a variety of services on behalf of consumers and merchants. Founded in 1998, the  
28

1 Company is headquartered in San Jose, California. The Company's common stock trades on the  
2 NASDAQ Global Stock Market ("NASDAQ") under the ticker symbol "PYPL."

3 **Materially False and Misleading Statements Issued During the Class Period**

4 20. The Class Period begins on February 14, 2017, when PayPal issued a press release  
5 entitled "PayPal to Acquire TIO Networks." The press release stated, in part:

6 SAN JOSE, Calif. & VANCOUVER, British Columbia--(BUSINESS WIRE)--PayPal  
7 Holdings, Inc. (Nasdaq: PYPL) and TIO Networks Corp. (TSXV: TNC), a cloud-based  
8 multi-channel bill payment processing and receivables management company, today  
9 announced a definitive agreement under which PayPal will acquire TIO for \$3.35 CAD  
10 (\$2.56 USD) per share in cash or an approximate \$304 million CAD (\$233 million USD)  
11 equity value. The purchase price represents a premium of 25.2% to TIO's 90-trading day  
12 volume-weighted average price as of February 13, 2017, and 22.6% to the 20-trading day  
13 volume-weighted average price as of January 9, 2017, the trading day immediately  
14 preceding the date TIO entered into exclusive negotiations with PayPal.

15 TIO is a leading multi-channel bill payment processor in North America and processed  
16 more than \$7 billion USD in consumer bill payments in fiscal 2016. TIO serves 14  
17 million consumer bill pay accounts and offers convenient solutions for expedited bill  
18 payment services to financially underserved consumers. The company has more than  
19 10,000 supported billers and numerous direct relationships with billers, which enable TIO  
20 to quickly process telecom, wireless, cable and utility bill payments for TIO's customers.  
21 Using TIO's approximately 900 operated self-service kiosks, approximately 65,000 retail  
22 walk-in locations, and mobile and web solutions, customers can conveniently pay their  
23 bills while avoiding the service interruptions and financial penalties associated with  
24 missed payment deadlines.

25 Dan Schulman, President and CEO of PayPal, said, "By acquiring TIO and integrating  
26 bill payment into our global payments platform, PayPal adds another key service in our  
27 efforts to become a part of a consumer's everyday financial life. Worldwide, more than 2  
28 billion people do not have affordable access to basic financial services, making it difficult  
and expensive for consumers to carry out basic financial tasks, including bill payment.  
TIO's digital platform, and physical network of agent locations make paying bills  
simpler, faster, and more affordable. We are excited by the opportunity to extend this  
valuable service to our existing customers and welcome new billers and customers to  
PayPal."

Hamed Shahbazi, Chairman and CEO of TIO, remarked, "We founded TIO to make  
speed and access part of the bill payment experience for the underserved, and we believe  
that we have created affordable products to serve the needs of all customers. Our mission  
fits perfectly with PayPal's vision to democratize money. As part of the PayPal team, we  
believe we will accelerate our growth through expanded distribution and continue  
increasing access to more billers and services."

1           21.     On April 26, 2017, PayPal issued a press release and filed a current report on Form 8-K  
2 with the SEC, announcing certain of the Company’s financial and operating results for the quarter  
3 ended March 31, 2017 (the “Q1 2017 8-K”). For the quarter, PayPal announced net income of \$384  
4 million, or \$0.32 per diluted share, on revenue of \$2.98 billion, compared to net income of \$365  
5 million, or \$0.30 per diluted share, on revenue of \$2.54 billion for the same period in the prior year.  
6

7           22.     In the Q1 2017 8-K, PayPal stated, in part:

8           In the first quarter, PayPal announced its agreement to acquire TIO Networks Corp.  
9 (“TIO”) for approximately \$233 million. TIO is a leading multi-channel bill payment  
10 processor in North America and processed more than \$7 billion in bill payments in its  
11 fiscal 2016. The company’s digital platform, and physical network of agent locations  
12 make paying bills simpler, faster, and more affordable. By integrating bill payment,  
13 PayPal will add another key service to its global payments platform and become a greater  
14 part of its consumers’ everyday financial lives. On April 10, 2017 shareholders of TIO  
15 approved the acquisition, which is expected to close in the second half of 2017, subject to  
16 certain closing conditions.  
17

18           23.     On April 27, 2017, PayPal filed a quarterly report on Form 10-Q with the SEC, reporting  
19 in full the Company’s financial and operating results for the quarter ended Mach 31, 2017 (the “Q1  
20 2017 10-Q”).  
21

22           24.     In the Q1 2017 10-Q, PayPal stated, in part:

23           In February 2017, we announced an agreement to acquire TIO Networks Corp. for  
24 approximately \$233 million in cash. This acquisition is expected to close in the second  
25 half of 2017, subject to certain closing conditions, including receipt of certain consents  
26 relating to TIO's money transmitter licenses.  
27

28           25.     The Q1 2017 10-Q contained signed certifications pursuant to the Sarbanes-Oxley Act of  
2002 (“SOX”) by Defendants Schulman and Rainey, stating that “[t]he information contained in [the  
Q1 2017 10-Q] fairly presents, in all material respects, the financial condition and results of operations  
of PayPal Holdings, Inc.”

          26.     On July 18, 2017, PayPal announced the completion of the TIO Acquisition. In a press  
release entitled “PayPal Completes Acquisition of TIO Networks,” PayPal stated, in part:

1 SAN JOSE, Calif. and VANCOUVER, B.C. – July 18, 2017 – PayPal Holdings, Inc.  
2 (NASDAQ: PYPL) and TIO Networks Corp. (TSXV: TNC) today announced that PayPal  
3 has completed its previously announced acquisition of TIO Networks. In accordance with  
4 the terms of the Arrangement announced on February 14, 2017, PayPal acquired all of the  
5 outstanding shares of TIO for \$3.35 CDN (\$2.64 USD) per share in cash or an  
6 approximate \$302 million CDN (\$238 million USD) equity value.

7 \*\*\*

8 TIO is a leading multi-channel bill payment processor in North America and processed  
9 more than \$7 billion USD in consumer bill payments in fiscal 2016. TIO serves 16  
10 million consumer bill pay accounts and offers convenient solutions for expedited bill  
11 payment services to financially underserved consumers. The company has more than  
12 10,000 supported billers and numerous direct relationships with billers, which enable TIO  
13 to quickly process telecom, wireless, cable and utility bill payments for TIO’s customers.

14 As complementary organizations, PayPal and TIO are well-positioned to make paying a  
15 bill as fast and simple as making a payment with PayPal. Through this acquisition,  
16 PayPal will expand its global scale of operations, complement its product portfolio, and  
17 accelerate its entry into the bill pay market, enabling millions of customers to improve  
18 their financial health through access to TIO’s valuable services. The acquisition enables  
19 PayPal and TIO to realize the companies’ shared vision of reimagining money and  
20 democratizing financial services so that everyone has affordable ways to manage and  
21 move their money.

22 “In the last two years, PayPal has made significant strides towards realizing our mission  
23 to democratize financial services and *provide secure, convenient and affordable* ways to  
24 move and manage money to those who are underserved by the financial system,” said  
25 Dan Schulman, President & CEO of PayPal. “*Expanding into multi-channel bill*  
26 *payments through the acquisition of TIO furthers this mission* and will  
27 meaningfully advance our ability to offer digital financial services to tens of millions of  
28 underserved customers.”

(Emphases added.)

27 27. On July 26, 2017, PayPal issued a press release and filed a current report on Form 8-K  
28 with the SEC, announcing certain of the Company’s financial and operating results for the quarter  
ended June 30, 2017 (the “Q2 2017 8-K”). For the quarter, PayPal announced net income of \$411  
million, or \$0.34 per diluted share, on revenue of \$3.14 billion, compared to net income of \$323  
million, or \$0.27 per diluted share, on revenue of \$2.65 billion for the same period in the prior year.

28 28. In the Q2 2017 8-K, PayPal stated, in part:

**Expanding Value Proposition with Product Innovation**

\*\*\*

1  
2 On July 18, 2017, PayPal announced the closing of the acquisition of TIO Networks for  
3 approximately \$238 million. TIO is a leading cloud-based, multi-channel bill payment  
4 processor, serving leading telecom, wireless, cable, and utility bill issuers in North  
5 America. Through this acquisition, PayPal intends to expand its scale of operations,  
6 complement its product portfolio, and accelerate its entry into the bill pay market,  
7 enabling millions of customers to improve their financial health through access to TIO's  
8 valuable services.

9  
10 29. On July 27, 2017, PayPal filed a quarterly report on Form 10-Q with the SEC, reporting  
11 in full the Company's financial and operating results for the quarter ended June 30, 2017 (the "Q2 2017  
12 10-Q").

13  
14 30. In the Q2 2017 10-Q, PayPal stated, in part:

15  
16 In July 2017, we completed our acquisition of TIO Networks Corp. for approximately  
17 \$238 million, consisting of cash. This acquisition will be accounted for as a business  
18 combination. We acquired TIO Networks to expand our scale of operations, complement  
19 our product portfolio, and to help accelerate our entry into bill payments.

20  
21 31. The Q2 2017-10-Q contained signed certifications pursuant to SOX by Defendants  
22 Schulman and Rainey, stating that "[t]he information contained in [the Q2 2017 10-Q] fairly presents,  
23 in all material respects, the financial condition and results of operations of PayPal Holdings, Inc."

24  
25 32. On or around July 27, 2017, Defendants Schulman and Shahbazi broadcast a video via  
26 the Facebook Live video streaming service, in which Schulman and Shahbazi discussed the benefits of  
27 the TIO Acquisition, stating, in part:

28  
29 Shahbazi: The opportunity with PayPal for us represented a really good opportunity to  
30 amplify what we do today, for really about 60 million consumer accounts, and take that  
31 and serve PayPal's broader universe and grow that together, and create behavioral  
32 richness in terms of how we bring these applications together, and marry them up with  
33 some of the applications you guys [PayPal] have created. But when you look at the  
34 marriage of these assets, we feel like, as we were talking about earlier, brothers from  
35 another mother, a little bit.

36  
37 Schulman: Exactly. [laughing]

38  
39 \*\*\*



1 Shahbazi: I know from a product development perspective, we have real opportunities to  
2 innovate in this space and do special things.

3 Schulman: We're all really looking forward to that.

4 33. On October 19, 2017, PayPal issued a press release and filed a current report on Form  
5 8-K with the SEC, announcing certain of the Company's financial and operating results for the quarter  
6 ended September 30, 2017 (the "Q3 2017 8-K"). For the quarter, PayPal announced net income of  
7 \$380 million, or \$0.31 per diluted share, on revenue of \$3.24 billion, compared to net income of \$323  
8 million, or \$0.27 per diluted share, on revenue of \$2.67 billion for the same period in the prior year.

9 34. In the Q3 2017 8-K, PayPal stated, in part:

10 **PayPal's Expanding Value Proposition**

11 \*\*\*

12  
13 In the third quarter, PayPal closed the acquisition of Swift Financial, a leading provider  
14 of working capital solutions to small businesses in the U.S. The previously announced  
15 acquisition of TIO Networks also closed during the quarter.

16 35. On October 24, 2017, PayPal filed a quarterly report on Form 10-Q with the SEC,  
17 reporting in full the Company's financial and operating results for the quarter ended September 30,  
18 2017 (the "Q3 2017 10-Q").

19 36. In the Q3 2017 10-Q, PayPal stated, in part:

20 *TIO Networks Corp.*

21 We completed the acquisition of TIO Networks Corp. ("TIO") in July 2017 by acquiring  
22 all of the outstanding shares of TIO for \$2.64 USD per share in cash. We acquired TIO to  
23 expand our scale of operations, complement our product portfolio, and to help accelerate  
24 our entry into bill payments. The total purchase price of \$238 million consisted of cash  
25 consideration. The allocation of purchase consideration resulted in approximately \$66  
26 million of technology and customer-related intangible assets with an estimated useful life  
27 of 1 to 5 years, net assets of approximately \$15 million and initial goodwill of  
28 approximately \$157 million, which is attributable to the workforce of TIO and the  
synergies expected to arise from the acquisition.

1 37. The Q3 2017 10-Q contained signed certifications pursuant to SOX by Defendants  
2 Schulman and Rainey, stating that “[t]he information contained in [the Q3 2017 10-Q] fairly presents,  
3 in all material respects, the financial condition and results of operations of PayPal Holdings, Inc.”

4 38. The statements referenced in ¶¶ 20-37 above were materially false and/or misleading  
5 because they misrepresented and/or failed to disclose the following adverse facts pertaining to the  
6 Company’s business, operational and financial results, which were known to Defendants or recklessly  
7 disregarded by them. Specifically, Defendants made false and/or misleading statements and/or failed to  
8 disclose that: (i) TIO’s data security program was inadequate to safeguard the personally identifiable  
9 information of its users; (ii) the foregoing vulnerabilities threatened continued operation of TIO’s  
10 platform; (iii) PayPal’s revenues derived from its TIO services were thus unsustainable; (iv)  
11 consequently, PayPal had overstated the benefits of the TIO acquisition; and (v) as a result, PayPal’s  
12 public statements were materially false and misleading at all relevant times.  
13  
14

#### 15 The Truth Begins to Emerge

16 39. On November 10, 2017, PayPal issued a press release, entitled “TIO Networks Suspends  
17 Operations to Protect Customers.” The press release stated, in part:

18 SAN JOSE, Calif.—(BUSINESS WIRE)--PayPal Holdings, Inc. (Nasdaq: PYPL)  
19 announced that TIO Networks (TIO), a publicly traded company PayPal acquired in July  
20 2017, has suspended operations to protect TIO’s customers. *This suspension of services*  
21 *is a result of PayPal’s discovery of security vulnerabilities on the TIO platform and*  
22 *issues with TIO’s data security program that do not adhere to PayPal’s information*  
23 *security standards.* TIO is not integrated into PayPal’s platform. The PayPal platform is  
24 not impacted by this situation in any way and PayPal’s customers’ data remains secure.

25 Upon the recent discovery of this vulnerability on the TIO platform, PayPal took action  
26 by initiating an internal investigation of TIO and bringing in additional third-party  
27 cybersecurity expertise to review TIO’s bill payment platform. A focus of the  
28 investigation will also include TIO’s practices and representations prior to the  
acquisition.

While we apologize for any inconvenience this suspension of services may cause, the  
security of TIO’s systems and the protection of TIO’s customers are our highest  
priorities. We are working with the appropriate authorities to safeguard TIO customers.

1 (Emphasis added.)

2 40. On December 1, 2017, post-market, PayPal issued a press release entitled “TIO  
3 Networks Provides Update on Suspension of Operations.” The press release stated, in part:

4 AN JOSE, Calif.—(BUSINESS WIRE)--PayPal Holdings, Inc. (Nasdaq: PYPL) today  
5 announced an update on the suspension of operations of TIO Networks (TIO), a publicly  
6 traded payment processor PayPal acquired in July 2017. *A review of TIO’s network has  
7 identified a potential compromise of personally identifiable information for  
8 approximately 1.6 million customers.* The PayPal platform is not impacted in any way,  
as the TIO systems are completely separate from the PayPal network, and PayPal’s  
customers’ data remains secure.

9 As announced on November 10, PayPal suspended the operations of TIO to protect  
10 customer data as part of an ongoing investigation of security vulnerabilities of the TIO  
11 platform. *This ongoing investigation has identified evidence of unauthorized access to  
12 TIO’s network, including locations that stored personal information of some of TIO’s  
customers and customers of TIO billers.* As a result, PayPal is taking steps to protect  
affected customers.

13 TIO has also begun working with the companies it services to notify potentially affected  
14 individuals, and PayPal is working with a consumer credit reporting agency to provide  
15 free credit monitoring memberships. Individuals who are affected will be contacted  
directly and receive instructions to sign up for monitoring.

16 (Emphases added.)

17 41. On this news, PayPal’s share price fell \$4.33, or 5.75%, to close at \$70.97 on December  
18 4, 2017, the following trading day.

19 42. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline in  
20 the market value of the Company’s common shares, Plaintiff and other Class members have suffered  
21 significant losses and damages.

### 22 PLAINTIFF’S CLASS ACTION ALLEGATIONS

23 43. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure  
24 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired  
25 PayPal common shares traded on the NASDAQ during the Class Period (the “Class”); and were  
26 damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are  
27  
28

1 Defendants herein, the officers and directors of the Company, at all relevant times, members of their  
2 immediate families and their legal representatives, heirs, successors or assigns and any entity in which  
3 Defendants have or had a controlling interest.

4 44. The members of the Class are so numerous that joinder of all members is impracticable.  
5 Throughout the Class Period, PayPal common shares were actively traded on the NASDAQ. While the  
6 exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through  
7 appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the  
8 proposed Class. Record owners and other members of the Class may be identified from records  
9 maintained by PayPal or its transfer agent and may be notified of the pendency of this action by mail,  
10 using the form of notice similar to that customarily used in securities class actions.  
11

12 45. Plaintiff's claims are typical of the claims of the members of the Class as all members of  
13 the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is  
14 complained of herein.  
15

16 46. Plaintiff will fairly and adequately protect the interests of the members of the Class and  
17 has retained counsel competent and experienced in class and securities litigation. Plaintiff has no  
18 interests antagonistic to or in conflict with those of the Class.  
19

20 47. Common questions of law and fact exist as to all members of the Class and predominate  
21 over any questions solely affecting individual members of the Class. Among the questions of law and  
22 fact common to the Class are:

- 23 • whether the federal securities laws were violated by Defendants' acts as alleged  
24 herein;
- 25 • whether statements made by Defendants to the investing public during the Class  
26 Period misrepresented material facts about the financial condition, business,  
27 operations, and management of PayPal;

- 1 • whether Defendants caused PayPal to issue false and misleading financial statements during the Class Period;
- 2 • whether Defendants acted knowingly or recklessly in issuing false and
- 3 misleading financial statements;
- 4 • whether the prices of PayPal securities during the Class Period were artificially
- 5 inflated because of Defendants' conduct complained of herein; and
- 6 • whether the members of the Class have sustained damages and, if so, what is the
- 7 proper measure of damages.

8 48. A class action is superior to all other available methods for the fair and efficient  
9 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the  
10 damages suffered by individual Class members may be relatively small, the expense and burden of  
11 individual litigation make it impossible for members of the Class to individually redress the wrongs  
12 done to them. There will be no difficulty in the management of this action as a class action.

13 49. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-  
14 the-market doctrine in that:

- 15 • Defendants made public misrepresentations or failed to disclose material facts
- 16 during the Class Period;
- 17 • the omissions and misrepresentations were material;
- 18 • PayPal common shares are traded in efficient markets;
- 19 • the Company's shares were liquid and traded with moderate to heavy volume
- 20 during the Class Period;
- 21 • the Company traded on the NASDAQ, and was covered by multiple analysts;
- 22 • the misrepresentations and omissions alleged would tend to induce a reasonable
- 23 investor to misjudge the value of the Company's common shares; and
- 24 • Plaintiff and members of the Class purchased and/or sold PayPal common shares
- 25 between the time the Defendants failed to disclose or misrepresented material
- 26 facts and the time the true facts were disclosed, without knowledge of the
- 27 omitted or misrepresented facts.
- 28



- engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of PayPal common shares during the Class Period.

56. PayPal and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of PayPal were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws. These Defendants by virtue of their receipt of information reflecting the true facts of PayPal, their control over, and/or receipt and/or modification of PayPal allegedly materially misleading statements, and/or their associations with the Company which made them privy to confidential proprietary information concerning PayPal, participated in the fraudulent scheme alleged herein.

57. Individual Defendants, who are the senior officers and/or directors of the Company, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements made by them or other PayPal personnel to members of the investing public, including Plaintiff and the Class.

58. As a result of the foregoing, the market price of PayPal common shares was artificially inflated during the Class Period. In ignorance of the falsity of PayPal's and the Individual Defendants' statements, Plaintiff and the other members of the Class relied on the statements described above and/or the integrity of the market price of PayPal common shares during the Class Period in purchasing PayPal common shares at prices that were artificially inflated as a result of PayPal's and the Individual Defendants' false and misleading statements.

1 59. Had Plaintiff and the other members of the Class been aware that the market price of  
2 PayPal common shares had been artificially and falsely inflated by PayPal's and the Individual  
3 Defendants' misleading statements and by the material adverse information which PayPal's and the  
4 Individual Defendants did not disclose, they would not have purchased PayPal's common shares at the  
5 artificially inflated prices that they did, or at all.

6  
7 60. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the  
8 Class have suffered damages in an amount to be established at trial.

9 61. By reason of the foregoing, PayPal and the Individual Defendants have violated Section  
10 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the plaintiff and the  
11 other members of the Class for substantial damages which they suffered in connection with their  
12 purchase of PayPal common shares during the Class Period.

## 13 14 **COUNT II**

### 15 **Violation of Section 20(a) of The Exchange Act** 16 **Against The Individual Defendants**

17 62. Plaintiff repeats and realleges each and every allegation contained in the foregoing  
18 paragraphs as if fully set forth herein.

19 63. During the Class Period, the Individual Defendants participated in the operation and  
20 management of PayPal, and conducted and participated, directly and indirectly, in the conduct of  
21 PayPal's business affairs. Because of their senior positions, they knew the adverse non-public  
22 information regarding the Company's inadequate internal safeguards in data security protocols.

23  
24 64. As officers and/or directors of a publicly owned company, the Individual Defendants had  
25 a duty to disseminate accurate and truthful information with respect to PayPal's financial condition and  
26 results of operations, and to correct promptly any public statements issued by PayPal which had  
27 become materially false or misleading.  
28



1 65. Because of their positions of control and authority as senior officers, the Individual  
2 Defendants were able to, and did, control the contents of the various reports, press releases and public  
3 filings which PayPal disseminated in the marketplace during the Class Period. Throughout the Class  
4 Period, the Individual Defendants exercised their power and authority to cause PayPal to engage in the  
5 wrongful acts complained of herein. The Individual Defendants therefore, were “controlling persons” of  
6 PayPal within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in  
7 the unlawful conduct alleged which artificially inflated the market price of PayPal common shares.  
8

9 66. By reason of the above conduct, the Individual Defendants are liable pursuant to Section  
10 20(a) of the Exchange Act for the violations committed by PayPal.  
11

12 **PRAYER FOR RELIEF**

13 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

14 A. Determining that the instant action may be maintained as a class action under Rule 23 of  
15 the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;

16 B. Requiring Defendants to pay damages sustained by Plaintiff and the Class by reason of  
17 the acts and transactions alleged herein;

18 C. Awarding Plaintiff and the other members of the Class prejudgment and post- judgment  
19 interest, as well as their reasonable attorneys’ fees, expert fees and other costs; and  
20

21 D. Awarding such other and further relief as this Court may deem just and proper.  
22

23 **DEMAND FOR TRIAL BY JURY**

24 Plaintiff hereby demands a trial by jury.  
25  
26  
27  
28