

■ **Key Facts**

Business address: **San Jose, California, United States**  
 Industry: **Financial Transactions Processing, Reserve, and Clearinghouse Activities** (NAICS 522320)  
 SEC filer status: **Large Accelerated Filer** as of Jun 2019  
 Index member: **S&P 500, Russell 1000**  
 Market Cap: **\$135b** as of Jul 25, 2019  
 Annual revenue: **\$15.5b** as of Dec 31, 2018

■ **Corporate Governance**

CEO: **Daniel H. Schulman** since 2015  
 CFO: **John D. Rainey** since 2015 1st level

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Board Chairman: **John J. Donahoe** since 2015  
 Audit Committee Chair: **David M. Moffett** 2nd level

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Auditor: **PricewaterhouseCoopers LLP** since 2015  
 Outside Counsel (most recent): **Orrick Herrington & Sutcliffe LLP** 3rd level

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SEC Reviewer: **(unknown)** 4th level

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How to analyze this company's Watchdog Report? [Skip to the last page](#)

Information in this report is effective Sep 27, 2019 and is taken from the company's public financial and regulatory filings. Latest filing 10-Q filed 07/25/2019. Over 75 accounting and data analysts scrutinize and review crucial information, footnotes, disclosures, etc., from these filings. Material facts are captured and processed using our proprietary methods which identify key risk factors our readers need to know. Each Watchdog Report represents 30 or more hours of analysis and processing.

Accounting and financial disclosure data from [Audit Analytics](#).  
 Executive compensation data from [Shore Group and Intrinio](#).  
 Data from [Sharadar](#).  
[Data from Barchart via Quandl](#).  
[Data from Exchange Data International via Quandl](#).

Sep 27, 2019 Jan 1, 2018 Jan 1, 2014

RECENT PERIOD HISTORICAL PERIOD

10-Q filed on Jul 25, 2019 for period ending Jun 2019

**Reporting Irregularities**

RECENT		HISTORICAL
✓	Financial Restatements	✓
✓	Revisions	✓
✓	Out of Period Adjustments	✓
✓	Late Filings	✓
!	Impairments	✓
✓	Changes in Accounting Estimates	✓
✓	Disclosure Controls	!
✓	Internal Controls	✓
—	Critical / Key Audit Matters	—

**Anomalies in the Numbers**

RECENT		HISTORICAL
✓	Benford's Law	✓
—	Beneish M-Score	—
✓	Accounting Disclosure Complexity	✓

**Securities & Exchange Commission Concerns**

RECENT		HISTORICAL
!	SEC Letters to Management	!
!	Revenue Recognition	!
✓	Non-GAAP Measures	✓

**Lawsuits**

RECENT		HISTORICAL
!	Significant Litigation	!
✓	Class Actions	!
!	Securities Law	!

**External Pressures**

RECENT		HISTORICAL
✓	Shareholder Activism	✓
✓	Cybersecurity	!

**Management Review**

RECENT		HISTORICAL
✓	CEO Changes	✓
✓	CFO Changes	!
!	Insider Sales	!

**Auditor Assessment**

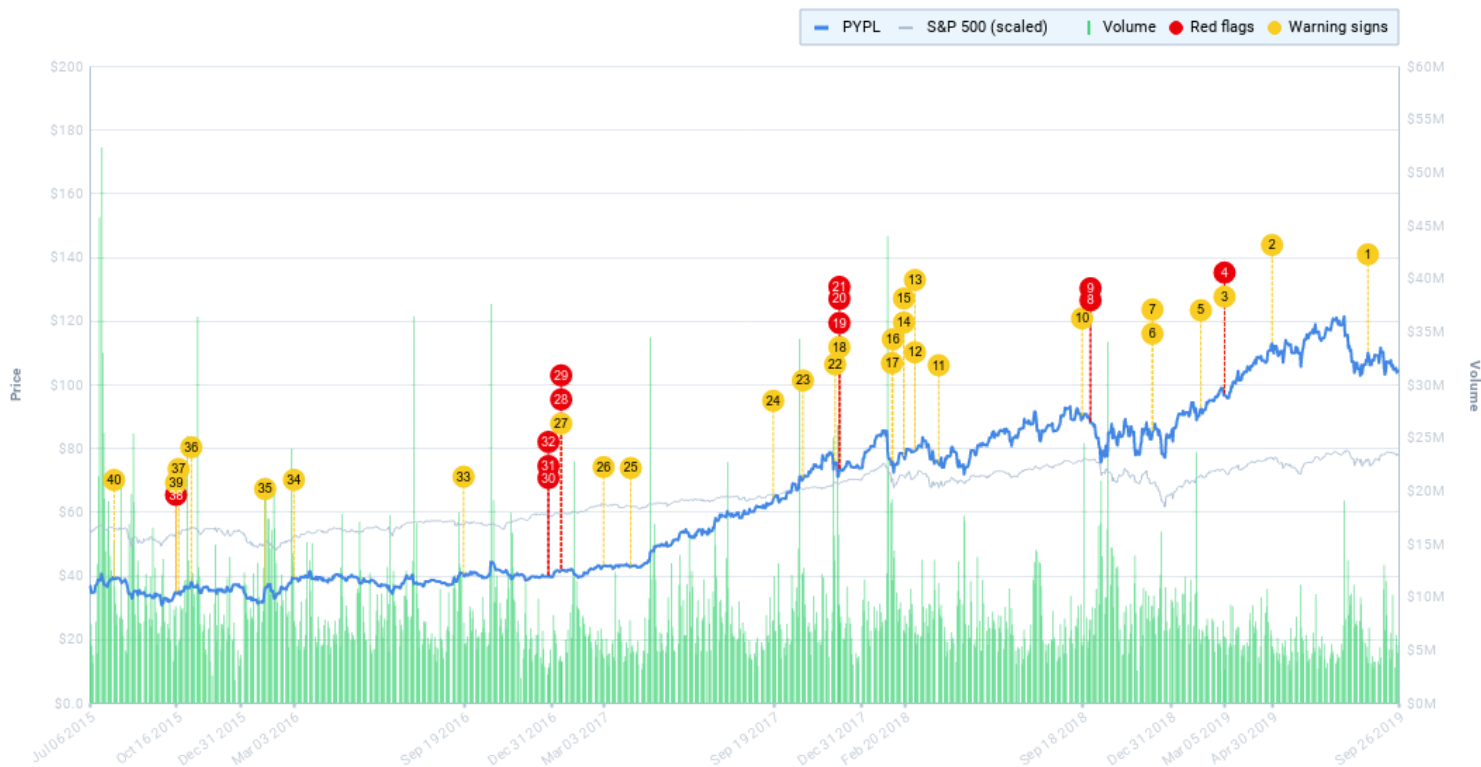
RECENT		HISTORICAL
✓	Auditor Experience	✓
✓	Auditor Tenure	✓
!	Audit Fees	!
✓	Non-Audit Fees	✓



## Overview

### Price and Volume History

This graph shows the price and trading history for Paypal Holdings. Warning signs and red flags are marked on the graph according to their disclosure dates.



- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>1 Aug 21, 2019 - SEC letters to management</li> <li>2 Apr 30, 2019 - Insider Sale</li> <li>3 Mar 5, 2019 - Insider Sale</li> <li>4 Mar 5, 2019 - Insider Sale</li> <li>5 Feb 5, 2019 - Insider Sale</li> <li>6 Dec 10, 2018 - SEC letters to management</li> <li>7 Dec 10, 2018 - Revenue Recognition</li> <li>8 Sep 28, 2018 - Lawsuit: Securities and Exchange Commission v. Brian B Long</li> <li>9 Sep 28, 2018 - Securities Law Lawsuit: Securities and Exchange Commission v. Brian B...</li> <li>10 Sep 18, 2018 - Insider Sale</li> <li>11 Apr 2, 2018 - Insider Sale</li> <li>12 Mar 5, 2018 - Insider Sale</li> <li>13 Mar 5, 2018 - Insider Sale</li> <li>14 Feb 20, 2018 - Insider Sale</li> <li>15 Feb 20, 2018 - Insider Sale</li> <li>16 Feb 7, 2018 - Impairment</li> <li>17 Feb 6, 2018 - Insider Sale</li> <li>18 Dec 6, 2017 - Cybersecurity</li> </ul> | <ul style="list-style-type: none"> <li>19 Dec 6, 2017 - Lawsuit: Sgarlata v. PayPal Holdings Inc et al</li> <li>20 Dec 6, 2017 - Class Actions Lawsuit: Sgarlata v. PayPal Holdings Inc et al</li> <li>21 Dec 6, 2017 - Securities Law Lawsuit: Sgarlata v. PayPal Holdings Inc et al</li> <li>22 Dec 1, 2017 - Cybersecurity</li> <li>23 Oct 24, 2017 - Disclosure Controls</li> <li>24 Sep 19, 2017 - Insider Sale</li> <li>25 Apr 4, 2017 - Insider Sale</li> <li>26 Mar 3, 2017 - Insider Sale</li> <li>27 Jan 12, 2017 - SEC letters to management</li> <li>28 Jan 12, 2017 - Lawsuit: In Re Paypal Holdings Inc Shareholder Derivative Litigation</li> <li>29 Jan 12, 2017 - Securities Law Lawsuit: In Re Paypal Holdings Inc Shareholder Derivativ...</li> <li>30 Dec 28, 2016 - Lawsuit: Cho v. PayPal Holdings Inc et al</li> <li>31 Dec 28, 2016 - Class Actions Lawsuit: Cho v. PayPal Holdings Inc et al</li> <li>32 Dec 28, 2016 - Securities Law Lawsuit: Cho v. PayPal Holdings Inc et al</li> <li>33 Sep 19, 2016 - Insider Sale</li> <li>34 Mar 3, 2016 - Insider Sale</li> <li>35 Jan 29, 2016 - Insider Sale</li> <li>36 Nov 3, 2015 - Insider Sale</li> </ul> |
|---|--|



## Peer Group

Peer groups are used by companies to benchmark executive compensation and performance. Each company identifies its own peer group. Peer groups vary from company to company.

### Peer Group

Company	Ticker	Market Cap
Apple Inc.	AAPL	\$963b
Amazon.com Inc.	AMZN	\$961b
Alphabet Inc.	GOOG	\$863b
Facebook Inc.	FB	\$573b
Visa Inc.	V	\$364b
Mastercard Inc.	MA	\$282b
Oracle Corp.	ORCL	\$177b
Netflix Inc.	NFLX	\$138b
Adobe Inc.	ADBE	\$137b
Paypal Holdings, Inc.	PYPL	\$135b

### Companies Who Named Paypal Holdings as a Peer

Company	Ticker	Market Cap
Facebook Inc.	FB	\$573b
Visa Inc.	V	\$364b
Mastercard Inc.	MA	\$282b
Netflix Inc.	NFLX	\$138b
Adobe Inc.	ADBE	\$137b
Paypal Holdings, Inc.	PYPL	\$135b
Starbucks Corp.	SBUX	\$116b
Broadcom Inc.	AVGO	\$115b
Booking Holdings Inc. (Priceline)	BKNG	\$77.4b
Automatic Data Processing Inc.	ADP	\$72.8b



## Peer Flag Comparison

The return to a company's stock is not the only measure of executive performance. Ethics matter, and growth can quickly reverse and gains evaporate if a company's accounting and financial reporting processes are not fundamentally sound and trustworthy. How does Paypal Holdings' accounting quality compare to its peer group?

	PYPL	PEERGROUP FLAGS				PYPL	PEERGROUP FLAGS		
<b>Reporting Irregularities</b>					<b>Lawsuits</b>				
Financial Restatements	✓	9			Significant Litigation	!			9
Revisions	✓	6	3		Class Actions	!			9
Out of Period Adjustments	✓	9			Securities Law	!	2		7
Impairments	!	5	4		<b>External Pressures</b>				
Changes in Accounting Estimates	✓	5	4		Shareholder Activism	✓	9		
Disclosure Controls	!	6	3		Cybersecurity	!	1	8	
Internal Controls	✓	9			<b>Management Review</b>				
Critical / Key Audit Matters	—				CEO Changes	✓	7	1	1
<b>Anomalies in the Numbers</b>					CFO Changes	!	2	7	
Benford's Law	✓	7		2	Insider Sales	!	1	1	7
Beneish M-Score	—	5	1		<b>Auditor Assessment</b>				
Accounting Disclosure Complexity	✓	3	5	1	Auditor Experience	✓	9		
<b>Securities &amp; Exchange Commission Concerns</b>					Auditor Tenure	✓	7	2	
SEC Letters to Management	!		9		Audit Fees	!	4	5	
Revenue Recognition	!	3	6		Non-Audit Fees	✓	7	2	
Non-GAAP Measures	✓	9							



## Reporting Irregularities

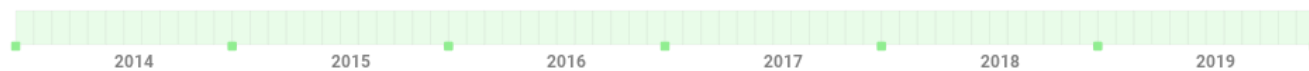
### ✓ Financial Restatements & Revisions

A financial restatement or revision is a serious event in the financial life of a company. When previous estimates of revenue, earnings, or equity are significantly lowered, financial restatements can have a dramatic impact on the valuation and projected growth of a company.

Financial restatements are always accompanied by a disclosure that their previous financial reports can no longer be relied upon. A revision is a change to a company's financials that is not accompanied by such a disclosure.

✓ No Restatements

✓ No Revisions

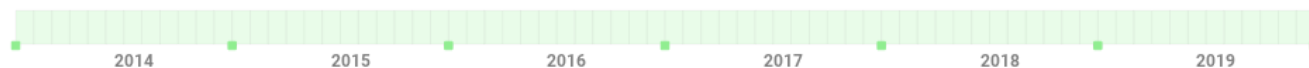


**Paypal Holdings has not restated their financials at least since 2014.**

**Paypal Holdings has not revised their financials at least since 2014.**

### ✓ Out of Period Adjustments

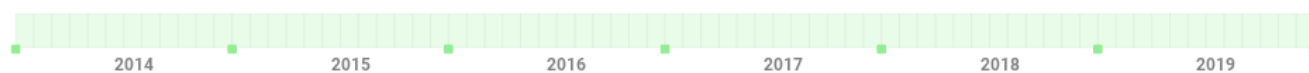
An adjustment or "out-of-period adjustment" is a one-time accounting entry that is intended to correct immaterial errors from previous reporting periods. Adjustments have a one-time impact on earnings when they are reported and indicate the existence accounting errors in previous financial reports. Analysts should pay close attention to the nature and magnitude of adjustments. The frequent use of adjustments may signal deeper issues with a company's accounting and financial reporting.



**Paypal Holdings has not made any adjustments to their financials at least since 2014.**

### ✓ Late Filings

Late filings can be significant warning signs. Why didn't the company file its financial report on time? Late filings may signal an impending financial restatement or deeper problems with a company's accounting processes.

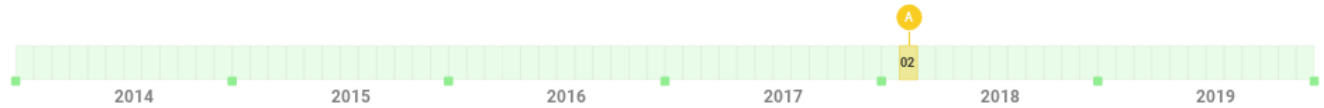


**Paypal Holdings has not filed any late financial statements at least since 2014. All financial statements have been filed on or before the appropriate deadline.**



## ! Impairments

An impairment is a permanent reduction in the value of an asset.



Paypal Holdings has reported 1 impairment on 1 annual report since 2014.

### DISCLOSURE

02/07/2018 on SEC Form [10-K](#)

### IMPACT ON PRETAX INCOME

\$30m

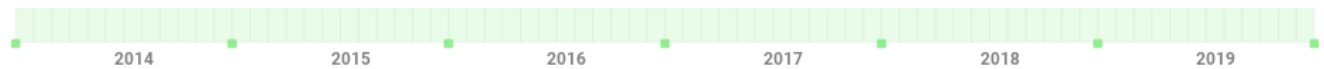
### IMPAIRMENT

1. Intangible Assets - Other intangible assets (not goodwill)

## ✓ Changes in Accounting Estimates

Some assets and liabilities require accountants to make assumptions about future performance in order to estimate their value. Occasionally, economic conditions cause these assumptions to be revised, resulting in a change in accounting estimates. A change in accounting estimates can have a significant impact on the bottom line and may be used strategically by management to disguise otherwise weak financial results.

The impact of changes in accounting estimates on pretax income are provided when available. If the impact of changes is measured in terms of net income, it is denoted with an asterisk (\*).



Paypal Holdings has not reported any changes in accounting estimates at least since 2014.





## Internal and Disclosure Controls

Internal controls are put in place in order to prevent fraud and financial misstatements. A company with ineffective internal controls is said to have a "material weakness." A material weakness is a serious warning sign about a company's accounting quality.

### Disclosure Controls

	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q	10-Q	10-K	10-Q	10-Q
<b>Internal Controls of Financial Reporting</b>																	
			10-K				10-K				10-K					10-K	
2014	2015			2016			2017			2018			2019				

**No material weakness. Paypal Holdings reported issues in 2017.**

**Management attests that the disclosure controls are effective as of 06/30/2019.**

**The auditor and management attest that internal controls of financial reporting are effective as of 12/31/2018.**

#### DISCLOSURE DATE

10/24/2017 on SEC Form [10-Q](#)

#### PERIOD END DATE

09/30/2017

#### MANAGEMENT ASSESSMENT

Effective disclosure controls

#### ISSUES CITED

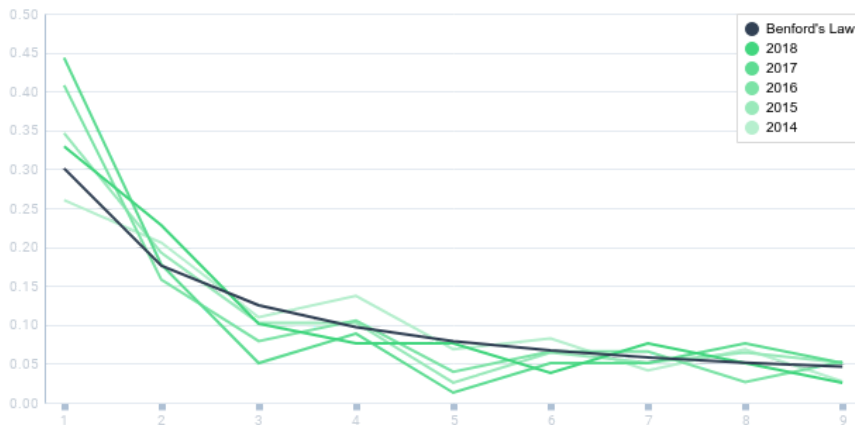
IT, software, security & access issues



## Anomalies in the Numbers

### ✓ Benford's Law

Benford's Law is used to detect financial manipulation and fraud. When financial statements do not follow Benford's Law, there is reason to suspect problems with the accounting or financial reporting process.

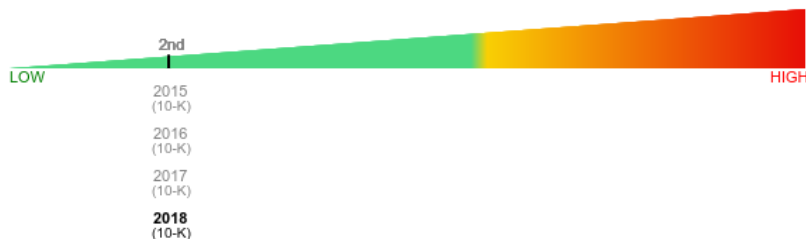


Numbers generated by natural processes conform to Benford's Law.

All of Paypal Holdings' financial statements conform to Benford's Law. Paypal Holdings is at low risk for financial manipulation or fraud.

### ✓ Accounting Disclosure Complexity

Companies committed to transparency make their reports easier for investors to understand and compare. By contrast, a high degree of Accounting Disclosure Complexity makes it difficult to measure executive performance and the company's financial health. Accounting Disclosure Complexity may also be used to obfuscate serious accounting problems and other issues.



Paypal Holdings' highest level of accounting disclosure complexity was in the 2nd decile in 2018.



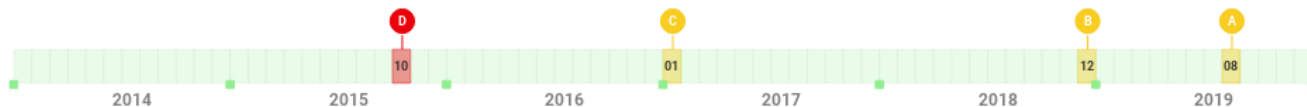


## Securities & Exchange Commission Concerns

### SEC Letters to Management

Regulators at the Securities and Exchange Commission (SEC) review each company's financial reporting. When the SEC has questions about a company's filing, they will write letters to the company asking for clarification about different accounting issues.

- ! Revenue Recognition
- ✓ Non-GAAP Measures



Paypal Holdings has had 4 conversations with the SEC since 2014.

**FROM** A  
(unknown) (SEC)

**TO**  
Daniel H Schulman

**DISSEMINATION DATE** 08/21/2019

**LETTERS** 5

**FIRST LETTER** [06/10/2019](#)

**LAST LETTER** 07/24/2019

**ISSUES CITED**

Allowances for bad debts, control over cash, and related accounts receivables issues

Financial reporting issues related to a lack of comprehensive and clear disclosure

**FROM** B  
Jennifer Thompson (SEC)

**TO**  
Daniel H Schulman

**DISSEMINATION DATE** 12/10/2018

**LETTERS** 4

**FIRST LETTER** [08/24/2018](#)

**LAST LETTER** 11/08/2018

**ISSUES CITED**

Revenue recognition issues

Questions about fair value measurement and estimates

Intangible assets and goodwill valuation or disclosure issues



**FROM**

Jennifer Thompson (SEC)

**TO**

Daniel H Schulman

**DISSEMINATION DATE**

01/12/2017

**LETTERS**

5

**FIRST LETTER**[09/30/2016](#) **LAST LETTER**

12/13/2016

**ISSUES CITED**

Cash flow statement classification errors

Financial reporting issues related to a lack of comprehensive and clear disclosure

**FROM**

Trevor Norwitz (Wachtell Lipton Rosen &amp; Katz)

**TO**

(unknown)

**DISSEMINATION DATE**

10/16/2015

**LETTERS**

11

**FIRST LETTER**[02/25/2015](#) **LAST LETTER**

06/30/2015

**ISSUES CITED**

Revenue recognition issues

Financial restatement or accounting error disclosure issues

Tandy letter provided or sought

Cash flow statement classification errors

Commitments, contingencies, and related disclosure issues



## Lawsuits

**! Significant Litigation**

Is the company involved in any lawsuits? This part of the Report summarizes recent and ongoing litigation that may have a significant impact on your investment.

**! 2 Class Actions**

**! 4 Securities Lawsuits**

**Paypal Holdings was named in 4 significant lawsuits. The most recent lawsuit is "Securities and Exchange Commission v. Brian B Long" that began on 09/28/2018 and was settled.**

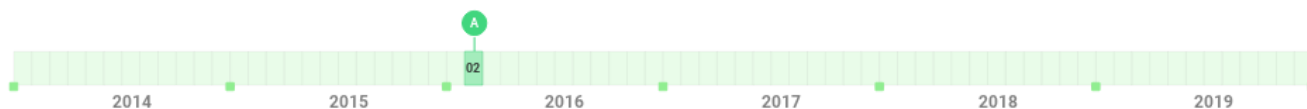
Name	Type	Start Date	End Date	Claim
Securities and Exchange Commission v. Brian B Long	Director & Officer Liability, Securities Law	09/28/2018	settled	\$72.3k
Sgarlata v. PayPal Holdings Inc et al	Class Action, Securities Law, Cybersecurity / Data Breach	12/06/2017	09/18/2019	undisclosed
In Re Paypal Holdings Inc Shareholder Derivative Litigation	Derivative, Securities Law, Director & Officer Liability	01/12/2017	04/26/2018	undisclosed
Cho v. PayPal Holdings Inc et al	Class Action, Securities Law	12/28/2016	06/05/2017	undisclosed



## External Pressures

### ✓ Shareholder Activism

An activist shareholder uses his ownership stake to influence management and affect the strategy and direction of the company. While these shareholders contribute to oversight and may push for better financial performance or even a change in leadership, they may also pursue social, political, or environmental goals that can adversely affect a company's operations and profitability. Note that activist shareholders identified here may no longer be current shareholders.



**Paypal Holdings last reported an activist shareholder as of 02/16/2016. There are no reported concerns or disputes with management.**

**ACTIVE SHAREHOLDER** A

OMIDYAR PIERRE M

**DISCLOSURE**

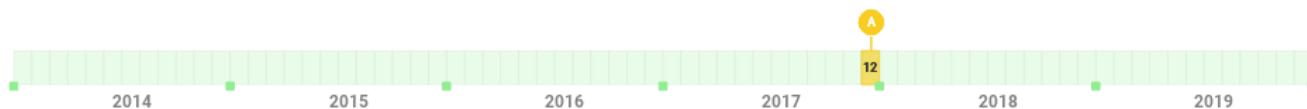
02/16/2016 on SEC Form [SC 13D](#)

**REASONS**

Not applicable, no change or no intent stated

### ✓ Cybersecurity

Cybersecurity is an area of increasing concern for many companies. A breach of confidential personal or financial data brings bad press, customer backlash and loss of goodwill, and substantial exposure to class actions. The SEC issued guidance in 2018 indicating cybersecurity risks should be treated like all other economic and business risks in regard to internal controls, financial reporting, and public disclosures.



**Paypal Holdings made 2 disclosures related to cybersecurity and data breaches. The most recent disclosure was on 12/06/2017.**

Disclosure Date	Date of breach	Description	Source
12/06/2017	-	Cybersecurity issues cited in Sgarlata v. PayPal Holdings Inc et al.	Litigation
12/01/2017	-	1800000 Financial records	<a href="#">Fox Business</a>



## Management Review

### ✓ Management Turnover

Investors should always pay attention to CEO and CFO changes. These two officers are responsible for a company's performance and financial reporting. Why did they depart? There are many possible answers to this question, not all of them good.

#### ✓ Reported CEO Changes

Paypal Holdings has not reported a CEO change at least since 2014.

#### ! Reported CFO Changes

↑ <b>John D. Rainey</b> Senior Vice President / CFO Appointed effective: 08/24/2015 ( <a href="#">8-K</a> on 08/04/2015)
↓ <b>Patrick Dupuis</b> CFO (Interim) Resigned effective: 08/24/2015 ( <a href="#">8-K</a> on 08/04/2015)

### ! Insider Sales

What are the CEO and CFO doing? Do they have confidence in the company, or are they unloading their shares? A large sale of stock is a big warning sign and may indicate a lack of confidence in the future prospects of the company. These two officers know more about the company than you do, and if they think it is a good time to sell, maybe you should too.

**There are significant insider sales from the company's officers.**

**Here are the significant insider sales for the CEO:**



**Here are the significant insider sales for the CFO:**





**Here are the significant insider sales for Paypal Holdings:**

Date	Owner	Title	Shares sold	Value	Holdings	% Sold	
04/30/2019	RAINEY JOHN D	CFO and EVP Global Customer	13,925.0	\$1.51m	107,845.0	11.4%	!
03/05/2019	SCHULMAN DANIEL H	President and CEO	225,605.0	\$22.3m	517,140.0	30.3%	!
03/05/2019	RAINEY JOHN D	CFO and EVP Global Customer O	146,811.0	\$14.4m	107,845.0	57.6%	!
02/05/2019	RAINEY JOHN D	CFO and EVP Global Customer O	32,999.0	\$2.94m	107,845.0	23.4%	!
09/18/2018	RAINEY JOHN D	CFO and EVP	27,081.0	\$2.46m	135,382.0	16.6%	!
04/02/2018	SCHULMAN DANIEL H	President and CEO	62,028.0	\$4.71m	375,297.0	14.1%	!
03/05/2018	SCHULMAN DANIEL H	President and CEO	105,511.0	\$8.3m	349,616.0	23.1%	!
03/05/2018	RAINEY JOHN D	CFO & EVP Global Cust OPS	47,575.0	\$3.74m	99,382.0	32.3%	!
02/20/2018	SCHULMAN DANIEL H	President and CEO	31,718.0	\$2.48m	253,189.0	11.1%	!
02/20/2018	RAINEY JOHN D	CFO & EVP Global Cust OPS	34,106.0	\$2.66m	51,002.0	40.0%	!
02/06/2018	RAINEY JOHN D	EVP Chief Financial Officer	50,977.0	\$3.96m	63,043.0	44.7%	!
09/19/2017	RAINEY JOHN D	EVP Chief Financial Officer	28,502.0	\$1.78m	63,043.0	31.1%	!
04/04/2017	SCHULMAN DANIEL H	President and CEO	37,920.0	\$1.63m	199,069.0	16.0%	!



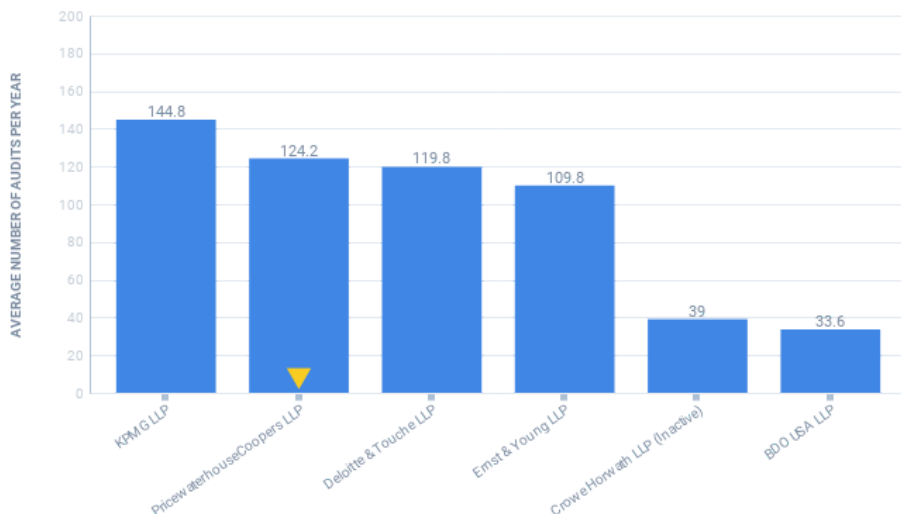
Date	Owner	Title	Shares sold	Value	Holdings	% Sold	
03/03/2017	SCHULMAN DANIEL H	President and CEO	21,512.0	\$913k	164,277.0	11.5%	!
09/19/2016	RAINEY JOHN D	SVP Chief Financial Officer	25,789.0	\$1.05m	28,831.0	47.2%	!
03/03/2016	SCHULMAN DANIEL H	President and CEO	21,512.0	\$844k	159,153.0	11.9%	!
01/29/2016	SCHULMAN DANIEL H	President and CEO	59,650.0	\$2.04m	98,165.0	37.7%	!
11/03/2015	SCHULMAN DANIEL H	President and CEO	17,126.0	\$593k	35,850.0	32.3%	!
10/19/2015	SCHULMAN DANIEL H	President and CEO	14,785.0	\$512k	38,191.0	27.9%	!



## Auditor Assessment

### ✓ Auditor Experience

How much experience does the auditor have in this industry? This graph shows the average number of audits of the largest auditors in this industry in the last five years (based on our population). The current auditor is marked with an arrow.

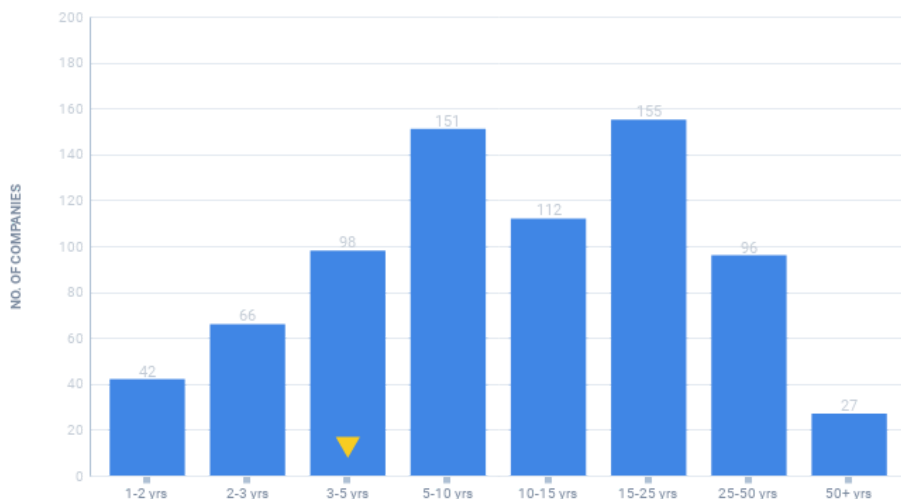


Current auditor is PricewaterhouseCoopers LLP.

Auditors with relatively little industry experience may be more likely to make mistakes. Auditors that do more audits tend to have greater industry expertise.

### ✓ Auditor Tenure

How long have they had the same auditor? This graph shows a histogram of the number of companies in the industry (from our population) and the corresponding auditor tenure. Current auditor tenure for Paypal Holdings is marked with an arrow.



PricewaterhouseCoopers LLP has been Paypal Holdings' auditor for the last 4 years.

Mistakes may be more common in the early years of an auditor's tenure as they gain knowledge of a company's accounting policies and processes. On the other hand, there is some concern that a lengthy tenure may make auditors too "cozy" with the company and reluctant to report on issues or problems.

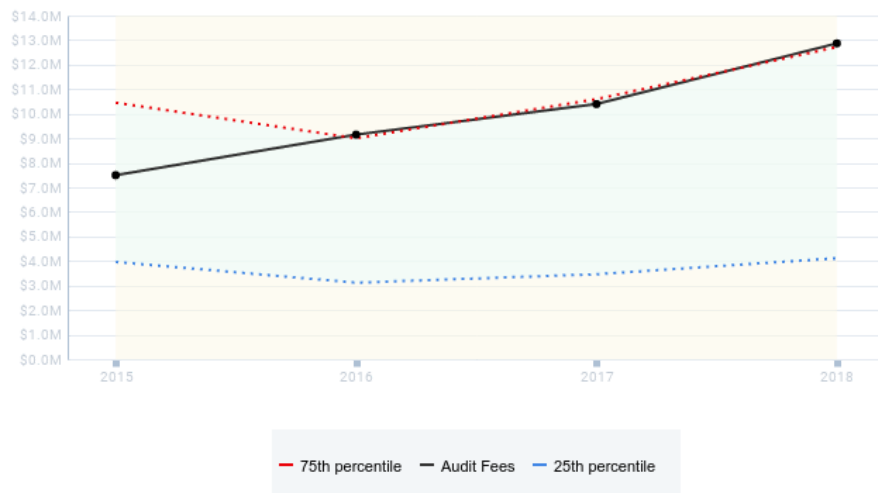




## Auditor Assessment

### ! Audit Fees

Audit fees are fees paid to the auditor for the audit and services related to the audit. This graph compares recent audit fees to the rest of the industry based on audit fee to revenue ratios (or audit fees to asset ratios for financial companies).



#### MOST RECENT AUDIT FEES

\$12.9m ▲23.78%

#### AUDIT FEES TO REVENUE RATIO

0.08%

Paypal Holdings' audit fees increased by 23.78% from last year. Paypal Holdings' most recent audit fees are relatively high.

High audit fees create incentives that undermine auditor independence. On the other hand, low audit fees may result in a lower quality audit.

### ✓ Non-Audit Fees

Non-audit fees are fees paid to the auditor for the services unrelated to the audit.



#### MOST RECENT NON-AUDIT FEES

\$1.23m ▼-6.11%

#### NON-AUDIT FEES TO AUDIT FEES RATIO

9.54%

Paypal Holdings' most recent non-audit fees are in the normal range.

Relatively high non-audit fees create incentives that undermine the auditor's objectivity and are often used as a proxy measure of auditor independence.



## Appendix

### Appendix A. SEC Letters to Management

**A** Conversation disseminated on 08/21/2019  
**FROM:** (unknown) (SEC) **TO:** Daniel H Schulman

5   
**LETTERS**

**ISSUES CITED**

- Allowances for bad debts, control over cash, and related accounts receivables issues
- Financial reporting issues related to a lack of comprehensive and clear disclosure

**LETTERS**

dated 06/10/2019  
 dated 06/21/2019  
 dated 07/01/2019  
 dated 07/16/2019  
 dated 07/24/2019

**RELATED FILINGS**

10-K 02/07/2019

**B** Conversation disseminated on 12/10/2018  
**FROM:** Jennifer Thompson (SEC) **TO:** Daniel H Schulman

4   
**LETTERS**

**ISSUES CITED**

- Revenue recognition issues
- Questions about fair value measurement and estimates
- Intangible assets and goodwill valuation or disclosure issues

**LETTERS**

dated 08/24/2018  
 dated 09/07/2018  
 dated 10/23/2018  
 dated 11/08/2018

**RELATED FILINGS**

10-Q 07/26/2018  
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**C** Conversation disseminated on 01/12/2017  
**FROM:** Jennifer Thompson (SEC) **TO:** Daniel H Schulman

5   
**LETTERS**

**ISSUES CITED**

- Cash flow statement classification errors
- Financial reporting issues related to a lack of comprehensive and clear disclosure

**LETTERS**

dated 09/30/2016  
 dated 10/14/2016  
 dated 10/31/2016  
 dated 11/15/2016  
 dated 12/13/2016

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**ISSUES CITED**

- Revenue recognition issues
- Financial restatement or accounting error disclosure issues
- Tandy letter provided or sought
- Cash flow statement classification errors
- Commitments, contingencies, and related disclosure issues
- EPS, ratio and classification of income statement issues
- Reportable operating segments disclosure and reconciliation issues
- Intercompany balances or transactions issues
- Inventory, vendor, or cost of sales issues
- Liabilities, payables, and accrual estimate issues
- Tax expense, benefit, deferral, or other issues
- Request to identify, disclose, or explain legal matters or issues
- Business overview discussion (MD&A)
- Liquidity issues discussion (MD&A)
- Market risk disclosures
- Request for additional financial statements of offerors, bidders, target, or subsidiary
- Payroll, SGA, or other expense recording issues
- Foreign currency or inflation treatment issues
- Executive compensation plan disclosure issues
- Results of operations discussion (MD&A)
- Questions about contractual agreements with key executives or employees
- Request to accelerate or expedite registration

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- [10-12B/A 04/09/2015](#)
- [10-12B 02/25/2015](#)



## Appendix B. Significant Litigation

### Securities and Exchange Commission v. Brian B Long

Case began on 09/28/2018

On September 28, 2018, the Securities and Exchange Commission charged eBay Inc.'s former Director of SEC Reporting with insider trading ahead of Xoom Corporation's acquisition by PayPal Holdings, which at the time was owned by eBay. The SEC's complaint alleges that Bryan B. Long, a CPA who was employed as eBay's Director of SEC Reporting, obtained material non-public information about PayPal's impending acquisition of Xoom in the course of his work preparing PayPal's SEC filings. According to the complaint, Long purchased Xoom call options in late May 2015 shortly after PayPal made its initial acquisition offer. Approximately one month later, after learning that the deal was moving forward and could be announced in "early July," Long allegedly engaged in a second round of illegal trades, purchasing additional Xoom call options that were due to expire in less than a month. As alleged in the complaint, Long reaped almost \$36,000 in ill-gotten gains by selling all of the options after PayPal announced it was acquiring Xoom on July 1, 2015. The SEC's complaint, filed in federal district court in the Northern District of California, charges Long with violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and seeks a permanent injunction, disgorgement of ill-gotten gains, pre-judgment interest, and civil monetary penalties. On May 7, 2019, the court entered an order permanently enjoining Long, by consent, from future violations of Sections 10(b) of the Exchange Act and Rule 10b-5 thereunder. Long was also ordered to pay \$35,842.49 in disgorgement of profits gained as a result of the conduct alleged in the complaint, and \$636.66 in prejudgment interest; and a \$35,842.49 civil money penalty.

### Sgarlata v. PayPal Holdings Inc et al

Case began on 12/06/2017

The plaintiff alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. According to the complaint, throughout the Class Period, Defendants made materially false and misleading statements regarding the Company's business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) TIO's data security program was inadequate to safeguard the personally identifiable information of its users; (ii) the foregoing vulnerabilities threatened continued operation of TIO's platform; (iii) PayPal's revenues derived from its TIO services were thus unsustainable; (iv) consequently, PayPal had overstated the benefits of the TIO acquisition; and (v) as a result, PayPal's public statements were materially false and misleading at all relevant times. The plaintiff who initiated the lawsuit sought to represent a class of shareholders who acquired shares of the Company's common stock between February 14, 2017 through December 1, 2017 and sought damages and attorneys' fees, among other relief. On March 16, 2018, the Court appointed two new plaintiffs, not the original plaintiff who filed the case, as interim co-lead plaintiffs in the case and appointed two law firms as interim co-lead counsel. On June 13, 2018, the interim co-lead plaintiffs filed a first amended complaint, which named TIO Networks ULC, TIO Networks USA, Inc., and John Kunze (the Company's Vice President, Global Consumer Products and Xoom) as additional defendants. The first amended complaint was purportedly brought on behalf of all persons other than the Defendants who acquired the Company's securities between November 10, 2017 and December 1, 2017. The amended complaint alleged that the Company's and TIO's November 10, 2017 announcement of the suspension of TIO's operations was false and misleading because the announcement only disclosed security vulnerabilities on TIO's platform, rather than an actual security breach that Defendants were allegedly aware of at the time of the announcement. Defendants filed their motion to dismiss the first amended complaint on July 13, 2018 and the Court granted the motions, without prejudice on December 13, 2018. Plaintiffs filed a second amended complaint on January 14, 2019. The second amended complaint alleges substantially the same theory of liability as the first amended complaint, but no longer names Hamed Shabazi as a defendant. The remaining Defendants filed their motion to dismiss the second amended complaint on March 15, 2019. On September 18, 2019, the Court entered an Order granting Defendants' Motion to Dismiss the Second Amended Complaint and entered Judgment in favor of Defendants.

### In Re Paypal Holdings Inc Shareholder Derivative Litigation

Case began on 01/12/2017

On January 12, 2017, a putative shareholder derivative action captioned Silverman v. Schulman, et al., Case No. 5:17-cv-00162, was filed in the U.S. District Court for the Northern District of California based on substantially similar allegations underlying the Securities Case described above (the "Derivative Case"). The Derivative Case is purportedly brought on behalf of Paypal Holdings and alleges that Paypal's Chief Executive Officer, Chief Financial Officer, former interim Chief Financial Officer, and members of its Board of Directors breached their fiduciary duties to Paypal, violated Section 14(a) of the Exchange Act, and were unjustly enriched by, among other things, causing or permitting Paypal to issue materially false and misleading statements or omissions regarding Paypal's compliance with applicable laws and regulation with respect to its Venmo service, as alleged in the Securities Case, and by permitting or causing Paypal to engage in unfair trade practices through its Venmo service. The Derivative Case seeks, among other things, to recover unspecified compensatory damages on behalf of Paypal arising out of the individual defendants' alleged wrongful conduct. DISMISSAL OF ACTION WITHOUT PREJUDICE filed by Wences Casares, Jonathan Christodoro, John J. Donahoe, David W. Dorman, Patrick L.A. Dupuis, Gail J. McGovern, David M. Moffett, Pierre M. Omidyar, PayPal Holdings, Inc., John D. Rainey, Daniel H. Schulman, Frank D. Yeary.



## Cho v. PayPal Holdings Inc et al

Case began on 12/28/2016

This is a federal securities class action on behalf of a class consisting of all persons other than Defendants who: (1) purchased or otherwise acquired eBay securities on the open market on or after December 19, 2013 (the "eBay Class Period") and subsequently received PayPal securities pursuant to eBay's spin-off of PayPal, effective as of July 17, 2015; and/or (2) purchased or otherwise acquired PayPal securities on the open market between July 20, 2015 and April 28, 2016, both dates inclusive (the "PayPal Class Period" and, together with the eBay Class Period, the "Class Period"), seeking to recover damages caused by Defendants' violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. § 78 et seq., against eBay, PayPal, and certain of their top officials Pursuant to F.R.C.P. 41(a)(1)(A)(i) of the Federal Rules of Civil Procedure, Lead Plaintiff Tianxiong Jiang ("Plaintiff") through his counsel, hereby gives notice that the abovecaptioned action is voluntarily dismissed, without prejudice, against the defendants eBay, Inc., John J. Donahoe, and Robert Swan. Pursuant to F.R.C.P. 41(a)(1)(A)(i) of the Federal Rules of Civil Procedure, Lead Plaintiff, Tianxiong Jiang, through his counsel, hereby voluntarily dismisses this action, without prejudice, against all defendants. The parties have agreed that each will bear its or his own fees and costs related to this action only.



## About Watchdog Research, Inc.

Watchdog Research, Inc. is an independent research provider and publisher of Watchdog Reports. Watchdog Reports identify red flags, issues, and other anomalies in financial reporting. Our reports contain warning signs, red flags, material disclosures, and peer analysis for use in valuation, risk analysis, due diligence research, and idea generation.

Watchdog Reports are designed to assist investment professionals fulfill their fiduciary or suitability obligations and to help investors, executives, board members, regulators and educators learn what they need to know about publicly traded companies.

The company is headquartered in Naples, FL. Watchdog Research, Inc. utilizes over 75 specialists and analysts to provide accurate and timely information to our readers.

### Our management team is:

**CEO: Brian Lawe.** Brian has been part of the corporate staff at The New York Times Company and IBM. He has created and operated several technology companies including MyStoreCredit, OnPage Ideas and HelloCampus. He holds an MBA from Harvard Business School and a BBA from Texas Christian University. He and his wife have four children and live in the Naples, FL area. One son is deployed with the US Marine Corps in Afghanistan.

**CTO: Radu Cugut.** Radu has led the award-winning technology team that developed the Watchdog Report and services. He, his wife and son split their time between his home in Naples, FL and his home in Timisoara, Romania where he oversees five talented development professionals. Radu has a bachelors in Computer Science and a masters in Banking and Financial Information Systems, both from the West University of Timisoara.

**Chief Content Officer: Joseph Burke, Ph.D.** is responsible for the content development, analysis, and quality control for the Watchdog Report. He also edits the blog and directs our custom research. Joseph worked previously as a professor of economics at Ave Maria University. He received his Ph.D. from the University of Wisconsin-Madison and resides with his family in the Naples area.



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# How to analyze a company's Watchdog Report

If you walk into a doctor's office complaining about a pain in your left shoulder, your doctor's training kicks-in and he will immediately begin assessing your age and physical appearance, checking your vital signs and asking you a very specific series of questions about your symptoms. After just a few brief moments of assessing you, the doctor will either begin life-saving intervention or simply hand you an ice pack for your sore arm after a workout.

**Like that doctor, we assume you are reading our Watchdog Report because you want to quickly assess the health of the company you are analyzing. You want to know if the company is undergoing any major problems or is simply displaying minor issues. Here is how to get your answer:**

## BEFORE YOU START

Make sure you have a basic understanding of the company. Know its market cap, the size of its revenues, profits and assets and liabilities. Review any major news related to the financials of the company and its management team.

### ■ STEP 1 🕒 10 SEC

Scan down the right side of the first page of the company's report, paying attention to the 'RECENT' column to find the latest yellow and red flags.

### ■ STEP 2 🕒 2 SEC

When you see a red or yellow flag, click the title next to the flag and you will instantly jump to that section of the company's report.

### ■ STEP 3 🕒 60 SEC

Read that section's headline, the timeline and review the specific issue highlighted for the company's red or yellow flag.

### ■ STEP 4 🕒 3 MIN

Each section will usually have a link to the original filing or legal summary for the issue. Click that link. If it takes you to a SEC Edgar page, review the original filing. **HINT:** Use your browser's "find" button to search for a key word or number related to the issue as shown on the Watchdog Report.

### ■ STEP 5 🕒 15 SEC

Review the stock price movement chart on page two of the report. If you check the report online, you can adjust the timeline to a narrow time. The stock movement chart will overlay each of the red and yellow flags to stock price changes. Make note of those red and yellow flags around major stock price declines. These issues are worth reviewing in detail.

### ■ STEP 6 🕒 1 MIN

Before continuing, it is worth comparing the company to its peers. Go to the third page of the report and compare the red and yellow flags for the company (first column) to the number of companies with red and yellow flags from your company's peer group. Is the company an outlier with a red or yellow flag in an area that other peers have only green? If so, the outlying issues are also worth reviewing in detail.

### ■ STEP 7 🕒 5 MIN

Repeat steps 2-4 for each red or yellow flag. At the end of this process, you'll have a good idea of the core issues the company has reported.

### ■ STEP 8 🕒 5 MIN

Now comes the creative, but hard part. Like a doctor trying to understand what might be wrong with a patient, you must now use your judgment, past knowledge and the insights you gathered in the prior steps to develop your own view of how serious the issues are facing the company.

If you see a consistent pattern of delays, accounting irregularities, management turnover, legal troubles, the company is clearly in trouble. Use the peer group analysis step above to see why your company may be different than its peers. Think of the various issues as connected. It seems passé but a bad management team is going to be bad in multiple ways. The challenge is to find the thread that runs through all the issues to understand any management failures.

When you find a pattern of unusual accounting moves, it is almost always tied to management protecting their own interests over investors. You should also consider what particular forces in the industry are affecting the company more than its peers. If you can assess that, try to think about how a company's management might "adjust" the financial disclosures to mask the weakness. It helps to think like a detective here. Everyone is entitled to a presumption of innocence, but if management was trying to hide something, how might they go about doing so?

This step is where we leave you with our 6,000+ Watchdog Reports. Good luck with your analysis!

