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IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA – SAN JOSE DIVISION

119 **KINGSLEY EZEUDE and CHUKWUKA**
120 **OBI on behalf of themselves and all others**
121 **similarly situated,**
122
123 **Plaintiffs,**
124
125 **vs.**
126
127 **PAYPAL, INC. AND PAYPAL HOLDINGS,**
128 **INC.**
129
130 **Defendants.**

CASE NO. _____

COMPLAINT
CLASS ACTION

DEMAND FOR JURY TRIAL

COME NOW Plaintiffs, Kingsley Ezeude and Chukwuka Obi, individually and on behalf of the Class described below, through their undersigned counsel.¹ Plaintiffs bring this action for damages against Defendants and demand a trial by jury.

¹ The allegations in the complaint are based on, among other things, counsel’s review of documents filed in *Securities and Exchange Commission v. Traffic Monsoon, LLC and Charles David Scoville*, Case No. 2:16-cv-00832-DB (D. Utah July 26, 2016), documents filed with the Securities Exchange Commission, PayPal’s user agreements and other publicly available documents concerning PayPal and Traffic Monsoon.

INTRODUCTION

1
2 1. Plaintiffs are victims of a Ponzi/Pyramid scheme operated by Charles David
3 Scoville and Traffic Monsoon, LLC (the “Traffic Monsoon Scheme”). The Traffic Monsoon
4 Scheme was facilitated by the knowing assistance and negligent actions of Defendant PayPal,
5 Inc. (“PayPal”). PayPal’s misconduct caused Plaintiffs and the putative class to suffer in excess
6 of \$5 million in net losses.

7 2. The Traffic Monsoon Scheme affected over 162,000 investors throughout the
8 world. As alleged by the Securities and Exchange Commission in a separate federal action
9 against Traffic Monsoon and Scoville, Traffic Monsoon took in approximately \$207 million
10 from these investors.²

11 3. PayPal served as the payment processor for approximately \$134 million worth of
12 those investments and processed a massive amount of transactions on behalf of Traffic
13 Monsoon. Indeed, Traffic Monsoon’s meteoric and highly unusual rise quickly placed that
14 scheme among PayPal’s largest – and “highest risk” – digital content merchants. PayPal also
15 acted as a conduit through which Traffic Monsoon and Scoville siphoned and stole investor
16 money.

17 4. The scheme lasted from September 2014 through July 2016. During this time,
18 Traffic Monsoon duped investors into believing it was “a specialized advertising and revenue
19 sharing company” that operated a pay-to-click and Internet traffic exchange program. On its
20 website, Traffic Monsoon falsely told investors that it was not selling investments or operating a
21 Ponzi/pyramid scheme that would pay returns to existing investors with money from new
22 investors.

23 5. Traffic Monsoon also concealed from its investors that Scoville, its sole member
24 and operator, had a prior history of defrauding investors through similar pay-to-click investment
25 “businesses.” Unbeknownst to investors – but known to PayPal – Traffic Monsoon was not

26 ² *Securities and Exchange Commission v. Traffic Monsoon, LLC and Charles David Scoville*,
27 Case No. 2:16-cv-00832-DB (D. Utah July 26, 2016). Traffic Monsoon and Scoville cannot be
28 sued, pursuant to the Court’s order instituting a receivership. In any event, any recovery from
Traffic Monsoon and Scoville in the receivership action will be far less than the losses suffered
by Traffic Monsoon investors.

1 Scoville’s first fraudulent investment scheme disguised as a “pay-to-click” program. In fact, just
2 as he did with Traffic Monsoon, Scoville ran his prior pay-to-click schemes with PayPal’s
3 support and through PayPal’s infrastructure. Indeed, in 2011 PayPal had banned Scoville from
4 using its services following allegations that Scoville was operating a substantially similar – and
5 similarly fraudulent – “pay-to-click” investment scheme. Yet, despite its knowledge of
6 Scoville’s past pay-to-click schemes and its knowledge that pay-to-click websites have
7 Ponzi/pyramid scheme features, PayPal failed to enforce its own ban and allowed Scoville to
8 open an account for Traffic Monsoon in September 2014, using PayPal’s infrastructure to
9 perpetrate and profit from his new – but similar in its material respects – “pay-to-click”
10 investment fraud.

11 6. Traffic Monsoon purported to sell through PayPal seven Internet advertising
12 products, including a product called the “Banner AdPack” (“AdPack”).³ Traffic Monsoon
13 solicited sales in AdPacks by promising that each investor would receive 1000 visits to the
14 investor’s website, 20 clicks on the investor’s banner advertisement that would be listed on the
15 Traffic Monsoon website, and – crucially – a cash component in the form of sharing in Traffic
16 Monsoon’s daily revenue.

17 7. The cash component amounted to a return of 10% of an investor’s investment in
18 AdPacks, payable in two months through PayPal. The cash return was the main reason why
19 Traffic Monsoon investors flocked to Traffic Monsoon.

20 8. Investors entrusted Scoville and Traffic Monsoon with their money and trusted
21 and depended on Scoville, with his superior knowledge, to manage their money and share
22 revenue as promised by Traffic Monsoon.

23 9. The sad reality is that Traffic Monsoon’s advertising business was a scam
24 designed to disguise its sale of unregistered securities in a Ponzi scheme, perpetrated through
25 PayPal’s infrastructure and with its knowledge and crucial assistance. Traffic Monsoon made
26 99% of its revenues from the sale of AdPacks, which took place through PayPal; it could not

27 ³ Although investors had the option to invest in Traffic Monsoon through bank accounts or credit
28 cards, the overwhelming majority of investors in Traffic Monsoon during the Class Period
invested through PayPal.

1 pay investors revenues without the sales of additional AdPacks. Nor could Traffic Monsoon
2 deliver the advertising services promised in the AdPacks that investors purchased. Instead,
3 Traffic Monsoon relied on money from newer investors in AdPacks – collected through and
4 maintained at PayPal – to pay, through PayPal, the revenue sharing promised to earlier
5 investors.

6 10. PayPal played a crucial – indeed, indispensable – role in the Traffic Monsoon
7 scheme. PayPal transferred investor money to Traffic Monsoon and transferred new investor
8 money from Traffic Monsoon to earlier investors, in Ponzi scheme fashion. PayPal served as
9 the payment processor for approximately \$134 million worth of investments in the Traffic
10 Monsoon Scheme. In an unusual and highly atypical departure from its core business – payment
11 processing – PayPal aggregated and held Traffic Monsoon’s money - millions of dollars - in
12 PayPal Account Number XXXXXX7752 (“PayPal Account 7752”) until investors requested to
13 withdraw their earnings. As a result of withdrawal requests, PayPal also paid out these earnings
14 that totaled approximately \$61 million. When the scheme was exposed in July 2016, Traffic
15 Monsoon had approximately \$23 million in PayPal Account 7752.

16 11. PayPal played this crucial role with knowledge of Traffic Monsoon’s fraud and
17 misrepresentations to investors, acquired through its past experience with Scoville’s previous
18 iterations of the Traffic Monsoon fraud; its review of Traffic Monsoon’s website as part of its
19 account verification process; its ongoing review of the high-risk, unusual Traffic Monsoon
20 account; its processing of Traffic Monsoon’s Ponzi/pyramid transactions; and its handling of
21 inquiries from numerous Traffic Monsoon investors.

22 12. While PayPal prides itself on its anti-fraud detection and advertises its anti-fraud
23 detection abilities as a key safety feature of its infrastructure, its internal controls were severely
24 lacking or nonexistent with regard to its oversight of its Traffic Monsoon-related activities.

25 13. PayPal was aware that Scoville had previously operated similar pay-to-click
26 businesses that PayPal banned from using its services following allegations that the businesses
27 were Ponzi/pyramid schemes. PayPal is also aware that pay-to-click businesses raise concerns
28 regarding fraud and that some have Ponzi/pyramid scheme features. Indeed, PayPal has placed

1 holds or bans on other pay-to-click businesses. Yet PayPal did not enforce its own ban on
2 Scoville's use of its services. By knowingly allowing Scoville's new pay-to-click scheme,
3 Traffic Monsoon, to use its services, PayPal departed from its own policy that prohibits the use
4 of its services for "transactions that . . . support pyramid or ponzi schemes." (PayPal
5 Acceptable Use Policy.)

6 14. PayPal was aware that Traffic Monsoon was falsely representing to investors that
7 it sold advertising services, not investments. Scoville told PayPal (but not investors) that
8 Traffic Monsoon offered investments, which PayPal noted in PayPal Account 7752. When
9 PayPal reviewed Traffic Monsoon's website to verify the information provided by Scoville,
10 PayPal learned that Traffic Monsoon was a pay-to-click scheme; represented to investors that
11 Traffic Monsoon sold advertising services, not investments; and promised to make payments to
12 investors in pyramid scheme fashion.

13 15. PayPal also knew that Traffic Monsoon was a Ponzi/pyramid scheme. PayPal
14 actively monitored Traffic Monsoon's PayPal account. It was aware of each investment and
15 each withdrawal from the account. PayPal was aware that Traffic Monsoon was making
16 Ponzi/pyramid scheme payments to investors and that Traffic Monsoon's Ponzi/pyramid
17 scheme was growing exponentially in classic Ponzi/pyramid scheme fashion.

18 16. PayPal provided substantial assistance to the Traffic Monsoon Scheme by
19 allowing Traffic Monsoon to use its services in an extraordinary and atypical manner. It
20 allowed Traffic Monsoon to use its services to support a Ponzi/pyramid scheme, which is a
21 violation of PayPal's acceptable use policy. PayPal also allowed Traffic Monsoon to use
22 PayPal Account 7752 to hold millions of dollars of investors' funds. This activity is an extreme
23 departure from PayPal's business as a "a leading technology platform company that enables
24 digital and mobile payments on behalf of consumers and merchants worldwide." (PayPal
25 Holdings, Inc. Annual Report for Fiscal Year Ended December 31, 2015 at 1.). It is also
26 unusual, because PayPal accounts are not FDIC insured and do not bear interest. As a result,
27 Traffic Monsoon was holding millions of dollars in an unsecured account without earning any
28 interest on that balance, and all the interest earned by those funds throughout this time was

1 accruing to PayPal itself – a highly atypical source of income for PayPal.

2 17. In return for allowing the atypical and extraordinary use of its services, PayPal
3 profited greatly from the Traffic Monsoon Scheme. PayPal earned fees from the hundreds of
4 thousands of transactions made by Traffic Monsoon investors. PayPal also earned interest on
5 the millions of dollars of investors' funds that PayPal uncharacteristically held in PayPal
6 Account 7752 (which as of February 2016 had a balance of approximately \$61 million).

7 18. PayPal also provided substantial assistance to Traffic Monsoon and Scoville's
8 fraud by cloaking Traffic Monsoon with a false air of legitimacy that reasonably caused
9 investors to believe that their transactions with Traffic Monsoon were legitimate and protected
10 from fraud. Indeed, PayPal allowed Traffic Monsoon to display its name on Traffic Monsoon's
11 website and use an email address, "paypal@trafficmonsoon.com." PayPal created a false sense
12 of security by allowing Traffic Monsoon to use its services in an atypical, fraudulent manner,
13 while at the same time publicly assuring Traffic Monsoon investors that PayPal employs
14 proprietary fraud and risk modeling to assess risk and detect fraud associated with its accounts.
15 For example, on its website, PayPal represents to the public: "Know your payments are secure,
16 whether you're buying or selling, get the security you expect plus purchase or seller protection
17 on all eligible transactions." In addition, PayPal must comply with risk rules set by payment
18 card processors and banks. Accordingly, PayPal implements specific business processes and
19 supervises merchant accounts to detect whether merchants are engaged in illegal or high-risk
20 activities. (PayPal Holdings, Inc. Annual Report for Fiscal Year Ended December 31, 2015 at
21 17.) For example, "For 'high risk' merchants, [PayPal] must either prevent such merchants from
22 using our PayPal services or register such merchants with the payment card networks and
23 conduct additional monitoring with respect to such merchants. (*Id.*) High risk activities are
24 "primarily the sale of certain types of digital content." (*Id.*)

25 19. By creating a false air of legitimacy as to Traffic Monsoon, PayPal assisted
26 Traffic Monsoon's ability to deceive investors into purchasing AdPacks through PayPal, with
27 the false belief that Traffic Monsoon was selling digital advertising services, instead of
28 investments in a Ponzi/pyramid scheme.

1 2015, Plaintiff Ezeude invested \$260.47 in Traffic Monsoon. On January 2, 2016, Plaintiff
2 Ezeude invested \$247.98 in Traffic Monsoon. On January 8, 2016, Plaintiff Ezeude invested
3 \$1,707.98 in Traffic Monsoon. All three investments were routed by PayPal into Traffic
4 Monsoon's PayPal account.

5 26. Plaintiff Chukwuka Obi is a resident of Alberta, Canada. On January 2, 2016,
6 Plaintiff Obi invested \$520.62 in Traffic Monsoon. On January 4, 2016, Plaintiff Obi invested
7 \$1,040.94 in Traffic Monsoon. On January 5, 2016, Plaintiff Obi invested \$520.62 in Traffic
8 Monsoon. On January 6, 2016, Plaintiff Obi invested \$52.34 in Traffic Monsoon. And on
9 January 20, 2016, Plaintiff Obi invested \$104.38 in Traffic Monsoon. All five investments were
10 routed by PayPal into Traffic Monsoon's PayPal account.

11 27. Defendant PayPal, Inc. is a Delaware Corporation doing business in the State of
12 California. PayPal's headquarters are located in Santa Clara County, California.

13 28. PayPal, Inc. is licensed by the California Department of Business Oversight to
14 conduct business as a Money Transmitter in this state, and indeed conducts such business in the
15 state of California.

16 29. Defendant PayPal Holdings, Inc. is a Delaware corporation with its principal
17 place of business in San Jose, California. PayPal Holdings, Inc. is the parent company of
18 PayPal, Inc. and holds directly or indirectly all of the assets and liabilities of PayPal, Inc.
19 PayPal Holdings, Inc. is therefore liable for the conduct of PayPal, Inc., including the liabilities
20 that it assumed through its acquisition of PayPal, Inc. in July 2015.

21 **OTHER RELEVANT NON-PARTIES**

22 30. Although Plaintiffs do not know the specific names at this time, Plaintiffs believe
23 that the following persons identified herein as DOES 1 to 4 were involved with PayPal's
24 substantial assistance of the Traffic Monsoon Ponzi/pyramid scheme: a) John Doe 1 is an
25 officer of PayPal in its Global Asset Protection group; b) John Doe 2 is an officer and manager
26 of PayPal who is responsible for overseeing PayPal's proprietary fraud and risk modeling
27 program; c) John Doe 3 was the account manager for PayPal Account 7752; and d) John Doe 4
28 is an officer and manager of PayPal who oversees PayPal's Merchant Services, including the

1 on-boarding account manager for PayPal Account 7752.

2 **JURISDICTION AND VENUE**

3 31. This Court has jurisdiction over this action under 28 U.S.C. § 1332(a) and §
4 1332(d), as amended by the Class Action Fairness Act of 2005. The matter in controversy
5 exceeds Five Million Dollars (\$5,000,000.00), exclusive of interest and costs. Plaintiffs and
6 members of the Class are citizens of a foreign state and Defendant is a citizen of a State. This
7 Court also has supplemental jurisdiction over state law claims under 28 U.S.C. § 1367.

8 32. This Court has personal jurisdiction over Defendants because (a) Defendants are
9 operating, presenting, and/or doing business within this District, (b) Defendants reside within
10 this jurisdiction, and (c) Defendants' breaches and tortious activity occurred within this District.

11 33. Venue is proper under 28 U.S.C. § 1391 in that Defendants reside in this judicial
12 district.

13 34. Venue is also proper under 28 U.S.C. § 1391 because many of the acts and
14 practices complained of herein incurred in a substantial part in this judicial district.

15 35. **Intradistrict Assignment (L.R. 3-2(b))**: This action arises in Santa Clara
16 County, a county encompassed in the San Jose Division of this District because a substantial
17 part of the events or omissions which give rise to the claim occurred in Santa Clara County and
18 Defendant has executive offices and conducts business in Santa Clara County.

19 **FACTUAL ALLEGATIONS**

20 **1. Traffic Monsoon Perpetrates a Ponzi/pyramid Scheme Through PayPal**

21 36. Traffic Monsoon is a limited liability company registered with the State of Utah.
22 Scoville formed Traffic Monsoon in October 2014 and is the sole member.

23 37. On its website, Traffic Monsoon described its business as a pay-to-click
24 advertising and revenue sharing company. Some of these representations are as follows:

- 25 - TrafficMonsoon.com is a specialized advertising and revenue sharing
26 company that allows international participation of individuals and groups. . . .
27 [O]ur services provide high quality advertising targeted for people seeking
28 for a way to earn money online along with a complete account privacy, top

1 level online security, an efficient account management, and a dedicated
2 support team.

- 3 - Our company's traffic generation resources are capable of sending your
4 website several thousands of visitors quickly. All our members have equal
5 opportunity to benefit from an attractive revenue sharing plan on a long-term
6 basis. There is truly no risk to our revenue sharing plan, because the quality
7 of advertising services you're paying for out-weigh the price. You'll really
8 notice the difference with Traffic Monsoon in results, and profit.

9 38. Traffic Monsoon marketed its services as a combination of an Internet traffic
10 exchange and a pay-to-click program. A traffic exchange allows users to browse other users'
11 websites. A pay-to-click program pays users to click on website banner advertisements.

12 39. The Traffic Monsoon Scheme involved Traffic Monsoon's purported sale of
13 seven Internet advertising products, including the AdPack. Investors purchased each AdPack for
14 \$50. Traffic Monsoon solicited sales in AdPacks by promising that each investor would receive
15 1000 visits to the investor's website ("exchange credits"), 20 clicks on the investor's banner
16 advertisement listed on the Traffic Monsoon website, and the potential to share in Traffic
17 Monsoon's own daily revenue.

18 40. The revenue sharing feature was the key feature of the Traffic Monsoon Ponzi
19 scheme and the main driver to attract new investors.

20 41. Traffic Monsoon offered revenue sharing of up to \$55 for each AdPack – a 10%
21 return on the initial purchase.

22 42. Only investors who purchased AdPacks were entitled to share in Traffic
23 Monsoon's revenue.

24 43. To share in daily revenue, an investor in an AdPack had to click on a specific
25 number of banners advertisements in the traffic exchange in that given 24-hour period.

26 44. After an AdPack earned \$55, an investor had to purchase a new AdPack to
27 continue to share in Traffic Monsoon's profits. An investor could withdraw the \$55 from
28 Traffic Monsoon's PayPal account or use the \$55 to buy a new AdPack.

1 45. In other words, once the investor's investment matured and generated the 10%
2 return, the investor had the option of cashing out or rolling his existing investment and profit
3 into a new AdPack investment.

4 46. Traffic Monsoon also offered to sell 1000 exchange credits and 20 clicks without
5 the combination offered by the AdPack. If an investor purchased the 1000 exchange credits and
6 20 clicks without the combination of the AdPack, then these services cost \$10.95. As a result,
7 with the purchase of an AdPack, an investor paid approximately \$40 for the revenue sharing
8 component of the AdPack.

9 47. Accordingly, the largest portion of an AdPack's value rested in its revenue
10 sharing feature, not in the exchange credits or clicks.

11 48. Traffic Monsoon made a series of representations on its websites that it was not
12 offering investments and that it was not a Ponzi/pyramid scheme. These representations
13 included:

- 14 - Only 1 of the services we offer includes a revenue sharing position. We do
15 not sell "shares." We only sell advertising services. It's from the sales of all
16 our services that we share revenues. When our members purchase a service
17 from TrafficMonsoon, the revenues from that purchase are held by the
18 company. Then, you can qualify to receive share of the profits! Naturally
19 there is cost associated with providing services. Each service provided
20 generates a profit margin. We share those profits with you!
- 21 - You'll share in revenues today from purchases made yesterday. This provides
22 us a full day to catch fraudulent payments before they are shared. If we're
23 ever attacked with a large fraudulent payment, it will be caught and blocked
24 before it impacts member accounts.
- 25 - Why is Traffic Monsoon not a ponzi? Traffic Monsoon only offers ad
26 services. Nothing else is for sale than ad service. There is no investment plan
27 offered. Yes, you can qualify to share in the sales revenue generated when
28 services are sold by actively viewing other people's websites, but this is not

1 interest.

2 - A purchase of advertising service with Traffic Monsoon is not considered a
3 deposit, nor investment. In fact members agree to this as part of our terms of
4 service when they sign-up.

5 - Traffic Monsoon has all the money to pay people what they have earned. . . .

6 In conclusion, when looking at pure definitions, Traffic Monsoon is not a
7 ponzi and is not a pyramid scheme. It's a business that sells advertising
8 services, offers sales commissions, and allows members to qualify to share in
9 the sales revenues by actively viewing other member websites.

10 49. When investors purchased an AdPack, Traffic Monsoon required the investor to
11 agree to several terms and conditions. These terms and conditions included:

12 - TrafficMonsoon registered as a limited liability company and not a bank nor
13 a security firm. A purchase of advertising service with us is not considered a
14 deposit, nor investment.

15 - You agree to recognize TrafficMonsoon as a true advertising company which
16 shares its revenues, and not as any form of investment of any kind.

17 50. Investors entrusted Scoville and Traffic Monsoon with their money, and trusted
18 and depended on Scoville, with his superior knowledge, to manage their money and share
19 revenue as promised by Traffic Monsoon.

20 51. Traffic Monsoon sold its AdPacks chiefly through PayPal. The revenue from the
21 sale of each AdPack was held in Traffic Monsoon's PayPal Account 7752.

22 52. Traffic Monsoon claims to have distributed the revenue from the sale of each
23 AdPack as follows: 10% as a commission to the person who introduced the investor, if
24 applicable; 4.5% was retained by Traffic Monsoon; 1.5% to Traffic Monsoon's programmer;
25 and 84% was distributed to other AdPack investors or held in a reserve fund, which was also
26 held in PayPal Account 7752, for future distribution to investors.

27 53. Unbeknownst to investors, Traffic Monsoon used the money in its PayPal-held
28 reserve fund to supplement investors' profit sharing and to smooth out profit sharing payments

1 – that is to say, Traffic Monsoon used PayPal-held funds to pay – through PayPal – existing
2 investors with new investors money, in typical Ponzi scheme fashion.

3 54. Traffic Monsoon typically paid AdPack investors \$55 per \$50 AdPack in returns,
4 in 60 days.

5 55. Traffic Monsoon falsely represented to investors that the revenue sources
6 available for profit sharing came from its sales of all of its services, including Pay-to-click
7 Banner Ad Campaigns, Pay-to-click Text Ad Campaigns, Traffic Exchange Start Pages, Traffic
8 Exchange Credit Purchases, Monsoon Traffic Packages and Login Ads.

9 56. Traffic Monsoon – which had been reviewed by PayPal – stated that revenues
10 came from the sale of all of its advertising products:

11 It's from the sale of all our services that we share revenues. When our members
12 purchase a service from TrafficMonsoon, the revenues from that purchase are
13 held by the company. Then, you can qualify to receive share of the profits!
14 Naturally there is a cost associated with providing services. Each service
15 provided generates a profit margin. We share those profits with you!

16 57. Unbeknownst to investors, but known to PayPal, Traffic Monsoon's sales were
17 almost 100% tied to its sale of AdPacks. Since October 2014, 98% of the money shared with
18 investors (approximately \$618 million) came from investors' purchases of AdPacks, chiefly
19 through PayPal.

20 58. Traffic Monsoon relied almost exclusively on the sale of additional AdPacks to
21 pay returns to AdPack investors, as PayPal knew. Thus, Traffic Monsoon was using money
22 from new investors to pay supposed "returns" to existing investors, in Ponzi/pyramid scheme
23 fashion.

24 59. Traffic Monsoon, however, never disclosed to investors that: 1) it could not pay
25 any returns to investors without the sales of additional AdPacks and that over 98% of the returns
26 shared with investors came from subsequent purchases of AdPack; 2) the AdPack products it
27 was selling were securities; and 3) Traffic Monsoon was orchestrating a Ponzi/pyramid scheme
28 and was using money from new investors to pay supposed "returns" to existing investors.

1 PayPal knew this, too.

2 60. Traffic Monsoon's advertising business was a scam designed to disguise its
3 offering and sale of securities in a Ponzi scheme.

4 61. Traffic Monsoon's business was not real. The price of the AdPack did not relate
5 to the price of the service it included. And the \$55 profit ceiling lacked any rationale tied to
6 Traffic Monsoon's purported sale of advertising services. It simply represented a 10% return on
7 the AdPack purchase amount.

8 62. Traffic Monsoon lost \$5 on each sale of an AdPack. With the revenue sharing,
9 Traffic Monsoon paid \$5 more to each AdPack investor than Traffic Monsoon charged for the
10 AdPack. Because Traffic Monsoon had no material source of revenue other than the sales of
11 AdPacks, Traffic Monsoon relied on the sale of new AdPacks – chiefly through PayPal – to pay
12 returns to the earlier investors, as PayPal well knew.

13 63. Traffic Monsoon was a Ponzi/pyramid scheme that was not sustainable.

14 64. Because Traffic Monsoon was a Ponzi scheme, it was inherently deceptive and
15 fraudulent. Traffic Monsoon generated a false appearance of profitability by using money from
16 new investors to generate returns for earlier investors. Indeed, Traffic Monsoon lied to investors
17 by telling them that the returns were generated by its advertising business revenue and falsely
18 claiming that the sale of AdPacks was not a Ponzi scheme.

19 **2. Traffic Monsoon Sold Unregistered Securities**

20 65. The AdPacks were securities, and were neither registered nor exempt from
21 registration.

22 66. The AdPack qualifies as a security because it was an investment contract. The
23 AdPack was an investment of money in a common enterprise with profits to come from the
24 efforts of others:

25 A. An investor's purchase of an AdPack involved an investment of money of
26 \$50, made through PayPal, with an expectation that the investor would share in
27 Traffic Monsoon's profits.

28 B. Traffic Monsoon aggregated the funds from the sale of AdPacks in

1 PayPal Account 7752. This account included those funds that Traffic Monsoon
2 designated as the Traffic Monsoon reserve fund. Traffic Monsoon used money
3 from the PayPal reserve fund to supplement the revenue sharing that it paid to
4 investors.

5 C. The payment of returns on the investment depended almost entirely on
6 Traffic Monsoon’s ability to sell AdPacks. The financial success or failure of the
7 investment was inextricably tied to the efforts of Scoville and Traffic Monsoon.

8 D. Investors relied on Traffic Monsoon and Scoville to operate the traffic
9 exchange, collect revenue and distribute revenue shares to AdPack members.
10 The actions that an investor was required to take to qualify for revenue sharing
11 were a sham. Regardless of whether an investor owned one AdPack or thousands
12 of AdPacks, an investor was required to click on a limited number of
13 advertisements each day for a few seconds. Traffic Monsoon populated these
14 advertisements for the investor and counted down the required time.

15 67. Traffic Monsoon’s sale of AdPacks was thus the sale of unregistered securities.

16 68. From on or about September/October 2014 until July 2016, Traffic Monsoon
17 raised millions of dollars from investors worldwide – chiefly through PayPal – through its
18 unregistered offerings of securities.

19 69. Traffic Monsoon offered and sold the AdPacks through its website. Traffic
20 Monsoon’s website was publicly available to anyone.

21 70. Traffic Monsoon sold the AdPacks openly to the public without any
22 determination regarding whether investors were accredited within the meaning of federal
23 securities laws.

24 71. Plaintiffs are not accredited investors.

25 **3. Traffic Monsoon and Scoville Knowingly Defrauded Investors**

26 72. Scoville knowingly defrauded investors by creating and operating Traffic
27 Monsoon as a Ponzi/pyramid scheme. Since Scoville solely controlled Traffic Monsoon,
28 Scoville’s knowledge can be imputed to Traffic Monsoon.

1 73. To further the Traffic Monsoon scheme, Scoville made a series of intentional
2 misrepresentations to investors.

3 74. Scoville was aware that the AdPacks could be considered an investment. Indeed,
4 he went out of his way to argue that the AdPacks are not investments.

5 75. Scoville was aware that the \$55 profits have always been paid to purchasers of
6 AdPacks even though he represented to investors that there was no assurance it would be paid.

7 76. On its website, Traffic Monsoon, through Scoville, also misrepresented that
8 Traffic Monsoon was not a Ponzi scheme or pyramid scheme. Traffic Monsoon devoted a
9 section of its website to explaining why Traffic Monsoon was not a Ponzi or pyramid scheme.
10 This section included misrepresentations that “There is no investment on Traffic Monsoon; only
11 a purchase of advertising service”; “[Investors] are only buying an ad service. A service was
12 selected and paid for, which was immediately made available upon successful purchase”; and
13 “Traffic Monsoon has all the money to pay people what they have earned.”

14 77. Traffic Monsoon also concealed from its investors crucial information regarding
15 Scoville’s history of defrauding investors through similar investment programs that Scoville
16 also ran with PayPal’s support and through PayPal’s infrastructure.

17 **4. PayPal’s Operations and Anti-Fraud Features**

18 78. PayPal operates an online payment processor business serving individuals and
19 businesses worldwide. PayPal describes its business as “a leading technology platform
20 company that enables digital and mobile payments on behalf of consumers and merchants
21 worldwide.” (PayPal Holdings, Inc. Annual Report for Fiscal Year Ended December 31, 2015
22 at 1.)

23 79. On its website, PayPal describes its services as a secure, easy way to pay and get
24 paid. PayPal further states: “Know your payments are secure, whether you’re buying or selling,
25 get the security you expect plus purchase or seller protection on all eligible transactions.” It
26 allows users to sign up for free, assuring that users can “[m]ake the most of your money.”

27 80. PayPal boasts that over 180 million people use PayPal to pay securely on
28 millions of sites and that “businesses that use PayPal can sell more.”

1 81. Typically, an online business will include a link to PayPal on its website. A
2 customer can click on the PayPal link. The customer is then transferred to a secure PayPal
3 webpage. The customer then provides PayPal with payment information.

4 82. On its website, PayPal also describes the security protections that PayPal offers
5 businesses against fraud: “We analyse every transaction in real time to help prevent fraud. You
6 can even filter or block higher risk payments for optimal online security.”

7 83. PayPal explains the “security advantages” that it offers to users:

8 Our security advantages

9 Your business is safer when you get paid with PayPal

10 We detect most fraudulent transactions in real-time.

11 Our progressive system upgrades help keep us ahead of fraudsters.

12 We have extensive data encryption for strict confidentiality and security.

13 We monitor transactions 24/7

14 Our dedicated team of anti-fraud specialists keep an eye out for you.

15 84. PayPal accounts are not interest bearing. Any balance held in a user’s PayPal
16 account is not insured by the FDIC. The balance is an unsecured claim against PayPal.

17 85. PayPal ostensibly prohibits the use of its services for activities that “1) violate
18 any law, statute, ordinance or regulation; . . . [and] 3) relate to transactions that . . . support
19 pyramid or **ponzi schemes**, matrix programs, other ‘get rich quick’ schemes or certain multi-
20 level marketing programs.” (PayPal Acceptable Use Policy (*emphasis added*)).

21 86. PayPal offers buyer and seller protection programs so that both buyers and
22 sellers can transact using PayPal with confidence. (PayPal Holdings, Inc. Annual Report for
23 Fiscal Year Ended December 31, 2015 at 6.).

24 87. PayPal Holdings, Inc. describes how it seeks to “differentiate itself from industry
25 participants on the safety of transactions (our risk management capabilities as well as protection
26 of consumer account details).” “Further, unlike traditional four-party networks or other mobile
27 payment solutions, PayPal has a direct financial relationship with both its consumers and
28 merchants. As a result of our risk management capabilities, PayPal can provide its customers

1 with protection from fraud and other losses incurred by participants to a transaction.” (PayPal
2 Holdings, Inc. Annual Report for Fiscal Year Ended December 31, 2015 at 6.).

3 88. PayPal Holdings, Inc. also explains how its protection of merchants and
4 consumers has been “imperative” to its success as a payment service provider:

5 Protecting merchants and consumers from loss is imperative to
6 successfully competing in the payments industry. Trust and security are
7 essential for our customers, and PayPal invests significantly in providing
8 both merchants and consumers with comprehensive protection. The risk to
9 merchants and consumers (and their payments partners) from fraudulent
10 activities, such as account takeover, identity theft and counterparty
11 malicious intent, is growing. Our ability to protect both consumers and
12 merchants is based largely on our ability to leverage the data we collect on
13 transactions and our analytical capabilities. We believe mobile devices
14 will play an important part in the future of commerce, creating the
15 opportunities to make our ecosystem safer. For example, PayPal is able to
16 use location data from mobile devices and growing protection for the
17 mobile operating environment to reduce risk to merchants and consumers.
18 We enable consumers to make payments safely and simply without
19 sharing sensitive financial information, such as credit card or debit card
20 numbers, with merchants or other consumers. To make payments using
21 PayPal, consumers need to disclose only their email address or mobile
22 phone number to merchants. The account-based nature of our Payments
23 Platform helps us to better detect and prevent fraud when funds enter, flow
24 through and exit the Payments Platform because our transactions are
25 tokenized and because payment authorization credentials are separated
26 from account holder information. Our ongoing investment in systems and
27 processes designed to enhance the safety and security of our products
28 reflects our goal of having PayPal recognized as one of the world’s most

1 trusted payments brands.

2 We provide merchants and consumers with protection programs on
3 substantially all transactions completed through our Payments Platform,
4 except for transactions using our gateway and Paydiant products. These
5 programs protect both merchants and consumers from loss primarily due
6 to fraud and counterparty non-performance. Our risk management
7 capabilities allow us to provide these protections, which are generally
8 much broader than those protections provided by other participants in the
9 payments industry. Most payments providers do not offer merchant
10 protection in general, and those that do so generally do not provide
11 protection of online or card not present transactions. As a result,
12 merchants may incur losses for chargebacks and other claims on certain
13 transactions when using other payments providers that they would not
14 incur if they had used PayPal's payments services. PayPal also provides
15 consumer protection against losses on qualifying purchases and accepts
16 claims for 180 days post transaction in the markets that PayPal serves.
17 This protection is generally consistent with, or better than, that offered by
18 other payments providers. We believe that as a result of these programs,
19 consumers can be confident that they will only be required to pay if they
20 receive the product in the condition as described, and merchants can be
21 confident that they will receive payment for the product that they are
22 delivering to the customer.

23 Our Payments Platform utilizes a combination of proprietary technologies
24 and services as well as technologies and services provided by third parties.
25 We have developed intuitive user interfaces, customer tools and
26 transaction processing, database and network applications that help enable
27 our users to reliably and securely complete transactions on our sites and
28 help our customers to utilize our suite of services. Our technology

1 infrastructure simplifies the storage and processing of large amounts of
2 data, eases the deployment and operation of large-scale global products
3 and services, and automates much of the administration of large-scale
4 clusters of computers. Our technology infrastructure has been designed
5 around industry-standard architectures to reduce downtime in the event of
6 outages or catastrophic occurrences. We strive to continually improve our
7 technology infrastructure to enhance the customer experience and to
8 increase efficiency, scalability, and security.

9 89. PayPal earns fees from transactions. The recipient of the transferred payment
10 usually pays the transaction fees.

11 90. PayPal sets the amount of the fee based on the method of payment. For example,
12 fees may be waived or lower for payments from PayPal account balances. There are additional
13 fees if the user is sending money from outside the United States and for transactions using a
14 foreign currency.

15 91. PayPal also earns interest and returns by combining users' account balances and
16 investing those funds. PayPal owns the interest and other earnings from those investments.

17 **5. PayPal Is Licensed as a Money Transmitter and Subject to Various Anti-Money**
18 **Laundering and Counter-Terrorist Financing Laws and Regulations**

19 92. PayPal operates an online payment business. It purports to provide users the
20 ability to securely transfer money over the Internet.

21 93. PayPal is licensed as a Money Transmitter in multiple states and territories
22 across the United States.

23 94. A Money Transmitter must maintain federal registration as a Money Services
24 Business and comply with federal reporting and recordkeeping requirements. These
25 requirements include compliance with the Bank Secrecy Act. The United States Department of
26 the Treasury, through its Financial Crimes Enforcement Network, implements, administers and
27 enforces compliance with the Bank Secrecy Act.

28 95. A Money Services Business is defined in 31 CFR 1010.100(ff).

1 96. As a Money Services Business, PayPal is required by federal law to know its
2 customers and understand their money transmission activities. These requirements include
3 implementing anti-money laundering (“AML”) provisions and know your customer (“KYC”) provisions
4 under the Currency and Foreign Transactions Reporting Act of 1970 a/k/a the Bank
5 Secrecy Act. *See* 31 U.S.C. § 5311; 12 C.F.R. § 208.63; *see also* 31 C.F.R. § 1022.210.

6 97. Federal regulations require a Money Services Business to incorporate policies,
7 procedures and internal controls that include provisions for verifying customer identification,
8 filing reports, creating and retaining records and responding to law enforcement requests. 31
9 C.F.R. § 1022.210. A Money Services Business must also designate a person to assure daily
10 compliance with its AML provisions, provide education and training of appropriate personnel
11 concerning their AML responsibilities, and provide for independent review to monitor the
12 adequacy of the program. *Id.*

13 98. A Money Services Business also has requirements to report suspicious
14 transactions relevant to a possible violation of laws or regulations. 31 C.F.R. § 1022.320.

15 99. PayPal is also subject to other anti-money laundering and counter-terrorist
16 financing laws and regulations, including routine reports to the U.S. Department of the
17 Treasury’s Office of Foreign Assets Control (“OFAC”).

18 100. PayPal has implemented procedures to verify the identity of its customers and
19 monitor international and domestic transaction to detect fraud.

20 101. PayPal has had a cavalier attitude regarding the anti-money laundering rules and
21 regulations and has been the subject of regulatory action by the OFAC as a result of its conduct
22 in 2015. It recently disclosed subsequent potential violations after the 2015 action.

23 **6. PayPal Facilitated and Profited from Traffic Monsoon’s Ponzi Scheme**

24 102. PayPal transmitted investors’ money to and from Traffic Monsoon for the
25 purchase of investments and enabled the Traffic Monsoon scheme to grow and operate, and
26 perpetrate its fraudulent, Ponzi/pyramid operations.

27 103. PayPal’s association with Traffic Monsoon was instrumental – indeed, crucial –
28 to the success of the Traffic Monsoon Scheme.

1 104. Traffic Monsoon kept all of its funds in PayPal Account 7752.

2 105. An investor would purchase an AdPack by transferring \$50 from the investor's
3 PayPal account to PayPal Account 7752.

4 106. Traffic Monsoon aggregated all of the purchase money that it received from its
5 investors in PayPal Account 7752. All investor funds were commingled in PayPal Account
6 7752.

7 107. When an investor wanted to cash out earnings from Traffic Monsoon, Traffic
8 Monsoon would send the money to the investor from PayPal Account 7752, less PayPal's fees
9 for the transaction, in facially obvious Ponzi scheme fashion.

10 108. Because of the fees charged by PayPal, Traffic Monsoon would not transfer
11 funds from PayPal Account 7752 unless the amount of the transfer was above \$2.00.

12 109. PayPal charged Traffic Monsoon to transfer the funds to the investor. If this
13 charge was done through mass pay, then it would be 2% of the transaction with a cap at \$1 per
14 recipient per transaction. Applying this example to Traffic Monsoon, PayPal may have earned
15 \$1 for each transfer request for returns based on the investment in single AdPack. For example,
16 if an investor requested a return of \$55, which was the maximum amount an AdPack could earn
17 with revenue sharing, then PayPal would charge Traffic Monsoon \$1 for the transfer because
18 the fee is capped at \$1 ($\$55 \times 2\% = \1.21).

19 110. If an investor did not request the funds to be transferred from Traffic Monsoon,
20 the funds would remain in PayPal Account 7752.

21 111. An investor could purchase additional AdPacks using funds in the investor's
22 Traffic Monsoon account. Traffic Monsoon would then change the accounting for this money,
23 but the money would remain in PayPal Account 7752. An investor would "save money" by
24 purchasing AdPacks by using funds held within Traffic Monsoon because PayPal would not
25 charge a fee for this "transfer." No fee would be charged because the funds physically remained
26 within PayPal Account 7752.

27 112. Until July 2016, Scoville kept almost all of Traffic Monsoon's business funds in
28 PayPal Account 7752.

1 113. From October 2014 until February 2016, PayPal received \$134 million from
2 investors to deposit into Traffic Monsoon's PayPal account. PayPal also paid out approximately
3 \$61 million to investors from Traffic Monsoon's PayPal account.

4 114. Given that PayPal Account 7752 contained only commingled funds from
5 investors, PayPal's payments of funds to existing Traffic Monsoon investors, at Traffic
6 Monsoon's direction, were on their face Ponzi/pyramid payments.

7 115. During this time, PayPal served almost exclusively as the payment processor for
8 investors' payments to Traffic Monsoon. PayPal held nearly all of the investors' funds from
9 AdPacks in PayPal Account 7752.

10 116. PayPal profited greatly from the Traffic Monsoon Scheme.

11 117. PayPal earned considerable fees from the funds it transferred for each of Traffic
12 Monsoon's "sales," which totaled approximately \$134 million since Scoville opened the
13 account in September 2014.

14 118. PayPal also earned returns on the investors' money that Traffic Monsoon held in
15 its PayPal account. The returns on this account were significant – and extraordinary in nature,
16 given that Traffic Monsoon held – not just transferred – millions in PayPal Account 7752, even
17 though Traffic Monsoon did not earn interest on the account balance. For example, the balance
18 of Traffic Monsoon's account with PayPal was approximately \$61 million in February 2016.

19 119. PayPal was closely monitoring Traffic Monsoon's account and the investments
20 into and the withdrawals from that account. Indeed, in December 2015, PayPal told Traffic
21 Monsoon that its account was one of PayPal's best performing accounts.

22 120. Through its close monitoring of the transactions in the Traffic Monsoon account,
23 PayPal learned from the very beginning of Traffic Monsoon's operations that Traffic Monsoon
24 was commingling investor money and was paying existing investors with new investor money,
25 in Ponzi/pyramid scheme fashion and contrary to its representations to its members.

26 **7. PayPal's Prior Experience With Scoville And Pay-to-click Businesses**

27 121. Scoville has a history of operating fraudulent pay-to-click "businesses" using
28 PayPal.

1 122. In 2010 and 2011, Scoville owned and operated six pay-to-click businesses:
2 TviPtc, InfinityBux, BuxSecure, PowerfulBux, ForeverBux and BuxUnleased (the “PTC
3 Businesses”).

4 123. All six of the PTC Businesses relied on PayPal to facilitate sales. All six shared
5 the same account with PayPal.

6 124. In May 2011, customers complained to PayPal and claimed that Scoville’s PTC
7 Businesses were involved in fraudulent transactions. Customers were reversing payments sent
8 to the PTC Businesses, i.e. creating “chargebacks” against the PTC Businesses’ account.

9 125. PayPal froze the PTC Businesses’ account following allegations of fraud and the
10 increased numbers of chargebacks attributed to the account.

11 126. Thereafter, PayPal conducted an investigation into the investors’ allegations and
12 banned Scoville from using its services for the PTC Businesses.

13 127. The PTC Businesses could not recover from PayPal’s freeze on the account and
14 subsequent ban on using PayPal’s services. Scoville closed the PTC Businesses in 2013.

15 128. In addition to banning Scoville’s PTC Businesses, PayPal also has banned other
16 pay-to-click businesses from using its services. Indeed, PayPal is well acquainted with this
17 industry and is aware that some of these businesses have Ponzi/pyramid scheme features and
18 imbue fraudulent schemes.

19 **8. PayPal Substantially Assisted the Traffic Monsoon Scheme with Knowledge**
20 **That Traffic Monsoon Made Misrepresentations to Investors and Operated as a**
21 **Ponzi/Pyramid Scheme.**

22 **a. PayPal Was Aware of Traffic Monsoon and Scoville’s**
23 **Misrepresentations and Fraud**

24 129. In September 2014, PayPal allowed Scoville to open an account to operate a new
25 pay-to-click “business,” Traffic Monsoon, even though PayPal had banned Scoville from using
26 its services for his previous pay-to-click “businesses” following allegations that Scoville had
27 operated those “businesses” as a fraudulent scheme.

28 130. PayPal requires an account holder to enter identifying information so that PayPal

1 can verify the identity of the customer. PayPal requires additional information to open a
2 merchant account so that it can verify the business associated with the account. PayPal also
3 uses this information to monitor for and protect customers from fraudulent transactions.

4 131. To open the new pay-to-click account, Scoville provided PayPal his name, social
5 security number, date of birth, home address, phone numbers, business name “Traffic
6 Monsoon”), business website address (<http://www.trafficmonsoon.com>), and email address for
7 the account (paypal@trafficmonsoon.com). Scoville also told PayPal that Traffic Monsoon’s
8 business was “Investments – general” and provided PayPal with Traffic Monsoon’s website
9 address, <http://www.trafficmonsoon.com>.

10 132. As part of PayPal’s customer identification and sign-up process for a merchant
11 account, on or about September 2014, PayPal “verified” the information provided by Scoville
12 about Traffic Monsoon. Scoville told PayPal that Traffic Monsoon’s business was “Investments
13 – general” and provided PayPal with Traffic Monsoon’s website address,
14 <http://www.trafficmonsoon.com>. As such, PayPal reviewed Traffic Monsoon’s website and
15 discovered that Traffic Monsoon falsely told investors that it was offering advertising services,
16 not investments. Indeed, Traffic Monsoon required investors to agree that they were not
17 purchasing investments. Further, Traffic Monsoon’s website indicated that Traffic Monsoon
18 was a pay-to-click business, similar to the businesses previously operated by Scoville that
19 PayPal had banned from using its services following allegations of fraud.

20 133. PayPal also learned from its review of the Traffic Monsoon website that Traffic
21 Monsoon was offering pyramid scheme payments to investors, e.g. Traffic Monsoon referred to
22 the company as offering referral-based commission structures and referral based income
23 opportunities.

24 134. PayPal thus became aware that Traffic Monsoon misrepresented to investors the
25 nature of its services and that Traffic Monsoon was a pyramid scheme.

26 135. PayPal also learned from its review of Traffic Monsoon’s website that investors
27 in AdPacks were expecting to receive shares of revenues generated from Traffic Monsoon’s
28 purported advertising business. Thus, PayPal was aware that Traffic Monsoon and Scoville

1 would receive investor funds to manage and repay with a profit.

2 136. Accordingly, on or about September 2014, PayPal was aware that: 1) Scoville
3 was the user associated with PayPal Account 7752 when Scoville opened the account for Traffic
4 Monsoon and that PayPal had previously banned Scoville from using its services following
5 allegations that his prior pay-to-click businesses, which also purportedly sold advertising
6 businesses with revenue sharing, were Ponzi/pyramid schemes; 2) Traffic Monsoon would hold
7 investors' money in PayPal Account 7752; 3) Traffic Monsoon was a pay-to-click scheme that
8 was substantially similar to the pay-to-click businesses run by Scoville that PayPal had banned
9 previously; 4) Traffic Monsoon was falsely representing to investors the nature of its services as
10 not offering investments; and 5) Traffic Monsoon was a pyramid scheme.

11 137. Despite its knowledge of Traffic Monsoon's misrepresentations to investors and
12 its previous ban on Scoville's similar use of its services, PayPal nonetheless allowed Scoville to
13 open PayPal Account 7752 for its business of selling investments and marked the account as
14 "Business – Verified – Cat201VC."

15 138. PayPal also was aware that Traffic Monsoon was operating a Ponzi/pyramid
16 scheme and that Traffic Monsoon was commingling investor money and paying existing
17 investors with new investors' money, in obvious Ponzi/pyramid scheme fashion. PayPal was
18 aware of this scheme and these payments as a result of 1) its knowledge that Traffic Monsoon
19 was holding investors' money in PayPal Account 7752 gained from PayPal's review of Traffic
20 Monsoon's website and account verification process; 2) its ongoing monitoring of Traffic
21 Monsoon's account, which PayPal itself acknowledged when it told Traffic Monsoon that it was
22 one of its best performing accounts; 3) its fraud monitoring systems, and 4) the AML and KYC
23 procedures required by federal law.

24 139. For example, PayPal's monitoring of Traffic Monsoon's account included
25 monthly review of the number of transactions, average amount of these transactions, the money
26 received from Traffic Monsoon investors and a review of monthly account "Rollups," which
27 involved a review of the amount received in an account and the percentage of chargebacks.
28 PayPal reviews this information as part of its merchant account services and fraud monitoring

1 systems. PayPal was thus aware that Traffic Monsoon's account, PayPal Account 7752,
 2 showed exponential growth with a small percentage of chargebacks as shown in the chart
 3 below:

Date	Received	CBK % (\$)
October 2014	\$60,269.02	0%
November 2014	\$103,821.14	0%
December 2014	\$100,186.67	0%
January 2015	\$201,580.39	0%
February 2015	\$361,354.64	0.01%
March 2015	\$624,020.91	0%
April 2015	\$1,469,989.45	0.01%
May 2015	\$2,358,181.91	0.36%
June 2015	\$3,666,178.12	0%
July 2015	\$5,008,550.36	0.02%
August 2015	\$6,509,319.82	0.09%
September 2015	\$11,639,878.75	0.01%
October 2015	\$17,687,476.64	0.01%
November 2015	\$23,984,456.77	0.01%
December 2015	\$28,939,277.27	0.13%

21 140. Indeed, PayPal praised Traffic Monsoon on the performance of its account with
 22 the low chargebacks – further demonstrating PayPal's ongoing monitoring of Traffic
 23 Monsoon's account and of the transactions in that account. As stated above, in December 2015,
 24 PayPal told Scoville that Traffic Monsoon's account was one of the best performing accounts in
 25 its category.

26 141. Despite PayPal's knowledge that Scoville was misrepresenting to investors that it
 27 did not offer investments, that Traffic Monsoon was a Ponzi/pyramid scheme and that Traffic
 28 Monsoon was commingling investor money and paying existing investors with new investors'

1 money in obvious Ponzi/pyramid scheme fashion, PayPal allowed and supported Traffic
2 Monsoon's use of its services to effect investments in the Traffic Monsoon Scheme,
3 unimpaired, until January 11, 2016.

4 **b. PayPal Provided Substantial Assistance to Traffic Monsoon and**
5 **Scoville's Fraud and Misrepresentations**

6 142. From about September 2014 through January 11, 2016, PayPal knowingly
7 provided substantial assistance to Traffic Monsoon and Scoville's fraud and misrepresentations
8 by allowing Traffic Monsoon to use its services in a highly atypical and extraordinary manner
9 as described below:

10 A. PayPal allowed Scoville to open an account for Traffic Monsoon and use
11 its services to operate a Ponzi/pyramid scheme, even though PayPal had
12 previously banned similar pay-to-click businesses that Scoville operated from
13 using its services following allegations and findings that those businesses were a
14 fraudulent scheme.

15 B. PayPal also allowed Scoville to open an account for Traffic Monsoon and
16 use its services to operate a Ponzi scheme, even though PayPal was aware that
17 Traffic Monsoon was misrepresenting to investors that Traffic Monsoon was not
18 selling investments.

19 C. PayPal allowed Traffic Monsoon to use its services to support a
20 Ponzi/pyramid scheme, which is a violation of PayPal's acceptable use policy.

21 D. PayPal allowed Traffic Monsoon to use PayPal Account 7752 to hold
22 millions of dollars of investors' funds, month after month after month. This
23 activity was a radical departure from PayPal's business as a payment processor.

24 143. PayPal also knowingly provided substantial assistance to Traffic Monsoon and
25 Scoville's fraud and misrepresentations by cloaking the Traffic Monsoon's Ponzi/pyramid
26 scheme with a false air of legitimacy that assisted Traffic Monsoon's ability to deceive
27 investors, including Plaintiffs and the proposed Class, into purchasing AdPacks. Through its
28 account verification process, PayPal learned of, and thereafter knowingly allowed, Traffic

1 Monsoon's displaying of PayPal's name on Traffic Monsoon's website and use an email
2 address, "paypal@trafficmonsoon.com." . PayPal created this false sense of security, among
3 other methods, by representing that PayPal monitors users' accounts for fraud and prohibits
4 "transactions that support . . . Ponzi schemes" while knowingly allowing Traffic Monsoon to
5 operate a Ponzi/pyramid scheme using PayPal's services.

6 **9. From January 11, 2016 Until February 11, 2016 PayPal Suspends Withdrawals**
7 **from Traffic Monsoon's Account, but Allows Traffic Monsoon to Continue to**
8 **Use Its Services to Receive Money from New Investors.**

9 144. On January 11, 2016, PayPal decided to suspend Traffic Monsoon's ability to
10 *withdraw* funds from Traffic Monsoon's account.

11 145. PayPal did so because its merchant risk department (a department/group that was
12 different from the merchant services department/group that worked with Traffic Monsoon's
13 account on a regular basis, learned about the Ponzi/pyramid-like transactions in the account,
14 allowed it to operate, and had praised Scoville for the performance of Traffic Monsoon's
15 account) decided to place a freeze on Traffic Monsoon's account and the transactions in that
16 account. The risk department placed this freeze on Traffic Monsoon's account ostensibly
17 because Traffic Monsoon's account experienced a high percentage of growth with a small
18 percentage of chargebacks. PayPal later explained that these characteristics show a Ponzi
19 scheme.

20 146. PayPal told Scoville that it was placing a freeze on the account because Traffic
21 Monsoon was growing too fast, too quickly and had almost no chargebacks or refund requests.

22 147. PayPal also established a specific telephone number for investors to call to
23 address concerns regarding Traffic Monsoon.

24 148. Thereafter, PayPal told some investors who contacted PayPal that Traffic
25 Monsoon was a scam.

26 149. Even though PayPal had suspended withdrawals from the account, PayPal
27 nonetheless continued to allow investors to send money to Traffic Monsoon's PayPal account.
28 In turn, PayPal continued to earn fees from these transfers and interest on the investors' money

1 that was deposited in Traffic Monsoon’s account.

2 150. On February 11, 2016, PayPal suspended all transactions to and from Traffic
3 Monsoon’s account. PayPal told Scoville that it intended the freeze on all transactions to last
4 for 180 days, *i.e.* until August 9, 2016.

5 **10. PayPal Prematurely Removed the Freeze on Traffic Monsoon’s Account and**
6 **Allowed Scoville to Abscond Millions from PayPal Account 7752.**

7 151. Although PayPal indicated that the freeze on Traffic Monsoon’s account would
8 last until August 2016, PayPal prematurely (on July 11, 2016) removed the freeze on the
9 account.

10 152. PayPal explained that the freeze on PayPal Account 7752 expired “unbeknownst
11 to PayPal employees monitoring the account” – a clear demonstration of PayPal’s inadequate
12 control systems and of the fact that crucial information regarding Traffic Monsoon’s fraud was
13 not being shared across PayPal departments that needed to be aware of such information.

14 153. After PayPal improperly removed the freeze, Scoville transferred more than \$23
15 million out of Traffic Monsoon’s PayPal account into a separate, personal account. He
16 accomplished this by withdrawing \$100,000 at a time, many hundreds of times, and typically
17 multiple times per day.

18 154. Scoville’s looting of PayPal Account 7752 ended on July 26, 2016 when the SEC
19 filed a complaint against Traffic Monsoon and Scoville alleging that Traffic Monsoon and
20 Scoville were conducting an illegal Ponzi scheme in violation of federal securities laws (the
21 “SEC Action”).

22 155. On the same day, the United States District Court for the District of Utah granted
23 a temporary restraining order that froze all of the assets of Scoville and Traffic Monsoon,
24 including the Traffic Monsoon PayPal account. The court appointed a receiver to preserve the
25 remaining assets of Traffic Monsoon and the assets of Scoville.

26 156. Thereafter, Traffic Monsoon was shut down.

27 157. Plaintiffs and the proposed Class have lost millions of dollars in investments in
28 Traffic Monsoon.

1 **11. The Perfect Storm: Chaos Within PayPal in Handling Traffic Monsoon's**
2 **Fraud.**

3 158. While PayPal prides itself on, and advertises, its anti-fraud detection systems, its
4 internal controls were lacking at best, and nonexistent at worst, with regards to its oversight of
5 its Traffic Monsoon-related activities.

6 159. Further, the internal communications between various PayPal departments and
7 individuals charged with interacting with customers, overseeing customer accounts, and
8 detecting and preventing fraud or misconduct in the PayPal accounts either broke down or were
9 nonexistent.

10 160. Examples of such communication inadequacies between various PayPal
11 departments and individuals include:

12 A. One PayPal department allowed Scoville to operate a new pay-to-click
13 program through PayPal after another PayPal department banned him from
14 operating several other, substantially identical, pay-to-click programs, all of
15 which were associated with his name.

16 B. Certain PayPal agents and/or departments reviewed Scoville's Traffic
17 Monsoon website, which indicated Traffic Monsoon was not an investment, and
18 also the Traffic Monsoon file with PayPal, which indicated that Traffic Monsoon
19 was an investment. These agents and/or departments, however, failed to take
20 steps to either address this facial – and material – misrepresentation and/or bring
21 it to the attention of other PayPal departments.

22 C. One PayPal department reviewed Scoville's Traffic Monsoon account on
23 a regular basis, learned about the Ponzi/pyramid-like transactions in the account
24 and allowed it to continue to operate; while a different PayPal department
25 reviewing the account shut it down, ostensibly for experiencing a high
26 percentage of growth with a small percentage of chargebacks, which PayPal
27 understood to show a Ponzi scheme.

28 D. One PayPal agent and/or department praised Scoville for the growth in its

1 Traffic Monsoon account, while shortly thereafter another PayPal department
2 froze that same account.

3 E. Different PayPal agents and/or departments gave Traffic Monsoon
4 investors different information regarding the reason for the freeze. Specifically,
5 different PayPal agents and/or departments told some investors that PayPal froze
6 Traffic Monsoon’s account because Traffic Monsoon was a scam. Yet other
7 agents and/or departments told investors that PayPal froze Traffic Monsoon’s
8 account because Traffic Monsoon was a high-risk account with a high number of
9 chargebacks.

10 F. Different PayPal agents and/or departments gave Traffic Monsoon
11 investors different information regarding the investors’ ability to receive refunds
12 for their Traffic Monsoon investments. For example, PayPal told some investors
13 that they should wait 180-days to make a claim for a refund, while telling other
14 investors to contact their banks or credit card companies.

15 G. Different PayPal agents and/or departments treated differently the refund
16 requests made by Traffic Monsoon investors, and refunded money to some
17 investors while declining to do the same for other investors.

18 H. One PayPal department purported to implement a freeze of Scoville’s
19 Traffic Monsoon account through August 2016, while another PayPal
20 department lifted the freeze on that same account on July 11, 2016, almost one
21 full month before it was scheduled to expire. As a result, Scoville was able to
22 withdraw more than \$23 million from the account.

23 I. While one PayPal department sought to implement a freeze of Scoville’s
24 Traffic Monsoon account purportedly for fraud, a different department allowed
25 Scoville to withdraw money from that account in increments of \$100,000 per
26 withdrawal, with many such \$100,000 withdrawals *daily* for a period of 15 days.

27 161. Such flagrant inadequacies and/or breakdowns in PayPal’s internal controls and
28 communications between various PayPal agents and/or departments played a key role in

1 enabling the Traffic Monsoon scheme and help explain why PayPal allowed Traffic Monsoon to
2 continue to operate its fraud and pyramid/Ponzi scheme through PayPal’s account, with
3 knowledge of such fraud and pyramid/Ponzi scheme.

4 **CLASS ACTION ALLEGATIONS**

5 162. This action is brought by Plaintiffs, for themselves and on behalf of all others
6 similarly situated, as a class action pursuant to Fed. R. Civ. P. 23(a) and (b)(3).

7 **Class Definition**

8 163. The proposed Class (the “Class”) is defined as follows:
9 All persons who invested in Traffic Monsoon by purchasing an AdPack by transferring
10 funds into Traffic Monsoon’s PayPal account between September 2014 and February 11,
11 2016, who have not received a refund of their funds invested in Traffic Monsoon from
12 PayPal and who resided outside of the United States at the time of their investment in
13 Traffic Monsoon.

14 164. Excluded from the class are (1) Defendants; (2) any person, firm, trust,
15 corporation, or other entity related to or affiliated with Defendants; and (3) any judge or judicial
16 officer who may hear any aspect of this case and his or her law clerks.

17 **Numerosity**

18 165. The members of the Class are so numerous and geographically dispersed that
19 joinder of all members is impracticable. While the exact number of Class members remains
20 unknown at this time, it is estimated that the Class includes in excess of 100,000 individuals
21 who reside in multiple countries. The exact number of the Class members is within the
22 knowledge of Defendant and/or the Court-appointed Receiver in the SEC Action.

23 **Commonality**

24 166. There are common questions of law and fact in this class action that relate to and
25 affect the rights of each member of the Class, including, *inter alia*:

- 26 A. Whether Traffic Monsoon sold securities;
- 27 B. Whether the Traffic Monsoon securities were unregistered and not
28 exempt from registration;

- 1 C. Whether Traffic Monsoon orchestrated a public securities offering;
- 2 D. Whether Traffic Monsoon and Scoville defrauded the investors,
- 3 E. Whether Traffic Monsoon and Scoville misused (converted) their
- 4 investors' money;
- 5 F. Whether Traffic Monsoon and Scoville owed fiduciary duties to investors
- 6 and breached such duties;
- 7 G. Whether Traffic Monsoon was a Ponzi/pyramid scheme;
- 8 H. Whether PayPal owed duties to Plaintiffs and the members of the Class;
- 9 I. Whether Traffic Monsoon was a fiduciary as to Plaintiffs and the Class
- 10 members' money held in PayPal Account 7752;
- 11 J. Whether PayPal breached duties owed to Plaintiffs and the Class by
- 12 failing to conform its conduct to the requirements of the law, applicable
- 13 regulations and PayPal's Acceptable Use Policy;
- 14 K. Whether PayPal knew that Traffic Monsoon and its organizer were
- 15 misusing and commingling investor money and/or using such money for Ponzi
- 16 scheme payments;
- 17 L. Whether PayPal knowingly provided substantial assistance to Traffic
- 18 Monsoon and its organizer's fraud and breach of fiduciary duties;
- 19 M. Whether PayPal failed to use reasonable care as a money transmitter and
- 20 as a depository of Traffic Monsoon's account that held Plaintiffs and the
- 21 proposed Class members' funds;
- 22 N. Whether PayPal was negligent in its oversight of the Traffic Monsoon
- 23 PayPal account;
- 24 O. Whether PayPal was grossly negligent in its oversight of the Traffic
- 25 Monsoon PayPal account;
- 26 P. Whether PayPal's misconduct entitles Plaintiffs and members of the
- 27 Class to damages for the loss of the amounts invested by Plaintiffs and members
- 28 of the Class;

1 Q. What remedies are appropriate compensation for the damages caused to
2 Plaintiffs and each member of the Class; and

3 R. Whether the Plaintiffs and members of the Class are entitled to a
4 reasonable award of attorneys’ fees, interest and costs of suit.

5 **Typicality**

6 167. The claims of Plaintiffs are typical of all Class members. The claims of Plaintiffs
7 are based on the same fundamental factual allegations and legal theories as the claims of all
8 other members of the Class. Plaintiffs is situated identically to all members of the Class with
9 respect to issues presented in this case, as Plaintiffs and all members of the Class were investors
10 in Traffic Monsoon and suffered the exact same type of loss (in proportion to their investment).

11 168. All Class members have been adversely affected by the wrongdoing of the
12 Defendant described herein.

13 **Adequacy of Representation**

14 169. Plaintiffs will adequately represent and protect the interests of the Class and have
15 no interests that conflict with or are antagonistic to the interests of the Class.

16 170. Plaintiffs have retained attorneys who are experienced in, and capable of
17 prosecuting, complex class actions such as this case. The attorneys for Plaintiffs and the Class
18 will actively conduct and be responsible for the prosecution of this litigation and the expenses
19 thereof. The attorneys for Plaintiffs have adequate resources, experience and commitment to
20 litigate this matter.

21 **Predominance and Superiority**

22 171. A class action is superior to any other method available for the fair and efficient
23 adjudication of this controversy because it would be impractical and undesirable for each of the
24 individual Class members who have suffered damages to bring separate actions. Some investors
25 invested amounts in Traffic Monsoon that would make it impracticable for them to litigate
26 individualized securities fraud cases concerning this matter. Moreover, the common issues
27 identified above predominate over individual issues, if any, particular to each class member.
28 The Traffic Monsoon Scheme made uniform misrepresentations and was responsible for

1 uniform omissions with respect to each member of the Class, and each member of the Class was
2 injured in exact proportion to the amount of their net investment in Traffic Monsoon.

3 **COUNT ONE**

4 **AIDING AND ABETTING FRAUD**

5 172. Plaintiffs and the proposed Class repeat and re-allege each of the allegations set
6 forth above.

7 173. As set forth herein, Traffic Monsoon and Scoville knowingly defrauded investors
8 because Traffic Monsoon was a Ponzi/pyramid scheme. On its website, Traffic Monsoon,
9 through Scoville, also knowingly misrepresented to AdPack investors that they were purchasing
10 advertising services with the opportunity to share in revenues that Traffic Monsoon received
11 from its advertising business, that their purchases were not investments and that Traffic
12 Monsoon was not a Ponzi/pyramid scheme, and omitted to disclose to AdPack investors that
13 they were purchasing investments, that he was paying existing Traffic Monsoon investors with
14 new Traffic Monsoon investor money, and that Traffic Monsoon was a Ponzi/pyramid scheme.
15 Scoville also omitted to disclose to investors that he had been banned before by PayPal for
16 orchestrating other pay-to-click schemes.

17 174. Plaintiffs and the proposed Class were unaware, when they invested, of the falsity
18 of Traffic Monsoon and Scoville's representations and their omissions, and that Traffic
19 Monsoon was operating a Ponzi/pyramid scheme.

20 175. Traffic Monsoon and Scoville's misrepresentations and omissions were material
21 to Plaintiffs and members of the proposed Class's decision to purchase AdPacks from Traffic
22 Monsoon.

23 176. Traffic Monsoon and Scoville intended Plaintiffs and the Class to rely on these
24 misrepresentations and omissions.

25 177. Plaintiffs and members of the proposed Class relied to their detriment on Traffic
26 Monsoon and Scoville's misrepresentations and omissions when purchasing AdPacks.

27 178. Plaintiffs and members of the proposed Class were injured by Traffic Monsoon's
28 Ponzi/pyramid scheme, misrepresentations and omissions when their funds were misused by

1 Traffic Monsoon and Scoville and used to make Ponzi/pyramid scheme payments to other
2 investors.

3 179. As set forth above, PayPal had actual knowledge of Traffic Monsoon and
4 Scoville's fraud and misrepresentations and omissions. Its actual knowledge included the
5 following facts, among others:

6 A. PayPal was aware that Traffic Monsoon was misrepresenting to investors
7 that it sold advertising services - not investments - and that Traffic Monsoon
8 failed to disclose that the AdPack arrangements were investments, because
9 PayPal reviewed Traffic Monsoon's website and information provided by
10 Scoville when Scoville applied for a merchant account for Traffic Monsoon. To
11 apply for a merchant account, Scoville provided PayPal with personal identifying
12 information, including his social security number and told PayPal that Traffic
13 Monsoon's business was selling investments. From its account verification
14 process, PayPal learned that Scoville was the user associated with PayPal
15 Account 7752 and thus was aware that PayPal had previously banned Scoville
16 from using its services following allegations that his prior pay-to-click
17 businesses, which also purportedly sold advertising businesses with revenue
18 sharing were Ponzi/pyramid schemes. PayPal also reviewed Traffic Monsoon's
19 website and learned that Traffic Monsoon would hold investors' money in its
20 PayPal account, Traffic Monsoon was a pay-to-click scheme that was
21 substantially similar to the pay-to-click businesses run by Scoville that PayPal
22 had banned previously following allegations that those businesses were
23 Ponzi/pyramid schemes, Traffic Monsoon was falsely representing to investors
24 the nature of its services as selling advertising services, not investments; and
25 Traffic Monsoon was a Ponzi/pyramid scheme.

26 B. PayPal also became aware that Traffic Monsoon was operating a
27 Ponzi/pyramid scheme and that Traffic Monsoon was commingling investor
28 money and paying existing investors with new investors' money, in obvious

1 Ponzi/pyramid scheme fashion. PayPal became aware of this scheme and these
2 payments as a result of the following:

- 3 i. its review of Traffic Monsoon’s website and account verification
4 process as detailed in (A);
- 5 ii. its ongoing monitoring of Traffic Monsoon’s account, which
6 PayPal itself acknowledged when it told Traffic Monsoon that it
7 was one of its best performing accounts, which showed, among
8 other things, Ponzi scheme payments from Account 7752 and
9 Traffic Monsoon’s exponential growth resulting from the
10 Ponzi/pyramid scheme;
- 11 iii. its fraud monitoring systems, and
- 12 iv. the AML and KYC procedures required by federal law.

13 C. PayPal told some investors who contacted PayPal that Traffic Monsoon
14 was a fraudulent scam.

15 180. PayPal knowingly provided substantial assistance to Traffic Monsoon and
16 Scoville’s fraud and misrepresentations. Without this substantial assistance, Traffic Monsoon
17 and Scoville would not have been able to carry out their scheme. The substantial—vital—
18 assistance included the following:

- 19 A. PayPal knowingly allowed the Traffic Monsoon pyramid scheme to use
20 its services in a highly atypical manner:
 - 21 i. PayPal allowed Scoville to open an account for Traffic Monsoon
22 and use its services to operate a Ponzi/pyramid scheme, even
23 though PayPal had previously banned similar pay-to-click
24 businesses that Scoville operated from using its services
25 following allegations that those businesses were a fraudulent
26 scheme.
 - 27 ii. PayPal also allowed Scoville to open an account for Traffic
28 Monsoon and use its services to operate a Ponzi/pyramid scheme,

1 even though PayPal was aware that Traffic Monsoon was
2 misrepresenting to investors that Traffic Monsoon was not selling
3 investments.

4 iii. PayPal allowed Traffic Monsoon to use its services to support a
5 Ponzi/pyramid scheme, which is a violation of PayPal’s acceptable
6 use policy.

7 iv. PayPal allowed Traffic Monsoon to use PayPal Account 7752 to
8 hold millions of dollars of investors’ funds, month after month
9 after month. This activity was a radical departure from PayPal’s
10 business as a payment processor.

11 B. PayPal cloaked the Traffic Monsoon’s Ponzi/pyramid scheme with a false
12 air of legitimacy that assisted Traffic Monsoon’s ability to deceive investors,
13 including Plaintiffs and the proposed Class, into purchasing AdPack investments.
14 PayPal created this false sense of security, among other methods, by representing
15 that PayPal monitors users’ accounts for fraud and prohibits “transactions that
16 support . . . Ponzi schemes” while knowingly allowing Traffic Monsoon to
17 operate a Ponzi/pyramid scheme using PayPal’s services. PayPal also knowingly
18 allowed Traffic Monsoon to display its name on Traffic Monsoon’s website and
19 use an email address, “paypal@trafficmonsoon.com,” information that PayPal
20 learned during its account verification process.

21 C. In January 2016, PayPal suspended withdrawals from Traffic Monsoon’s
22 PayPal Account 7752, but did not suspend deposits into PayPal Account 7752.
23 As a result, PayPal assisted the continuance of the Traffic Monsoon Ponzi
24 scheme by allowing investors to continue to purchase AdPacks.

25 D. After PayPal suspended withdrawals from Traffic Monsoon’s PayPal
26 Account 7752 because Traffic Monsoon was a pyramid/Ponzi scheme, PayPal
27 failed to notify Plaintiffs and the proposed Class about Traffic Monsoon and
28 Scoville’s operation of the Ponzi/pyramid scheme thereby allowing Traffic

1 Monsoon to continue the Ponzi/pyramid scheme and hindering Plaintiffs and the
2 proposed Class members' ability to seek chargebacks and/or refunds for
3 payments made to Traffic Monsoon.

4 E. Without providing notice to Plaintiffs and the proposed Class, PayPal
5 prematurely lifted the freeze on Traffic Monsoon's PayPal Account 7752 thereby
6 allowing Scoville to withdraw and misappropriate funds from PayPal Account
7 7752.

8 181. PayPal's actions described above proximately caused Plaintiffs and the proposed
9 Class to lose money by investing in the Traffic Monsoon Ponzi/pyramid scheme.

10 182. PayPal received substantial and highly atypical compensation for its services
11 provided to Traffic Monsoon in connection with its PayPal Account 7752. This compensation
12 includes, in addition to transfer fees, PayPal's free use of millions and millions of dollars kept
13 by Traffic Monsoon in its PayPal account with no interests, for nearly a year and a half.
14 Indeed, as of February 2016, the funds held in PayPal Account 7752 had a balance of over \$61
15 million.

16 183. This substantial and highly atypical compensation incited PayPal to assist
17 Traffic Monsoon's fraud.

18 184. PayPal's knowing substantial assistance to Traffic Monsoon and Scoville's fraud
19 and misrepresentations described above proximately caused Plaintiffs and the proposed Class
20 members' losses of their investments that resulting from the Traffic Monsoon Ponzi/pyramid
21 scheme.

22 185. As a direct and proximate consequence of PayPal's misconduct described above,
23 Plaintiffs and the proposed Class have lost over \$5 million invested in Traffic Monsoon.

24 **COUNT TWO**

25 **AIDING AND ABETTING BREACH OF FIDUCIARY DUTY**

26 186. Plaintiffs and the proposed Class members repeat and re-allege each of the
27 allegations set forth above.

28 187. By purchasing an AdPack and becoming a Traffic Monsoon member, Plaintiffs

1 and the proposed Class members placed trust and confidence in Traffic Monsoon and Scoville,
2 Traffic Monsoon's principal, driving force, and sole employee, to oversee their investments and
3 allocate and distribute their share of Traffic Monsoon's daily profit from the sale of its seven
4 advertising products. Plaintiffs and the proposed Class members relied on Traffic Monsoon and
5 Scoville to provide and make these returns, allocations and distributions. Traffic Monsoon and
6 Scoville, who had superior knowledge regarding Traffic Monsoon's operations and how
7 investor money was handled and used, knowingly accepted this trust and confidence from
8 Plaintiffs and proposed Class members.

9 188. Traffic Monsoon and Scoville also acted as Plaintiffs and the Class members'
10 agent and trustee of their investments and shares of revenue that were held in PayPal Account
11 7752. Traffic Monsoon required Plaintiffs and proposed Class members to leave their share of
12 revenue in Traffic Monsoon's possession, PayPal Account 7752, until their share of revenue
13 reached a certain threshold. Plaintiffs and the proposed Class members entrusted Traffic
14 Monsoon and Scoville to hold and safeguard their funds until eligible for withdrawal from
15 PayPal Account 7752 and until Plaintiffs and the proposed Class members requested withdrawal
16 of the funds.

17 189. Traffic Monsoon and Scoville owed Plaintiffs and the proposed Class members
18 fiduciary duties. These duties included using Plaintiffs and the proposed Class members'
19 investment money as promised and not converting it or using it for purposes other than those for
20 which that money had been entrusted to Traffic Monsoon and Scoville; managing the
21 distribution and allocation of Plaintiffs and the proposed Class members' revenue shares;
22 distributing these shares; and holding and safeguarding Plaintiff and the proposed Class
23 members' investments and shares of revenue until withdrawn from PayPal Account 7752.

24 190. As fiduciaries, Traffic Monsoon and Scoville owed Plaintiffs and the proposed
25 members of the Class a duty of care regarding the funds entrusted by Plaintiffs and the proposed
26 Class members to Traffic Monsoon and Scoville, which included the duty to safeguard and
27 properly use such funds; a duty of loyalty, which included the duty to avoid self-dealing and
28 using investor money for Traffic Monsoon's own purposes, i.e. to perpetrate its own pyramid

1 scheme; and a duty to disclose material information to Plaintiffs and the proposed Class
2 members' regarding their investments, such as the fact that Traffic Monsoon was perpetrating a
3 Ponzi/pyramid scheme and was going to use new investor money to continue such scheme.

4 191. Traffic Monsoon and Scoville breached their fiduciary duties by misdirecting,
5 misusing, and converting investor funds for their own benefit – to finance and continue to
6 operate their Ponzi/pyramid scheme, enrich themselves, and defraud their investors, as more
7 fully detailed above.

8 192. Traffic Monsoon and Scoville knowingly misrepresented to AdPack investors
9 that they were purchasing advertising services with the opportunity to share in revenues that
10 Traffic Monsoon received from its advertising business. Traffic Monsoon and Scoville never
11 disclosed to investors that their purchases of AdPacks were investments, that Traffic Monsoon
12 was a Ponzi/pyramid scheme, that Traffic Monsoon could not pay investors without additional
13 sales of AdPacks, that Traffic Monsoon could not deliver the promised number of visitors to the
14 AdPack investor's website, that 99% of the revenues of Traffic Monsoon came from its sales of
15 AdPacks and that Traffic Monsoon was supplementing the revenue sharing by including money
16 from Traffic Monsoon's reserve fund.

17 193. Traffic Monsoon and Scoville further breached fiduciary duties owed to
18 Plaintiffs and the proposed Class members by using Plaintiffs and the proposed Class members'
19 shares of revenue, which Traffic Monsoon held in trust in PayPal Account 7752, to pay other
20 Traffic Monsoon members' share of revenue (*i.e.* operating a Ponzi/pyramid scheme), by failing
21 to safeguard Plaintiffs and the proposed Class members' funds held in PayPal Account 7752
22 and by withdrawing these funds from PayPal Account 7752 without authorization.

23 194. Traffic Monsoon and Scoville also breached their fiduciary duties by failing to
24 disclose material information that Traffic Monsoon's sole organizer, Scoville, had a prior
25 history of defrauding investors through similar investment programs in pay-to-click websites,
26 perpetrated through PayPal.

27 195. PayPal was aware that Traffic Monsoon and Scoville were fiduciaries to the
28 investors. As set forth above, as part of the account verification process, PayPal was aware that

1 Traffic Monsoon held investor money in PayPal Account 7752, and Traffic Monsoon and
2 Scoville were receiving investor funds to manage and repay with a profit.

3 196. Through its review of Traffic Monsoon's website and account verification
4 process, its ongoing monitoring of Traffic Monsoon's account, which PayPal itself
5 acknowledged when it told Traffic Monsoon that it was one of its best performing accounts; its
6 fraud monitoring systems, and the AML and KYC procedures required by federal law, PayPal
7 knew that Traffic Monsoon and Scoville were breaching fiduciary duties owed to investor as
8 follows:

9 A. Traffic Monsoon and Scoville were commingling investor money in the
10 same Traffic Monsoon account, held by PayPal, of which the sole source of
11 funds in that account was investors' money, and misusing money from that
12 PayPal account to make Ponzi/pyramid scheme payments to earlier Traffic
13 Monsoon investors;

14 B. Traffic Monsoon and Scoville were misleading investors regarding the
15 nature of services provided by Traffic Monsoon as offering advertising services,
16 not investments;

17 C. Traffic Monsoon and Scoville were misusing investor money to pay
18 earlier investors and perpetuate their Ponzi/pyramid scheme;

19 D. Traffic Monsoon and Scoville were misleading their investors by assuring
20 them that Traffic Monsoon was not a Ponzi/pyramid scheme, by misrepresenting
21 to them how their money would be used, and by failing to disclose Scoville's
22 prior history of operating a Ponzi/pyramid scheme through a similar pay-to-click
23 business, that Traffic Monsoon was selling unregistered securities and that
24 Traffic Monsoon was orchestrating a fraudulent Ponzi/pyramid scheme.

25 197. PayPal knowingly provided substantial assistance to Traffic Monsoon's breach
26 of its fiduciary duties as set forth below:

27 A. PayPal allowed Traffic Monsoon to use its services in a highly a-typical
28 manner:

1 i. PayPal allowed Scoville to open an account for Traffic Monsoon
2 and use its services to operate a Ponzi/pyramid scheme even
3 though PayPal had previously banned similar pay-to-click
4 businesses that Scoville operated from using its services
5 following allegations that those businesses were a fraudulent
6 scheme.

7 ii. PayPal also allowed Scoville to open an account for Traffic
8 Monsoon and use its services to operate a Ponzi scheme even
9 though PayPal was aware that Traffic Monsoon was
10 misrepresenting to investors that Traffic Monsoon was not selling
11 investments.

12 iii. PayPal allowed Traffic Monsoon to use its services to support a
13 Ponzi/pyramid scheme, which is a violation of PayPal’s acceptable
14 use policy.

15 iv. PayPal allowed Traffic Monsoon to use PayPal Account 7752 to
16 hold millions of dollars of investors’ funds, month after month
17 after month. This activity was a radical departure from PayPal’s
18 business as a payment processor.

19 B. PayPal cloaked the Traffic Monsoon’s Ponzi/pyramid scheme with a false
20 air of legitimacy that assisted Traffic Monsoon’s ability to deceive investors,
21 including Plaintiffs and the proposed Class, into purchasing AdPacks. PayPal
22 created this false sense of security, among other methods, by representing that
23 PayPal monitors users’ accounts for fraud and prohibits “transactions that
24 support . . . Ponzi schemes” while knowingly allowing Traffic Monsoon to
25 operate a Ponzi/pyramid scheme using PayPal’s services. PayPal knowingly
26 allowed Traffic Monsoon to display its name on Traffic Monsoon’s website and
27 use an email address, “paypal@trafficmonsoon.com,” information that PayPal
28 learned during its account verification process.

1 C. In January 2016, PayPal suspended withdrawals from Traffic Monsoon's
2 PayPal Account 7752, but did not suspend deposits into PayPal Account 7752.
3 As a result, PayPal assisted the continuance of the Traffic Monsoon
4 Ponzi/pyramid scheme by allowing investors to continue to purchase AdPacks.

5 D. After PayPal suspended withdrawals from Traffic Monsoon's PayPal
6 Account 7752 because Traffic Monsoon was a pyramid/Ponzi scheme, PayPal
7 failed to notify Plaintiffs and the proposed Class about Traffic Monsoon and
8 Scoville's operation of the Ponzi/pyramid scheme thereby allowing Traffic
9 Monsoon to continue the Ponzi/pyramid scheme and hindering Plaintiffs and the
10 proposed Class members' ability to seek chargebacks and/or refunds for
11 payments made to Traffic Monsoon.

12 E. Without providing notice to Plaintiffs and the proposed Class, PayPal
13 prematurely lifted the freeze on Traffic Monsoon's PayPal Account 7752 thereby
14 allowing Scoville to withdraw and misappropriate funds from PayPal Account
15 7752.

16 198. PayPal's actions described above proximately caused Plaintiffs and the proposed
17 Class members to lose money by purchasing AdPack investments in the Traffic Monsoon Ponzi
18 scheme.

19 199. PayPal received substantial and highly atypical compensation for its transfer of
20 money to and from Traffic Monsoon's PayPal Account 7752. This compensation includes, in
21 addition to transfer fees, PayPal's free use of millions and millions of dollars kept by Traffic
22 Monsoon in its PayPal account with no interests, for nearly a year and a half. Indeed, as of
23 February 2016, the funds held in PayPal Account 7752 had a balance of over \$61 million.

24 200. This substantial and highly atypical compensation incited PayPal to turn a blind
25 eye and continue to assist Traffic Monsoon's breach of fiduciary duty.

26 201. By virtue of its knowing, substantial and material assistance to the Traffic
27 Monsoon Scheme, PayPal was aware of its role in the Traffic Monsoon's breach of fiduciary
28 duty and it acted knowingly in assisting the Traffic Monsoon Scheme.

1 A. PayPal transferred Plaintiffs and the proposed Class members' funds to
2 Traffic Monsoon when, as described above, PayPal was aware, or in the
3 alternative should have known, that Traffic Monsoon was operating a
4 Ponzi/pyramid scheme and misrepresenting to Plaintiffs and the proposed Class
5 members' that they were purchasing advertising services, not purchasing
6 investments, and that Traffic Monsoon was not a Ponzi/pyramid scheme.

7 B. PayPal failed to adhere to internal protocols and PayPal's Acceptable Use
8 Policy by allowing Traffic Monsoon's organizer, Scoville, to open PayPal
9 Account 7752 even though PayPal had previously banned similar pay-to-click
10 businesses that Scoville operated from using its services following allegations
11 that these businesses were a fraudulent scheme.

12 C. As described above, PayPal provided knowing assistance to further
13 Traffic Monsoon and Scoville's fraud and misrepresentations by allowing Traffic
14 Monsoon and Scoville to use its services in an atypical and extraordinary
15 manner.

16 209. PayPal's conduct showed want of even scant care and/or was an extreme
17 departure from the ordinary standard of care, because, 1) PayPal was aware that Scoville was
18 alleged previously to have operated a Ponzi/pyramid scheme using similar pay-to-click
19 businesses and had banned Scoville from using its services for these businesses; 2) PayPal was
20 familiar with other allegations concerning frauds related to pay-to-click businesses and has
21 banned other such businesses from using its services; 3) PayPal was aware that Traffic
22 Monsoon and Scoville were misleading investors regarding the nature of the business, i.e. that
23 Traffic Monsoon sold advertising services, not investments; 4) PayPal was aware that Traffic
24 Monsoon was making Ponzi/pyramid scheme payments to investors using PayPal Account 7752
25 and continuing to attract new investors to pay earlier investors in Ponzi scheme fashion; 5)
26 PayPal failed to stop Traffic Monsoon and Scoville from attracting new investors to the scheme
27 even after prohibiting investors from making withdrawals from PayPal Account 7752; and 6)
28 PayPal prematurely lifted the freeze that it placed on PayPal Account 7752, i.e. PayPal had

1 inept, inexistence internal controls.

2 210. PayPal's breach of its duty as described above and through this Complaint,
3 directly and proximately caused Plaintiffs and the proposed Class members' loss of their
4 investment in Traffic Monsoon.

5 211. As a result of PayPal's gross negligence, Plaintiffs and the proposed Class
6 members have suffered damages of over \$5 million.

7 **COUNT FOUR**

8 **NEGLIGENCE**

9 212. Plaintiffs and the proposed members of the Class repeat and re-allege each of the
10 allegations set forth above.

11 213. Plaintiffs and the proposed members of the Class repeat and re-allege each of the
12 allegations set forth above.

13 214. Traffic Monsoon held investors' funds in PayPal Account 7752.

14 215. PayPal knew that 1) Traffic Monsoon held investors' funds in Account 7752; 2)
15 Traffic Monsoon misappropriated/ misused investors' money; 3) Traffic Monsoon had made
16 false representations to those investors regarding those funds and operated a Ponzi/pyramid
17 scheme using the investors' funds; and 4) Traffic Monsoon was seeking and getting new
18 investor money, i.e. victimizing new investors, to pay earlier investors and continue to
19 orchestrate the fraudulent scheme. Thus, it was foreseeable to PayPal that Traffic Monsoon
20 would continue to use PayPal's infrastructure to victimize even more investors.

21 216. As a result of PayPal's knowledge of the fraud, the foreseeability of the harm to
22 the investors and PayPal's knowledge that Traffic Monsoon was using its infrastructure to
23 victimize investors, PayPal owed certain common law duties to Traffic Monsoon's investors,
24 PayPal owed certain common law duties to Traffic Monsoon's investors. PayPal owed
25 Plaintiffs and the proposed Class members a duty to use reasonable care as a money transmitter
26 and as a depository of Traffic Monsoon's account that held fiduciary funds on behalf of
27 Plaintiffs and the proposed Class members.

28 217. PayPal breached these duties as follows:

1 A. PayPal transferred Plaintiffs and the proposed Class members’ funds to
2 Traffic Monsoon when as described above, PayPal was aware, or in the
3 alternative should have known, that Traffic Monsoon was operating a
4 Ponzi/pyramid scheme and misrepresenting to Plaintiffs and the proposed Class
5 members’ that they were purchasing advertising services, not purchasing
6 investments, and that Traffic Monsoon was not a Ponzi/pyramid scheme.

7 B. PayPal failed to adhere to internal protocols and PayPal’s Acceptable Use
8 Policy by allowing Traffic Monsoon’s organizer, Scoville, to open PayPal
9 Account 7752 even though PayPal had previously banned similar pay-to-click
10 businesses that Scoville operated from using its services following allegations
11 that these businesses were a fraudulent scheme.

12 C. As described above, PayPal providing knowing assistance to further
13 Traffic Monsoon and Scoville’s fraud and misrepresentations by allowing Traffic
14 Monsoon and Scoville to use its services in an a-typical and extraordinary
15 manner.

16 218. PayPal’s breach of its duty as described above and through this Complaint,
17 directly and proximately caused Plaintiffs and the proposed Class members’ loss of their
18 investment in Traffic Monsoon.

19 219. As a result of PayPal’s negligence, Plaintiffs and the proposed Class members
20 have suffered damages of over \$5 million.

21 **COUNT FIVE**

22 **VIOLATION OF CALIFORNIA CORPORATIONS CODE § 25504.1**

23 220. Plaintiffs and the proposed members of the Class repeat and re-allege each of the
24 allegations set forth above.

25 221. As set forth above, the investments in Traffic Monsoon were investment
26 contracts and thus “securities” within the meaning of Section 25019 of California’s Corporate
27 Securities Law of 1968.

28 222. The Traffic Monsoon securities were sold in the state of California under

1 California Corporations Code § 25008 because offers to buy the AdPacks were accepted by
2 Traffic Monsoon in California. Offers to sell the Adpacks also originated in California since the
3 servers were located in California.

4 223. Pursuant to California Corporations Code § 25401, “[i]t is unlawful for any person
5 to offer or sell a security in this state . . . by means of any written or oral communication which
6 includes an untrue statement of a material fact or omits to state a material fact necessary in order to
7 make the statements made, in light of the circumstances under which they were made, not
8 misleading.”

9 224. As set forth above, the Traffic Monsoon securities were offered and sold to
10 Plaintiffs and the members of the Class through untrue statements of material facts as well as
11 omissions of material facts in violation of California Code § 25401.

12 225. Such misrepresented and omitted facts are “material” within the meaning of
13 California Corporations Code § 25401 because they were facts a reasonable investor would
14 consider in deciding whether to invest.

15 226. As set forth above, PayPal had actual knowledge of such misrepresentations and
16 omissions made by Traffic Monsoon. PayPal was aware of the true facts that Traffic Monsoon
17 was selling investments, Traffic Monsoon was operating a Ponzi scheme and Scoville, the
18 organizer of Traffic Monsoon, had a history of defrauding investors through similar investment
19 programs.

20 227. PayPal is liable for misrepresentations and omissions made in connection with
21 the offer and sale of Traffic Monsoon securities under California Corporations Code 25504.1,
22 because PayPal materially aided, with intent to deceive or defraud, in the acts or transactions
23 constituting violations of § 25504 for the reasons set forth in the preceding paragraphs.

24 228. The aid that PayPal provided to the Traffic Monsoon was material – indeed,
25 crucial - because PayPal facilitated the purchase of the securities.

26 229. Plaintiffs and members of the Class suffered financial losses because of PayPal’s
27 misconduct.

28 230. Pursuant to California Corporations Code § 25501, Plaintiffs and the members of

1 the class are entitled to damages as set forth in the Code.

2 **PRAYER FOR RELIEF**

3 WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

- 4 (a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of
- 5 Civil Procedure;
- 6 (b) Awarding compensatory damages in favor of Plaintiffs and the proposed Class members for
- 7 all damages sustained as a result of Defendants’ wrongdoing in an amount to be proven at trial,
- 8 including interest thereon;
- 9 (c) Awarding restitution in favor of Plaintiffs and the proposed Class members in the form of
- 10 disgorging the profits and interest that Defendants earned and received as result of their
- 11 wrongdoing alleged herein;
- 12 (d) Awarding Plaintiffs and the proposed Class members reasonable costs and expenses
- 13 incurred in this action, including counsel fees and expert fees; and
- 14 (e) Such other and further relief as the Court may deem just and proper.

15
16 Dated: May 4, 2017

Respectfully Submitted,

17 /s/ Adam Wolf

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Counsel for Plaintiffs and the proposed Class

DEMAND FOR JURY TRIAL

Plaintiffs and the Class hereby demand a trial by jury.

Dated: May 4, 2017

Respectfully Submitted,

/s./ Adam Wolf
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