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May 19, 2021

VIA CERTIFIED MAIL

PayPal, Inc.
Attn: Litigation Department
2211 North First Street
San Jose, CA 95131

PayPal, Inc.
Attn: Legal Specialists, Re: Notice of Dispute
P.O. Box 45950
Omaha, NE 68145-0950

Re: YOUR AMERICAN FLAG STORE (MERCHANT ACCOUNT ID: 63MED2Z8HPYLG) RE: DEMAND TO IMMEDIATELY RELEASE REMAINING “WITHELD RESERVE FUNDS” AND NOTICE OF DISPUTE FOR AAA ARBITRATION.

Dear PayPal Litigation Department:

This law firm represents Your American Flag Store—a small business owned and operated by James and Ginger Staake. (<https://www.youramericanflagstore.com>). Ever since Your American Flag Store’s launch in February 2018, Mr. and Mrs. Staake have worked hard to develop and expand their company’s wooden flag-making business. As the business continued to grow, Your American Flag Store turned to PayPal to seamlessly handle all of its customers’ credit card transactions—as PayPal promises its business customers it will do. Your American Flag Store has been a customer of PayPal’s since March 3, 2020¹. Over the course of its relationship with PayPal, Your American Flag Store has relied on the promised continuity of PayPal’s payment system with respect to the processing of its customers’ payments. But PayPal’s promises have been hollow, and PayPal is now destroying this small American business by interfering with its customer contracts and converting customer payments for its own purposes.

¹ Your American Flag Store’s PayPal “merchant account identification number” is: 63MED2Z8HPYLG.

On February 1, 2021, Your American Flag Store’s principal—Mr. Staake—was interviewed on Newsmax, a national cable news network, concerning his business. Mr. Staake commented about how “Big Tech” was harming his business. He reported how Facebook rescinded his company’s “advertising privileges” while Shopify de-listed and deleted several of Mr. Staake’s American flag designs from his company’s website for purported “violation(s) of Community Standards.”

As a result of the Newsmax interview, Mr. Staake’s business experienced a large influx of business orders over the next few days. A careful review of the PayPal invoice for the month of February shows that the first 109 sales for a total amount of \$21,453.73 were processed by PayPal with no “general holds” placed on the funds. However, the 110th transaction in the amount of \$1,343.52 resulted in a “general hold” being placed on each new transaction within Mr. Staake’s PayPal account.

On the morning of February 2, 2021, the Staakes started the process of purchasing the supplies needed to fulfill the surge of orders (220 new orders as of Tuesday morning). They often use their PayPal debit card to purchase the materials to build their custom wooden American flags. The first two uses of the PayPal debit card went through with no problem; however, on the third transaction of the day, the vendor informed them that the transaction was declined. A direct result of PayPal’s hold on the funds in their account was that Your American Flag Store was in a position where it could not purchase the materials it needed to fulfill the new customer orders.

On February 2nd or 3rd, Mr. and Mrs. Staake contacted PayPal to inquire how long the hold would remain on the business account. Mr. Staake ended up speaking with a PayPal employee claiming to be a supervisor named “Scotty”. Scotty was argumentative and hostile toward both Mr. Staake and his wife. Scotty said that he “was putting a hold” on the account to protect consumers from Your American Flag Store.

Throughout the conversation, Scotty also informed Mr. Staake that he had a “shady business model” and proceeded to lecture him on how he should run his business. When pressed as to how the business was “shady,” Scotty alluded to the fact that the business was selling “questionable products”. During the conversation, Scotty mocked Mr. Staake’s predicament caused by PayPal’s conduct. Scotty informed Mr. Staake that there was nothing that could be done, that there was a 180-day hold on the funds, and that there was no one further in the company he could talk to since Scotty was the final decisionmaker.

About an hour later, Mr. Staake contacted PayPal again and spoke with a different customer support representative. This person informed him that there is no reason why an absolute hold should have been placed on his company’s account, and

that this needed to be handled by the back office. This representative informed Mr. Staake that he was sending the problem “up the chain of command”.

On or about February 4, 2021, PayPal contacted Mr. Staake by telephone and notified him of its decision. The PayPal representative informed him that it was going to release \$19,030.56 for the company’s immediate use. PayPal told Mr. Staake that it would be monitoring his company’s spending to ensure that the funds were properly spent (on business expenses). PayPal also said that the remaining funds would be eligible for review in 180 days.

During the February 4 conversation, Mr. Staake informed PayPal that the \$19,030.56 was sufficient for production costs, but not enough to ship all the products ordered. This is exactly what happened. Over the last two months, Your American Flag Store has shipped 126 of the orders, and now has another 62 waiting to ship. However, because of PayPal’s arbitrary “reserve hold” on its funds, Your American Flag Store does not have the financial resources to ship the remaining products ordered by its customers as a result of the February 1st order surge.

On May 13, 2021, Mr. Staake contacted PayPal and inquired as to whether it would release more funds so that his company could ship more finished products. He was informed that PayPal would not even consider releasing more funds until August 3, 2021. In fact, he was informed that if he had not shipped all the custom wooden flags to customers by August 3, 2021, PayPal would not be releasing any more funds. In other words, after promising to seamlessly process payments for its customers, PayPal held onto funds belonging to Your American Flag Store and demanded that the company and/or its owner, go into debt in order to ship the very same customer orders PayPal had promised to seamlessly fulfill.

PayPal never explained orally or in writing how Your American Flag Store violated the User Agreement, resulting in a hold being placed on the company’s funds. Furthermore, the freezing of Your American Flag Store’s funds runs directly counter to PayPal’s contractual provisions set forth in its User Agreement with our client. A careful review of the User Agreement shows that *none of its provisions* permitting PayPal to place a hold on a merchant account, are applicable in this case.

The pertinent part of the User Agreement titled “**Reserves placed on business PayPal accounts,**” contains the following language:

“We may place a reserve on your business PayPal account at any time if we believe there may be a **high level of risk** associated with you, your business PayPal account, your business model, or your transactions. When we place a reserve on your business PayPal account, it means that

all or some portion of the money in your business PayPal account is reserved as unavailable for withdrawal in order to protect against the risk of transactions made by you being reversed or invalidated or any other risk related to your business PayPal account or use of the PayPal services. We **make decisions about whether to place a reserve based on a number of factors**, including information available to us from both internal sources and from third parties. PayPal considers a list of non-exclusive factors and whether and how these factors have changed over time, including:

- How long you have been in business.
- Whether your industry has a higher likelihood of chargebacks.
- Your payment processing history with PayPal and other providers.
- Your business and/or personal credit history.
- Your delivery time frames.
- Whether you have higher than average number of returns, chargebacks, claims or disputes.” (Emphasis added).

There is absolutely no contractual justification whatsoever for PayPal to maintain, let alone to have initiated, the arbitrary “reserve hold” against Your American Flag Store’s in the first place.

First, Your American Flag Store has been in business for over three years, and has a history of catering to a loyal customer base.

Second, and unlike other industries that may be susceptible to claims of fraud and frequent chargebacks, handcrafted goods manufactured in America by a company such as Your American Flag Store, do not have a high likelihood of chargebacks. Furthermore, PayPal cannot show that there were any chargebacks at or near the time the “reserve hold” was placed on Your American Flag Store’s account. In fact, by willfully and wrongfully withholding Your American Flag Store’s funds, PayPal is placing immense financial strain on the company to timely fill made-to-order customer orders, which may create dissatisfaction amongst some customers that *could* result in potential chargebacks—the very outcome that PayPal purportedly seeks to protect itself against from its customers, such as Your American Flag Store, when it issues a “reserve hold” in the first place.

Third, PayPal has never indicated that Your American Flag Store’s credit history had ever dropped. Not only is there no evidence whatsoever to suggest that in February 2021, Your American Flag Store’s credit had dropped, but there is similarly no evidence that PayPal *had ever even made an accusation* that Your American Flag

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Store's credit had dropped. On the contrary, there is over a year's history of transactions between PayPal and Your American Flag Store in which the latter had never once maintained a negative balance. Your American Flag Store's good business credit history is evidenced by all of its monthly statements with PayPal.

Fourth, Your American Flag Store's delivery timeframes to its customers vary based upon the flag that the customer ordered, as each flag is "made to order". As a result of PayPal's wrongful withholding of Your American Flag Store's funds, PayPal has knowingly, intentionally, and directly interfered with the delivery process by making it extremely difficult for Your American Flag Store to ship the completed products.

Finally, and as further evidenced by Your American Flag Store's PayPal Statement History, prior to PayPal's wrongful interference, the company neither has, nor has ever had, a "higher than average number of returns, chargebacks, claims or disputes." In fact, as a direct result of the "Reserve Hold" placed on its account, Your American Flag Store could not timely purchase the supplies that it needed to fulfill its customers' orders. This resulted in more than one customer asking to have their purchases refunded by Your American Flag Store as they had made the purchase as a special occasion gift. PayPal was uniquely positioned to know about these orders, as it processed the advance payments, and then sat on the company's funds knowing that the company needed those funds to fulfill custom orders.

Given the lack of basis for PayPal's misconduct with respect to the unlawful retention of Your American Flag Store's funds, we hereby demand that PayPal promptly release its "reserve hold" on the remainder of Your American Flag Store's funds. There is no dispute that Your American Flag Store has suffered great hardship over the last three months based on PayPal's breach of its User Agreement with Your American Flag Store, PayPal's conversion of Your American Flag Store's funds, PayPal's tortious interference with Your American Flag Store's business and contractual relations (for which punitive damages are available), PayPal's wrongful interference with Your American Flag Store's prospective economic advantage, and PayPal's unfair business practices, including but not limited to, PayPal's misrepresentations to its business and consumer customers.

Given the current dispute between the parties created by PayPal's refusal to immediately release its "reserve hold" on Your American Flag Store's funds, please consider this letter and the accompanying "Notice of Dispute" pursuant to PayPal's "Agreement to Arbitrate" as notice of Your American Flag Store's intent to initiate arbitration in the immediate future with proceedings through AAA. Please be advised that Your American Flag Store will seek all legal remedies and pursue all available damages to it as a result of PayPal's outrageous, unjustified and tortious conduct in

violation of all applicable law. This notice is without prejudice to any other rights our client may have in law and equity to recover its funds and seek recourse for PayPal's misconduct.

Given that litigation is imminent in this matter, PayPal is on notice to preserve all documents and data pertaining to its relationship with our client, any interactions with our client's customers relating to our client, any correspondence with third parties concerning our client, and any other information that may be relevant or discoverable in this dispute, to the fullest extent required by law. The destruction of such evidence may have serious consequences in a legal proceeding, including evidence spoliation and case-terminating sanctions.

We appreciate your prompt attention to this matter, and we look forward to your cooperation and agreement to immediately release Your American Flag Store's funds that have been frozen wrongfully by PayPal since February 2021. Accordingly, we request that you respond to our office no later than close of business on Wednesday, May 26, 2021, as **time is of the essence**. Your American Flag Store is ready, willing and able to ship approximately 62 of its customers' orders, but it must have these wrongfully-withheld funds released by PayPal before doing so.

Regards,



Harmeet K. Dhillon

cc: Mark Meuser, Esq. (mmeuser@dhillonlaw.com)