

1 KEVIN D. GAMARNIK (273445)
2 *kgamarnik@foleybezek.com*
3 FOLEY BEZEK BEHLE & CURTIS, LLP
4 575 Anton Boulevard, Suite 710
5 Costa Mesa, California 92626
6 Telephone: (714) 556-1700
7 Facsimile: (714) 546-5005

8 AARON L. ARNDT (290748)
9 *aarndt@foleybezek.com*
10 JORDAN A. LIEBMAN (317930)
11 *liebman@foleybezek.com*
12 FOLEY BEZEK BEHLE & CURTIS, LLP
13 15 West Carrillo Street
14 Santa Barbara, California 93101
15 Telephone: (805) 962-9495
16 Facsimile: (805) 962-0722

17 ATTORNEYS FOR PLAINTIFFS

18 **UNITED STATES DISTRICT COURT**
19 **CENTRAL DISTRICT OF CALIFORNIA**

20 TABITHA SPERRING, PAISLIE
21 MARCHANT, and SALLY
22 POSTON, individually and on behalf
23 of similarly situated persons,

24 Plaintiffs,

25 v.

26 LLR, INC., a Wyoming corporation;
27 LULAROE, LLC, a California
28 limited liability company; LENNON
LEASING, LLC, a Wyoming limited
liability company; MARK A.
STIDHAM, an individual; DEANNE
S. BRADY a/k/a DEANNE
STIDHAM, an individual; and DOES
1-30, inclusive,

Defendants.

Case No. 5:19-cv-433 AB (SHKx)

**CLASS ACTION FIRST
AMENDED COMPLAINT**

DEMAND FOR JURY TRIAL

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

CLASS ACTION COMPLAINT

Plaintiffs, Tabitha Sperring, Paislie Marchant, and Sally Poston (“Plaintiffs”) bring this Action against corporate defendants, LLR, Inc., LuLaRoe, LLC, and Lennon Leasing, LLC (collectively “Corporate Defendants” or “LuLaRoe”); individual defendants Mark A. Stidham and DeAnne S. Brady (a/k/a DeAnne Stidham) (collectively, “Individual Defendants”); and Does 1-30, inclusive. Corporate Defendants, Individual Defendants, and Does 1-30 are hereinafter collectively referred to as “Defendants.”

Introduction to the Case

1. LuLaRoe is an unlawful, fraudulent pyramid scheme which preys on stay-at-home mothers, promising them they can generate substantial income while still being able to spend time at home with their families. LuLaRoe recruits these mothers to become “consultants.” When joining, these recruited “consultants” believe that they will be able to sell LuLaRoe’s various clothing items to a retail market.

2. Since its inception in approximately 2013, the LuLaRoe pyramid scheme has generated billions of dollars in revenue, and at one point had approximately 80,000-100,000 consultants, all (including Plaintiffs defined below) who paid thousands of dollars for the initial opportunity to purchase from LuLaRoe clothing items for the purpose of selling such items.

3. However, from its inception to at least the middle of 2017, LuLaRoe’s consultants’ primary income was derived from their ability to recruit other participants into the LuLaRoe scheme, rather than the sales of products to ultimate users.

4. Defendants, at all times, had express knowledge that the LuLaRoe structure was an illegal pyramid scheme.

5. As explained by the Ninth Circuit in *Webster v. Omnitrition Int’l*, 79 F.3d 776, 781 (9th Cir. 1996):

1 Pyramid schemes are said to be inherently fraudulent because they
2 must eventually collapse. [Citation]. Like chain letters, pyramid
3 schemes may make money for those at the top of the chain or
4 pyramid, but “must end up disappointing those at the bottom who can
find no recruits.” [Citation].

5 6. That is precisely what happened to Plaintiffs here, as well as
6 thousands of other LuLaRoe consultants. Although putting in the effort, Plaintiffs,
7 like other LuLaRoe consultants, failed because they were doomed from the start by
8 the LuLaRoe plan that systematically rewarded recruiting consultants over retail
9 sales of the product. This was a plan where LuLaRoe paid a significant portion of
10 every dollar that Plaintiffs and other consultants paid for LuLaRoe products to
11 others in the form of bonuses, regardless of the consultant’s actual retail sales. This
12 was a plan where millions were paid to those few at the top (primarily Mark
13 Stidham and Deanne Brady), at the expense of the many at the bottom. LuLaRoe
14 was started by Mark Stidham and Deanne Brady (who essentially sit at the very
15 top of the pyramid) in order to enrich themselves through a calculated endless
16 chain scheme. Upon information and belief, Stidham and Brady have earned
17 hundreds of millions of dollars in profit for themselves on the backs of women
18 who were seeking a legitimate business opportunity where they could earn income
19 while spending more time with their families.

20 7. Moreover, in order to further induce the consultants, including
21 Plaintiffs, to continue purchasing substantial amounts of LuLaRoe inventory,
22 Defendants made material misrepresentations and omissions, including, but not
23 limited to, representing to consultants that as long as they “buy more” LuLaRoe
24 products, they will “sell more” LuLaRoe products, representing that there is
25 nothing to lose because LuLaRoe will honor a full 100% return policy (with free
26 shipping and handling), and omitting that the LuLaRoe quality of product is
27 declining and that the market is saturated, all while providing misleading income
28 statements and retailer maps. All of these representations and omissions were

1 untrue, deceptive, and/or misleading.

2 8. Consequently, all Defendants, through their contrivance, preparation,
3 set up, proposal, and operation of LuLaRoe have contrived, prepared, set up,
4 proposed, and operated an unlawful pyramid scheme in violation of the California
5 Penal Code § 327, which also forms the basis of a violation of the Unfair
6 Competition Law (Bus. & Prof. Code § 17200, *et seq.*) and the False Advertising
7 Law (Bus. & Prof. Code § 17500, *et seq.*).

8 9. LuLaRoe's unlawful, fraudulent, and unfair scheme has affected tens
9 of thousands of consultants all across the country and has been recognized by
10 governmental agencies as an illegal scheme. For example, on or about January 23,
11 2019, the Washington Attorney General filed suit against Defendants in King
12 County Superior Court, alleging that LuLaRoe is an unlawful pyramid scheme.

13 10. Additionally, Defendants, in violation of Civil Code § 1812.200, *et*
14 *seq.*, have operated an unlawful seller assisted marketing plan, which also
15 independently forms the basis of a violation of the Unfair Competition Law (Bus.
16 & Prof. Code § 17200, *et seq.*) and the False Advertising Law (Bus. & Prof. Code
17 § 17500, *et seq.*)

18 11. Moreover, given Defendants' further misrepresentations and
19 omissions, as well as breaches of contract, Plaintiffs are further bringing breach of
20 contract, California Corporations Code violation, and RICO claims against
21 Defendants.

22 **Parties**

23 12. Plaintiff Tabitha Sperring is and at all relevant times was a resident
24 of Butler, Pennsylvania. Sperring became a LuLaRoe Consultant in or around
25 December 2016. She continued purchasing LuLaRoe product until approximately
26 May 2018. Sperring is a net loser when considering how much she spent on the
27 wholesale purchase of LuLaRoe products and how much she earned from selling
28 those items to the retail market and/or bonuses earned from recruiting. Sperring

1 has suffered substantial losses as a LuLaRoe consultant, finding herself in
2 approximately \$16,000.00 in credit card debt as a result of the LuLaRoe scheme.
3 Sperring still has a substantial volume of inventory in her possession, for which
4 she paid approximately \$11,000. Sperring has suffered damages as a direct and
5 proximate result of Defendants' misconduct and breaches described herein.

6 13. Plaintiff Paislie Marchant was a resident of Greenville, South
7 Carolina while she worked as a Consultant. She currently resides in Spartanburg,
8 South Carolina. Marchant became a Consultant in or around December 2016. She
9 continued purchasing LuLaRoe product until approximately December 2017.
10 Marchant is a net loser when considering how much she spent on the wholesale
11 purchase of LuLaRoe products and how much she earned from selling those items
12 to the retail market and/or bonuses earned from recruiting. Marchant has suffered
13 substantial losses as a LuLaRoe consultant. Marchant currently has a substantial
14 volume of LuLaRoe inventory in her possession, for which she paid approximately
15 \$10,000. Marchant has suffered damages as a direct and proximate result of
16 Defendants' misconduct and breaches described herein.

17 14. Plaintiff Sally Poston is and at all relevant times was a resident of
18 Martinez, California. Poston became a LuLaRoe Consultant in or around February
19 2016. She continued purchasing LuLaRoe product until approximately October
20 2017. Poston is a net loser when considering how much she spent on the wholesale
21 purchase of LuLaRoe products and how much she earned from selling those items
22 to the retail market and/or bonuses earned from recruiting. Poston has lost
23 approximately \$22,000 as a result of the LuLaRoe scheme. Poston sold some of
24 the product at a loss and gave away the rest. As to the items that Poston gave away,
25 they had absolutely no market value, and were worthless. Poston has suffered
26 damages as a direct and proximate result of Defendants' misconduct and breaches
27 described herein.

28 15. Corporate Defendant LLR, Inc. is a Wyoming corporation with its

1 principal place of business at 1375 Sampson Avenue, Corona, CA 92879.

2 16. Corporate Defendant LuLaRoe, LLC, is a California limited liability
3 company with its principal place of business at 1375 Sampson Avenue, Corona,
4 CA 92879.

5 17. Corporate Defendant Lennon Leasing, LLC, is a Wyoming limited
6 liability company with its principal place of business at 1375 Sampson Avenue,
7 Corona, CA 92879.

8 18. Together, Corporate Defendants LLR, Inc., LuLaRoe, LLC, and
9 Lennon Leasing, LLC, comprise the LuLaRoe multi-level marketing (MLM)
10 apparel business (collectively “LuLaRoe”).

11 19. Corporate Defendants LLR, Inc., LuLaRoe, LLC, and Lennon
12 Leasing, LLC operated as a common enterprise while engaging in the deceptive
13 and unlawful practices alleged herein.

14 20. Because LuLaRoe operated as a common enterprise, each entity is
15 jointly and severally liable for the acts and practices alleged.

16 21. Individual Defendant Mark A. Stidham (“Stidham”) is a California
17 resident and co-founder of LuLaRoe. He serves as President and CEO of LLR,
18 Inc., President of LuLaRoe, LLC, and President and Chief Executive Officer of
19 Lennon Leasing, LLC. Stidham, at all relevant times, lived in or around Corona,
20 California. At all times material to this Complaint, acting alone or in concert with
21 others, Defendant Stidham formulated, directed, controlled, had the authority to
22 control, or participated in the acts and practices set forth in this Complaint.

23 22. Individual Defendant DeAnne Brady (“Brady”) is a California
24 resident and co-founder of LuLaRoe. She serves as Secretary of LLR, Inc.; Chief
25 Executive Officer and Secretary of LuLaRoe, LLC, and Secretary of Lennon
26 Leasing, LLC. Brady, at all relevant times, lived in or around Corona, California.
27 At all times material to this Complaint, acting alone or in concert with others,
28 Brady formulated, directed, controlled, had the authority to control, or participated

1 in the acts and practices set forth in this Complaint.

2 23. Plaintiffs are unaware of the true names, identities and capacities of
3 the Defendants sued herein as Does 1 through 30. When a name or capacity is
4 known, Plaintiffs will amend this Complaint to allege the true names and
5 capacities of Does 1 through 30.

6 24. Plaintiffs are informed and believe, and thereupon allege, that each of
7 the Defendants sued herein as a DOE is legally responsible in some manner for the
8 events and happenings set forth herein and have proximately caused injuries and
9 damages to Plaintiffs as set forth below.

10 25. Corporate Defendants, Individual Defendants, and DOES 1-30 will
11 hereinafter be collectively referred to as “Defendants.”

12 26. Defendants, and each of them, carried out their acts both directly
13 and/or through the acts and/or omissions of their agents, independent contractors,
14 servants and/or employees, who at all times were acting within the course and
15 scope of said agency, independent contractor agreement, and/or employment and
16 the acts and omissions of said agents, independent contractors, servants and/or
17 employees were authorized and ratified by all other said Defendants.

18 27. Whenever this Complaint references the acts, omissions or
19 representations of any Defendant or Defendants, such allegation shall be deemed
20 to mean the act, omission or representation of those Defendants named in the
21 particular cause of action and each of them acting individually, jointly, and
22 severally and/or in concert with the other Defendant(s).

23 28. To the extent that any of the claims alleged herein are barred by any
24 limitations rules, such claims are equitably tolled against Defendants and/or
25 Defendants are equitably estopped from asserting such limitation defense, given
26 Defendants ongoing misrepresentations and concealment of material fact alleged
27 herein.

28

1 **Jurisdiction and Venue**

2 29. The Court has jurisdiction under the Class Action Fairness Act of
3 2005, 28 U.S.C. § 1332(d)(2), because the suit is a class action, the parties are
4 minimally diverse, and the amount in controversy exceeds \$5,000,000, excluding
5 interest and costs. The Court has supplemental jurisdiction over Plaintiffs’ state
6 law claims pursuant to 28 U.S.C. § 1367(a).

7 30. This Court has personal jurisdiction over Defendants because they
8 had sufficient minimum contacts with California and within this District because,
9 among other things, (i) the Individual Defendants reside in this District, (ii) the
10 Corporate Defendants maintain their headquarters in this District, (iii) Defendants
11 transact a substantial amount of business in California, including within this
12 District, and (iv) Defendants have each purposefully availed themselves of the
13 laws and markets of this District through the promotion, sale, and distribution of
14 their products and seller assisted marketing plans from within California and
15 within this District.

16 31. Venue is proper in this District under 28 U.S.C. § 1391(b) and (c)
17 because a substantial number of the acts, omissions, and transactions that
18 established the claims of Plaintiffs and the Class occurred within this District.
19 Defendants conducted business and solicited business relating to the endless chain
20 scheme and unregistered seller assisted marketing plan from this District.
21 Defendants transacted their affairs, resided within California and this District, and
22 Defendants’ wrongful acts occurred in this District.

23 **The Facts**

24 32. LuLaRoe is a MLM company founded by husband and wife couple,
25 Individual Defendants Mark Stidham and DeAnne Brady in 2013, that promotes
26 and sells colorfully patterned leggings, shirts, skirts, and dresses through a network
27 of independent distributors called “Independent Fashion Consultants” (hereinafter
28 “Consultants”).

1 33. LuLaRoe operated an unlawful pyramid scheme as evidenced by the
2 Leadership Bonus Plan of its Independent Fashion Consultant Program (“LuLaRoe
3 MLM”).

4 **Unlawful Compensation Structure**

5 34. Any Consultant who signs up for the LuLaRoe MLM and pays the
6 initial “onboarding” fee, which ranges from \$2,000 to \$9,000 (if not more)
7 depending on the package, is eligible to participate in LuLaRoe’s Leadership
8 Bonus Plan. Each of the Plaintiffs paid such an “onboarding” fee to LuLaRoe.
9 LuLaRoe’s Leadership Bonus Plan gave Consultants a right to receive
10 compensation entirely based on the recruitment of other persons as participants in
11 the LuLaRoe MLM.

12 35. LuLaRoe incentivized existing Consultants to recruit and sponsor
13 new Consultants, and to encourage them and their recruits to purchase large
14 amounts of inventory, by basing its bonus structure on the dollar amount of
15 wholesale orders paid for, instead of on bona-fide retail sales to end-consumers.
16 The Leadership Bonus Plan rewarded Consultants based on a percentage of the
17 “Personal Volume” or “total of pieces” ordered for which payments are received in
18 a calendar month” of their teams (or “T.E.A.M.s,” LuLaRoe’s acronym for
19 “Together, Everyone, Achieves, More”).

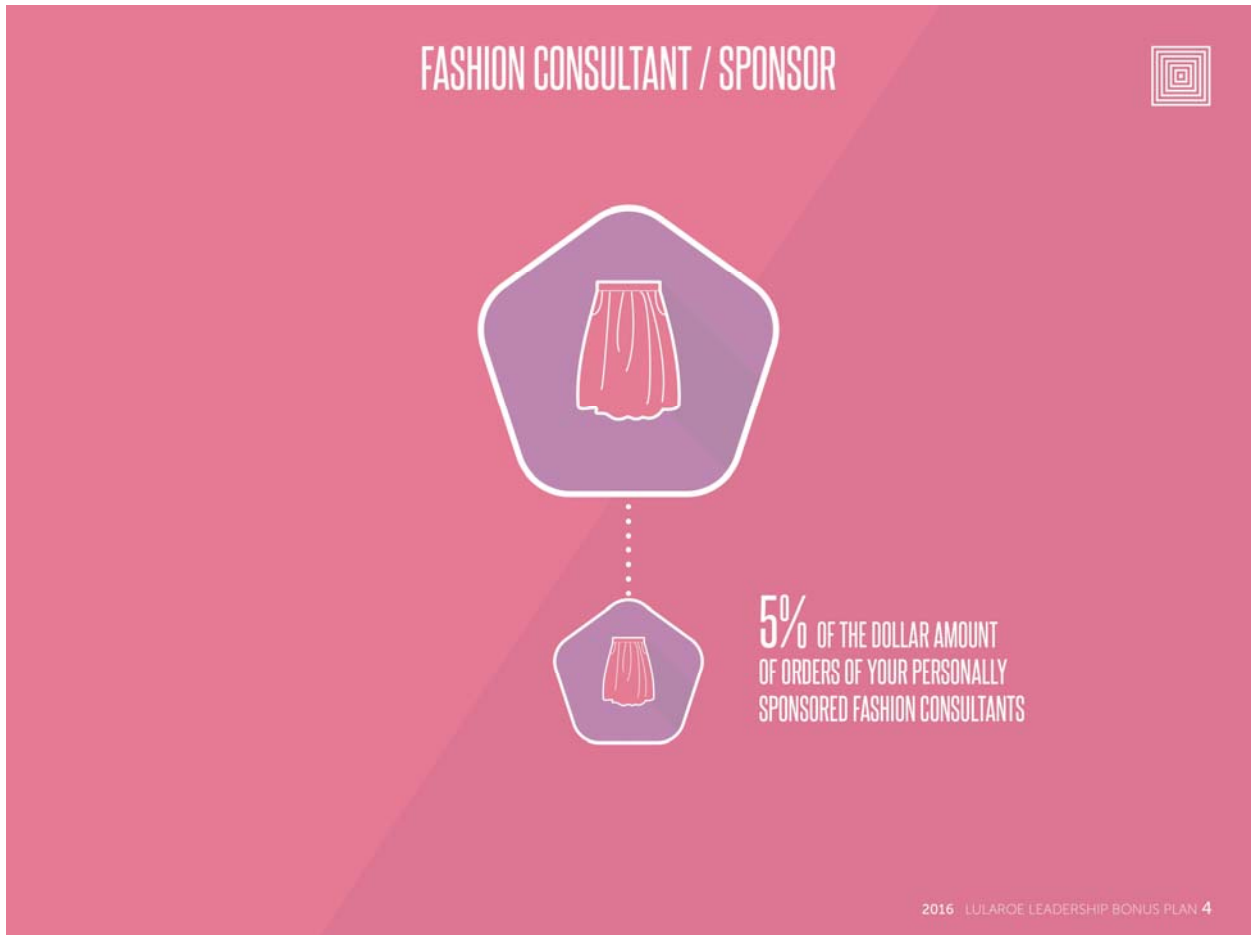
20 36. LuLaRoe’s Leadership Bonus Plan generally had four tiers of status,
21 which Consultants qualified for based upon the number of inventory pieces
22 purchased by a Consultant and her or his team (referred to as “Group Volume”),
23 and the number and status of recruits in a Consultant’s team.

24 37. Any Consultant could participate in the Leadership Bonus plan by
25 recruiting Consultants to be part of their teams. The Leadership Bonus Plan was
26 generally structured as follows:

27 ///

28 ///

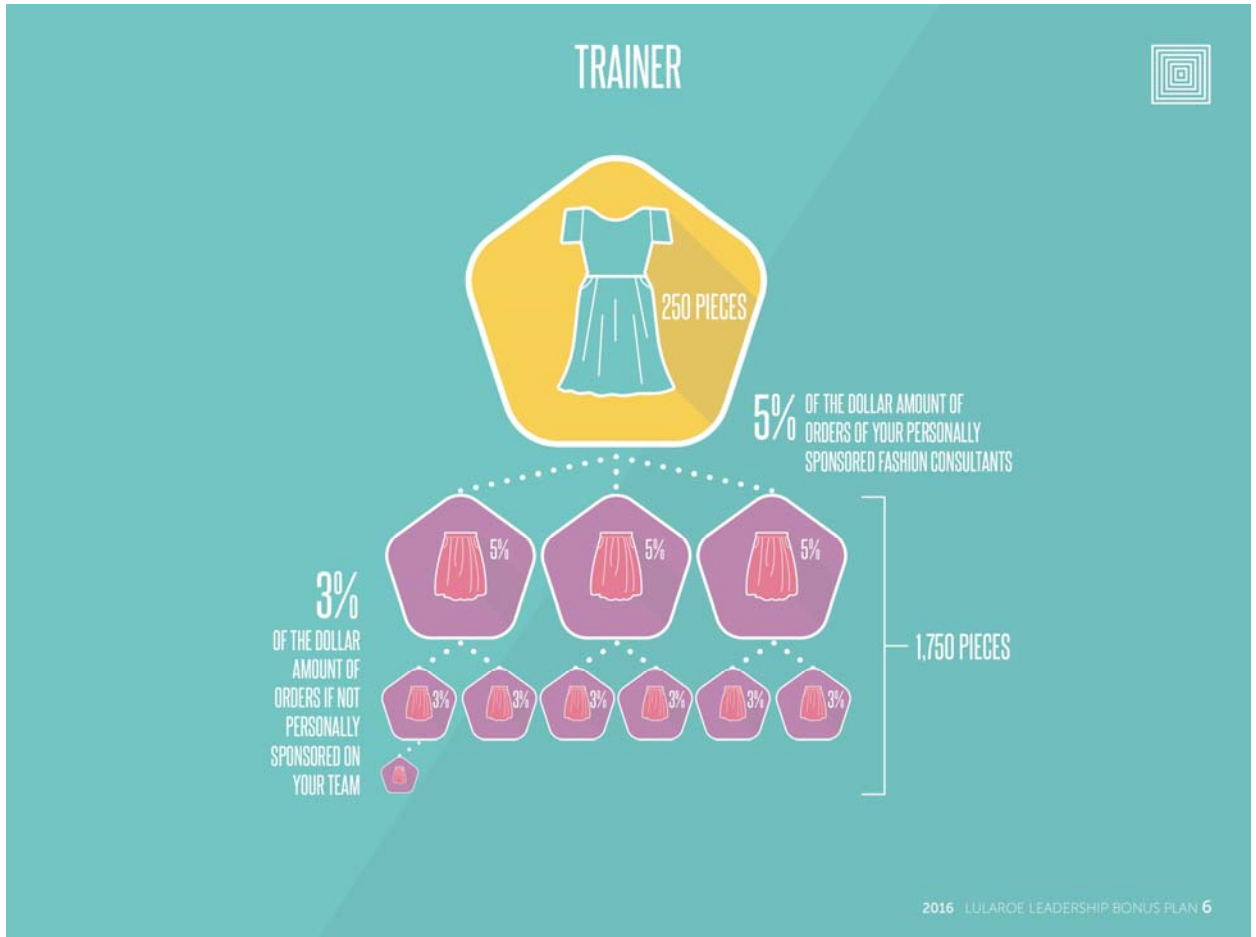
1 a. “Sponsors” were the lowest tier. Any Consultant could become
2 a “Sponsor” by recruiting Consultants. Sponsors who met a minimum purchase
3 requirement of 175 pieces per month were eligible for a 5% “override bonus on the
4 Personal Volume (Payments Received)” of their sponsored Consultants.



21 b. “Trainers” were the second tier. A “Trainer” had to qualify
22 with “250 pieces (100 of which must be generated by their personal orders), at
23 least three Personally Sponsored Fashion Consultants, with a total of ten Fashion
24 Consultants in their team and 1,750 Total Group pieces ordered and paid for.”
25 Trainers were eligible to earn “qualification points” to reduce their own personal
26 purchase requirement. Trainers earned a 5% bonus on personally sponsored
27 Consultants and a 3% bonus on the rest of the team’s inventory purchases.

28

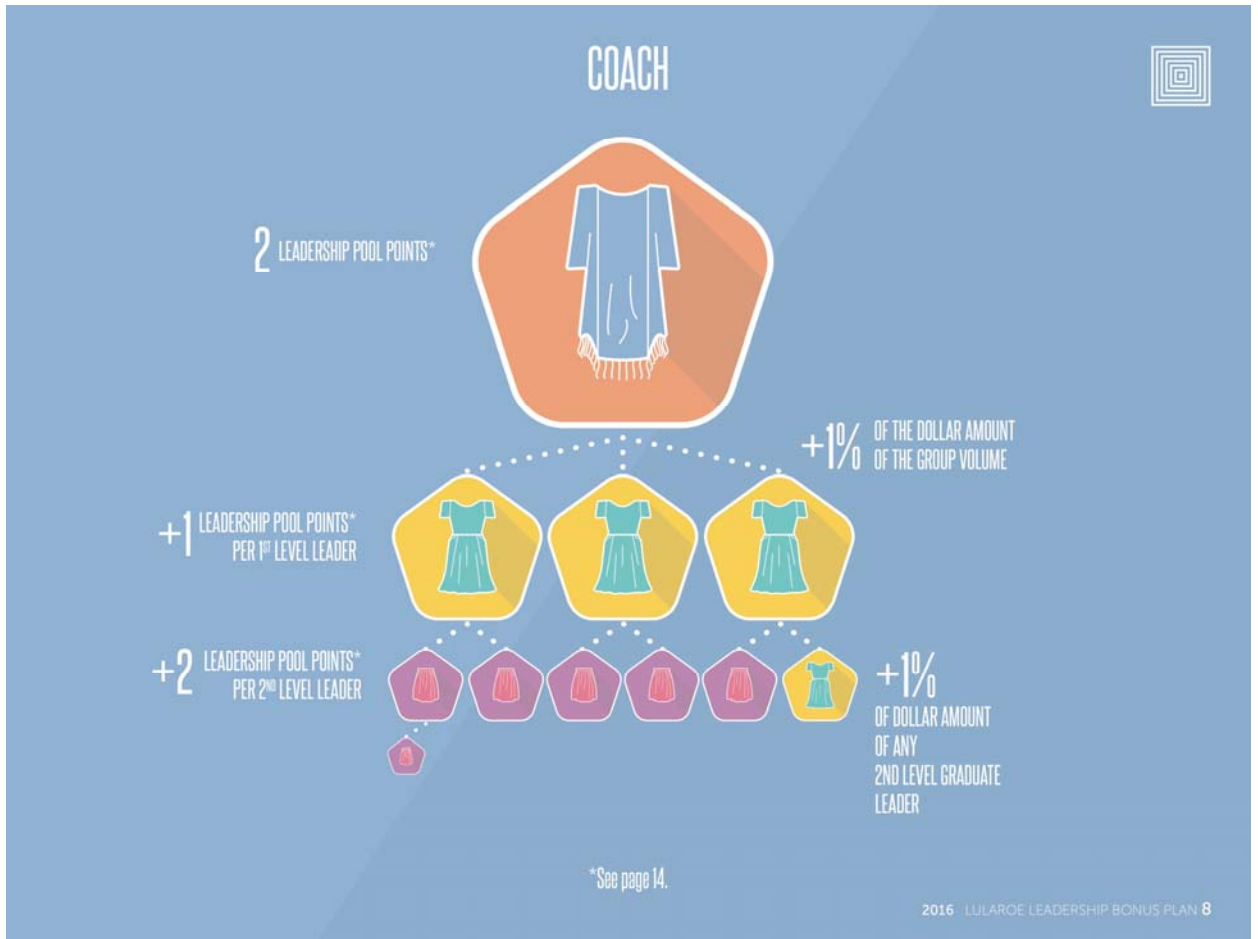
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



c. “Coaches” were the third tier. Coaches had to meet the requirements of a Trainer and have at least three First Level Trainers. Coaches had a minimum group volume of 1,750 pieces and were eligible for Trainer Leadership Bonuses in addition to 1% of the Dollar Amount of any Second Level Leader’s Group Volume. Coaches were also eligible to receive leadership “points,” which could be cashed out or be used for other rewards such as the LuLaRoe Cruise.

///
///
///

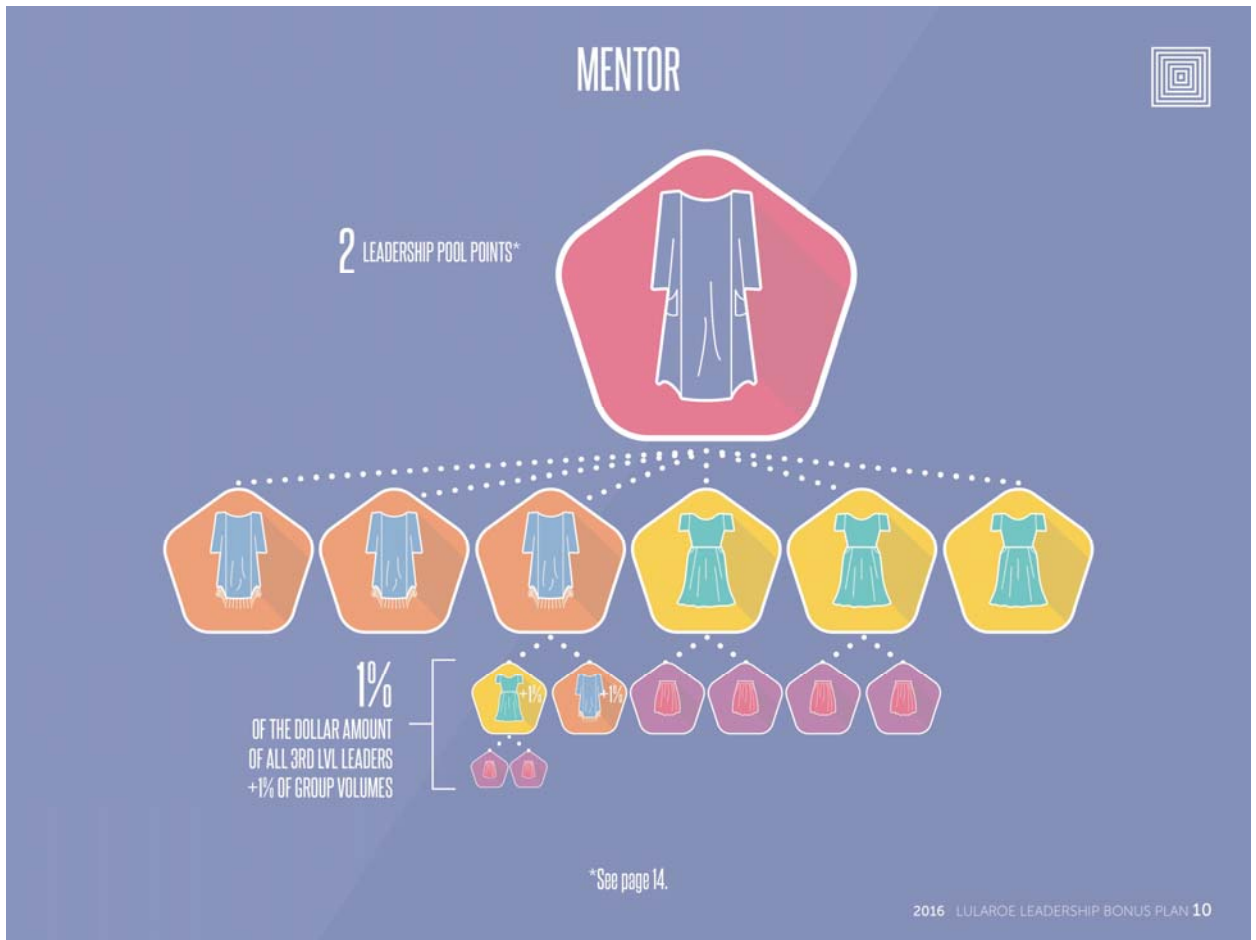
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



d. “Mentors” were the top tier. To qualify as a Mentor, a Consultant had to meet the requirements of a Trainer and have at least three leadership lines with coaches or above and three additional leadership lines. In addition to the Coach Bonuses, Mentors were eligible to earn 1% of the Dollar Amount of the total inventory purchases of all Third Level Leaders teams.

///
///
///

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



38. Income earned through the Leadership Bonus Plan significantly dwarfed retail profits for top consultants. At a Leadership Conference themed, “Be the Light” hosted at the Riverside Convention Center in California in January 2017, Defendant Brady asked Consultants to publicly state their last month’s total retail sales and bonus checks. Consultants, at Defendant Brady’s direction, announced the amounts of their monthly bonus checks, which ranged from \$85,000 to \$307,000. Compared to their monthly retail sales, which ranged from \$12,000 to \$25,000, it was clear that the primary opportunity for compensation was not through sale of LuLaRoe apparel, but bonuses earned through recruiting.

39. When a Consultant would recruit (or sponsor) another Consultant, that lower level participant would be part of the recruiting Consultant’s “downline” and the recruiting Consultant would be part of the lower level participant’s

1 “upline.” Defendants encouraged Consultants to build a team of “downline”
2 Consultants underneath them who would purchase the LuLaRoe product as
3 inventory for which the “upline” Consultants would earn bonuses or commissions
4 from such “downline” inventory purchases.

5 40. Defendants’ bonus plan was not tied to retail sales, but rather, was
6 tied to the value of the inventory orders purchased by “downline” Consultants. The
7 Bonus Plan made clear that consultants’ compensation was based on inventory
8 orders purchased by “downline” Consultants, and not based on retail sales.

9 41. Defendants incentivized “upline” Consultants to encourage the
10 “downline” Consultants to purchase as much inventory as possible regardless of
11 whether they were making any sales to end-users.

12 42. Defendants were able to sell substantial amounts of inventory to the
13 “downline” Consultants, who had difficulty making money on their own sales to
14 end-consumers. By pushing sales to Consultants and the recruitment of
15 Consultants, the market became oversaturated with Consultants and products.

16 **Sales and Marketing Activities**

17 43. Defendants’ sales and marketing activities similarly emphasize
18 recruiting individuals into the LuLaRoe MLM and encouraging inventory
19 purchases in connection with their participation, rather bona fide retail sales. As
20 stated in their marketing materials, “One of the greatest financial awards LuLaRoe
21 has to offer Consultants is its proven Leadership Bonus Plan” where “you can earn
22 significant income when you sponsor and build a strong T.E.A.M. that has
23 consistently grown sales.”

24 44. Defendants promote the LuLaRoe program through a variety of
25 channels, including websites, social media, videos, testimonials, weekly webinars,
26 conference calls, training calls, and live presentations and meetings at conferences.
27 Defendants used a number of channels to promote the LuLaRoe Program, such as
28 “opportunity calls,” “opportunity events,” “trainer calls,” and “pop-ups.”

1 LuLaRoe’s core management team, including Defendants Stidham and Brady plan,
2 host, and execute “opportunity calls,” “opportunity events,” and “trainer calls.”

3 45. “Opportunity events” are events designed to recruit new Consultants
4 and motivate existing Consultants to do the same, typically hosted in hotel
5 ballrooms, conference rooms, or convention centers around the country. LuLaRoe
6 annually hosted a conference called VISION for active Consultants. Individual
7 Defendants often spoke at “opportunity events.”

8 46. “Opportunity calls,” often hosted by Defendant Brady, are weekly
9 conference calls to promote and market the LuLaRoe MLM to potential recruits.

10 47. “Trainer calls” are calls designed to entice and train consultants to
11 grow their teams through the Leadership Bonus Program.

12 48. “Pop-ups” are events hosted by Consultants, where Consultants are
13 encouraged to recruit “Hostesses” in order to help them sell LuLaRoe
14 merchandise. LuLaRoe encourages Consultants to reward “Hostesses” with free
15 LuLaRoe merchandise, and at each “pop-up,” recruit additional “Hostesses” for
16 additional “pop-ups.”

17 49. Through each of these channels, Defendants encouraged consumers,
18 including Plaintiffs, to become LuLaRoe Consultants and to recruit others,
19 including friends and family members, to do the same.

20 50. In trainings, Defendants represent that a key to success is “Buy more,
21 sell more.” This “buy more, sell more” was a practice done to encourage inventory
22 loading, by inducing Consultants to purchase as much inventory as possible
23 (profiting those at the top—i.e., Stidham and Brady).

24 51. Defendants further emphasize the key to success is growing “Group
25 Volume” to receive large rewards through the Leadership Bonus Plan.

26 52. Defendants’ goal was to have the Consultants purchase more
27 product, rather than focusing on the actual end sales to consumers. Defendants
28 further encouraged Consultants to continue buying more and more product,

1 encouraging them to take 100% of all profits earned from sales to purchase more
2 product.

3 **Defendants' Business Opportunity and Income Claims**

4 53. In order to recruit Consultants to the LuLaRoe MLM, Defendants
5 assert throughout their sales and marketing activities that consumers can earn
6 significant rewards through the LuLaRoe MLM, and that Consultants' income
7 potential is significant.

8 54. Defendants repeatedly tout that the LuLaRoe MLM offers anyone an
9 easy path to financial freedom and independence with part-time work. Print
10 materials for recruiting distributed by LuLaRoe state: "MAKE A FULL-TIME
11 INCOME DOING PART TIME WORK. BECOME A LULAROE
12 INDEPENDENT BUSINESS OWNER" and "WANT TO EARN FULL-TIME
13 INCOME FOR PART-TIME WORK? ASK ME HOW?" LuLaRoe's document
14 titled "How Long to Pay Back My Initial Investment" said that LuLaRoe is a
15 "simple business" in which Consultants can "earn full-time income for part-
16 timework." Defendants claimed that "[w]ith LuLaRoe, in a matter of a few
17 months, you can completely repay your initial investment and have money in the
18 bank." LuLaRoe encouraged consultants to frame and hang these print materials at
19 "pop-up parties" and distribute these materials to potential recruits. At an
20 opportunity event in 2015, Defendant Stidham also made similar lifestyle claims of
21 "full-time income on part-time work":

22 We started this business on the premise that you could make a full-
23 time income on part-time, part-time work, alright? I always boiled
24 that down to this, a party takes about 5 hours. Uh, we say it takes 5
25 hours because the party itself takes about an hour and half because
26 you got to set it up. You take it down. You gotta call and prep the
27 hostess. You have to organize your inventory. So, you have lots of
28 ancillary ... activities that goes with the party. So ... I think it's very
generous to say you have 5 hours for a party. Now, can you do 4
parties in a week? 4 parties times 5 hours is 20 hours; 20 hours in the
week is definitely part time work. Now what do you make if you do 4

1 parties in a week? Average party sales are about 25 pieces. Okay, so 4
2 parties in a week equals 100 pieces sold in a week. There's are 52
3 weeks in a year, but we're gonna give you two weeks off. So 50
4 weeks take 100 pieces, that's 5000 pieces sold in a year. Average
5 profit is 12 to 15 dollars per item, that's 60 to 75 thousand dollars a
6 year working 20 hours a week.”

6 55. Defendant Brady made lifestyle and income claims during
7 “opportunity calls” designed to recruit new Consultants, “opportunity events”
8 designed to motivate Consultants to recruit others, and in webinars put on by
9 existing Consultants:

10 a. “You are going to make about three to five-thousand on
11 average, I'm saying on average, you know, you gonna, you're going to have to get
12 yourself going. ... Your business will start to grow and it will grow and grow and
13 grow ... On average our consultants are paying their debt back ... anywhere from
14 2 weeks to 2 months, depending on how much you want to commit to. ...”

15 b. “In fact, today, I was making calls. I reached out to 25 retailers
16 that are selling an average of 12 to 15, [correct self] 10 to 15 thousand a month, I
17 mean is that, is that comprehensible or what, it's amazing, to make that kind of
18 money, doing it part-time, being a stay at home mom. ...”

19 c. “I mean I could blow your, your mind away by telling you that
20 we have over 100 people that make a lot of money, like between 50 thousand to
21 500 thousand dollars a month, and I'm not lying.”

22 d. “What really affects me is when women call me and say, ‘my
23 husband just lost his job, so I guess I'm it.’ And they say, ‘do you think I can do it
24 DeAnne?’ And I get to get my pom-poms out, and I say, ‘But don't you see this is
25 an answer! This is easy! This is fun! This is something you guys can do together
26 and he can watch the kids while you go and do parties.’”

27 e. “This is a business that is going to bring in a lot of money for
28 you, a lot of money, I mean a lot. I'm going to say that over.”

Failure to Disclose Material Terms

1
2 59. Prospective Consultants, including Plaintiffs, relied on information
3 publicly available on LuLaRoe’s website in evaluating whether the LuLaRoe
4 MLM will be a worthwhile business opportunity. However, LuLaRoe fails to
5 disclose accurate information material to their decision.

6 60. For example, LuLaRoe on its website has published annual
7 disclosure statements on its website since 2014. The figures contained in the
8 company’s disclosure statements do not show the whole picture and are
9 misleading. Among other things, the disclosure statements only take into account
10 “active” Consultants who have met minimum purchase thresholds and omit
11 participants who fared worse. Additionally, LuLaRoe never published a 2017
12 Income Statement, leaving a 2016 Income Statement on its website, which was not
13 reflective of 2017 when business declined. As such, LuLaRoe misled prospective
14 Consultants who evaluated whether to join the LuLaRoe MLM in 2017.

15 61. Likewise, this intentional failure to publish the 2017 Income
16 Statements and leave up the 2016 Income Statements (which was not reflective of
17 2017 when business declined) misled Consultants into purchasing more products.

18 62. LuLaRoe’s “Retailer Map,” which is published on its website,
19 misrepresents the number of active Consultants in a particular geographic location.
20 While LuLaRoe maintains data and statistics on the location and number of active
21 and inactive retailers, the map understates the number of Consultants, misleading
22 potential Consultants about the level of saturation of active Consultants in a
23 location. The map informs prospective Consultants about market saturation, which
24 is material information about the potential business opportunity. Instead of
25 updating the map with accurate information, LuLaRoe added a disclaimer to the
26 map in 2018, the efficacy of which was diluted by stating that it “cannot and does
27 not guarantee the accuracy of the Retailer Map” in non-conspicuous fine grey
28 print.

1 **Unfair and Deceptive Practices Encouraging Inventory Loading**

2 63. Defendants also engage in a number of practices that encourage
3 Consultants to purchase significant wholesale inventory. Defendants engaged in
4 unfair and deceptive business practices that encourage inventory loading. Such
5 practices include educating Consultants that a key to success is maintaining
6 significant inventory; not permitting Consultants to pick the pattern or size of
7 apparel included in inventory purchases (and providing primarily unpopular
8 patterns); and marketing limited edition “unicorn” pieces to create a “frenzy” of
9 inventory ordering. LuLaRoe intentionally only placed a few popular items within
10 each shipment.

11 64. Defendants deceptively trained Consultants that the key to success is
12 “Buy more, sell more.” In training materials, LuLaRoe encourages Consultants to
13 invest all profits from retail sales back into inventory purchases:

14 Having a wide selection will lead to more customer engagement and
15 bigger sales. It is crucial that you carry a significant number of pieces
16 in every size before moving onto other styles. We have found that our
17 Consultants who carry several hundred items in their inventory have
18 the highest rate of success. Of course there are no set-in-stone rules,
and you may proceed at your own pace, but we have learned that
abundant inventory often creates abundant sales!

19 65. Defendant Brady stated in a November 14, 2016 mentor call:

20 The way this business was created, was you have the merchandise,
21 you put it before people and you sell it and you have money in your
22 bank account. That is how this business goes and the more investment
23 that you put into your business, you treating it like a business, the first
90 days to 120 days, YOU DO NOT SPEND YOUR MONEY. Sorry,
24 you can buy an ice cream cone, or a diet coke or cup of coffee and
gas, you pour everything back in your business ... well this kind of
25 business is driven by the more you invest in your business, the more
26 you have, the more you are going to sell it. So I want to reach out to
27 you and let you know and give you permission that this is a business
that is going to bring in a lot of money for you, A LOT, I mean A
28 LOT, I'm going to say that over.

1 66. Despite encouraging Consultants to maintain a large variety of
2 inventory, LuLaRoe does not permit Consultants to select the pattern or size of the
3 merchandise ordered. At least 33 pieces of Inventory must be purchased from
4 LuLaRoe for each shipment. Consultants may not specify the size or print of an
5 inventory order. Thus, in order to obtain merchandise of a particular size or print,
6 such as a particularly desirable “unicorn” piece, Consultants were required to “to
7 buy, to buy, to buy,” but could only hope to receive specific desirable sizes or
8 prints.

9 **Exiting Consultant Refund Policy**

10 67. As part of its “Policies and Procedures,” LuLaRoe has an official
11 inventory buy back policy for exiting consultants. Section 3.16.3 permits retailers
12 to receive “90% of the net cost of the original purchase price(s)” upon
13 “cancellation of an Independent Fashion Consultant’s Agreements.” LuLaRoe’s
14 “Returns on Cancellation of the Agreement” repurchase policy assured prospective
15 Consultants that they could recoup most of their investment in the LuLaRoe
16 Program if the opportunity did not work out for them.

17 68. However, LuLaRoe implemented a very complex process for
18 initiating a refund, which it did not clearly disclose to Consultants. While the
19 process has varied over time, currently, the process is as follows: In order to obtain
20 a refund, a Consultant must log into “Build,” LuLaRoe’s online portal, and click
21 the “cancel my business” button. Then, LuLaRoe sends “formstacks” for
22 Consultants to list inventory they plan to return for a refund. After a Consultant
23 submits her or his formstacks, LuLaRoe sends Consultants a confirmation of the
24 refund amount they are eligible for, which according to their policies and
25 procedures should be 90% of the wholesale price of inventory purchased within
26 the last year, less any bonus earned through the Leadership Bonus Plan. If the
27 refund offered is satisfactory to the Consultant, the Consultant must pay for
28 shipping, and return her or his merchandise to LuLaRoe. After LuLaRoe

1 inventories the merchandise and deems it resalable, LuLaRoe issues a refund
2 check. This complex process was not disclosed to Consultants, including class
3 members, when they agreed to become consultants.

4 69. Rather, when deciding to be a LuLaRoe consultant, Plaintiffs,
5 including class members, were led to believe that they will receive a 90% refund
6 upon returning all LuLaRoe items. Plaintiffs and other class members believed that
7 there was low risk in proceeding to sell LuLaRoe products because of the 90%
8 refund policy. Thus, if a consultant invested \$5,000 but was unable to sell any
9 product, that consultant believed that upon return, she would receive \$4,500, only
10 risking \$500.

11 70. On April 25, 2017, in order to induce more purchases of LuLaRoe
12 product, LuLaRoe announced it would be changing its 90% policy to 100%, and
13 committed to paying for return shipping. LuLaRoe made representations that the
14 revised 100% policy would not go away.

15 71. On June 30, 2017, LuLaRoe deceptively posted a “Home Office
16 Update” on LuLaRoe’s online portal “Build.” “This policy does not have an
17 expiration date, nor does it have a required timeframe in which the product should
18 have been purchased in.” However, without any advance notice to Consultants,
19 LuLaRoe announced on September 13, 2017, that it would no longer honor the
20 100% refund policy. The promise of a 100% return policy induced Consultants,
21 including Plaintiffs, to purchase more product.

22 72. Also, LuLaRoe sent emails to Consultants, including Plaintiffs,
23 stating:

24 INDEPENDENT FASHION RETAILERS, WHO WISH TO
25 CANCEL THEIR RETAILER AGREEMENT, WILL BE
26 REFUNDED 100% OF THE WHOLESALE AMOUNT. How
27 AWESOME is that? On top of that, LuLaRoe will also cover your
shipping by sending you shipping labels!

28 (Emphasis in original).

1 73. The promise to provide a 100% refund induced Consultants,
2 including Plaintiffs, to purchase more LuLaRoe inventory. Consultants, including
3 Plaintiffs, in conjunction with the representation that buying more will lead to
4 selling more, purchased more product, comfortable that if they are unable to sell
5 the product, they can return for a full refund.

6 74. However, at the time that Defendants made such representation for a
7 100% return, they did not intend to actually honor such 100% return policy.

8 75. Following the announcement, many retailers who had started the exit
9 process experienced issues with their refunds, including a lack of response to
10 initiating refunds, delays in sending formstacks, miscalculations in the amount of
11 refunds owed (which became known among Consultants as “LuLaMath”), and
12 significantly delayed or non-payment of refunds.

13 76. Word spread quickly amongst LuLaRoe Consultants about
14 LuLaRoe’s failure to honor the repurchase representation. As a result of
15 LuLaRoe’s failure to honor its written repurchase policy, many Consultants,
16 including Plaintiffs, did not send in their merchandise because they believed
17 LuLaRoe would not refund them the appropriate amount, if at all. Many
18 Consultants, like Plaintiffs, were forced to attempt to mitigate their losses through
19 other means, such as G.O.O.B. sales, consignment thrift shops, or simply giving
20 away merchandise at a loss. Many others are still holding onto boxes of unsaleable
21 inventory. LuLaRoe’s items that many of the Consultants simply gave away are
22 worthless and could not be sold.

23 77. Plaintiffs are informed and believe that many LuLaRoe consultants
24 that did submit their merchandise to LuLaRoe are still waiting months, if not more
25 than a year, to receive their refund check.

26 78. In sum, LuLaRoe’s business model was a pyramid scheme. The
27 primary business opportunity in the LuLaRoe MLM was its Leadership Bonus
28 Plan, which rewarded compensation solely based on recruiting and inventory

1 purchases.

2 79. Further, Defendants’ marketing and sales activities, misleading
3 income and lifestyle claims, emphasis on recruiting and inventory purchases over
4 emphasis on sales to consumers outside the LuLaRoe organization, and inventory
5 loading practices ensured that the primary business opportunity with LuLaRoe was
6 through recruitment.

7 80. LuLaRoe experienced exponential growth, creating substantial
8 income for the individual Defendants. Defendant Stidham announced in February
9 2017, that LuLaRoe had over 70,000 Consultants nationwide and that by August
10 10, 2017, LuLaRoe had achieved “over \$1.5 Billion in retail sales for 2017 so far
11 this year.”

12 81. As a result of Defendants’ business and marketing practices that
13 encouraged inventory loading, LuLaRoe faced so much demand for inventory that
14 it could not keep up with orders. In early 2017, the quality of LuLaRoe’s
15 merchandise declined, with Consultants receiving mis-sized merchandise or low-
16 quality merchandise, such as leggings with mismatched pant leg lengths or
17 merchandise that quickly developed holes.

18 82. LuLaRoe also provided items that were improperly stored outside
19 and were unsaleable when received by the Consultants. LuLaRoe failed to disclose
20 to Consultants that the quality was declining and that the merchandise was
21 improperly stored.

22 83. Even with these production and quality problems, LuLaRoe
23 continued encouraging inventory loading.

24 84. Defendants market the LuLaRoe MLM as a transformational,
25 empowering opportunity to achieve dreams and achieve financial freedom while
26 providing a flexible and part time alternative to traditional employment.
27 Defendants’ marketing prominently features testimonials of independent, stylish,
28 affluent women who have it all: a successful career, flexibility and time to spend

1 with their children, and a harmonious marriage. LuLaRoe marketing materials
2 claim that joining the LuLaRoe Program can “change lives,” “build confidence,”
3 and offer Consultants the opportunity to “create freedom, serve others and
4 strengthen families.” In reality, LuLaRoe's pyramid scheme business model and
5 compensation plan, and its corresponding marketing activities dictated that during
6 any particular time, a majority of Consultants, including Plaintiffs, lost money.

7 **Plaintiffs Would Not Have Joined LuLaRoe and/or Purchased Additional**
8 **LuLaRoe Product Had They Known the Truth**

9 85. Each of the Plaintiffs was exposed to Defendants’ direct and indirect
10 representations and/or omissions regarding, among other things, that they can
11 generate substantial income while still being able to spend time with their families
12 (e.g., full time income working part-time hours).

13 86. Each of the Plaintiffs, based on some or all of the aforementioned
14 representations and omissions, became LuLaRoe consultants, paying the
15 “onboarding” fee.

16 87. In truth, LuLaRoe Consultants were not likely to earn substantial
17 income.

18 88. Each of the Plaintiffs was also exposed to Defendants’ direct and
19 indirect representations and/or omissions regarding, among other things, (a) to
20 “buy more, sell more” by taking profits from any sales and investing it into more
21 LuLaRoe product, (b) that LuLaRoe will honor a 100% return policy, (c) the
22 income statements made on LuLaRoe’s website, (d) the misleading retailer map on
23 LuLaRoe’s website, (e) the saturation of the Consultant market, (f) the decline in
24 the quality of the products, and (g) that Defendants intentionally only placed a few
25 popular items within each shipment.

26 89. Each of the Plaintiffs, based on some or all of the aforementioned
27 representations and omissions, continued purchasing LuLaRoe products.

28 90. In truth, LuLaRoe did not provide a 100% full refund. In truth, the

1 market was extremely saturated with Consultants. In truth, the quality of the
2 products was declining. In truth, the majority of the items sold by LuLaRoe to
3 Consultants were not saleable. Consultants, including Plaintiffs, were unaware of
4 these facts when purchasing more and more inventory.

5 **Class Action Allegations**

6 91. Plaintiffs bring this action as a class action under Federal Rule of
7 Civil Procedure 23.

8 92. Plaintiffs seek to represent a nationwide class defined as follows:
9 “All LuLaRoe Consultants in the United States from January 1, 2013
10 until the present.”

11 Plaintiffs also seek to represent the following subclasses:

12 A. “All LuLaRoe Consultants in the United States from January
13 1, 2013 until the present that still have LuLaRoe product in their
14 possession, custody, or control that can be returned to LuLaRoe.”

15 B. “All LuLaRoe Consultants in the United States from January
16 1, 2013 until the present who sold or gave away a LuLaRoe item
17 that the Consultant purchased from LuLaRoe.”

18 93. Excluded from the class are the Defendants, and their officers and
19 directors, family members, legal representatives, heirs, successors or assigns.
20 Further excluded from the class are each of the Plaintiffs from *Lemberg, et al. v.*
21 *LuLaRoe, LLC, et al.*, Case No. 5:17-cv-02102-AB-SHK (C.D. Cal.). Also
22 excluded from the class are any Consultants that held a Mentor, Coach, or Trainer
23 position.

24 94. Plaintiffs seek relief for themselves and all members of the class.

25 95. While the exact number of members in the Class are unknown to
26 Plaintiffs at this time and can only be determined by appropriate discovery,
27 membership in the Class is ascertainable based upon the records maintained by
28 Defendants. It is estimated that the members of the Class exceed 25,000

1 individuals. Therefore, the Class is so numerous that individual joinder of all Class
2 members is impracticable under Fed. R. Civ. P. 23(a)(1).

3 96. There are questions of law and/or fact common to the class including
4 but not limited to:

5 a. Whether Defendants are operating an endless chain;

6 b. Whether Consultants paid money to Defendants for (1) the right
7 to sell a product and (2) the right to receive, in return for recruiting others, rewards
8 which were unrelated to the sale of the product to retail consumers;

9 c. Whether Defendants have met the factors set forth in *In re*
10 *Amway Corp.*, 93 F.T.C. 618 (1979): (1) upline distributors are required to buy
11 back from any person they recruited any saleable, unsold inventory upon the
12 recruit's leaving the enterprise; (2) every participant is required to sell at wholesale
13 or retail at least 70% of the products bought in a given month to receive a bonus
14 that month; and (3) to receive a bonus, each participant was required to submit
15 proof of retail sales made to at least ten different consumers;

16 d. Whether Defendants omitted to inform Plaintiffs and the Class
17 that they were entering into an illegal scheme where an overwhelming number of
18 participants lose money;

19 e. Whether it was deceptive to represent to Consultants that if
20 they "buy more" they will "sell more;"

21 f. Whether it was fraudulent and unfair to promise Consultants
22 that Defendants will honor a 100% return policy which was not honored;

23 g. Whether Defendants acted deceptively and/or unfairly by
24 failing to inform Consultants about the decline in the quality of the products and
25 the improper storage of clothing;

26 h. Whether it was deceptive and/or unfair for Defendants to
27 intentionally include only a few popular items in each shipment;

28 i. Whether it was deceptive and/or unfair to omit a 2017 income

1 statement from the website and provide only a 2016 income statement;

2 j. Whether Defendants' conduct constitutes an unlawful, unfair
3 and/or deceptive trade practice under California state law;

4 k. Whether Defendants' conduct constitutes unfair competition
5 under California state law;

6 l. Whether Defendants' conduct constitutes false advertising
7 under California state law; and

8 m. Whether LuLaRoe violated rules regarding seller assisted
9 marketing plans under California law.

10 97. These and other questions of law and/or fact are common to the class
11 and predominate over any question affecting only individual class members.

12 98. Plaintiffs' claims are typical of the claims of the class in that, among
13 other things, Plaintiffs were Consultants for Defendants and lost money.

14 99. Plaintiffs will fairly and adequately represent the interests of the
15 class. Plaintiffs' claims are typical of those of the class. Plaintiffs' interests are
16 fully aligned with those of the class. And Plaintiffs have retained counsel
17 experienced and skilled in complex class action litigation.

18 100. Class action treatment is superior to the alternatives for the fair and
19 efficient adjudication of the controversy alleged, because such treatment will allow
20 many similarly-situated persons to pursue their common claims in a single forum
21 simultaneously, efficiently and without unnecessary duplication of evidence,
22 effort, and expense that numerous individual actions would engender.

23 101. Plaintiffs know of no difficulty likely to be encountered in the
24 management that would preclude its maintenance as a class action.

25 **The ADR Provisions That Plaintiffs are Subject to are Unconscionable;**

26 **Plaintiffs' Attempts to Mediate.**

27 102. Plaintiffs are aware that various Plaintiffs in the *Lemberg, et al. v.*
28 *LuLaRoe, LLC, et al.*, Case No. 5:17-cv-02102-AB-SHK (C.D. Cal.) action filed

1 similar claims against Defendants. Plaintiffs are further aware that Defendants
2 successfully compelled such claims to arbitration. However, there are key
3 arguments and authorities that the parties did not address during that motion to
4 compel arbitration briefing.

5 103. Although Plaintiffs do not believe that there is any enforceable
6 provision that requires them to first mediate their claims as a condition to be able
7 to litigate their claims as alleged in this action, Plaintiffs have invited Defendants
8 to mediate Plaintiffs' claims in good faith. However, Defendants have
9 affirmatively declined to attempt to resolve all of the claims alleged herein through
10 mediation.

11 **CLAIMS BASED ON VIOLATION OF ENDLESS CHAIN SCHEME**

12 **FIRST CLAIM FOR RELIEF**

13 **(ENDLESS CHAIN SCHEME; California Penal Code §327**

14 **and Section 1689.2 of the California Civil Code)**

15 **Against All Defendants**

16 **(On Behalf of the Class)**

17 104. Plaintiffs reallege and incorporate all allegations above, save and
18 except any allegation that can be interpreted to allege any violation of any duty,
19 obligation, or term or condition, imposed by any LuLaRoe Independent Consultant
20 Program Application & Agreement, LuLaRoe's policies and procedures, or
21 LuLaRoe compensation plan.

22 105. Penal Code § 327 provides:

23 Every person who contrives, prepares, sets up, proposes, or operates
24 any endless chain is guilty of a public offense

25 As used in this section, an "endless chain" means any scheme for the
26 disposal or distribution of property whereby a participant pays a
27 valuable consideration for the chance to receive compensation for
28 introducing one or more additional persons into participation in the
scheme or for the chance to receive compensation when a person
introduced by the participant introduces a new participant.

1 Compensation, as used in this section, does not mean or include
2 payment based upon sales made to persons who are not participants in
3 the scheme and who are not purchasing in order to participate in the
4 scheme.

5 106. Section 1689.2 of the California Civil Code provides:

6 A participant in an endless chain scheme, as defined in Section 327 of
7 the Penal Code, may rescind the contract upon which the scheme is
8 based, and may recover all consideration paid pursuant to the scheme,
9 less any amounts paid or consideration provided to the participant
10 pursuant to the scheme.

11 107. Here, each Defendant contrived, prepared, set up, proposed and/or
12 operated an endless chain scheme.

13 108. Plaintiffs and the class have suffered an injury in fact and have lost
14 money or property because of Defendants' operation of an endless chain, business
15 acts, omissions, and practices.

16 109. As a matter of law, Defendants misrepresentations and material
17 omissions, knowledge, and intent follow from the inherently fraudulent nature of
18 the fact that they were operating a pyramid scheme. *See Webster v. Omnitrition*
19 *Int'l*, 79 F.3d 776, 788 (9th Cir. 1996).

20 110. Moreover, there is an inherent deceptiveness in endless chain
21 schemes where the fact that the "futility" of the plan is not "apparent to the
22 consumer participant." *Id.*

23 111. Here, the futility was not apparent to the Plaintiffs nor any of the
24 other class member Consultants.

25 112. Moreover, Defendants do not have in place the following rules (and
26 certainly do not enforce the following rules): (1) upline distributors are required to
27 buy back from any person they recruited any saleable, unsold inventory upon the
28 recruit's leaving the enterprise; (2) every participant is required to sell at wholesale
or retail at least 70% of the products bought in a given month to receive a bonus

1 that month; and (3) to receive a bonus, each participant was required to submit
2 proof of retail sales made to at least ten different consumers.

3 113. Plaintiffs and the class are entitled to:

4 a. Rescind the contract upon which the scheme is based and
5 recover all consideration paid under the scheme, less any amounts paid or
6 consideration provided to the participant under the scheme, or, in the alternative,
7 any other rescission-like remedy appropriate under the circumstances;

8 b. Restitution, compensatory and consequential damages (where
9 not inconsistent with their request for rescission or restitution); and

10 c. Attorneys' fees, costs, pre- and post-judgment interest.

11 **SECOND CLAIM FOR RELIEF**

12 **(Unfair and Deceptive Practices Claims Under**

13 **Cal. Bus. & Prof. Code § 17200, *et seq.*)**

14 **Against All Defendants**

15 **(On Behalf of the Class)**

16 114. Plaintiffs reallege and incorporate all allegations above, save and
17 except any allegation that can be interpreted to allege any violation of any duty,
18 obligation, or term or condition, imposed by any LuLaRoe Independent Consultant
19 Program Application & Agreement, LuLaRoe's policies and procedures, or
20 LuLaRoe compensation plan.

21 115. Defendants have engaged in constant unlawful, fraudulent, and unfair
22 business acts or practices, and unfair, deceptive, false and misleading advertising
23 within the meaning of the California Business and Professions Code § 17200, *et*
24 *seq.* The acts or practices alleged constitute a pattern of behavior, pursued as a
25 wrongful business practice that has victimized thousands of Consultants.

26 **Defendants' Sales and Marketing Plan was Unlawful**

27 116. Under California Business and Professions Code § 17200, an
28 "unlawful" business practice is one that violates California law.

1 117. Defendants’ business practices are unlawful under § 17200 because
2 they constitute an illegal “endless chain” as defined under, and prohibited by,
3 California Penal Code § 327.

4 118. And, Defendants’ business practices are unlawful under §17200
5 because they violate §17500 *et seq.*, as alleged in the Third Claim.

6 **Defendants’ Sales and Marketing Plan is Fraudulent**

7 119. Under California Business and Professions Code § 17200, a
8 “fraudulent” business practice is one that is likely to deceive the public.

9 120. First, as detailed herein, Defendants promoted participation in their
10 endless chain, which has a compensation program based on payments to
11 participants for the purchase of product by participants, not the retail sale of
12 products or services.

13 121. Defendants made numerous misleading representations about the
14 business opportunity available to the Consultants and the income that a Consultant
15 can realize by becoming a Consultant and participating in the scheme.

16 122. Defendants knew, or should have known, that the representations
17 about the business opportunity presented to Consultants were misleading in nature.

18 123. As a direct result of Defendants’ fraudulent representations and
19 omissions regarding their endless chain described herein, Defendants wrongly
20 acquired money from Plaintiffs and the members of the classes.

21 124. Furthermore, Defendants fraudulently misrepresented facts about the
22 amount of money that a Consultant would earn, including false statements about
23 Defendants’ consultants’ historic sales volume and profitability and the amount of
24 time in which Consultants recoup their investment and become profitable.

25 125. Each of the named Plaintiffs actually relied on the alleged fraudulent
26 conduct. Had any of the named Plaintiffs known the truth behind Defendants
27 misrepresentations and/or material omissions, none of the Plaintiffs would have
28 become Consultants.

1 126. Defendants knew that Plaintiffs and the class would reasonably rely
2 on their representations and material omissions, which would cause the Plaintiffs
3 and the class to join the fraudulent scheme and purchase the products, and
4 Plaintiffs did in fact reasonably rely on such representations and omissions by
5 joining the scheme and purchasing products.

6 127. The fraudulent acts, representations, and omissions described herein
7 were material not only to Plaintiffs and the class, but also to reasonable persons.

8 **Defendants' Sales and Marketing Plan is Unfair**

9 128. Under California Business and Professions Code § 17200, a business
10 practice is “unfair” if it violates established public policy or if it is immoral,
11 unethical, oppressive or unscrupulous and causes injury which outweighs its
12 benefits.

13 129. For the reasons set forth herein and above, Defendants’ promotion
14 and operation of an unlawful and fraudulent endless chain, and their fraudulent
15 representations and omissions regarding the business opportunity for Consultants
16 was unethical, oppressive, and unscrupulous in that Defendants had been duping
17 Plaintiffs and the class out hundreds of millions of dollars.

18 130. Defendants’ actions have few, if any, benefits. Thus, the injury
19 caused to Plaintiffs and the class easily and dramatically outweighs the benefits, if
20 any.

21 131. Defendants should be made to disgorge all ill-gotten gains and return
22 to Plaintiffs and the class all wrongfully taken amounts.

23 132. Finally, Defendants’ unlawful, fraudulent and unfair acts and
24 omissions will not be completely and finally stopped without orders of an
25 injunctive nature. Under California Business and Professions Code section 17203,
26 Plaintiffs and the class seek a judicial order of an equitable nature against all
27 Defendants, including, but not limited to, an order declaring such practices as
28 complained of to be unlawful, fraudulent and unfair, and enjoining them from

1 further undertaking any of the unlawful, fraudulent and unfair acts or omissions
2 described herein.

3 **THIRD CLAIM FOR RELIEF**

4 **False Advertising**

5 **(California Business and Professions Code § 17500, *et seq.*)**

6 **Against All Defendants**

7 **(On Behalf of the Class)**

8 133. Plaintiffs reallege and incorporate all allegations above, save and
9 except any allegation that can be interpreted to allege any violation of any duty,
10 obligation, or term or condition, imposed by any LuLaRoe Independent Consultant
11 Program Application & Agreement, LuLaRoe’s policies and procedures, or
12 LuLaRoe compensation plan.

13 134. Defendants’ business acts, false advertisements and materially
14 misleading omissions constitute false advertising, in violation of the California
15 Business and Professions Code § 17500, *et seq.* Each of the Defendants are either a
16 person, firm, corporation, association, or an employee thereof, that, with intent,
17 directly, or indirectly, in order to dispose of property, induced the class, including
18 Plaintiffs, to become Consultants, based on untrue, and misleading statements
19 regarding whether it was selling and/or promoting a seller assisted marketing plan.
20 Defendants knew that its representations and/or omissions were false and/or
21 misleading.

22 135. As explained in *Webster*, “the operation and promotion of an endless
23 chain scheme within the meaning of Penal Code § 327 is an inherently deceptive
24 marketing practice, actionable under §17500.” *Webster*, 79 F.3d at 788.

25 ///

26 ///

27 ///

28

1 **FOURTH CLAIM FOR RELIEF**
2 **Violation of California Corporations Code**
3 **Against all Defendants**
4 **(On Behalf of the Class)**

5 136. Plaintiffs reallege and incorporate all allegations above, save and
6 except any allegation that can be interpreted to allege any violation of any duty,
7 obligation, or term or condition, imposed by any LuLaRoe Independent Consultant
8 Program Application & Agreement, LuLaRoe's policies and procedures, or
9 LuLaRoe compensation plan.

10 137. California Corporations Code §25401 provides that it is unlawful for
11 any person to offer to sell or sell a security in California by means of any written
12 or oral communication, which includes an untrue statement of a material fact or
13 omits to state a material fact necessary in order to make the statements made, in
14 light of the circumstances under which the statements were made, not misleading.

15 138. The clothing items that the Corporate Defendants sold to
16 Consultants, including Plaintiffs, were securities.

17 139. Defendants, by engaging in the conduct described above, in
18 connection with the purchase or sale of a security, by the use of written or oral
19 communications made untrue statements of material facts and/or omitted to state
20 material facts necessary in order to make the statements made, in light of the
21 circumstances, under which they were made, accurate and not misleading. Among
22 other things, Corporate Defendants failed to explain that the investment in
23 LuLaRoe clothing was an illegal pyramid scheme.

24 140. To the extent any of the Defendants did not directly offer or sell the
25 security, such Defendants are still liable because they either control the seller of
26 the security, are officers or directors of the seller of the security, and/or are
27 employees that materially aided in the seller's misrepresentations/omissions. Cal.
28 Corp. Code § 25504 provides that "[e]very person who directly or indirectly

1 controls a person liable under 25501 [providing remedy for violation of § 25401]
2 ... every partner in a firm so liable, every principal executive officer or director of
3 a corporation so liable, every person occupying a similar status or performing
4 similar functions, every employee of a person so liable who materially aids in the
5 act or transaction constituting the violation, and every broker-dealer or agent who
6 materially aids in the act or transaction constituting the violation, are also liable
7 jointly and severally with and to the same extent as such person, unless the other
8 person who is so liable had no knowledge of or reasonable grounds to believe in
9 the existence of the facts by reason of which the liability is alleged to exist.”

10 141. Moreover, California Corporations Code § 25504.1 provides: “Any
11 person who materially assists in any violation of section 25110, 25120, 25130,
12 25133, or 25401...with intent to deceive or defraud, is jointly and severally liable
13 with any other person liable under this chapter for such violation.” Thus, to the
14 extent any Defendant did not directly sell any of the securities, such Defendants
15 are alternatively liable under § 25504.1 because they materially assisted the selling
16 Defendants’ with misrepresentations/omissions as alleged herein, with the intent to
17 deceive or defraud.

18 **CLAIMS BASED ON VIOLATION THE CALIFORNIA SELLER**
19 **ASSISTED MARKETING PLAN ACT**

20 **FIFTH CLAIM FOR RELIEF**

21 **(The California Seller Assisted Marketing Plan Act §§ 1812.200, *et seq.*)**

22 **Against Defendants**

23 **(On Behalf of the Class)**

24 142. Plaintiffs reallege and incorporate paragraphs 1-103 above.

25 143. Defendants’ seller assisted marketing plan meets the definitions of a
26 “seller assisted marketing plan” under the California Seller Assisted Marketing
27 Plan Act, Cal. Civ. Code §§ 1812.200, *et seq.* and did not qualify for any
28 exemptions thereunder.

1 144. Under the California Seller Assisted Marketing Plan Act,
2 (“California SAMP Act”), California requires that seller assisted marketing plans
3 that operate from within California that offer business opportunities to the general
4 public to: (1) register with the California Attorney General’s Office; (2) to provide
5 significant disclosure statements to potential buyers of the marketing plan being
6 sold prior to signing any contracts; and (3) to provide the buyers of the marketing
7 plan specific contractual rights after a purchase has been made. *See* Cal. Civ. Code
8 §§ 1812.200, *et seq.*

9 145. Here, Defendants operated within California, offering business
10 opportunities to the general public, but willfully and intentionally failed to (1)
11 register with the California Attorney General’s Office; (2) provide the significant
12 disclosures to prospective Consultants as required by the California SAMP Act;
13 and (3) provide the Consultants with the buyer-specific contractual rights required
14 by the California SAMP Act.

15 146. Defendants were cognizant of the SAMP Act and its rules,
16 referencing the act within its own written materials.

17 147. In a webinar, Mark Stidham described LuLaRoe as follows:

18 It is one of the best business opportunities that you can use to
19 leverage that hard work, time and effort to get a return on your
20 investment. We have built this business - we have designed the
21 compensation plan, we designed the product, we designed the
22 sales method, all of it designed to create an opportunity for you
to make extra money.

23 148. Defendants have sold the LuLaRoe marketing plan to over 80,000
24 Consultants nationwide, including Plaintiffs. Plaintiffs and the class purchased the
25 marketing plan in connection with starting their own LuLaRoe business. Plaintiffs
26 continued purchasing LuLaRoe marketing plans.

27 149. The Defendants’ seller assisted marketing plan involved Defendants’
28 sale or lease of product, equipment, supplies, and services for initial payment

1 exceeding \$500 to the Plaintiffs and the Class in connection with or incidental to
2 beginning, maintaining, or operating their respective LuLaRoe businesses.

3 150. From within California, Defendants individually and by and through
4 their agents advertised and otherwise solicited the purchase or lease of product,
5 equipment, supplies, and/or services to the Plaintiffs and the Class as alleged
6 above.

7 151. Defendants individually and through its/their agents represented that:
8 (1) Plaintiffs and the Class were likely to earn an amount in excess of the initial
9 payment; (2) there is a market for LuLaRoe products that were purchased by the
10 Plaintiffs and the Class; and (3) LuLaRoe would, in whole or in part, buy back or
11 is likely to buy back the LuLaRoe product initially sold to the Plaintiffs and the
12 Class.

13 152. Defendants also represented or implied that they have sold the
14 LuLaRoe seller assisted marketing plan to at least five other individuals in the
15 previous 24 months, and intend to sell the LuLaRoe seller assisted marketing plan
16 to at least five individuals in the next 12 months.

17 153. Defendants failed to provide Plaintiffs and other Consultants with,
18 among other things, the following information which would have been important
19 to them as to whether to invest and continue investing in the LuLaRoe seller
20 assisted marketing plan: (1) retail sales statistics for Consultants, (2) LuLaRoe
21 financials, (3) earnings by the Stidhams, and (4) state of the LuLaRoe retail market

22 154. Defendants are sellers of “Seller Assisted Marketing Plans.”
23 Defendants even misrepresented that it was selling a “Seller Assisted Marketing
24 Plans,” stating in its Application and Agreement that “neither this Agreement, nor
25 any compensation bonuses, commissions or incentive plans or programs pertaining
26 to the Product, business consultants, Policies and Procedures, Leadership Bonus
27 Plan or Price List of LLR constitutes a ... seller assisted marketing plan.”

28 155. Moreover, Defendants did not provide the Plaintiffs or the Class a

1 “Disclosure Document or an Information Sheet” as required by Cal. Civ. Code §§
2 1812.205 and 1812.206. Furthermore, the LuLaRoe business opportunity contracts
3 did not meet the substantive requirements of Cal. Civ. Code § 1812.209. Nor was
4 the Defendants’ seller assisted marketing plan registered as required by Cal. Civ.
5 Code § 1812.203.

6 156. As more fully alleged above, Defendants individually and through
7 its agents, made earnings and market representations to the Plaintiffs and the Class
8 without the substantiating data or disclosures required by Cal. Civ. Code §
9 1812.204. The representations were fraudulent in violation of Cal. Civ. Code §§
10 1812.201 and 1812.204.

11 157. Plaintiffs purchased Defendants’ “Seller Assisted Marketing Plans”
12 and continued purchasing their “Seller Assisted Marketing Plans.” In reliance on
13 the misrepresentations and omissions alleged herein, Plaintiffs continued
14 purchasing product from LLR, Inc. and continued to believe, among other things,
15 that LLR, Inc. was running a legitimate business that did not violate the Seller
16 Assisted Marketing Plan laws or other laws.

17 158. Defendants’ sale of an unregistered “Seller Assisted Marketing Plan”
18 from the state of California entitles the Plaintiffs and the Class to their actual
19 damages, attorneys’ fees, rescission of the agreements at issue, and punitive
20 damages pursuant to Cal. Civ. Code §§ 1812.215 and 1812.218.

21 159. Defendants’ disclosure violations entitle Plaintiffs and the Class to
22 their actual damages, attorneys’ fees, rescission of the agreements at issue, and
23 punitive damages pursuant to Cal. Civ. Code §§ 1812.215 and 1812.218.

24 160. Defendants’ anti-fraud violations entitle the Plaintiffs and the Class
25 to recover their damages pursuant to Cal. Civ. Code §§ 1812.215 and 1812.218.

26 161. By performing the foregoing acts, Defendants acted with the intent to
27 injure Plaintiffs and acted with malice, oppression, and/or fraud. Alternatively, the
28 acts Defendants performed were despicable and in conscious disregard of the

1 probability of damage to Plaintiffs and the rest of the putative class members, and,
2 thus, the conduct alleged herein supports an award of punitive damages pursuant to
3 Civil Code section 3294 in an amount designed to punish Defendants and to deter
4 such conduct in the future. To the extent that such acts by Defendants were
5 conducted through their employees, those employees were either its officers,
6 directors or managing agents of Defendants, or such officers, directors or
7 managing agents were aware in advance that such conduct would occur, exhibited
8 conscious disregard for the rights of others in employing the employee, or directed
9 or ratified such conduct by its employee(s).

10 **SIXTH CLAIM FOR RELIEF**
11 **(Unfair and Deceptive Practices Claims Under**
12 **Cal. Bus. & Prof. Code § 17200, *et seq.*)**
13 **Against All Defendants**
14 **(On Behalf of the Class)**

15 162. Plaintiffs reallege and incorporate paragraphs 1-103 and 142-161.

16 163. Defendants have engaged in constant unlawful, fraudulent, and unfair
17 business acts or practices, and unfair, deceptive, false and misleading advertising
18 within the meaning of the California Business and Professions Code § 17200, *et*
19 *seq.* The acts or practices alleged constitute a pattern of behavior, pursued as a
20 wrongful business practice that has victimized thousands of Consultants.

21 **Defendants' Sales and Marketing Plan was Unlawful**

22 164. Under California Business and Professions Code § 17200, an
23 “unlawful” business practice is one that violates California law.

24 165. Defendants’ business practices are unlawful under § 17200 because
25 they are an unlawful “seller assisted marketing plan” in violation of California
26 Seller Assisted Marketing Plan Act, Cal. Civ. Code §§ 1812.200, *et seq.*

27 166. And, Defendants’ business practices are unlawful under § 17200
28 because they violate § 17500 *et seq.*, as alleged in the Seventh Claim.

1 **Defendants’ Sales and Marketing Plan is Fraudulent**

2 167. Under California Business and Professions Code § 17200, a
3 “fraudulent” business practice is one that is likely to deceive the public.

4 168. First, as detailed herein, Defendants promoted participation in a
5 seller assisted marketing plan, but failed to disclose that it was such a plan,
6 misrepresented whether it was such a plan, and did not follow the laws pertaining
7 to such plan.

8 169. Defendants knew, or should have known, that they were promoting
9 and selling a seller assisted marketing plan that violated California law.

10 170. As a direct result of Defendants’ fraudulent representations and
11 omissions regarding the seller assisted marketing plan described herein,
12 Defendants wrongly acquired money from Plaintiffs and the members of the
13 classes.

14 171. Each of the named Plaintiffs actually relied on the alleged fraudulent
15 conduct. Had any of the named Plaintiffs known the truth behind Defendants
16 misrepresentations and/or material omissions, none of the Plaintiffs would have
17 purchased such seller assisted marketing plan, nor would they have continued to
18 purchase such seller assisted marketing plans.

19 172. Defendants knew that Plaintiffs and the class would reasonably rely
20 on their representations and material omissions, which would cause the Plaintiffs
21 and the class to purchase and continue purchasing seller assisted marketing plans,
22 and Plaintiffs did in fact reasonably rely on such representations and omissions by
23 purchasing and continuing to purchase such seller assisted marketing plans.

24 173. The fraudulent acts, representations, and omissions described herein
25 were material not only to Plaintiffs and the class, but also to reasonable persons.

26 **Defendants’ Sales and Marketing Plan is Unfair**

27 174. Under California Business and Professions Code § 17200, a business
28 practice is “unfair” if it violates established public policy or if it is immoral,

1 unethical, oppressive or unscrupulous and causes injury which outweighs its
2 benefits.

3 175. For the reasons set forth herein and above, Defendants' promotion
4 and operation of a seller assisted marketing plan in violation of California law was
5 unethical, oppressive, and unscrupulous in that Defendants had been duping
6 Plaintiffs and the class out hundreds of millions of dollars.

7 176. Defendants' actions have few, if any, benefits. Thus, the injury
8 caused to Plaintiffs and the class easily and dramatically outweighs the benefits, if
9 any.

10 177. Defendants should be made to disgorge all ill-gotten gains and return
11 to Plaintiffs and the class all wrongfully taken amounts.

12 178. Finally, Defendants' unlawful, fraudulent and unfair acts and
13 omissions will not be completely and finally stopped without orders of an
14 injunctive nature. Under California Business and Professions Code section 17203,
15 Plaintiffs and the Class seek a judicial order of an equitable nature against all
16 Defendants, including, but not limited to, an order declaring such practices as
17 complained of to be unlawful, fraudulent and unfair, and enjoining them from
18 further undertaking any of the unlawful, fraudulent and unfair acts or omissions
19 described herein.

20 **SEVENTH CLAIM FOR RELIEF**

21 **False Advertising**

22 **(California Business and Professions Code § 17500, *et seq.*)**

23 **Against All Defendants**

24 **(On Behalf of the Class)**

25 179. Plaintiffs reallege and incorporate paragraphs 1-103 and 142-178.

26 180. Defendants' business acts, false advertisements and materially
27 misleading omissions constitute false advertising, in violation of the California
28 Business and Professions Code § 17500, *et seq.*

1 181. Each of the Defendants are either a person, firm, corporation,
2 association, or an employee thereof, that, with intent, directly, or indirectly, in
3 order to dispose of property, induced the class, including Plaintiffs, to become
4 Consultants, based on untrue, and misleading statements regarding whether it was
5 selling and/or promoting a seller assisted marketing plan. Defendants knew that its
6 representations and/or omissions were false and/or misleading.

7 **EIGHTH CLAIM FOR RELIEF**

8 **Violation of California Corporations Code**

9 **Against all Defendants**

10 **(On Behalf of the Class)**

11 182. Plaintiffs reallege and incorporate paragraphs 1-103 and 141-181
12 above.

13 183. California Corporations Code § 25401 provides that it is unlawful for
14 any person to offer to sell or sell a security in California by means of any written
15 or oral communication, which includes an untrue statement of a material fact or
16 omits to state a material fact necessary in order to make the statements made, in
17 light of the circumstances under which the statements were made, not misleading.

18 184. The clothing items that the Corporate Defendants sold to
19 Consultants, including Plaintiffs, were securities.

20 185. Defendants, by engaging in the conduct described above, in
21 connection with the purchase or sale of a security, by the use of written or oral
22 communications made untrue statements of material facts and/or omitted to state
23 material facts necessary in order to make the statements made, in light of the
24 circumstances, under which they were made, accurate and not misleading. Among
25 other things, Defendants failed to explain that the investment in LuLaRoe clothing
26 was a seller assisted marketing plan that violated California law.

27 186. To the extent any of the Defendants did not sell the clothing directly,
28 they are still liable because such Defendants either control the selling Defendant,

1 are officers or directors of the selling Defendant, and/or are employees that
2 materially aided in selling Defendants’ misrepresentations/omissions. Cal. Corp.
3 Code § 25504 provides that “[e]very person who directly or indirectly controls a
4 person liable under 25501 [providing remedy for violation of § 25401] ... every
5 partner in a firm so liable, every principal executive officer or director of a
6 corporation so liable, every person occupying a similar status or performing
7 similar functions, every employee of a person so liable who materially aids in the
8 act or transaction constituting the violation, and every broker-dealer or agent who
9 materially aids in the act or transaction constituting the violation, are also liable
10 jointly and severally with and to the same extent as such person, unless the other
11 person who is so liable had no knowledge of or reasonable grounds to believe in
12 the existence of the facts by reason of which the liability is alleged to exist.”

13 187. Moreover, California Corporations Code § 25504.1 provides that
14 “Any person who materially assists in any violation of section 25110, 25120,
15 25130, 25133, or 25401...with intent to deceive or defraud, is jointly and severally
16 liable with any other person liable under this chapter for such violation.” Thus, to
17 the extent any Defendant did not directly sell the securities, such Defendants are
18 alternatively liable under § 25504.1 because they materially assisted the selling
19 Defendant with misrepresentations/omissions as alleged herein, with the intent to
20 deceive or defraud.

21
22 ///

23
24 ///

25
26 ///

1 **CLAIMS BASED ON DEFENDANTS’ FRAUD INDUCING**
2 **CONSULTANTS TO CONTINUE PURCHASING PRODUCT AFTER**
3 **THEIR INITIAL INVESTMENT**

4 **NINTH CLAIM FOR RELIEF**

5 **(Unfair and Deceptive Practices Claims Under**
6 **Cal. Bus. & Prof. Code § 17200, *et seq.*)**

7 **Against All Defendants**

8 **(On Behalf of the Class)**

9 188. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52,
10 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103. This claim does not
11 incorporate any allegations that can be interpreted to allege any violation of any
12 duty, obligation, or term or condition, imposed by any LuLaRoe Independent
13 Consultant Program Application & Agreement, LuLaRoe’s policies and
14 procedures, or LuLaRoe’s compensation plan.

15 189. Defendants have engaged in constant unlawful, fraudulent, and unfair
16 business acts or practices, and unfair, deceptive, false and misleading advertising
17 within the meaning of the California Business and Professions Code § 17200, *et*
18 *seq.* The acts or practices alleged constitute a pattern of behavior, pursued as a
19 wrongful business practice that has victimized thousands of Consultants.

20 **Defendants’ Sales and Marketing Plan was Unlawful**

21 190. Under California Business and Professions Code § 17200, an
22 “unlawful” business practice is one that violates California law.

23 191. Defendants’ business practices are unlawful under §17200 because
24 they violate §17500 *et seq.*, as alleged in the Tenth Claim.

25 **Defendants’ Sales and Marketing Plan is Fraudulent**

26 192. Under California Business and Professions Code § 17200, a
27 “fraudulent” business practice is one that is likely to deceive the public.

28 193. Defendants each separately made misrepresentations or omitted

1 material information in order to fraudulently and unfairly induce Consultants,
2 including Plaintiffs, to continue purchasing products after becoming LuLaRoe
3 Consultants, by, among other things:

4 a. Misrepresenting that if they “buy more.” they will then “sell
5 more;”

6 b. Misrepresenting that they will honor a 100% return policy,
7 which Defendants never intended to honor;

8 c. Misrepresenting the retailer map to conceal just how saturated
9 the Consultant market was;

10 d. Failing to disclose that the quality in the products is declining
11 and/or being improperly stored;

12 e. Intentionally providing only a few popular items in each
13 shipment so that Consultants would have to purchase more items; and

14 f. Intentionally omitting the 2017 income statement, and leaving a
15 2016 income statement, which was not reflective of 2017 when business was
16 declining.

17 194. Defendants knew, or should have known, that the representations
18 encouraging Consultants to purchase additional product were misleading in nature.

19 195. As a direct result of Defendants’ fraudulent representations and
20 omissions described above, Defendants wrongly acquired money from Plaintiffs
21 and the members of the classes.

22 196. Each of the named Plaintiffs actually relied on the alleged fraudulent
23 conduct. Had any of the named Plaintiffs known the truth behind Defendants
24 misrepresentations and/or material omissions, Plaintiffs would not have continued
25 purchasing product from Defendants.

26 197. Defendants knew that Plaintiffs and the class would reasonably rely
27 on their representations and material omissions, which would cause the Plaintiffs
28 and the class to purchase additional products, and Plaintiffs did in fact reasonably

1 rely on such representations and omissions by continuing to purchase such
2 products.

3 198. The fraudulent acts, representations, and omissions described herein
4 were material not only to Plaintiffs and the class, but also to reasonable persons.

5 **Defendants' Sales and Marketing Plan is Unfair**

6 199. Under California Business and Professions Code § 17200, a business
7 practice is “unfair” if it violates established public policy or if it is immoral,
8 unethical, oppressive or unscrupulous and causes injury which outweighs its
9 benefits.

10 200. For the reasons set forth above, Defendants’ representations and
11 omissions were unethical, oppressive, and unscrupulous in that Defendants had
12 been duping Plaintiffs and the class into continuing to purchase products that
13 Plaintiffs and the class members would have difficulty in selling.

14 201. Defendants’ actions have few, if any, benefits. Thus, the injury
15 caused to Plaintiffs and the class easily and dramatically outweighs the benefits, if
16 any.

17 202. Defendants should be made to disgorge all ill-gotten gains and return
18 to Plaintiffs and the class all wrongfully taken amounts.

19 203. Finally, Defendants’ unlawful, fraudulent and unfair acts and
20 omissions will not be completely and finally stopped without orders of an
21 injunctive nature. Under California Business and Professions Code § 17203,
22 Plaintiffs and the class seek a judicial order of an equitable nature against all
23 Defendants, including, but not limited to, an order declaring such practices as
24 complained of to be unlawful, fraudulent and unfair, and enjoining them from
25 further undertaking any of the unlawful, fraudulent and unfair acts or omissions
26 described herein.

27 ///

28 ///

TENTH CLAIM FOR RELIEF

False Advertising

(California Business and Professions Code § 17500, *et seq.*)

Against All Defendants

(On Behalf of the Class)

204. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52, 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103, 188-203. This claim does not incorporate any allegations that can be interpreted to allege any violation of any duty, obligation, or term or condition, imposed by any LuLaRoe Independent Consultant Program Application & Agreement, LuLaRoe’s policies and procedures, or LuLaRoe’s compensation plan.

205. Defendants’ following business acts, false advertisements and materially misleading omissions constitute false advertising, in violation of the California Business and Professions Code § 17500, *et seq.*:

- a. Misrepresenting that if they “buy more,” they will then “sell more;”
- b. Misrepresenting that Defendants will honor a 100% return policy, which Defendants never intended to honor;
- c. Misrepresenting the retailer map to conceal just how saturated the Consultant market was;
- d. Failing to disclose that the quality in the products is declining and/or being improperly stored;
- e. Intentionally providing only a few popular items in each shipment so that Consultants would have to purchase more items; and
- f. Intentionally omitting the 2017 income statement, and leaving a 2016 income statement, which was not reflective of 2017 when business was declining.

ELEVENTH CLAIM FOR RELIEF

Violation of California Corporations Code

Against all Defendants

(On Behalf of the Class)

206. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52, 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103, 188-205. This claim does not incorporate any allegations that can be interpreted to allege any violation of any duty, obligation, or term or condition, imposed by any LuLaRoe Independent Consultant Program Application & Agreement, LuLaRoe’s policies and procedures, or LuLaRoe’s compensation plan.

207. California Corporations Code § 25401 provides that it is unlawful for any person to offer to sell or sell a security in California by means of any written or oral communication, which includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements made, in light of the circumstances under which the statements were made, not misleading.

208. The clothing items that the Corporate Defendants sold to Consultants, including Plaintiffs, were securities.

209. Defendants, by engaging in the conduct described above, in connection with the purchase or sale of a security, by the use of written or oral communications made untrue statements of material facts and/or omitted to state material facts necessary in order to make the statements made, in light of the circumstances, under which they were made, accurate and not misleading. Among other things, Defendants

a. Misrepresented that if they “buy more,” they will then “sell more;”

b. Misrepresented that Defendants will honor a 100% return policy, which Defendants never intended to honor;

c. Misrepresented the retailer map to conceal just how saturated

1 the Consultant market was;

2 d. Failed to disclose that the quality in the products is declining
3 and/or being improperly stored;

4 e. Intentionally provided only a few popular items in each
5 shipment so that Consultants would have to purchase more items; and

6 f. Intentionally omitted the 2017 income statement, and leaving a
7 2016 income statement, which was not reflective of 2017 when business was
8 declining.

9 210. To the extent any of the Defendants did not directly sell the
10 securities, such Defendants are likewise liable because they either control the
11 selling Defendant, are officers or directors of selling Defendant, and/or are
12 employees that materially aided in selling Defendant's misrepresentations/
13 omissions. Cal. Corp. Code § 25504 provides that "[e]very person who directly or
14 indirectly controls a person liable under 25501 [providing remedy for violation of
15 § 25401] ... every partner in a firm so liable, every principal executive officer or
16 director of a corporation so liable, every person occupying a similar status or
17 performing similar functions, every employee of a person so liable who materially
18 aids in the act or transaction constituting the violation, and every broker-dealer or
19 agent who materially aids in the act or transaction constituting the violation, are
20 also liable jointly and severally with and to the same extent as such person, unless
21 the other person who is so liable had no knowledge of or reasonable grounds to
22 believe in the existence of the facts by reason of which the liability is alleged to
23 exist."

24 211. Moreover, California Corporations Code § 25504.1 provides that
25 "Any person who materially assists in any violation of section 25110, 25120,
26 25130, 25133, or 25401...with intent to deceive or defraud, is jointly and severally
27 liable with any other person liable under this chapter for such violation." To the
28 extent any of the Defendants did not directly sell securities, they are still

1 alternatively liable under § 25504.1 because they materially assisted selling
2 Defendant with misrepresentations/omissions as alleged herein, with the intent to
3 deceive or defraud.

4 **TWELFTH CLAIM FOR RELIEF**

5 **RICO (18 U.S.C. § 1962 (a))**

6 **Against All Defendants**

7 **(On Behalf of the Class)**

8 212. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52,
9 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103 above. Plaintiffs do not
10 incorporate any allegations that expressly plead or imply that (a) Defendants were
11 operating a pyramid scheme or endless chain scheme, and (b) that Consultants’
12 purchase of LuLaRoe product was the purchase of a security. Moreover, this claim
13 does not incorporate any allegations that can be interpreted to allege any violation
14 of any duty, obligation, or term or condition, imposed by any LuLaRoe
15 Independent Consultant Program Application & Agreement, LuLaRoe’s policies
16 and procedures, or LuLaRoe’s compensation plan.

17 213. Defendants and others willfully and intentionally violated and
18 continue to violate RICO and California law with the goal of obtaining money,
19 directly and indirectly, through a pattern of racketeering activities in violation of
20 the mail and wire fraud statutes, 18 U.S.C. §§ 1341 and 1343, 18 U.S.C. 1962(a).

21 214. Defendants engaged in activities affecting federal interstate and
22 foreign commerce and are entities capable of holding a legal or beneficial interest
23 in property. Defendants are “persons,” as that term is defined by 18 U.S.C.
24 §1961(3).

25 215. Defendants make up the enterprise, an association of entities and
26 individuals associated to operate a fraudulent scheme. The enterprise is not a legal
27 entity within the meaning of “enterprise” as defined by 18 U.S.C. § 1961(4).
28 Defendants have been members of this enterprise from at least approximately 2013

1 and continuing until the present. Defendants are separate entities and individuals
2 that make up the enterprise:

3 a. Deanne Brady is one of the founders, architects, beneficiaries
4 and promoters of the fraudulent enterprise. Through interstate wires and mails,
5 Brady makes misrepresentations and omits material facts regarding working as a
6 Consultant and/or purchases pertaining to LuLaRoe products.

7 b. Mark Stidham is one of the founders, architects, beneficiaries
8 and promoters of the fraudulent enterprise. Through interstate wires and mails,
9 Stidham makes misrepresentations and omits material facts regarding working as a
10 consultant and/or purchases pertaining to LuLaRoe products.

11 c. Lennon Leasing, LLC is the owner of the LuLaRoe mark and
12 promotes the fraudulent enterprise through the use of the LuLaRoe mark which are
13 used through interstate wires and mails.

14 d. LLR, Inc. is the operational arm of the enterprise that purchases
15 clothing to then sell to Consultants.

16 e. LuLaRoe, LLC oversees, among other things, the marketing of
17 the sales of LuLaRoe products to Consultants.

18 216. From approximately January 2013 and continuing until the present,
19 within the Central District of California and elsewhere, Defendants in association
20 with each other knowingly, willfully, and unlawfully participated, directly and
21 indirectly in the conduct of the affairs of the enterprise through a pattern of
22 racketeering activity. Each defendant knowingly participated in the scheme to
23 defraud with specific intent to deceive.

24 217. From at least 2013 and continuing until the present, Defendants
25 executed a scheme to defraud through a pattern of racketeering made up of distinct
26 acts of mail and wire fraud under 18 U.S.C. §§ 1341 and 1343. The enterprise
27 engaged in and affected interstate and foreign trade. The enterprise transacts
28 business through the instrumentalities of interstate commerce such as telephones,

1 facsimile machines, the internet, email, and the United States mail and interstate
2 commercial carrier to communicate in furtherance of the activities of the
3 enterprise. The enterprise advertises, markets, and sells products and services
4 throughout the United States. The operation of the enterprise continued over
5 several years, including activities in every state, and has affected and damaged,
6 and continues to affect and damage, commercial activity.

7 218. To further the goals of the enterprise, which were to (1) earn money
8 through fraudulent means, (2) entice Consultants to continue purchasing products
9 from LuLaRoe; and (3) reap large profits for themselves based on false
10 representations, Defendants engaged in various forms of illegal activity, including,
11 but not limited to mail fraud and wire fraud.

12 219. The pattern of racketeering activity alleged is distinct from the
13 enterprise. Each act of racketeering activity is distinct from the enterprise in that
14 each is a separate offense committed by an entity or individual while the enterprise
15 is an association of entities and individuals. The enterprise has an ongoing
16 structure and/or organization supported by personnel and/or associates with
17 continuing functions or duties.

18 220. The racketeering acts set out above and below, and others, all had the
19 same pattern and similar purpose of defrauding and/or injuring Plaintiffs and the
20 class for the benefit of the enterprise and its members. Each racketeering act was
21 related, had a similar purpose, involved the same or similar participants and
22 methods of commission and had similar results affecting Plaintiffs and the class.
23 The racketeering acts of mail and wire fraud were also related to each other in that
24 they were part of the enterprise goal to fraudulently induce Plaintiffs to purchase
25 product.

26 221. Defendants' wrongful conduct has been and remains part of the
27 enterprise's way of doing business and constitutes a continuing threat to the
28 property of Plaintiffs and the class. Without the repeated acts of mail and wire

1 fraud, the enterprise's fraudulent scheme would not have succeeded.

2 222. Revenue gained from the pattern of racketeering activity, which
3 constitutes a significant portion of the total income of Defendants, was reinvested
4 in the operations of the enterprise for the following purposes: (a) to expand the
5 enterprise through additional false and misleading advertising and promotional
6 materials aimed at having Consultants continue to purchase additional product and
7 facilitate the execution of the illegal scheme.

8 223. Plaintiffs were injured by the reinvestment of the racketeering
9 income into the enterprise because, among other things, they continued purchasing
10 more product and the market became saturated with LuLaRoe product and
11 consultants.

12 224. In connection with promoting and executing their illegal scheme,
13 members of the enterprise knowingly and recklessly placed and caused to be
14 placed in the United States mail or by interstate commercial carrier, or took or
15 received therefrom, matters or things to be sent to or delivered by the United States
16 mail or by interstate commercial carrier comprising, among other things product,
17 invoices, letters, promotional materials, brochures, products and checks to
18 Plaintiffs and the class and received communications between and among
19 themselves through the United States mail, in all fifty states and the District of
20 Columbia. It was reasonably foreseeable that these mailings or receipts would take
21 place in furtherance of the fraudulent scheme.

22 225. In connection with promoting and executing their illegal scheme,
23 members of the enterprise engaged in wire fraud, in violation of 18 U.S.C. § 1343,
24 by, among other things, knowingly and recklessly transmitting or causing to be
25 transmitted with wire communications, in interstate and foreign trade, materials
26 promoting the fraudulent scheme and fraudulent seller assisted marketing plan on,
27 among other things, internet web sites, email, telephone, and text messages,
28 including promotional materials, product information, and invoices. Defendants

1 maintain websites on the internet promoting LuLaRoe products where inducements
2 to continue working as a consultant are made. Defendants also maintain and host
3 online hosting promotional videos making material misrepresentations and
4 omissions of material fact regarding the fraudulent scheme. Defendants sent and
5 received these interstate wire communications to and from all fifty states and the
6 District of Columbia.

7 226. Each Defendant has promoted the enterprise. Each use of the mail or
8 wire by Defendants done in furtherance of the LuLaRoe Pyramid is an act of
9 racketeering.

10 227. Defendants' representations and omissions were the proximate cause
11 of Plaintiffs and the class joining the fraudulent scheme and also purchasing
12 product. Defendants' representations and omissions were also the proximate cause
13 of Plaintiffs and the class being unable to sell their product.

14 228. To the extent proof of reliance is legally required, in engaging in the
15 aforementioned wire and mail fraud, Defendants knew that Plaintiffs and the class
16 would reasonably rely on their representations and omissions which would cause
17 the plaintiffs and the class to become consultants and purchase products.

18 229. Defendants knew that the misrepresentations and omissions
19 described herein in promoting and executing the fraudulent scheme were material.

20 230. Had Plaintiffs and the class known the truth behind Defendants'
21 misrepresentations and omissions, they would not have purchased and would not
22 have continued to purchase LuLaRoe product. Moreover, had Defendants not
23 made the misrepresentations and omissions, Plaintiffs would not have lost money
24 on the purchase of LuLaRoe product.

25 231. Defendants' acts of mail and wire fraud were a proximate cause of
26 the injuries that Plaintiffs and the class suffered. Because of Defendants' pattern of
27 unlawful conduct, Plaintiffs and the Class lost hundreds of millions (if not billions)
28 of dollars.

1 232. Under 18 U.S.C. § 1964, Plaintiffs and the class are entitled to treble
2 their damages, plus interest, costs and attorney’s fees.

3 **THIRTEENTH CLAIM FOR RELIEF**

4 **RICO (18 U.S.C. § 1962 (c))**

5 **Against All Defendants**

6 **(On Behalf of the Class)**

7 233. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52,
8 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103, 212-232 above. Plaintiffs do
9 not incorporate any allegations that expressly plead or imply that (a) Defendants
10 were operating a pyramid scheme or endless chain scheme, and (b) that
11 Consultants’ purchase of LuLaRoe product was the purchase of a security.
12 Moreover, this claim does not incorporate any allegations that can be interpreted to
13 allege any violation of any duty, obligation, or term or condition, imposed by any
14 LuLaRoe Independent Consultant Program Application & Agreement, LuLaRoe’s
15 policies and procedures, or LuLaRoe’s compensation plan.

16 234. Defendants are associated with the enterprise. In violation of 18
17 U.S.C. § 1962(c), Defendants conducted and/or participated in the conduct of the
18 affairs of the enterprise, including participation in activities in furtherance of the
19 fraudulent scheme, through the pattern of racketeering activity earlier alleged.

20 235. As a direct and proximate result of Defendants’ violation of 18
21 U.S.C. § 1962(c), Plaintiffs were induced to, and did, become consultants and
22 purchased billions of dollars of the LuLaRoe products. Moreover, as a direct and
23 proximate result of Defendants’ violation of 18 U.S.C. § 1962(c), Plaintiffs lost
24 money on their purchase of product. Plaintiffs were injured by Defendants’
25 unlawful conduct. The funds used to buy LuLaRoe products constitute property of
26 Plaintiffs and the class within the meaning of 18 U.S.C. § 1964(c).

27 236. Under 18 U.S.C. § 1964(c), Plaintiffs and the class are entitled to
28 treble their damages, plus interest, costs and attorney’s fees.

1 **FOURTEENTH CLAIM FOR RELIEF**

2 **RICO (18 U.S.C. § 1962 (d))**

3 **Against All Defendants**

4 **(On Behalf of the Class)**

5 237. Plaintiffs reallege and incorporate paragraphs 7, 12-32, 44-47, 50, 52,
6 55-56, 61-66, 70-74, 80-82, 88-95, 96(e)-(l), 97-103, 212-236 above. Plaintiffs do
7 not incorporate any allegations that expressly plead or imply that (a) Defendants
8 were operating a pyramid scheme or endless chain scheme, and (b) that
9 Consultants' purchase of LuLaRoe product was the purchase of a security.
10 Moreover, this claim does not incorporate any allegations that can be interpreted to
11 allege any violation of any duty, obligation, or term or condition, imposed by any
12 LuLaRoe Independent Consultant Program Application & Agreement, LuLaRoe's
13 policies and procedures, or LuLaRoe's compensation plan.

14 238. Defendants agreed to work together in a symbiotic relationship to
15 carry on the illegal scheme. Under that agreement, Defendants and others
16 conspired to violate 18 U.S.C. § 1962(a) and (c), in violation of 18 U.S.C. §
17 1962(d).

18 239. As a direct and proximate result of Defendants' violation of 18
19 U.S.C. § 1962(d), Plaintiffs were injured by Defendants' unlawful conduct.

20 240. Under 18 U.S.C. § 1964(c), Plaintiffs and the class are entitled to
21 treble their damages, plus interest, costs and attorney's fees.

22 **PRAYER FOR RELIEF**

23 The named Plaintiffs and the Plaintiff class request the following relief:

- 24 a. Certification of the class;
- 25 b. A jury trial and judgment against Defendants;
- 26 c. Rescission of the agreements upon which the scheme is based,
27 and recovery of all consideration paid pursuant to the scheme, less any amounts
28 paid or consideration provided to the participant pursuant to the scheme;

1 d. Damages for the financial losses incurred by Plaintiffs and by
2 the class and subclasses because of the Defendants' conduct and for injury to their
3 business and property;

4 e. Restitution and disgorgement of monies;

5 f. Temporary and permanent injunctive relief enjoining
6 Defendants from promoting a seller assisted marketing plan in violation of Civil
7 Code §§ 1812.200, *et seq* and from continuing to make misrepresentations and
8 omit material facts;

9 g. Exemplary damages pursuant to Civil Code § 1812.218.

10 h. The cost of suit including reasonable attorneys' fees under
11 California Code of Civil Procedure § 1021.5, Civil Code §1689.2, Civil code
12 1812.218, 18 U.S.C. § 1964(c) and otherwise by law.

13 i. For damages in an amount yet to be ascertained as allowed by
14 law;

15 j. Treble damages under 18 U.S.C. § 1964(c); and

16 k. For such other damages, relief and pre- and post-judgment
17 interest as the Court may deem just and proper.

18
19 Dated: April 3, 2019

FOLEY BEZEK BEHLE & CURTIS, LLP

20
21 By: /s/ Kevin D. Gamarnik
22 KEVIN D. GAMARNIK
23 AARON L. ARNDT
24 JORDAN A. LIEBMAN
25 *Attorneys for Plaintiffs*
26
27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

DEMAND FOR JURY TRIAL

Plaintiffs demand a jury trial as provided by Rule 38(a) of the Federal Rules of Civil Procedure.

Dated: April 3, 2019

FOLEY BEZEK BEHLE & CURTIS, LLP

By: /s/ Kevin D. Gamarnik
KEVIN D. GAMARNIK
AARON L. ARNDT
JORDAN A. LIEBMAN
Attorneys for Plaintiffs