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8
9 **IN THE UNITED STATES DISTRICT COURT**
10 **FOR THE CENTRAL DISTRICT OF CALIFORNIA**

11
12 MELISSA ATKINSON, an individual, for
herself and all others similarly situated,

13 Plaintiffs,

14 vs.

15
16 LLR, INC., a Wyoming Corporation;
LULAROE, LLC d/b/a LULAROE; a
17 California limited liability corporation; and
Does 1 through 100, inclusive,

18
19 Defendant(s).

) Case No.:

) **CLASS ACTION COMPLAINT**

) **JURY TRIAL DEMANDED**

20
21 Plaintiff Melissa Atkinson (“Plaintiff”), individually and on behalf of all others
22 similarly situated (the “Class”), by and through her attorneys, files this Class Action
23 Complaint against LLR, Inc., LuLaRoe, LLC, and DOES 1 through 100 (collectively
24 “Defendants”).
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1 **INTRODUCTION**

2
3 1. This is an action on behalf of Plaintiff Melissa Atkinson (hereinafter
4 “Plaintiff, for herself and all those similarly situated, to recover damages caused by
5 Defendant’s operation of a fraudulent pyramid scheme and endless chain scheme. As
6 alleged herein, the scheme is fraudulent because it requires the payment by
7 participants of money to Defendants LuLaRoe, LLC and LLR, Inc. (collectively
8 “LuLaRoe”) and their co-conspirators, in return for which participants receive (1) the
9 right to sell products and (2) the right to receive, in return for recruiting other
10 participants into the program, rewards which are unrelated to the sale of the product
11 to ultimate users.

12 2. This action is brought on behalf of a class of persons who serve or have
13 served as Independent Fashion Retailers for LuLaRoe.

14 3. As a result of Defendants’ deceptive acts, practices, and representations,
15 and its operation of the illegal scheme alleged herein, Plaintiff and the Class members
16 defined below have suffered harm in that they lost money or property to become
17 participants (i.e. Independent Fashion Retailers for LuLaRoe) and to purchase
18 inventory. Plaintiff therefore brings this action seeking relief on behalf of herself and
19 all others similarly situated.

20 **PARTIES**

21 4. Plaintiff Melissa Atkinson is a California citizen who resides in San
22 Diego County, California. Plaintiff was recruited to be an Independent Fashion
23 Retailer for LuLaRoe and unknowingly became a participant of their fraudulent
24 pyramid scheme.

25 5. Defendant LuLaRoe, LLC d/b/a LuLaRoe is a California limited liability
26 company with its principal place of business at 1375 Sampson Avenue, Corona, CA
27 92879. Defendant LuLaRoe, LLC is doing business in the State of California.

28 6. Defendant LLR, Inc. is a Wyoming corporation with its principal place
of business at 416 Double Eagle Ranch Road, Thayne, WY 83127. Defendant LLR,

1 Inc.'s principal place of business in California is located at 1375 Sampson Avenue,
2 Corona, CA 92879.

3 7. The true names, roles and/or capacities of Defendants named as DOES 1
4 through 100, inclusive, are currently unknown to Plaintiff, who therefore names and
5 sues such Defendants under fictitious names. Plaintiff will identify their true
6 identities and their involvement if and when that information becomes known.
7 Plaintiff is informed and believes and thereon alleges that each of the fictitiously
8 named defendants is responsible in some manner for the occurrences and damages
9 alleged herein.

10 8. Plaintiff is informed and believes and thereon alleges that, at all times
11 mentioned, each defendant, including DOES 1 through 100, was the agent,
12 representative, alter ego, successor-in-interest, affiliate, principal, partner, joint
13 venture, and/or employee of the other defendants, and was acting within the course
14 and scope of its authority and with the express and/or implied permission, knowledge,
15 consent, and ratification of all other defendants when doing the acts and omissions
16 alleged herein.

17 9. Each of the Defendants acted as the co-conspirator, agent, joint venturer,
18 or alter ego of and/or for the other Defendants with respect to the acts, violations, and
19 common course of conduct alleged herein, and ratified said conduct, aided and
20 abetted, or is otherwise liable. Defendants have had meetings with other Defendants
21 and reached agreements to market the LuLaRoe pyramid or chain scheme as alleged
22 herein. Defendants also used interstate communication methods, including mail,
23 telephone lines, and internet transmissions to perpetuate their unlawful activities as
24 alleged herein.

25 10. The acts charged in this Complaint, as having been done by Defendants,
26 were authorized, ordered, ratified or done by their officers, agents, employees, or
27 representatives, while actively engaged in the management of the Defendants'
28 business or affairs.

JURISDICTION AND VENUE

1 11. This Court has jurisdiction over this action pursuant to the Class Action
2 Fairness Act of 2005, 28 U.S.C. § 1332(d). Plaintiff alleges that the amount in
3 controversy exceeds \$5,000,000, exclusive of interest and costs. Plaintiff further
4 alleges that members of the proposed Class are citizens of a state different from that
5 of LLR, Inc., and that the proposed Class includes in excess of 100 members.

6 12. This Court has personal jurisdiction over LuLaRoe because LuLaRoe
7 regularly conducts business in California and has marketed and sold inventory in
8 California and recruited participants for its illegal pyramid scheme in California.
9 LuLaRoe therefore has sufficient minimum contacts with this State to render the
10 exercise of jurisdiction by this Court in compliance with traditional notions of fair
11 play and substantial justice.

12 13. Venue is proper in this District pursuant to 28 U.S.C. § 1391 because
13 Defendants transact a substantial amount of business in this District and because a
14 substantial part of the events or omissions giving rise to Plaintiff's claims occurred in
15 or emanated from this District

16 **FACTUAL ALLEGATIONS**

17 **A. The Nature of Pyramid Schemes**

18 14. While pyramid schemes can take different forms, they are at their core
19 inherently illegal schemes by which their perpetrators induce others to join the
20 scheme with the promise of high profits and rewards from a putative business. The
21 reality of the schemes, however is that rewards to those that join come almost
22 exclusively from the recruitment of new participant victims of the scheme.

23 15. "Pyramid schemes are said to be inherently fraudulent because they must
24 eventually collapse." *Webster v. Omnitrition International, Inc.*, 79 F.3d 776, 781
25 [citing *S.E.C. v. International Loan Network, Inc.*, 968 F.2d 1304, 1309
26 (D.C.Cir.1992)]. "Like chain letters, pyramid schemes may make money for those at
27 the top of the chain or pyramid, but "must end up disappointing those at the bottom
28 who can find no recruits." (*Id.* [citing *In re Koscot Interplanetary, Inc.*, 86 F.T.C.
1106, 1181, *aff'd mem. sub nom.*].)

1 16. Per the Federal Trade Commission’s established test for assessing what
2 constitutes a pyramid scheme, pyramid schemes “are characterized by the payment by
3 participants of money to the company in return for which they receive (1) the right to
4 sell a product *and* (2) the right to receive in return for recruiting other participants
5 into the program rewards which are unrelated to sale of the product to ultimate
6 users.” *Omnitrition*, 968 F.2d at 781.

7 17. According to the Ninth Circuit, the “satisfaction of the second element
8 of the *Koscot* test is the *sine qua non* of a pyramid scheme: “As is apparent, the
9 presence of this second element, recruitment with rewards unrelated to product sales,
10 is nothing more than an elaborate chain letter device in which individuals who pay a
11 valuable consideration with the expectation of recouping it to some degree via
12 recruitment are bound to be disappointed.” *Omnitrition*, 968 F.2d at 781.

13 18. The United States Court of Appeals, Ninth Circuit has adopted the
14 *Koscot* standard and held that the operation of a pyramid scheme constitutes fraud.

15 19. Pyramid schemes and endless chain schemes are likewise illegal under
16 California law. California Penal Code § 327 defines an endless chain scheme as
17 follows: “any scheme for the disposal or distribution of property whereby a
18 participant pays a valuable consideration for the chance to receive compensation for
19 introducing one or more additional persons into participation in the scheme or for the
20 chance to receive compensation when a person introduced by the participant
21 introduces a new participant.” This definition is similar to the *Koscot* test.

22 **B. The LuLaRoe Pyramid Scheme’s Basic Structure**

23 20. Since at least 2013, LuLaRoe has been operating and conducting
24 business in California, and throughout the United States.

25 21. Defendant LuLaRoe purports to be a lawful and legitimate company
26 engaged in “network based marketing” which it describes as “conducted through
27 networks of independent contractors dispersed across the entire United States and
28 internationally.”

1 22. In reality, LuLaRoe is the founder of an enterprise that is and always has
2 been an illegal pyramid scheme/ endless chain scheme. This enterprise will hereinafter
3 be referred to as the “LuLaRoe Pyramid.”

4 23. The LuLaRoe Pyramid operates by offering prospective participants the
5 opportunity to become “Independent Fashion Retailers” (“IFRs”) who allegedly will
6 have the opportunity to “make between 35% to 50% of gross sales” at the lowest
7 level, “Fashion Consultant,” and are further eligible to earn “override bonuses” on the
8 “Personal Volume (wholesale cost of items sold) of their Personally Sponsored
9 Fashion Consultants” as well as for every consultant in generations after that as
10 “Trainers,” “Coaches,” and “Mentors.”

11 24. Defendant LuLaRoe labels all individuals who participate in the
12 LuLaRoe Pyramid as “IFRs.”

13 25. The basic terms of LuLaRoe’s compensation plan are set forth in
14 LuLaRoe’s Policies and Procedures, Compensation Plan, and Leadership Bonus Plan
15 documents.

16 26. LuLaRoe utilized Policies and Procedures, Compensation Plan, and
17 Leadership Bonus Plan documents that amount to a fraudulent and illegal pyramid
18 scheme, both by its very terms and by its implementation by LuLaRoe in practice.

19 27. Prospective participants who desire to join LuLaRoe enter the company
20 as a Fashion Consultant. Fashion Consultants must “purchase an initial inventory of
21 LLR [LuLaRoe] products as specified in the LLR Independent Fashion Consultant
22 Business Overview,” which then allows them to earn money by recruiting or
23 coaching others. In 2016, the “onboarding packages” ranged in price from \$4,812 for
24 336 pieces to \$6,784 for 463 pieces.

25 28. After purchasing at least \$4,812 in LuLaRoe inventory, a new LuLaRoe
26 Fashion Consultant then ostensibly has the opportunity to advance to the following
27 higher positions within the company:

- 28 a. Sponsor
- b. Trainer

1 c. Coach

2 d. Mentor

3 29. Coaches and Mentors also have the opportunity to participate in the
4 Leadership Pool, which allows those who attend quarterly Leadership Events and the
5 annual convention to earn “2% of the Wholesale Value of all Retail Sales transacted
6 in a month” “divided by the total points earned” for three months following the event.
7 Trainers receive 1 point for qualifying as a Trainer and 1 point for each First Level
8 Leader on their Team. Coaches and Mentors receive 2 points for qualifying as a
9 Coach, 1 point for each First Level Leader and 2 points for each Second Level Leader
10 on their Team.”

11 30. The basis of promoting IFRs to subsequent higher positions in the
12 company is not success in selling products, but rather in the recruitment and
13 sponsorship of new LuLaRoe IFRs by the sponsor, trainer, coach or mentor and those
14 in his or her “downline” (i.e. IFRs below them on the pyramid up to 3 levels). The
15 Defendants recruit people to become IFRs, entice them to purchase LuLaRoe
16 products and related marketing materials through material false statements and
17 omissions, and then distribute the proceeds of the product and services sales to new
18 recruits based almost exclusively on participants’ recruitment of new victims, rather
19 than on the sale of products to retail users. As a result of investing in this scheme,
20 Plaintiff and the Class have suffered millions of dollars in losses.

21 **C. Defendants’ Enterprise Constitutes a Pyramid Scheme**

22 31. Defendants have operated and promoted their fraudulent scheme through
23 the use of the United States mail and interstate wire communications. Through their
24 creation and operation of the pyramid scheme, Defendants specifically intended to,
25 and did in fact defraud the IFRs, including Plaintiff and members of the Class.

26 32. The first part of the illegal pyramid scheme consists of a multi-level
27 marketing business run by LuLaRoe. At the bottom rung of the operation is a network
28 of IFRs. LuLaRoe purports to sell its consumer products through the IFRs, but in fact
few of LuLaRoe’s products are sold to anyone other than the IFRs. The prices IFRs

1 pay for LuLaRoe's products (and associated costs) are so high that any profit on retail
2 sales is virtually impossible.

3 33. In addition, Independent Fashion Retailers cannot select the specific
4 items purchased. In particular, Independent Fashion Retailers can only select the
5 types of items, but not the specific patterns and therefore cannot tailor their inventory
6 to items that would sell well to their customers. This makes it difficult, if not
7 impossible in many cases for Independent Fashion Retailers to sell many products.
8 Furthermore, LuLaRoe's prints and patterns are very bold and bright and many of
9 them do not appeal to customers or are simply not desirable. Despite this and as a
10 result of this, Independent Fashion Retailers are forced to purchase inventory that is
11 not sellable in order to remain eligible for other purported benefits under the
12 LuLaRoe Pyramid. Defendants' response to this issue is to simply tell IFRs to
13 purchase more inventory so they can have additional patterns to sell.

14 34. Because the IFRs are LuLaRoe's actual customers and consumers of its
15 products, LuLaRoe requires an ever expanding network of IFRs in order to keep
16 LuLaRoe afloat.

17 35. As alleged herein, it is very rare that Independent Fashion Retailers are
18 able to sell the inventory they purchase at a profit. Defendants also prohibit
19 Independent Fashion Retailers from selling the clothing online, whether through
20 online retail stores or through websites they create.

21 36. As a result of these issues and the structure of the policies and
22 procedures, compensation plan, and leadership bonus plan utilized by LuLaRoe, IFRs
23 are essentially able to earn compensation from two sources: (1) bonuses for recruiting
24 and sponsoring new representatives; and (2) commissions from sales of products by
25 themselves and by their recruits in their "downline."

26 37. Defendants operate an illegal pyramid scheme because this
27 compensation plan affords IFRs the right to receive compensation in return for
28 recruiting other participants into LuLaRoe; rewards which are unrelated to the sale of
products or services to ultimate users outside of LuLaRoe. *See United States v. Gold,*

1 177 F.3d 472, 480 (6th Cir. 1999) (quoting *In re Koscot Interplanetary, Inc.*, 86
2 F.T.C. 1106, 1187 (1975)). Such a scheme is deemed inherently fraudulent under
3 federal law. *Id.*

4 i. Bonuses Paid to LuLaRoe IFRs are based on recruiting others to join
5 LuLaRoe

6 38. LuLaRoe's compensation plan involves an elaborate set of bonuses
7 which are effectively the only way to earn money in LuLaRoe and which are all tied
8 not to real sales to outside customers, but rather to recruitment of new IFRs.

9 39. After hosting 10 Pop-Up Boutiques, generating a minimum of \$10,000
10 in retail sales, and personally sponsoring at least one IFR, an IFR achieves the rank of
11 "Sponsor." Sponsors receive an "override bonus" of "5% on the wholesale value of
12 the sales of [their] new Personally Sponsored Independent Fashion Retailer,"
13 calculated per calendar month. Sponsors "sales" need not be to actual customers but
14 rather may be purchases of LuLaRoe products made by the sponsored IFR. New IFRs
15 are required to purchase an initial inventory of LuLaRoe products when they join the
16 LuLaRoe Pyramid, thus triggering the "override bonuses" to those above them on the
17 LuLaRoe Pyramid. Thus, an override bonus is compensation for recruitment and is
18 not based on actual product sales to end users outside of LuLaRoe. Furthermore,
19 bonus payments to IFRs are not based on sales to actual customers, but rather the
20 wholesale value of the IFRs' purchases, the number of downline recruits into the
21 scheme, and the value of the downline IFRs purchases from LuLaRoe.

22 40. Additionally, an IFR may receive additional "override bonuses" of 3%
23 for any member of their team that they do not personally sponsor by achieving the
24 rank of "Trainer." To achieve the rank of "Trainer," an IFR must personally
25 sponsoring at least 3 IFRs, build a team of least 10 people, and achieve personal and
26 team retail sales marks as well as a per piece sold average mark. If a Team member
27 becomes a Trainer, the original Trainer receives 1% of the dollar amount of the group
28 volume as well 1 point in the Leadership Pool for the new Trainer. This structure

1 provides further incentive to build a pyramid all the way through multiple levels of
2 recruitment.

3 41. Once an IFR becomes a Trainer, he or she is eligible to achieve the rank
4 of “Coach” if at least three individuals on their team become “First Level Leaders,”
5 meaning they achieve a leadership ranking themselves. Coaches must have personal
6 retail sales totaling 250 pieces with a minimum \$7,500 in Retail Sales, have team
7 retail sales totaling 1,750 pieces with a minimum \$52,500 in Group Retail Sales, and
8 have a per piece sold average of at least \$30 in Retail Sales, both team and personal.
9 However these requirements can be reduced if any Personally Sponsored IFR sells
10 175 pieces with a minimum of \$5,000 in Retail Sales. In addition to the Trainer
11 Leadership Bonus, Coaches are eligible to earn 1% of the Wholesale Value of any
12 Second Level Leader’s Group Retail Sales as well as additional points in the
13 Leadership Pool. Coaches receive 2 points in the Leadership Pool for themselves and
14 an additional 1 point for each First Level Leader and 2 points for each Second Level
15 Leader on their Team. This structure provides incentive to encourage those downline
16 to recruit more and more participants, and further builds the pyramid through
17 multiple levels of recruitment.

18 42. Once an IFR becomes a Coach, he or she is eligible to achieve the rank
19 of “Mentor” if he or she has at least 3 Leadership Lines with Coaches or above, and 3
20 additional Leadership Lines. A Mentor must satisfy all the same requirements as a
21 Coach, and must have at least 6 Leadership Legs. At least 3 must have a Coach or
22 above in the leg. In addition to the Coach Bonus, Mentors are eligible to earn 1% of
23 the wholesale value of any Third Level Leader’s group retail sales.

24 43. Each level of “leadership” enables the IFR to collect a percentage from a
25 new level of the pyramid. This structure incentivizes IFRs to recruit an endless
26 number of participants and to encourage recruits to make the same effort to build the
27 pyramid.
28

1 44. Accordingly, these Sponsor, Trainer, Coach, and Mentor programs
2 amount to nothing more than another means for LuLaRoe to push IFRs to recruit new
3 participants into the LuLaRoe Pyramid Scheme and to receive payment from IFRs.

4 ii. Commissions Ostensibly Earned on Sales of Products Are, In Fact,
5 Tied to Recruitment of New Managers

6 45. Although LuLaRoe's compensation structure allows IFRs to earn
7 commissions on the sale of LuLaRoe products, those commissions are relatively
8 small compared to the "override bonuses" that an IFR can earn when new IFRs are
9 recruited to join LuLaRoe in his or her downline.

10 46. Even this commission structure rewards recruitment, not sales to
11 customers outside the LuLaRoe Pyramid, because IFRs are encouraged to purchase
12 LuLaRoe products themselves via inventory loading and discouraged or prohibited
13 from measures that would enable sales to customers outside the LuLaRoe Pyramid
14 (i.e. setting up a website to sell clothing).

15 47. LuLaRoe's commission structure makes this possible by allowing IFRs
16 to earn commissions on sales without selling to customers outside the LuLaRoe
17 Pyramid. In fact, new IFRs are required to purchase an initial inventory or
18 "onboarding package," ranging in price from \$4,812 to \$6,784, and therefore allow
19 bonuses to be paid to their sponsors.

20 48. LuLaRoe's commission structure allows IFRs to earn commissions on
21 sales of products by themselves, to themselves, and by those IFRs they recruit to join
22 the company for multiple levels below them on the pyramid.

23 iii. Defendants Make False Claims About Their Success and the Money
24 that Independent Fashion Retailers Will Earn

25 49. Defendants led IFR's to believe they could earn money by becoming
26 IFRs. Defendants told consumers that "in a matter of a few months, you can
27 completely repay your initial investment and have money in the bank."
28

1 50. As part of this deception, Defendants misrepresented that IFRs would be
2 able to regain their initial investment and earn money within as little as one to four
3 months. Defendants used the chart below as part of their marketing, advertising and
4 promotional materials to recruit IFRs into the LuLaRoe Pyramid.

Repay yourself in	4 months	2 months	1 month
Number of pieces sold each week	20	40	70
Gross Sales (per month)	\$2,640*	\$5,280*	\$9,240*
Net Profit (per month)	\$1,440*	\$2,880*	\$5,040*

* This is an approximate amount assuming you are selling in the middle of the low and high suggested retail.

** Other startup expenses may include - Business Cards, Brochures, Hangers, Clothing Racks

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11 51. Plaintiffs and the class were misinformed and manipulated to join the
12 LuLaRoe Pyramid. Potential IFRs were enticed with promises of “part time work for
13 full time pay.” However, IFRs were then required to invest in ever increasing
14 amounts of Defendants’ products, irrespective of whether they were able to sell their
15 inventory. Defendants consistently repeated the slogan “buy more sell more” and
16 assured IFRs that they would recoup their investment through recruitment and retail
17 sales. Despite this, Plaintiff and thousands of other IFRs never turned a profit.
18 Plaintiff and members of the class were tricked into Defendants’ pyramid scheme,
19 which profits only those at the top of the pyramid.

20 52. The LuLaRoe Pyramid grew at an exponential rate. LuLaRoe enticed
21 IFRs to achieve financial freedom by recruiting others to become IFRs and by having
22 IFRs purchase inventory from LuLaRoe. However, none of the IFR bonus payments
23 distributed by LuLaRoe were dependent on actual sales to consumers. Rather, they
24 were based solely on inventory purchased by IFRs within the LuLaRoe Pyramid.

25 53. Plaintiff and the Class believed Defendants representations and
26 subsequently joined the LuLaRoe Pyramid and/or continued to purchase an ever
27 increasing amount of inventory. Each spent thousands of dollars to purchase
28 LuLaRoe products and were pressured to encourage others to do the same.

1 54. The LuLaRoe Pyramid soon created an over saturated market, making it
2 increasingly difficult for those at the bottom of the pyramid to turn a profit. LuLaRoe
3 informed struggling IFRs that the solution to their problem was to acquire more
4 inventory.

5 55. Plaintiff and the class failed to realize any profit despite their hard work
6 and commitment. This is because they were doomed to fail from the start as a result
7 of Defendants' unlawful pyramid scheme. The LuLaRoe Pyramid focuses on paying
8 IFRs for recruiting and on the basis of their recruits' inventory purchases, regardless
9 of whether recruits had any actual retail sales. This structure, which pays millions to
10 those at the top at the expense of those at the bottom of the pyramid, constitutes an
11 unlawful pyramid scheme.

12 **D. The LuLaRoe Pyramid Violates the Amway Rules**

13 56. As stated above, new IFRs are recruited into an existing "line of
14 sponsorship" to which the recruiting IFR already belongs. IFRs are recruited to
15 LuLaRoe because LuLaRoe omits to inform the IFRs that they are entering into an
16 illegal pyramid scheme/ endless chain scheme, and that the overwhelming majority of
17 IFRs will lose money rather than earn it. These are material omissions.

18 57. Defendants' scheme violates California Penal Code § 327 because it is
19 an endless chain scheme or pyramid scheme. Accordingly, even if Defendants could
20 establish compliance with the Federal Trade Commission's ("FTC") decision in *In re*
21 *Amway Corp.*, 93 F.T.C. 618 (1979)—which they cannot—the scam nevertheless
22 violates California Penal Code § 327.

23 58. In *Amway*, the FTC ruled that Amway was not a pyramid scheme
24 because it adopted and enforced certain rules that were intended to avoid the
25 characteristics of a pyramid scheme.

26 59. The FTC held that a direct marketing business like Amway would not be
27 considered a pyramid scheme if the sponsor of the business did not violate the initial
28 investment rule, the 70% buyback rule, and the 10 customer rule, all of which are
described in more detail below.

1 60. The FTC reasoned in *Amway* that the company’s operations did not
2 constitute a pyramid scheme because:

3 The Amway system is based on retail sales to consumers. Respondents
4 have avoided the abuses of pyramid schemes by (1) not having a
5 ‘headhunting’ fee; (2) making product sales a precondition to receiving
6 the performance bonus; (3) buying back excessive inventory; and (4)
7 requiring that products be sold to consumers, Amway’s buy-back, 70%
8 and ten consumer rules deter unlawful inventory loading. *Id.* at 107-109.

9 61. Accordingly, if any one of these rules is not followed, then the business
10 at issue may be deemed a pyramid scheme.

11 i. The Initial Investment Rule:

12 62. The FTC decision noted that pyramid schemes involve a payment or
13 initial disbursement by a new participant in exchange for the right to sell products and
14 the right to receive rewards in return for recruiting other participants into the
15 program, and which are unrelated to the sale of products to the ultimate user. The
16 FTC found that Amway did not require such an investment because “the *Amway*
17 system does not involve an ‘investment’ inventory by a new Rep. A kit of sales
18 literature costing only \$15.60 is the only requisite.” *In re Amway Corp.*, 93 F.T.C.
19 618, [107] (1979).

20 63. LuLaRoe, however, requires a significant investment by a new IFR.
21 Each new IFR is effectively required to make an initial investment of thousands of
22 dollars through the purchase of LuLaRoe products. As alleged herein, Fashion
23 Consultants must “purchase an initial inventory of LLR [LuLaRoe] products as
24 specified in the LLR Fashion Independent Fashion Consultant Business Overview,”
25 which then allows them to earn money by recruiting or coaching others. In 2016, the
26 “onboarding packages” ranged in price from \$4,812 for 336 pieces to \$6,784 for 463
27 pieces.

28 64. In *Omitrition*, unlike with LuLaRoe, there was no significant charge to
become an IFR and they had no quota of product they had to buy. However, in order
to receive any benefit from the system to move up to the next level as a “Bronze

1 Supervisor,” the IRs had to purchase and convince three other recruits to purchase a
2 certain amount of product. *Omnitrition* at 780. Here the scheme is worse. Individuals
3 must spend thousands of dollars to initially become Independent Fashion Retailers to
4 enable them to gain any benefits at all. Then, advancement is based on the amount of
5 product they self consume and the number of persons they can recruit as IFRs to
6 likewise purchase LuLaRoe’s inventory.

7 65. In *Omnitrition*, the multilevel marketer argued that its business plan did
8 not meet the first element of the *Koscot* test because: “it does not charge for the right
9 to sell its products at the IRS level” – but the court disagreed. *Id.* at 782. The court
10 explained that in order to move up within the *Omnitrition* pyramid scheme:

11 A participant must pay a substantial amount of money to *Omnitrition* in
12 the form of large monthly product orders. In exchange for these
13 purchases, the supervisor receives the right to sell the products and earn
14 compensation based on product orders made by the supervisor’s recruits.
15 This compensation is facially ‘unrelated to the sale of product to ultimate
16 users’ because it is paid based on the suggested retail price of the amount
17 ordered from *Omnitrition* rather than based on actual sales to consumers.
18 On its face, *Omnitrition*’s program appears to be a pyramid scheme.
19 *Omnitrition* cannot save itself simply by pointing to the fact that it
20 makes some retail sales.

21 *Id.* at 782 (emphasis added). LuLaRoe’s scheme is analogous, but in fact worse than
22 *Omnitrition*’s in that IFRs are required to make a massive initial investment and then
23 continue to purchase large volumes of product each month to be eligible for any
24 benefits.

25 ii. The 70% Rule:

26 66. In *Amway*, the FTC explained the 70% rule as follows: “[t]o ensure that
27 IRs do not attempt to secure the performance bonus solely on the basis of purchases,
28 *Amway* requires that, to receive a performance bonus, IRs must resell at least 70% of

1 the products they have purchased each month...*Amway* enforces the 70% rule.”
2 *Amway*, 93 F.T.C. 618 at 72-75.

3 67. Until July 2017, LuLaRoe did not have a 70% rule, making no mention
4 of it in any of its documents. In July 2017, LuLaRoe purported to implement a sales
5 requirement, but has not enforced this rule as it continues to accept orders from IFRs
6 even though they have not satisfied the purported sales rules.

7 68. For these reasons, Defendants do not comply with the 70% rule.

8 iii. The “Buyback” Rule:

9 69. In the *Amway* decision, the FTC described the buyback rule as follows:
10 "Amway, the Direct Rep or the sponsoring Rep will buy back any unused marketable
11 products from a Rep whose inventory is not moving or who wishes to leave the
12 business....Amway enforces the buy-back rule...." *Amway*, 93 F.T.C. 618 at [72-75].

13 70. LuLaRoe’s current buyback rule does not provide for a 100% refund,
14 requires IFRs to pay for shipping, and allows LuLaRoe to determine which items
15 qualify for a refund. LuLaRoe often does not provide a refund and imposes additional
16 fees for returns. Items that do not qualify for a refund are allegedly donated to
17 charity, and are not returned to the IFR, thus depriving the IFR of the product and
18 compensation for the product. Lastly, even if a refund is issued, IFRs are often forced
19 to wait several months to receive a refund. For these reasons, LuLaRoe’s buyback
20 policy fails to satisfy the *Amway* “buyback” rule, indicating that LuLaRoe is an
21 unlawful pyramid scheme.

22 71. LuLaRoe seemingly attempted to address this issue in April 2017, when
23 it promised to honor a 100% refund policy. In fact, LuLaRoe reneged on this
24 promise as further detailed below.

25 72. In April 2017, LuLaRoe promised consultants a 100% refund of the
26 wholesale amount of inventory purchased, including shipping charges, in an effort to
27 entice participants to sign up and purchase inventory. LuLaRoe promised that the
28 buyback policy would never expire and listed no conditions or exceptions.

1 73. LuLaRoe promised Consultants that they could terminate their IFR
2 status at any time and return remaining inventory for a full refund, including shipping
3 costs. These representations were directly communicated to IFRs via email, training
4 seminars, and various advertisements.

5 74. IFRs were encouraged to use the buyback policy as a means to recruit
6 IFRs and entice them to order as much inventory as possible. IFRs were also
7 encouraged to max-out their credit cards and “stop paying bills to invest more in
8 inventory.”

9 75. Despite LuLaRoe’s promises, its return and shipping policy differed
10 substantially from what it represented. IFRs were often unable to return inventory at
11 all and/or never received a refund.

12 76. Further, IFRs were informed that they were not eligible under the
13 buyback policy unless they agreed to immediately stop selling their inventory. Once
14 an IFRs cancellation was processed, they received a confirmation and were instructed
15 to wait for a Return Authorization Number (“RA” number), necessary to return
16 LuLaRoe inventory and receive return shipping labels.

17 77. However, LuLaRoe often failed to send shipping labels or “RA”
18 numbers, leaving IFRs with thousands of dollars in inventory that they could neither
19 sell nor return.

20 78. For those few that did receive return shipping labels or “RA” numbers,
21 LuLaRoe often rejected refunds, provided only partial refunds for the items, or
22 claimed that the inventory was never received.

23 79. On or about September 13, 2017, LuLaRoe announced that its buyback
24 policy would not cover shipping charges, would only refund up to 90%, and included
25 numerous exceptions. The policy set forth on September 13, 2017 was as follows:

- 26 • The items being returned must have been personally purchased by the
27 Independent Fashion Consultant from LLR (purchases from other
28 Independent Fashion Consultants or third parties are not subject to
refund);

- 1 • The items must be in Resalable condition (see Definition of “Resalable”
2 below); and
- 3 • The items must have been purchased from LLR within one year prior to
4 the date of cancellation.

5 Upon receipt of a Resalable products and sales aids, the Independent Fashion
6 Consultant will be reimbursed 90% of the net cost of the original purchase
7 price(s). Shipping and handling charges incurred by an Independent Fashion
8 Consultant when the products or sales aids were purchased, and return shipping
9 fees, will not be refunded. If the purchases were made through a credit card,
the refund will be credited back to the same account. If an Independent
Fashion Consultant was paid a bonus based on a product(s) that he or she
purchased, and such product(s) is subsequently returned for a refund, the bonus
that was paid to the Independent Fashion Consultant based on that product
purchase will be deducted from the amount of the refund.

10 Products and sales aids shall be deemed “Resalable” if each of the following
11 elements is satisfied: 1) they are unworn, unwashed, folded with hang tags and
12 in original packaging; 2) packaging and labeling has not been altered or
13 damaged; 3) they are in a condition such that it is a commercially reasonable
14 practice within the trade to sell the merchandise at full price; and 4) they are
15 returned to LLR within one year from the date of purchase. Any merchandise
that is clearly identified at the time of sale as nonreturnable, discontinued, or as
a seasonal item, shall not be Resalable. Items that are returned that are not
Resalable will be donated to a charity selected by LuLaRoe and no refund or
exchange will be issued.

16 80. As a result, Plaintiffs and the Class have suffered significant financial
17 losses.

18 81. Under this policy, IFRs are unable to return inventory, and/or after they
19 have returned inventory are subject to LuLaRoe’s determination to that items are non-
20 refundable. This determination is made solely by LuLaRoe and rejected items are
21 donated to charity, thus depriving IFRs of both the product and compensation for the
22 product.

23 iv. The Ten Customer Rule:

24 82. The "ten customer rule" approved by the FTC in *Amway* provided that
25 "IRs may not receive a performance bonus unless they prove a sale to each different
26 retail customers during each month....The ten customer rule is enforced by Amway
27 and the Direct IRs...." *Amway*, 93 F.T.C. 618 at [72-75]. The FTC added: "[p]yramid
28 sales plans based on inventory loading or headhunting fees create an incentive for

1 recruiting rather than selling products to consumers... Amway's ten-customer rule
2 deters inventory loading by sponsoring IRs." Id at 142-147.

3 83. Until July 2017, LuLaRoe had no "ten customer" rule. In July 2017
4 LuLaRoe claimed to have implemented a minimal sales requirement for IFRs who
5 wished to qualify for bonuses. However, LuLaRoe does not enforce this rule, as it
6 will still sell inventory to IFRs who fail to meet this requirement. For these reasons,
7 LuLaRoe's fails to satisfy the Amway "ten customer" rule, indicating that LuLaRoe
8 is an unlawful pyramid scheme.

9 84. All of the Defendants are aware of, approve, actively encourage,
10 promote, and facilitate the systematic noncompliance with or breach of the rules that
11 purportedly protect against the operation of a pyramid scheme, as discussed in the
12 Amway FTC Order. LuLaRoe's rules governing pyramid schemes are therefore a
13 sham.

14 CLASS ACTION ALLEGATIONS

15 85. Pursuant to Rule 23 of the Federal Rules of Civil Procedure, Plaintiff
16 brings this action on behalf of herself and all others similarly situated and seeks
17 certification of the following Class:

18 All persons who were LuLaRoe Independent Fashion Retailers at any
19 time from January 1, 2013 to the present and who lost money as a result
20 of Defendants' illegal pyramid scheme.

21 86. Excluded from the Class are: Defendants and their parent companies,
22 subsidiaries, affiliates, directors, officers, principals, controlling entities, and agents;
23 the agents, affiliates, legal representatives, heirs, attorneys at law, attorneys in fact, or
24 assignees of such persons or entities described herein; and any judges or justices
25 assigned to hear any aspect of this litigation and any members of their immediate
26 families.

27 87. Numerosity: This Class is so numerous that joinder of all members is
28 impracticable. Plaintiff is informed and believes there are likely thousands of Class
members who were Independent Fashion Retailers. While the precise number of class

1 members is presently unknown to Plaintiff, this information is in the control of
2 Defendants and can be readily ascertained through discovery.

3 88. Typicality: Plaintiff's claims are typical of the claims of the Class in
4 that Plaintiff was an Independent Fashion Retailer who was recruited to participate in
5 Defendants' fraudulent pyramid scheme and lost money as a result, Plaintiff and the
6 members of the Class were injured by the same wrongful conduct of Defendants, and
7 the relief sought is common to all members of the Class. Plaintiff's claims therefore
8 arise from the same common course of conduct giving rise to the claims of other
9 Class members.

10 89. Common Questions Predominate: Numerous common questions of law
and fact exist as to all members of the Class, including, but not limited to:

- 11 a. Whether Defendants engaged in the conduct alleged herein;
- 12 b. Whether Defendants' business constitutes an endless chain
- 13 scheme within the meaning of California Penal Code § 327;
- 14 c. Whether Defendants' conduct violates consumer protection
- 15 statutes and other laws asserted herein including, but not limited
- 16 to California's Unfair Competition Law (Cal. Bus. & Prof. Code
- 17 §§ 17200, et seq.) and California's False Advertising Law (Cal.
- 18 Bus. & Prof. Code §§ 17500, et seq.);
- 19 d. Whether members of the Class are entitled to restitution as a result
- 20 of Defendants' conduct and, if so, the proper measure and
- 21 appropriate formula to be applied in determining such restitution;
- 22 e. Whether members of the Plaintiff Class are entitled to other
- 23 equitable relief and, if so, the proper amount thereof;
- 24 f. Whether members of the Plaintiff Class are entitled to injunctive
- 25 relief as a result of Defendants' conduct and, if so, the appropriate
- 26 form of such relief.

27 90. These and other questions of law and fact are common to the Class and
28 predominate over any questions affecting Class members individually.

1 91. Adequacy: Plaintiff will fairly and adequately represent the interests of
2 the Class because she was an Independent Fashion Retailer who was recruited to
3 participate in Defendants’ fraudulent scheme, she purchased inventory she otherwise
4 would not have purchased, and she has lost money as a result of Defendants’ conduct.
5 Plaintiff has no irreconcilable conflict with any members of the Class. Furthermore,
6 Plaintiff has retained counsel with substantial experience and success in the
7 prosecution of class actions generally, and litigation of this nature specifically.

8 92. Superiority and Manageability: A class action is superior to any other
9 available method for the fair and efficient group-wide adjudication of this
10 controversy since individual joinder of all Class members is impracticable.
11 Furthermore, the expenses and burden of individual litigation would make it difficult
12 or impossible for individual Class members to redress the wrongs done to them,
13 especially given that the damages or injuries suffered by each individual Class
14 member may be relatively small. Even if the Class members could afford
15 individualized litigation, the cost to the court system would be substantial and
16 individual actions would also present the potential for inconsistent or contradictory
17 judgments. By contrast, a class action presents fewer management difficulties and
18 provides the benefits of a single adjudication and comprehensive supervision by a
19 single court and is manageable based on the use of common evidence and a core
20 number of representations and omissions of material fact at issue.

21 **FIRST CAUSE OF ACTION**
22 **ENDLESS CHAIN SCHEME**
23 **Cal. Penal Code § 327 and California Civil Code § 1689.2**
24 **(Against Defendant on Behalf of All Class Members)**

25 93. Plaintiff incorporates and re-alleges by reference all allegations set forth
26 in this Complaint as though fully set forth herein.

27 94. At all times relevant hereto, Defendants have operated and continue to
28 operate an illegal pyramid scheme and endless chain scheme.

 95. California Penal Code § 327 provides that “an “endless chain” means
any scheme for the disposal or distribution of property whereby a participant pays a

1 valuable consideration for the chance to receive compensation for introducing one or
2 more additional persons into participation in the scheme or for the chance to receive
3 compensation when a person introduced by the participant introduces a new
4 participant.”

5 96. Pursuant to California Penal Code § 327, endless chain schemes are
6 illegal. In addition, California Civil Code § 1689.2 provides that a participant of an
7 endless chain scheme “may rescind the contract upon which the scheme is based, and
8 may recover all consideration paid pursuant to the scheme, less any amounts paid or
9 consideration provided to the participant pursuant to the scheme.

10 97. As a direct and proximate result of Defendants’ conduct, including their
11 operation of an endless chain scheme, Plaintiff and the Class members have lost
12 money or property and suffered an injury in fact.

13 98. Pursuant to California Civil Code § 1689.2, Plaintiff and Class members
14 are entitled to recover all consideration paid pursuant to the scheme, less any amounts
15 paid or consideration provided to said participant(s) under the scheme. In addition,
16 Plaintiff and the Class are entitled to rescind the contract upon which the endless
17 scheme is based, and to recover reasonable attorneys’ fees.

18 **SECOND CAUSE OF ACTION**
19 **VIOLATION OF CALIFORNIA UNFAIR COMPETITION LAW**
20 **Cal. Bus. & Prof. Code §§ 17200, et seq.**
21 **(Against Defendant on Behalf of All Class Members)**

22 99. Plaintiff incorporates and re-alleges by reference all allegations set forth
23 in this Complaint as though fully set forth herein.

24 100. California’s Unfair Competition Law (“UCL”), Cal. Bus. & Prof. Code §
25 17200, et seq., proscribes acts of unfair competition, including “any unlawful, unfair
26 or fraudulent business act or practice and unfair, deceptive, untrue or misleading
27 advertising...”

28 101. Beginning at an exact date unknown to Plaintiff but at least since
sometime beginning in 2012, Defendants committed and continue to commit acts of
unfair competition as defined by the UCL.

1 102. As specifically alleged herein, Defendants’ acts and practices violate
2 California Penal Code § 327 and the California False Advertising Law, Cal. Bus. &
3 Prof. Code § 17500, et seq., and consequently constitute “unlawful” business acts and
4 practices within the meaning of Cal. Bus. & Prof. Code § 17200.

5 103. Defendants’ acts and practices also constitute “unfair” business acts and
6 practices within the meaning of the UCL in that: (i) they violated the policy and spirit
7 of such laws; (ii) they were immoral, unethical, oppressive, unscrupulous and
8 substantially injurious to consumers; (iii) they harmed consumers in a manner that
9 substantially outweighs any legitimate benefits of Defendant’s conduct; and (iv) the
10 injury was not one that consumers reasonably could have avoided.

11 104. Defendants’ conduct, as described herein, was and is in violation of the
12 UCL, including but not limited to the “fraudulent” or deceptive prong of the UCL.
13 Defendant’s conduct violates the UCL in at least the following ways:

14 105. Misrepresenting the amount of money that Independent Fashion
15 Retailers would earn;

16 106. Misrepresenting the ability of Independent Fashion Retailers to return
17 unsold or defective inventory;

18 107. Failing to disclose to consumers and Independent Fashion Retailers that
19 they were entering into an unlawful pyramid scheme or endless chain; and

20 108. Misrepresenting or failing to disclose that Independent Fashion Retailers
21 would need to self-consume products and convince others to do the same in order to
22 earn the promised revenue;

23 109. Defendants’ acts and practices were likely to deceive and/or did deceive
24 Plaintiff, Class members, and the consuming public and consequently constituted
25 “fraudulent” acts and practices within the meaning of the UCL. Through the untrue
26 and misleading statements contained in Defendants’ advertising, marketing,
27 promotional materials, and other documents/materials directed to Plaintiff and the
28 Class members, Defendants misled Plaintiff, the Class members, and members of the
general public about the nature of its business (which is a pyramid scheme), about

1 their ability to sell product, recoup their investment(s) and earn money, and their
2 ability to return products, among other things.

3 110. Defendants' marketing, advertising and promotion of the fraudulent
4 pyramid scheme and endless chain scheme also constitutes unfair, deceptive, untrue
5 and misleading advertising. As alleged herein, Defendants' advertising, marketing,
6 and other promotional materials contained claims, statements, omissions and
7 representations that were false, misleading and/or likely to deceive the public targeted
8 by such materials. Defendants used such marketing, advertising and promotional
9 materials to induce consumers to join the pyramid scheme and/or endless chain and to
10 purchase their products.

11 111. Defendants' representations and omissions alleged herein were a
12 substantial factor in Plaintiff and other Class members making their decisions to
13 become Independent Fashion Retailers and purchase inventory from Defendants at
14 the prices they did. Absent Defendants' representations and omissions, Plaintiff and
15 the other Class members would not have purchased the inventory they did and would
16 not have signed up to be Independent Fashion Retailers with LuLaRoe.

17 112. As a direct and proximate result of Defendants' conduct, Defendants
18 received ill-gotten gains and have been unjustly enriched at the expense of Plaintiff
19 and the Class members.

20 113. Plaintiff requests that this Court enter such orders or judgments as may
21 be necessary to enjoin Defendants from continuing its unfair, unlawful and/or
22 deceptive practices and to restore to Plaintiff and members of the Class any money
23 Defendants may have acquired by such acts of unfair competition, including
24 restitution and/or restitutionary disgorgement, as provided in Cal. Bus. § Prof. Code §
17203, and for such other relief set forth herein or as the Court deems appropriate.

25 **THIRD CAUSE OF ACTION**
26 **VIOLATION OF CALIFORNIA'S FALSE ADVERTISING LAW**
27 **Cal. Bus. & Prof. Code §§ 17500, et seq.**
28 **(Against Defendant on Behalf of All Class Members)**

1 114. Plaintiff incorporates and re-alleges by reference all allegations set forth
2 in this Complaint as though fully set forth herein.

3 115. At all times relevant hereto, Defendants were and are “persons” as
4 defined by Cal. Bus. & Prof. Code § 17506.

5 116. California Bus. & Prof. Code § 17500 states: “It is unlawful for any
6 person, firm, corporation or association, or an employee thereof with intent directly
7 or indirectly to dispose of real or personal property ... or to induce the public to enter
8 into any obligation relating thereto, to make or disseminate or cause to be made or
9 disseminated before the public in this state, or to make or disseminate or cause to be
10 made or disseminated from this state before the public in any state, in any newspaper
11 or other publication, or any advertising device, or by public outcry or proclamation,
12 or in any other manner or means whatever, including over the Internet, any statement,
13 concerning that real or personal property or those services, professional or otherwise,
14 or concerning any circumstances or matter of fact connected with the proposed
15 performance or disposition thereof, which is untrue or misleading, and which is
16 known, or which by the exercise of reasonable care should be known, to be untrue or
17 misleading, or for any person, firm, or corporation to so make or disseminate or cause
18 to be so made or disseminated any such statement as part of a plan or scheme with the
19 intent not to sell that personal property or those services, professional or otherwise, so
20 advertised at the price stated therein, or as so advertised.

21 117. Through the acts and practices described herein, Defendants engaged in
22 a campaign of advertising and marketing to the public, including Plaintiff and Class
23 members.

24 118. Through Defendants’ advertising, marketing, publications, other
25 promotional materials and representations, Defendant caused to be made or
26 disseminated throughout California and elsewhere statements that were untrue or
27 misleading with the intent to induce consumers like Plaintiff and Class members to
28 become Independent Fashion Retailers and purchase inventory from Defendants that
they otherwise would not have purchased, among other things.

1 119. Defendants made and disseminated this advertising, including the untrue
2 and misleading statements, with the intent of inducing the public to become
3 Independent Fashion Retailers, enter the illegal pyramid scheme and purchase
4 inventory from Defendant.

5 120. In making and disseminating such statements, including advertising,
6 marketing and other promotional materials, Defendants knew or by the exercise of
7 reasonable care should have known, the statements were untrue or misleading.

8 121. Defendants violated Bus. & Prof. Code § 17500 because the
9 misrepresentations and omissions of material fact set forth in this Complaint were
10 material and likely to deceive a reasonable consumer.

11 122. As a direct and proximate result of Defendants' false and misleading
12 advertising, Plaintiff and the Class members have lost money or property and
13 suffered damages in that they bought inventory they otherwise would not have
14 bought, paid more for inventory than they otherwise would have, or paid money to
15 become Independent Fashion Retailers when they otherwise would not have, among
16 other things. Plaintiff further alleges that as a direct and proximate result of
17 Defendants' false and misleading advertising as alleged herein, Defendants have
18 obtained a monetary benefit from Plaintiff and the Class members. As such,
19 Defendants have been unjustly enriched at the expense of Plaintiff and the Class
20 members.

21 123. Plaintiff, individually and on behalf of the other Class members,
22 requests that this Court enter such orders and judgments as may be necessary to
23 enjoin Defendants from continuing their unfair, unlawful, and/or deceptive practices
24 and to restore to Plaintiff and other Class members any money Defendants acquired
25 by its improper conduct, including restitution and/or restitutionary disgorgement, and
26 for such other relief set forth below or as the Court deems proper.

27
28
PRAYER FOR RELIEF

1 WHEREFORE, Plaintiff, on behalf of herself and all persons similarly situated,
2 prays for judgment against Defendants, and each of them, as follows, as appropriate
3 for the particular count:
4

- 5 1. That the Court enter an order certifying the Class, appointing Plaintiff as
6 representative of the Class, and appointing Plaintiff's counsel as Class
7 counsel;
- 9 2. That the Court enter judgment against Defendants for each of the causes
10 of action alleged herein;
- 12 3. That the Court enter an order temporarily and permanently enjoining
13 Defendants from continuing the acts of unfair competition or violations
14 of law as alleged herein;
- 16 4. For an order requiring the payment of restitution or restitutionary
17 disgorgement of all amounts obtained by Defendants as a result of the
18 misconduct set forth above in an amount according to proof at trial;
- 20 5. Recovery of all consideration paid pursuant to the scheme, less any
21 amounts paid or consideration provided to the participant(s) and
22 rescission of the contracts upon which Defendants' endless scheme is
23 based;
- 25 6. For damages or other equitable monetary relief, plus pre and post-
26 judgment interest thereon, in an amount according to proof at trial;
- 27 7. For other appropriate equitable relief;
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- 8. For reasonable attorneys' fees and costs as permitted by law including under California Code Civil Procedure § 1021.5; and
- 9. For such other and further relief as may be appropriate.

JURY TRIAL DEMAND

Plaintiff hereby demands a jury trial for all claims and issues so triable.

Respectfully submitted,

LAW OFFICES OF ALEXANDER SCHACK

Dated: November 9, 2017

By: /s/ Natasha N. Serino
Natasha N. Serino, Esq.

Alexander M. Schack,
Natasha N. Serino
16870 West Bernardo Drive, Suite 400
San Diego, California 92127
Telephone: (858) 485-6535
Facsimile: (858) 485-0608
alexschack@amslawoffice.com
natashaserino@amslawoffice.com

CIVIL COVER SHEET

I. (a) PLAINTIFFS (Check box if you are representing yourself <input type="checkbox"/>) Melissa Atkinson, an individual, for herself and all others similarly situated	DEFENDANTS (Check box if you are representing yourself <input type="checkbox"/>) LLR, Inc., a Wyoming Corporation; LULAROE, LLC d/b/a LULAROE; a California limited liability corporation
(b) County of Residence of First Listed Plaintiff <u>San Diego, CA</u> (EXCEPT IN U.S. PLAINTIFF CASES)	County of Residence of First Listed Defendant <u>Lincoln County, WY</u> (IN U.S. PLAINTIFF CASES ONLY)
(c) Attorneys (Firm Name, Address and Telephone Number) If you are representing yourself, provide the same information. Law Offices of Alexander M. Schack 16870 W. Bernardo Drive, Suite 400 San Diego, CA 92127 (858) 485-6535	Attorneys (Firm Name, Address and Telephone Number) If you are representing yourself, provide the same information.

II. BASIS OF JURISDICTION (Place an X in one box only.) <input type="checkbox"/> 1. U.S. Government Plaintiff <input type="checkbox"/> 2. U.S. Government Defendant <input type="checkbox"/> 3. Federal Question (U.S. Government Not a Party) <input checked="" type="checkbox"/> 4. Diversity (Indicate Citizenship of Parties in Item III)	III. CITIZENSHIP OF PRINCIPAL PARTIES-For Diversity Cases Only (Place an X in one box for plaintiff and one for defendant) <table style="width:100%; border: none;"> <tr> <td style="border: none;">Citizen of This State</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 1 </td> <td style="border: none;">Incorporated or Principal Place of Business in this State</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input type="checkbox"/> 4 <input type="checkbox"/> 4 </td> </tr> <tr> <td style="border: none;">Citizen of Another State</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input type="checkbox"/> 2 <input type="checkbox"/> 2 </td> <td style="border: none;">Incorporated and Principal Place of Business in Another State</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input type="checkbox"/> 5 <input checked="" type="checkbox"/> 5 </td> </tr> <tr> <td style="border: none;">Citizen or Subject of a Foreign Country</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input type="checkbox"/> 3 <input type="checkbox"/> 3 </td> <td style="border: none;">Foreign Nation</td> <td style="border: none; text-align: center;">PTF DEF</td> <td style="border: none;"> <input type="checkbox"/> 6 <input type="checkbox"/> 6 </td> </tr> </table>	Citizen of This State	PTF DEF	<input checked="" type="checkbox"/> 1 <input type="checkbox"/> 1	Incorporated or Principal Place of Business in this State	PTF DEF	<input type="checkbox"/> 4 <input type="checkbox"/> 4	Citizen of Another State	PTF DEF	<input type="checkbox"/> 2 <input type="checkbox"/> 2	Incorporated and Principal Place of Business in Another State	PTF DEF	<input type="checkbox"/> 5 <input checked="" type="checkbox"/> 5	Citizen or Subject of a Foreign Country	PTF DEF	<input type="checkbox"/> 3 <input type="checkbox"/> 3	Foreign Nation	PTF DEF	<input type="checkbox"/> 6 <input type="checkbox"/> 6
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Citizen or Subject of a Foreign Country	PTF DEF	<input type="checkbox"/> 3 <input type="checkbox"/> 3	Foreign Nation	PTF DEF	<input type="checkbox"/> 6 <input type="checkbox"/> 6														

IV. ORIGIN (Place an X in one box only.)

1. Original Proceeding
 2. Removed from State Court
 3. Remanded from Appellate Court
 4. Reinstated or Reopened
 5. Transferred from Another District (Specify)
 6. Multi-District Litigation

V. REQUESTED IN COMPLAINT: JURY DEMAND: Yes No (Check "Yes" only if demanded in complaint.)

CLASS ACTION under F.R.Cv.P. 23: Yes No **MONEY DEMANDED IN COMPLAINT:** \$ over \$5,000,000

VI. CAUSE OF ACTION (Cite the U.S. Civil Statute under which you are filing and write a brief statement of cause. Do not cite jurisdictional statutes unless diversity.)
 Violation of Cal. Bus. & Prof. Code 17200, 17500, et seq., and Cal. Penal Code 327 and Cal. Civil Code 1689.2.

VII. NATURE OF SUIT (Place an X in one box only.)

OTHER STATUTES	CONTRACT	REAL PROPERTY CONT.	IMMIGRATION	PRISONER PETITIONS	PROPERTY RIGHTS
<input type="checkbox"/> 375 False Claims Act	<input type="checkbox"/> 110 Insurance	<input type="checkbox"/> 240 Torts to Land	<input type="checkbox"/> 462 Naturalization Application	Habeas Corpus: <input type="checkbox"/> 463 Alien Detainee <input type="checkbox"/> 510 Motions to Vacate Sentence <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty	<input type="checkbox"/> 820 Copyrights
<input type="checkbox"/> 400 State Reapportionment	<input type="checkbox"/> 120 Marine	<input type="checkbox"/> 245 Tort Product Liability	<input type="checkbox"/> 465 Other Immigration Actions		<input type="checkbox"/> 830 Patent
<input type="checkbox"/> 410 Antitrust	<input type="checkbox"/> 130 Miller Act	<input type="checkbox"/> 290 All Other Real Property	TORTS		<input type="checkbox"/> 840 Trademark
<input type="checkbox"/> 430 Banks and Banking	<input type="checkbox"/> 140 Negotiable Instrument	TORTS	PERSONAL PROPERTY	Other:	SOCIAL SECURITY
<input type="checkbox"/> 450 Commerce/ICC Rates/Etc.	<input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment	PERSONAL INJURY	<input checked="" type="checkbox"/> 370 Other Fraud	<input type="checkbox"/> 540 Mandamus/Other	<input type="checkbox"/> 861 HIA (1395ff)
<input type="checkbox"/> 460 Deportation	<input type="checkbox"/> 151 Medicare Act	<input type="checkbox"/> 310 Airplane	<input type="checkbox"/> 371 Truth in Lending	<input type="checkbox"/> 550 Civil Rights	<input type="checkbox"/> 862 Black Lung (923)
<input type="checkbox"/> 470 Racketeer Influenced & Corrupt Org.	<input type="checkbox"/> 152 Recovery of Defaulted Student Loan (Excl. Vet.)	<input type="checkbox"/> 315 Airplane Product Liability	<input type="checkbox"/> 380 Other Personal Property Damage	<input type="checkbox"/> 555 Prison Condition	<input type="checkbox"/> 863 DIWC/DIWW (405 (g))
<input type="checkbox"/> 480 Consumer Credit	<input type="checkbox"/> 153 Recovery of Overpayment of Vet. Benefits	<input type="checkbox"/> 320 Assault, Libel & Slander	<input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 560 Civil Detainee Conditions of Confinement	<input type="checkbox"/> 864 SSID Title XVI
<input type="checkbox"/> 490 Cable/Sat TV	<input type="checkbox"/> 160 Stockholders' Suits	<input type="checkbox"/> 330 Fed. Employers' Liability	BANKRUPTCY	FORFEITURE/PENALTY	<input type="checkbox"/> 865 RSI (405 (g))
<input type="checkbox"/> 850 Securities/Commodities/Exchange	<input type="checkbox"/> 190 Other Contract	<input type="checkbox"/> 340 Marine	<input type="checkbox"/> 422 Appeal 28 USC 158	<input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881	FEDERAL TAX SUITS
<input type="checkbox"/> 890 Other Statutory Actions	<input type="checkbox"/> 195 Contract Product Liability	<input type="checkbox"/> 345 Marine Product Liability	<input type="checkbox"/> 423 Withdrawal 28 USC 157	<input type="checkbox"/> 690 Other	<input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant)
<input type="checkbox"/> 891 Agricultural Acts	<input type="checkbox"/> 196 Franchise	<input type="checkbox"/> 350 Motor Vehicle	CIVIL RIGHTS	LABOR	<input type="checkbox"/> 871 IRS-Third Party 26 USC 7609
<input type="checkbox"/> 893 Environmental Matters	REAL PROPERTY	<input type="checkbox"/> 355 Motor Vehicle Product Liability	<input type="checkbox"/> 440 Other Civil Rights	<input type="checkbox"/> 710 Fair Labor Standards Act	
<input type="checkbox"/> 895 Freedom of Info. Act	<input type="checkbox"/> 210 Land Condemnation	<input type="checkbox"/> 360 Other Personal Injury	<input type="checkbox"/> 441 Voting	<input type="checkbox"/> 720 Labor/Mgmt. Relations	
<input type="checkbox"/> 896 Arbitration	<input type="checkbox"/> 220 Foreclosure	<input type="checkbox"/> 362 Personal Injury-Med Malpractice	<input type="checkbox"/> 442 Employment	<input type="checkbox"/> 740 Railway Labor Act	
<input type="checkbox"/> 899 Admin. Procedures Act/Review of Appeal of Agency Decision	<input type="checkbox"/> 230 Rent Lease & Ejectment	<input type="checkbox"/> 365 Personal Injury-Product Liability	<input type="checkbox"/> 443 Housing/Accommodations	<input type="checkbox"/> 751 Family and Medical Leave Act	
<input type="checkbox"/> 950 Constitutionality of State Statutes		<input type="checkbox"/> 367 Health Care/Pharmaceutical Personal Injury Product Liability	<input type="checkbox"/> 445 American with Disabilities-Employment	<input type="checkbox"/> 790 Other Labor Litigation	
		<input type="checkbox"/> 368 Asbestos Personal Injury Product Liability	<input type="checkbox"/> 446 American with Disabilities-Other	<input type="checkbox"/> 791 Employee Ret. Inc. Security Act	
		<input type="checkbox"/> 369 Personal Injury Product Liability	<input type="checkbox"/> 448 Education		

FOR OFFICE USE ONLY: Case Number: _____

VIII. VENUE: Your answers to the questions below will determine the division of the Court to which this case will be initially assigned. This initial assignment is subject to change, in accordance with the Court's General Orders, upon review by the Court of your Complaint or Notice of Removal.

<p>QUESTION A: Was this case removed from state court? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If "no," skip to Question B. If "yes," check the box to the right that applies, enter the corresponding division in response to Question E, below, and continue from there.</p>	<p>STATE CASE WAS PENDING IN THE COUNTY OF:</p> <p><input type="checkbox"/> Los Angeles, Ventura, Santa Barbara, or San Luis Obispo</p> <p><input type="checkbox"/> Orange</p> <p><input type="checkbox"/> Riverside or San Bernardino</p>	<p>INITIAL DIVISION IN CACD IS:</p> <p>Western</p> <p>Southern</p> <p>Eastern</p>	
<p>QUESTION B: Is the United States, or one of its agencies or employees, a PLAINTIFF in this action? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If "no," skip to Question C. If "yes," answer Question B.1, at right.</p>	<p>B.1. Do 50% or more of the defendants who reside in the district reside in Orange Co.? <i>check one of the boxes to the right</i> →</p> <p>B.2. Do 50% or more of the defendants who reside in the district reside in Riverside and/or San Bernardino Counties? (Consider the two counties together.) <i>check one of the boxes to the right</i> →</p>	<p><input type="checkbox"/> YES. Your case will initially be assigned to the Southern Division. Enter "Southern" in response to Question E, below, and continue from there.</p> <p><input type="checkbox"/> NO. Continue to Question B.2.</p> <p><input type="checkbox"/> YES. Your case will initially be assigned to the Eastern Division. Enter "Eastern" in response to Question E, below, and continue from there.</p> <p><input type="checkbox"/> NO. Your case will initially be assigned to the Western Division. Enter "Western" in response to Question E, below, and continue from there.</p>	
<p>QUESTION C: Is the United States, or one of its agencies or employees, a DEFENDANT in this action? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If "no," skip to Question D. If "yes," answer Question C.1, at right.</p>	<p>C.1. Do 50% or more of the plaintiffs who reside in the district reside in Orange Co.? <i>check one of the boxes to the right</i> →</p> <p>C.2. Do 50% or more of the plaintiffs who reside in the district reside in Riverside and/or San Bernardino Counties? (Consider the two counties together.) <i>check one of the boxes to the right</i> →</p>	<p><input type="checkbox"/> YES. Your case will initially be assigned to the Southern Division. Enter "Southern" in response to Question E, below, and continue from there.</p> <p><input type="checkbox"/> NO. Continue to Question C.2.</p> <p><input type="checkbox"/> YES. Your case will initially be assigned to the Eastern Division. Enter "Eastern" in response to Question E, below, and continue from there.</p> <p><input type="checkbox"/> NO. Your case will initially be assigned to the Western Division. Enter "Western" in response to Question E, below, and continue from there.</p>	
<p>QUESTION D: Location of plaintiffs and defendants?</p>	<p>A. Orange County</p>	<p>B. Riverside or San Bernardino County</p>	<p>C. Los Angeles, Ventura, Santa Barbara, or San Luis Obispo County</p>
<p>Indicate the location(s) in which 50% or more of <i>plaintiffs who reside in this district</i> reside. (Check up to two boxes, or leave blank if none of these choices apply.)</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>Indicate the location(s) in which 50% or more of <i>defendants who reside in this district</i> reside. (Check up to two boxes, or leave blank if none of these choices apply.)</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>D.1. Is there at least one answer in Column A? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If "yes," your case will initially be assigned to the SOUTHERN DIVISION. Enter "Southern" in response to Question E, below, and continue from there. If "no," go to question D2 to the right. →</p>	<p>D.2. Is there at least one answer in Column B? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If "yes," your case will initially be assigned to the EASTERN DIVISION. Enter "Eastern" in response to Question E, below. If "no," your case will be assigned to the WESTERN DIVISION. Enter "Western" in response to Question E, below. ↓</p>		
<p>QUESTION E: Initial Division?</p> <p>Enter the initial division determined by Question A, B, C, or D above: →</p>	<p>INITIAL DIVISION IN CACD</p> <p>EASTERN</p>		
<p>QUESTION F: Northern Counties?</p> <p>Do 50% or more of plaintiffs or defendants in this district reside in Ventura, Santa Barbara, or San Luis Obispo counties? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>			

UNITED STATES DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA
CIVIL COVER SHEET

IX(a). IDENTICAL CASES: Has this action been previously filed in this court? NO YES

If yes, list case number(s): _____

IX(b). RELATED CASES: Is this case related (as defined below) to any civil or criminal case(s) previously filed in this court? NO YES

If yes, list case number(s): 17-cv-02102-AB-SHK (Lemberg, et al. v. LuLaRoe, et al.)

Civil cases are related when they (check all that apply):

- A. Arise from the same or a closely related transaction, happening, or event;
- B. Call for determination of the same or substantially related or similar questions of law and fact; or
- C. For other reasons would entail substantial duplication of labor if heard by different judges.

Note: That cases may involve the same patent, trademark, or copyright is not, in itself, sufficient to deem cases related.

A civil forfeiture case and a criminal case are related when they (check all that apply):

- A. Arise from the same or a closely related transaction, happening, or event;
- B. Call for determination of the same or substantially related or similar questions of law and fact; or
- C. Involve one or more defendants from the criminal case in common and would entail substantial duplication of labor if heard by different judges.

Natasha Serino

X. SIGNATURE OF ATTORNEY
(OR SELF-REPRESENTED LITIGANT): /s/ Natasha N. Serino DATE: November 9, 2017

Notice to Counsel/Parties: The submission of this Civil Cover Sheet is required by Local Rule 3-1. This Form CV-71 and the information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. For more detailed instructions, see separate instruction sheet (CV-071A).

Key to Statistical codes relating to Social Security Cases:

Nature of Suit Code	Abbreviation	Substantive Statement of Cause of Action
861	HIA	All claims for health insurance benefits (Medicare) under Title 18, Part A, of the Social Security Act, as amended. Also, include claims by hospitals, skilled nursing facilities, etc., for certification as providers of services under the program. (42 U.S.C. 1935FF(b))
862	BL	All claims for "Black Lung" benefits under Title 4, Part B, of the Federal Coal Mine Health and Safety Act of 1969. (30 U.S.C. 923)
863	DIWC	All claims filed by insured workers for disability insurance benefits under Title 2 of the Social Security Act, as amended; plus all claims filed for child's insurance benefits based on disability. (42 U.S.C. 405 (g))
863	DIWW	All claims filed for widows or widowers insurance benefits based on disability under Title 2 of the Social Security Act, as amended. (42 U.S.C. 405 (g))
864	SSID	All claims for supplemental security income payments based upon disability filed under Title 16 of the Social Security Act, as amended.
865	RSI	All claims for retirement (old age) and survivors benefits under Title 2 of the Social Security Act, as amended. (42 U.S.C. 405 (g))