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11 **UNITED STATES DISTRICT COURT**  
12 **CENTRAL DISTRICT OF CALIFORNIA**

13 LORA HASKETT, ASHLEY HEALY,  
14 JOCELYN BURKE-CRAIG,  
15 BRITTANY BIANCHI, KERRY  
16 TIGHE-SCHWEGLER, Individually,  
17 and On Behalf of a Class of Similarly  
18 Situated Individuals,

19 Plaintiffs,

20 v.

21 LULAROE, LLC d/b/a LULAROE,  
22 LLR, INC.,

23 Defendants.

Case No.:

**CLASS ACTION COMPLAINT**

**JURY TRIAL DEMANDED**

1  
2 **CLASS ACTION COMPLAINT**

3 Plaintiffs Lora Haskett, Ashley Healy, Jocelyn Burke-Craig, Brittany  
4 Bianchi, and Kerry Tighe-Schwegler, on behalf of themselves and those similarly  
5 situated, sue defendants LuLaRoe, LLC d/b/a LuLaRoe and LLR, Inc. (collectively  
6 “LLR” or “Defendants”), and allege as follows:

7 **I. PRELIMINARY STATEMENT**

8 1. LLR generated nearly \$1 billion in revenues in 2016 by operating a  
9 pyramid scheme.

10 2. In a pyramid scheme, participants pay money into the scheme for the  
11 right to receive compensation from the scheme based, in large part, on bringing  
12 new participants into the scheme. Each participant’s money is used to pay others in  
13 the scheme, as well as the scheme promoter. The more recruits a participant has  
14 under her, and the closer to the top of the pyramid she is, the more money she  
15 might make. Participants will lose their money unless they recruit enough new  
16 participants, who will also lose their money unless they recruit enough new  
17 participants, and so on. Because there is little or no money flowing into the scheme  
18 from non-participants, and since payments are shared with the “upline”<sup>1</sup> and  
19 disproportionately with the persons closer to the top of the pyramid, the vast  
20 majority of participants are doomed to lose most or all of their money.

21 3. “Fashion Consultants” are at the base of LLR’s pyramid scheme.  
22 LuLaRoe specifically targets stay at home mothers for the role of Fashion

23 \_\_\_\_\_  
24 <sup>1</sup> Most people are recruited into a pyramid scheme by a sponsor who is already  
25 involved in the pyramid scheme. That sponsor – along with other consultants in  
26 levels above the person being recruited – is considered that person’s “upline.”  
27 People in the upline will receive a percentage of a new recruit’s sales. This will  
28 entice the new recruit, as well people in the upline, to recruit more consultants.

1 Consultants with the message that they can earn an income working from home  
2 selling LLR women's clothing. LLR recruitment materials tout the business as  
3 "part time work, full time pay."

4 4. Fashion Consultants must initially pay LLR between \$5,000-\$8,000:  
5 (a) to purchase LLR's women's apparel (the Fashion Consultant's initial  
6 inventory), and (b) for the right to earn bonuses by starting a "team" or "downline"  
7 – *i.e.*, recruiting others to become Fashion Consultants and earn commissions  
8 based on the value of the clothing that they and their downline purchase from LLR.

9 5. Defendants' business model is centered on convincing Fashion  
10 Consultants to purchase inventory from LLR and recruiting others to do the same.  
11 Defendants made millions of dollars based on Fashion Consultants' purchases. At  
12 the same time, Fashion Consultant's ability to sell Defendants' products for a profit  
13 to non-Fashion consultant end-users is very difficult for a variety of reasons  
14 (discussed in more detail below). One of the main reasons is that Fashion  
15 Consultants have no control over the patterns they receive from LLR, and many of  
16 the clothes' bolder and/or brighter patterns are unsellable. Defendants take  
17 advantage of this by informing consultants that these items will eventually sell and  
18 that they should continue to purchase more inventory, and claiming that the most  
19 successful consultants have between 600-800 pieces in their inventory.  
20 Defendants' marketing creates a snowball effect where Fashion Consultants feel  
21 compelled to buy more inventory hoping a few of the items they receive will sell,  
22 while stockpiling most of the unusable items.

23 6. Defendants sell Fashion Consultants on the idea that they can earn  
24 and increase bonus payments from LLR and obtain financial independence, by  
25 recruiting other Fashion Consultants (their "downline").

26 7. To be eligible for these bonuses from LLR in any given month, a  
27 Fashion Consultant must be considered "active." Active status within LLR  
28

1 requires both the Fashion Consultant and their downlines to make a required level  
2 of purchases from LLR (approximately \$5,000.00) in that month. Thus, uplines  
3 place significant pressure on downlines to make their minimum monthly  
4 purchases, even if the downlines do not need the inventory.

5 8. LLR's bonus payments to each Fashion Consultant is based on the  
6 wholesale value of the Fashion Consultant's purchases, the number of downlines  
7 the Fashion Consultant recruits into the program, and the dollar value of her  
8 downlines' monthly purchase from LLR – not on the amounts that the Fashion  
9 Consultant or her downlines sell to end users.<sup>2</sup>  
10

11  
12 9. LLR's system thus incentivizes Fashion Consultants to engage in  
13 inventory loading ; *i.e.*, purchasing product they do not need for retail sales or their  
14 own personal use. Indeed, LLR specifically designed its system to incentivize  
15 Fashion Consultants to purchase product they do not need. LLR even suggests to  
16 Fashion Consultants that they take out low interest credit cards to finance more  
17 inventory, hire a nanny, and put their children to work in order to sell LLR  
18 merchandise.

19 10. In weekly live video calls, LLR owners Mark and Deanne Stidham  
20 consistently urge Fashion Consultants to purchase additional inventory, reinvest  
21 any profits into buying more inventory and recruiting new Fashion Consultants.  
22

23 \_\_\_\_\_  
24 <sup>2</sup> This was LLR's policy until approximately July, 2017, when LLR purported to  
25 require sales, but as alleged more fully below, the bonuses are still based on  
26 wholesale value (*i.e.*, the amount purchased from LLR) and LLR does not enforce  
27 any sales requirements, allowing Fashion Consultants to purchase additional  
28 merchandise even if they have not met the purported sales requirement.

1 11. LLR has close to 100,000 Fashion Consultants, but the vast majority  
2 of LLR's Fashion Consultants lose money. According to LLR's 2016 Income  
3 Disclosure Statement, LLR paid 72.63% of its Fashion Consultants \$0 in bonuses  
4 in 2016.

5 12. The median annual bonus payments made to eligible Fashion  
6 Consultants in 2016 was \$525.94. These numbers do not account for the money the  
7 Fashion Consultants paid LLR in product purchases.

8 13. On information and belief, the vast majority of LLR's Fashion  
9 Consultants pay LLR more money than LLR pays them. At the time most Fashion  
10 Consultants leave the business they are stuck with thousands of dollars in unsold  
11 inventory.

12 14. In most cases, the Fashion Consultants use some of their inventory  
13 they buy from LLR for personal use, sell it for deep discounts, or give it away for  
14 free as part of their recruiting efforts. But, as the majority of Fashion Consultants  
15 learn, selling the product to non-Fashion Consultants for a profit is not a real  
16 income-generating possibility.  
17

18  
19 15. The only people who make money from the LLR pyramid scheme are  
20 the very few at the top of the pyramid. These few, including Mark and Deanne  
21 Stidham, have gotten rich from defrauding the majority of Fashion Consultants  
22 who lose money. The Defendants promote the pyramid scheme by misrepresenting  
23 the financial rewards available to Fashion Consultants and falsely argue that LLR  
24 is a legitimate, legal enterprise.

25 16. Perhaps most damning is the fact that Defendants do not prey on those  
26 who seek a get-rich-quick or idle investment scheme. Rather, they market the  
27 scheme to good people willing to work hard to make better lives for themselves  
28

1 and their families. They prey on people in tight financial circumstances looking for  
2 some extra income. They tell their victims that, with enough hard work, they can  
3 help themselves financially by growing their LLR business. They tell unsuccessful  
4 Fashion Consultants (and the overwhelming majority are unsuccessful) that their  
5 lack of success is due to not buying enough product, and not working hard enough  
6 at growing their LLR business (*i.e.*, recruiting more Fashion Consultants).

7 17. On their own behalf and on behalf of a class of similarly injured  
8 Fashion Consultants, Plaintiffs seek to hold Defendants financially liable for the  
9 operation and promotion of a pyramid scheme.

10 **II. JURISDICTION AND VENUE**

11 18. The Defendants are subject to the jurisdiction of this Court. The  
12 Defendants at all relevant times have been engaged in continuous and systematic  
13 business in this State, have designated agents for service of process in this State,  
14 and/or have committed tortious acts in this State. The actions giving rise to this  
15 lawsuit were taken by defendants at least in part in California. Plaintiff Bianchi is  
16 a citizen of California.

17 19. Jurisdiction is proper in this Court pursuant to 28 U.S.C. §1332(d).

18 20. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) and  
19 (c) and 18 U.S.C. § 1965(a) and (b) because a substantial number of the acts and  
20 transactions that gave rise to the claims of the Plaintiffs and the proposed Class  
21 occurred within this District; Defendants did, or solicited, business, and transmitted  
22 communications by mail or wire relating to their illegal pyramid in this district;  
23 transacted their affairs, and/or resided within California and this judicial district;  
24 Plaintiff Brittany Bianchi is a resident of California, and Defendants' wrongful acts  
25 occurred in this District and have directly impacted the general public of this  
26 district; and the ends of justice require that parties residing in other districts be  
27 brought before this Court.

1 **III. PARTIES**

2 21. Plaintiff Lora Haskett (“Ms. Haskett”) is a Florida resident. Ms.  
3 Haskett entered into an Independent Consultant Agreement with LLR and became  
4 a LLR Fashion Consultant on or about May 2016. Plaintiff was recruited into the  
5 pyramid scheme by Defendants and lost thousands of dollars as a direct result.

6 22. Plaintiff Ashley Healy (“Ms. Healy”) is a Florida resident. Ms. Healy  
7 entered into an Independent Consultant Agreement with LLR and became a LLR  
8 Fashion Consultant on or about January 2016. Plaintiff was recruited into the  
9 pyramid scheme by Defendants and lost thousands of dollars as a direct result.

10 23. Plaintiff Brittany Bianchi (“Ms. Bianchi”) is a California resident. Ms.  
11 Bianchi entered into an Independent Consultant Agreement with LLR and became  
12 a LLR Fashion Consultant on or about July 2016. Plaintiff was recruited into the  
13 pyramid scheme by Defendants and lost thousands of dollars as a direct result.

14 24. Plaintiff Jocelyn Burke-Craig (“Burke-Craig”) is a Florida resident.  
15 Ms. Burke-Craig entered into an Independent Consultant Agreement with LLR and  
16 became a LLR Fashion Consultant on or about November, 2015. Plaintiff was  
17 recruited into the pyramid scheme by Defendants and lost thousands of dollars as a  
18 direct result.

19 25. Plaintiff Kerry Tighe-Schwegler (“Ms. Tighe-Schwegler”) is a New  
20 York resident. Ms. Tighe-Schwegler entered into an Independent Consultant  
21 Agreement with LLR and became a LLR Fashion Consultant on or about July,  
22 2016. Plaintiff was recruited into the pyramid scheme by Defendants and lost  
23 thousands of dollars as a direct result.

24 26. Defendant LuLaRoe, LLC d/b/a/ LuLaRoe is, a California Limited  
25 Liability Company located at 1375 Sampson Avenue in Corona, California, and  
26 doing business regularly throughout the United States, including in the state of  
27 California.





1 introduces a new participant. Compensation . . . does not . . .  
2 include payment based upon sales made to persons who are not  
3 participants in the scheme and who are not purchasing in order to  
4 participate in the scheme.

5 **B. LLR IS A PYRAMID SCHEME**

6 32. LLR perfectly fits the pyramid scheme paradigm by requiring the  
7 Fashion Consultants to purchase product from LLR in return for which they  
8 receive (1) the right to sell a product *and* (2) the right to receive, in return for  
9 recruiting other participants into the program, bonuses which Fashion Consultants  
10 can only receive if they have met their minimum monthly purchase requirement  
11 from LLR.

12 **1. Defendants Recruit Plaintiffs into Pyramid Scheme.**

13 33. Defendants claim that LLR is a “simple business” in which Fashion  
14 Consultants can “earn full-time income for part-time work.” Defendants claim that  
15 “[w]ith LulaRoe, in a matter of a few months, you can completely repay your  
16 initial investment and have money in the bank.”

17 34. LLR’s program requires Fashion Consultants to pay LLR anywhere  
18 between \$5,000-\$8,000 for a Start Up Kit which includes initial inventory. LLR  
19 refers to this process is “onboarding.”

20 35. Since LLR realizes that most of the Fashion Consultants are stay at  
21 home mothers with limited financial resources, Defendants encourage Fashion  
22 Consultants to go into debt (*e.g.*, credit cards, loans, home refinance) in order to  
23 finance their LLR inventory purchases. LLR representatives have even suggested  
24 that mothers should sell their breast milk if they cannot afford their inventory  
25 purchase requirements.

26 36. Defendants informed Fashion Consultants, including Plaintiffs, that  
27 they can recoup their initial investment and be profitable quickly. For example, in  
28

1 a LLR document that Defendants provide to Fashion Consultants titled “How Long  
2 To Pay Back My Initial Investment?”, LLR claims that Fashion Consultants can do  
3 so in as little as 1-4 months:

Repay yourself in	4 months	2 months	1 month
Number of pieces sold each week	20	40	75
Gross Sales (per month)	\$2,640*	\$5,280*	\$9,900*
Net Profit (per month)	\$1,440*	\$2,880*	\$5,400*

\* 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

10 37. The document emphasizes that these figures are *conservative*:

11 A few things to consider:

- 12 • The chart above does not include the sale of the Lindsay Kimonos. Selling all of the Lindsay Kimonos would be an additional profit of \$1,200.
- 13 • The average number of pieces sold at a pop-up boutique is 25. By doing one in-person or online pop-up per week (5-6 hours total per week) you can pay yourself back in 4 months. By doing 3 pop-ups per week (or 1-2 large online events) you can pay yourself back in approx 1 month.
- 14 • How many businesses can you invest in where you can pay off your initial investment within a matter of months and be profitable?
- 15 • \$1,440/month is \$17,280 per year, \$2,880/month is 34,560, and \$5,400/month is \$64,800 per year!
- 16 • The above scenario is considering you are doing your business part-time (but working it as a business).
- 17 • You can also build a team and increase your income.

18 38. These sales and profit margin numbers are reiterated in another  
19 document that LLR provides to Fashion Consultants titled “LuLaRoe Fashion  
20 Consultant Business Overview”: “Based on the number of attendees at a Pop-Up  
21 Boutique we see an average sales volume of around 20 items, with an average  
22 profit of \$15 per item. The more parties you have and the more products you sell,  
23 the more money you will earn.”

24 39. Defendants sales, income and profit representations are misleading  
25 and without basis. In reality, Fashion Consultants cannot sell the majority of the  
26 merchandise they receive from LLR (for reasons described in more detail below)  
27 and they wind up taking significant losses.

1 40. Defendants also sell Fashion Consultants on the idea that they can  
2 “build a team” of other Fashion Consultants to earn significant bonuses.  
3 Defendants provide testimonials from leaders who have done so and take photos of  
4 them displaying bonus checks with large sums.

5 41. LLR’s bonus system requires Fashion Consultants to pay LLR more  
6 money through the purchase of additional inventory to remain “active” in the  
7 program and be eligible to receive bonuses. For uplines to be eligible for bonuses,  
8 all of their downlines must be active. Accordingly, Fashion Consultants are  
9 subject to pressure from their uplines to make monthly minimum purchases. The  
10 downline Fashion Consultants are also pressured to recruit others and “build a  
11 team” to purchase from LLR so that they too can be eligible for bonuses from LLR  
12 and so their uplines can earn even greater bonuses. This is how LLR entices its  
13 pyramid scheme participants to pay money into the scheme.

14 42. Thus, the only meaningful source of funding for LLR and the Fashion  
15 Consultants is other Fashion Consultants’ money.

16 43. Thus, just like any classic pyramid scheme, the LLR scheme requires  
17 participants to put money into the scheme and rewards participants who bring in  
18 new participants.

19 44. And just like any pyramid scheme, LLR pays Fashion Consultants  
20 with other Fashion Consultants’ money. This is undeniably true because LLR sells  
21 its products only to Fashion Consultants and not directly to the public. During the  
22 class period, the overwhelming majority of the money flowing into LLR came  
23 from the Fashion Consultants, so the overwhelming majority of the money LLR  
24 used to pay Fashion Consultants came from the Fashion Consultants.

25 45. The fact is that the large majority of Fashion Consultants lose money  
26 from their participation in LLR’s pyramid scheme, while a few Fashion  
27 Consultants at the top of the pyramid and LLR grow rich.

28

1 46. As a result, over 30,000 Fashion Consultants have voiced complaints  
2 on a LuLaRoe defective support group on Facebook. This represents nearly a third  
3 of all Fashion Consultants.

4 **2. Payment Processing and Merchandise Returns Encourage**  
5 **Inventory Loading and Make it Difficult to Get Cash out of the**  
6 **Pyramid Scheme**

7 47. LLR's payment processing system and return policy for defective  
8 merchandise restricts a Fashion Consultant's ability to profitably sell their  
9 merchandise to end users and encourages inventory loading.

10 48. Fashion Consultants are required to use a credit payment processing  
11 system approved by LLR. A remarkable feature of LLR's program is that any  
12 sales a Fashion Consultant makes and processes through the payment system does  
13 not initially go to the Fashion Consultant. Rather, it goes directly to LLR. LLR  
14 will then deposit those funds, minus any fees LLR may deduct, into a debit card  
15 issued to the Fashion Consultant.

16 49. If the Fashion Consultant wants to access her funds, check her  
17 balance, etc. on the debit card, she is charged a fee. The only time the fees are  
18 waived is when the Fashion Consultant uses those funds to purchase additional  
19 inventory from LLR.

20 50. Other than their initial inventory purchases, Fashion Consultants can  
21 only purchase inventory from LLR using their debit card or by using cash.

22 51. If LLR agrees to accept the defective merchandise back from the  
23 Fashion Consultant, which is not always the case, the Fashion Consultant must pay  
24 for shipping and LLR will only provide a credit to the Fashion Consultant for the  
25 wholesale price of the item. That credit can only be used by the Fashion  
26 Consultant for future inventory purchases from LLR. Many Fashion Consultant's  
27 complain that they have waited months and still not receive credit for returned  
28

1 merchandise. Non-Defective merchandise may be returned for credit less a 15-25%  
2 restocking fee.

3 **3. LLR's Compensation Plan Encourages Inventory Loading and**  
4 **Recruiting**

5 52. To become an LLR Fashion Consultant, a person must purchase a  
6 Start Up Kit and sign a LuLaRoe Independent Consultant Program Application and  
7 Agreement. Defendants do not provide Fashion Consultants with their Policies and  
8 Procedures until after they sign the Consultant Program Application and  
9 Agreement. During the time relevant to the Complaint, the Start Up Kit cost  
10 approximately \$5,000-8,000. A person cannot become a Fashion Consultant  
11 without purchasing a Start Up Kit.

12 53. Fashion Consultants can only select the size and style of the inventory  
13 they purchase, but not the style pattern. This is significant because many of LLR's  
14 fashion patterns can fairly be described as brightly colored and uniquely bold, or  
15 even ugly and unsellable. Consequently, such patterns would not appeal to a wide  
16 audience, limiting the Fashion Consultants ability to sell these items to an end-  
17 user. Consequently, the Fashion Consultants feel compelled to order additional  
18 inventory in hopes of receiving a few items among those received that would have  
19 more universal appeal. This creates a snowball effect where Fashion Consultants  
20 feel compelled to buy more inventory hoping a few of the items they receive will  
21 sell, while stockpiling most of the unusable items.

22 54. In addition, the structure of LLR's Compensation Plan encourages  
23 inventory loading by requiring Fashion Consultants to purchase more product from  
24 LLR than they can profitably sell at retail each month so that the Fashion  
25 Consultants will remain "active" in the program and thereby eligible for LLR  
26 bonuses. LLR encourages Fashion Consultants to order more product 2-3 times  
27  
28

1 per week in order to have “fresh inventory.” LLR has a minimum purchase  
2 requirement of 33 pieces. LLR explains that “you gotta buy more to sell more.”

3 55. A basic concept in LLR is the “downline”: the branching stream of  
4 junior Fashion Consultants whose entry into LLR ultimately links back to a  
5 particular Fashion Consultant (referred to as the junior Fashion Consultant’s  
6 “upline”). A Fashion Consultant can earn 5% of the dollar amount of orders of a  
7 personally “sponsored” Fashion Consultant that she recruited. As Defendants  
8 explain in the Leadership Bonus Plan it provides to Fashion Consultants:

9  
10 Sponsor – Any Fashion Consultant may sponsor other people into the  
11 business, however, in order to receive a bonus on the Dollar Value of  
12 the Personal Volume of those you sponsored, you must Order 175  
pieces in the calendar month for which the bonus is calculated.

\*\*\*

13 Sponsor – You will be eligible to earn a 5% override bonus on the  
14 Dollar Amount of the Orders of your new Personally Sponsored  
15 Fashion Consultant. Orders and bonuses will be calculated per  
calendar month.

16 56. One of the key distinctions in the LLR Bonus Plan is between Fashion  
17 Consultants and the higher leadership levels called “Mentors,” “Trainers,” and  
18 “Coaches.” Most of the income-generating opportunities supposedly offered by  
19 LLR are available only to Fashion Consultants at these higher leadership levels.  
20 Fashion Consultants can graduate to higher leadership levels in LLR once they  
21 recruit a certain number of Fashion Consultants to their downline and generate a  
22 certain level of product purchases from LLR (personally and through the Fashion  
23 Consultants downline). Fashion Consultants will lose their Leadership status if  
24 they fail to maintain these levels. All Mentors, Trainers, and Coaches are Fashion  
25 Consultants, but not all Fashion Consultants are Mentors, Trainers, or Coaches.  
26  
27  
28



1 57. Leadership Bonuses available to a Fashion Consultant depends upon  
2 her ranking within the LLR leadership structure, and a Fashion Consultant’s  
3 ranking is tied to the number of individuals in her downline and amount of product  
4 purchases attributable to a Fashion Consultant and her downline over particular  
5 time periods. In general, the more a Fashion Consultant purchases and recruits, and  
6 the more a Fashion Consultant’s downline purchases and recruits, the more money  
7 LLR pays the Fashion Consultant.

8 58. For example, to become a “Trainer” – the lowest level in the  
9 leadership group – A Fashion consultant must personally order 250 pieces each  
10 month from LLR, have at least three personally sponsored Fashion Consultants  
11 under her and a minimum of 10 Fashion Consultants on her team. The team must  
12 purchase at least 1750 pieces from LLR in the aggregate (not including the 250  
13 pieces the Fashion Consultant Trainer is required to purchase herself). If those  
14 requirements are met, the Trainer will earn 5% bonus on the dollar amount that  
15 personally sponsored Fashion Consultants order from LLR and 3% bonus on the  
16 dollar amount other Fashion Consultants in their downline purchase.



1 59. The following graphic from LLR’s Leadership Bonus Plan illustrates  
2 how this concept works when calculating a Trainer’s compensation:

3 60. Each succeeding level requires the Fashion Consultant to accumulate  
4 more Fashion Consultants downline from her, all or whom must purchase  
5 minimum amounts from LLR. For example, to get to the next level after Trainer –  
6 “Coach” – the Fashion Consultant must still meet the individual purchase  
7 requirements of a Trainer (*i.e.* must still purchase a minimum number of pieces  
8 from LLR) and have at least three Fashion Consultants that reached Trainer status  
9 in her direct downline. The Trainers in her direct downline must purchase 1,750  
10 pieces in the aggregate (not including the pieces the Coach is required to purchase  
11 herself). A Coach meeting these requirements can receive additional compensation  
12 from LLR based on the purchases the line makes from LLR.

13 **4. Fashion Consultants Make Few Retail Sales**

14 61. It is theoretically possible that Fashion Consultants could sell the  
15 product they purchased at retail for a profit. But only in rare circumstances are  
16 LLR Fashion Consultants able to profitably sell the products they purchase from  
17 LLR.

18 62. In fact, LLR has little interest in retail sales. The compensation it pays  
19 to Fashion Consultants is contingent on the Fashion Consultants’ purchases. LLR  
20 has little interest in retail sales because its true customers are the Fashion  
21 Consultants—the people willing to pay the price LLR charges for its products so  
22 that they can access LLR’s bonus plan.

23 63. Plaintiffs were unable to profitably sell the LLR products they  
24 purchased. Their experiences are consistent with the majority of other Fashion  
25 Consultants. A CBS Market Watch article published on March 15, 2017 indicates  
26 that profitable retail sales are rare:  
27  
28



1 **Why LuLaRoe can be a tough sell for its many salespeople**

2 Multilevel marketer LuLaRoe, which is battling two federal lawsuits and  
3 complaints about the quality of its brightly colored leggings and other  
4 fashions, is proving to be a tough sell for the company's 77,491  
independent consultants.

5 According to internal LuLaRoe data shared with CBS MoneyWatch by  
6 two sources, more than 70 percent, or 55,571 LuLaRoe representatives,  
7 sold less than \$5,000 worth of retail goods in February. About 3,700, or  
8 less than 5 percent, reported more than \$10,000 in sales. In addition,  
6,579, or 8 percent of representatives, sold nothing and ordered nothing.

9 "What we find over and over and over is that a negligible amount of  
10 retail sales are actually happening," said Tracy Coenen, a forensic  
11 accountant and critic of the multilevel marketing (MLM) industry, who  
12 has raised questions about LuLaRoe's business practices. "You don't  
13 know if they profited," she said, "or if these people [at LuLaRoe] put all  
of their so-called profits back into buying more inventory, which is what  
is encouraged."

14 The sources' information doesn't indicate how many consultants are  
15 profitable, and a company spokesman declined to address the issue.  
16 Current and former LuLaRoe representatives have told CBS  
17 MoneyWatch it would be difficult to earn a return on \$5,000 in sales and  
18 that \$10,000 in revenue isn't necessarily a sure-fire profit either, given  
operating expenses, inventory and taxes. They declined to be identified  
by name out of fear of reprisals by the company.

19 One area where LuLaRoe has excelled is recruiting new consultants. As  
20 of July 2016, the company had about 26,000 consultants, indicating their  
21 ranks have nearly tripled in less than a year. That development is proving  
22 to be problematic for some consultants, who say they're losing sales to  
their new rivals.

23 One consultant told CBS MoneyWatch her weekly sales have fallen from  
24 between 35 to 40 items to about 5 to 10 items. Such cannibalization is  
common at MLMs.

25 "Unlike traditional franchising or even traditional single-level direct  
26 selling, the MLM model is an all-against-all competition," said William  
27 Keep, dean of the College of New Jersey's College of Business, in an  
28

1 email. “That will likely result in either a decrease in the selling price to  
2 nondistributor customers (and, therefore lower margin for the  
3 distributor), or efforts by the company to limit competition (e.g., limit  
4 sales on eBay, use only company websites, etc.), or both.”

5 64. LLR contractually prohibits Fashion Consultants from selling the  
6 products through the most critical distribution channels where Fashion Consultants  
7 could reasonably expect to sell enough product to make a meaningful profit. For  
8 example, LLR prohibits Fashion Consultants from selling or advertising the sale of  
9 LLR apparel “on any online retail store or ecommerce site or platform (including  
10 an e-commerce site created or operated by an Independent Fashion Consultant)  
11 such as Amazon, AliBaba, eBay Stores, etc. Nor may an Independent Fashion  
12 Consultant enlist or knowingly allow a third party to sell LLR products on any  
13 online retail store or ecommerce site.” Further, Fashion Consultants are prohibited  
14 from creating independent public websites to sell their LLR merchandise. These  
15 prohibitions bar Fashion Consultants from accessing the most obvious and  
16 effective means of selling LLR products to the general public.

17 65. In addition, LLR forbids its Fashion Consultants from selling LLR  
18 products at brick-and-mortar establishments and generally prohibits any radio or  
19 television advertising. LLR seeks to limit the Fashion Consultants to one-on-one  
20 situations in private locations (such as the Fashion Consultant’s or a friend’s  
21 home), but achieving significant, profitable retail sales by this method is extremely  
22 difficult.

## 23 **5. LLR has little interest in retail sales**

24 66. LLR’s prohibition on Fashion Consultant sales through e-commerce  
25 platforms confirms that LLR has little interest in retail sales. Dozens of producers  
26 of women’s apparel sell their products on e-commerce platforms. If LLR really  
27 wanted its Fashion Consultants to sell to retail customers, it would allow them to  
28 sell through e-commerce sites.

1 67. LLR further demonstrates its disregard for retail sales by failing to  
2 limit the number of Fashion Consultants it onboards in any given territory  
3 (commonly referred to as “territory recognition”). Consequently, a Fashion  
4 Consultant may be competing with a dozen other Fashion Consultants in her  
5 neighborhood who are selling similar LLR merchandise. In fact, a number of  
6 current and former Fashion Consultants have complained about oversaturation.

7 68. LLR’s failure to account for territory recognition when onboarding  
8 new Fashion Consultants impacts a Fashion Consultant’s ability to sell  
9 merchandise.

10 69. LLR has limited interest in whether its Fashion Consultants sell its  
11 products to retail purchasers because LLR’s true customers are its Fashion  
12 Consultants. LLR is able to sell its women’s apparel to its Fashion Consultants  
13 because LLR is selling them something more than products: it sells them the dream  
14 of making money by participating in LLR’s bonus plan.

15 70. LLR restricts the ways in which its Fashion Consultants can sell its  
16 products so that the Fashion Consultants must meet face-to-face with potential  
17 customers where they, too, can sell the “business opportunity,” as well as the  
18 product.

19 **6. LLR Operates a Pyramid Scheme Despite its Smokescreen**  
20 **Policies**

21 71. Up until July 2017, LLR explicitly required its Fashion Consultants to  
22 (1) purchase a minimum amount from LLR and (2) have downline Fashion  
23 Consultants in order to receive a bonus in the calendar month for which the bonus  
24 is calculated.

25 72. Recognizing that its business bears all the traits of a pyramid scheme,  
26 LLR has just recently adopted policies in an effort to avoid the pyramid scheme  
27 label without changing its business practices. For example, LLR’s agreement  
28

1 claimed that “LLR does not pay any compensation, bonus, or commission for  
2 enrolling consultants or others.” Of course, as alleged herein, this statement is  
3 false, as, the *only* way to receive bonuses is to recruit new Fashion Consultants to  
4 purchase inventory from LLR.

5       73. **The “70%” Rule:** The Federal Trade Commission, in a well-known  
6 decision, *In the Matter of Amway Corp., Inc.*, 93 F.T.C. 618 (1979), determined  
7 that an Multilevel Level Marketing operation (“MLM”) might avoid the pyramid  
8 scheme label if the MLM required Distributors to actually sell to retail customers  
9 or consume 70% of the products they purchased each month. Up until July 2017,  
10 LLR did not even pay lip-service to this rule. While LLR purported to implement a  
11 sales requirement in July 2017, LLR does not actually require Fashion Consultants  
12 to make the retail sales described in the rule and will continue to accept purchase  
13 orders from Fashion Consultants even if they have not satisfied the purported sales  
14 rules.

15       74. For example, LLR has reduced the minimum sales requirement to 1  
16 piece per month because so many consultants were quitting and “giveaways” count  
17 toward piece counts for sales quotas. Defendants do not comply with the 70%  
18 Rule.

19       75. **The “Buyback” Rule:** In the *Amway* decision, the FTC described the  
20 buyback rule as follows: “Amway, the Direct Distributor or the sponsoring  
21 distributor will buy back any unused marketable products from a distributor whose  
22 inventory is not moving or who wishes to leave the business. *Amway*, 93 F.T.C.  
23 618 at 72- 75. Defendants do not comply with this rule. They will not provide a  
24 100% refund, require the Fashion Consultant to pay for shipping back to LLR, may  
25 determine at its sole discretion that the Fashion Consultant is not entitled to a  
26 refund, often does not provide any refund and will impose a 25% charge for  
27 returns. Further, instead of sending back any product that Defendants do not  
28

1 accept for a refund, they claim to send it to charity. Even if a refund is issued, LLR  
2 takes several months to issue a refund, if any. LLR's smokescreen refund policy is  
3 woefully inadequate to prevent the conclusion that LLR is a pyramid scheme.

4       76. **The Ten Customer Rule:** The "ten customer rule" approved by the  
5 FTC in *Amway* provided that "distributors may not receive a performance bonus  
6 unless they prove a sale to each of ten different retail customers during each  
7 month." *Amway*, 93 F.T.C. 618 at 72-75. The FTC added: "[p]yramid sales plans  
8 based on inventory loading or headhunting fees create an incentive for recruiting  
9 rather than selling products to consumers . . . Amway's ten-customer rule deters  
10 inventory loading by sponsoring distributors." *Id.* at 142-147. For the past four  
11 years, LLR had no such rule. Although in July 2017, LLR claims to have  
12 implemented a minimal sales requirement in order for a Fashion Consultant to  
13 qualify for bonuses, notably, Fashion Consultants must still meet their minimum  
14 LLR purchase requirement to remain active and thus be eligible for bonuses.  
15 Moreover, Defendants do not enforce the supposed requirement and will still sell  
16 inventory to Fashion Consultants who do not meet the purported sales requirement.  
17 Thus, LLR's smokescreen retail sales policy does not prevent or deter inventory  
18 loading.

19       77. Defendants are aware of, approves, promotes, and facilitates the  
20 systematic noncompliance with or breach of, the rules that purportedly protect  
21 against the operation of a pyramid scheme, as discussed in the *Amway* FTC Order.

22       78. As discussed above, the essential reasons why LLR is a pyramid  
23 scheme are that it (a) requires and incentivizes Fashion Consultants to pay money  
24 to LLR to participate in the bonus plan, (b) rewards recruiting and inventory  
25 loading over retail sales, and (c) primarily compensates Fashion Consultants with  
26 other Fashion Consultants' money.

**PLAINTIFFS' INDIVIDUAL ALLEGATIONS**

1  
2 79. Plaintiff Brittany Bianchi was persuaded to become a Fashion  
3 Consultant from another Fashion Consultant.

4 80. Ms. Bianchi signed up to become a LLR Fashion Consultant on or  
5 around July 19, 2016 and subsequently invested approximately \$8,000 purchasing  
6 LuLaRoe inventory. She additionally invested \$2,000.00 in supplies, including but  
7 not limited to hangers, portable clothing racks, shipping supplies, shipping  
8 program, scales, etc.

9 81. Ms. Bianchi funded her initial investment through an existing credit  
10 card and a home savings account.

11 82. Ms. Bianchi was instructed by Defendants and its representatives to  
12 consistently purchase new inventory and was pressured by Defendants and its  
13 representatives to use any money she obtained from selling the products to  
14 purchase more inventory. These Communications were made by LLR owners  
15 Deanne and Mark Stidham, on weekly live video calls and reiterated by LLR  
16 representatives.

17 83. Because of the severe marketing restrictions that Defendants placed  
18 on Fashion Consultants, Ms. Bianchi faced great challenges selling Defendants'  
19 products. Additionally, the market had become saturated with current Fashion  
20 consultants who were trying to move the inventory they were perpetually  
21 purchasing and disillusioned Fashion Consultants who were trying to unload their  
22 unsold inventory at deep discounts.

23 84. Based on Ms. Bianchi's experience with LLR, the main focus of the  
24 business is on recruitment of other Fashion Consultants and the Fashion  
25 Consultants buying inventory, rather than selling inventory to customers.

26 85. Ms. Bianchi had no choice but to liquidate her inventory or she would  
27 continue to lose money purchasing inventory over which she had no control and  
28

1 could not sell. She incurred a loss of about \$6,000.00 in Defendants' products,  
2 despite her efforts.

3 86. Plaintiff Lora Haskett has a special needs child so needed to work  
4 from home.

5 87. Ms. Haskett signed up to become a LLR Fashion Consultant on or  
6 around May, 2016 and subsequently invested approximately \$7,000.00 in  
7 LuLaRoe inventory. She additionally spent approximately \$500.00 in supplies,  
8 including but not limited to hangers, 1 portable clothing rack, storage bins,  
9 shipping supplies, shipping program, scales, etc.

10 88. Ms. Haskett financed her initial \$7,500.00 investment through her  
11 credit card.

12 89. Ms. Haskett was instructed by Defendants and its representatives to  
13 consistently purchase new inventory and was pressured by Defendants and its  
14 representatives to use any money she obtained from selling the products to  
15 purchase more inventory. These Communications were made by LLR owners  
16 Deanne and Mark Stidham, on weekly live video calls and reiterated by LLR  
17 representatives.

18 90. Because of the severe marketing restrictions that Defendants placed  
19 on Fashion Consultants, Ms. Haskett faced great challenges selling Defendants'  
20 products. Additionally, the market had become saturated with current Fashion  
21 consultants who were trying to move the inventory they were perpetually  
22 purchasing.

23 91. Based on Ms. Haskett's experience with LLR, the main focus of the  
24 business is on recruitment of other Fashion Consultants and inventory loading,  
25 rather than selling inventory to customers.

26 92. Ms. Haskett had no choice but to liquidate her inventory or she would  
27 continue to lose money purchasing inventory over which she had no control and  
28



1 could not sell. She lost thousands of dollars in Defendants' products, despite her  
2 efforts.

3 93. Plaintiff Ashley Healy is a stay at home Mom, with a husband in law  
4 enforcement, so she wanted to work from home to supplement the family income.

5 94. Ms. Healy signed up to become a LLR Fashion Consultant on or  
6 around January, 2016 and subsequently invested approximately \$8,000 in  
7 LuLaRoe inventory. She additionally invested \$1,500.00 in supplies, including but  
8 not limited to hangers, portable clothing racks, shipping supplies, scales, etc.

9 95. Ms. Healy financed her initial \$9,500.00 investment through several  
10 credit cards and borrowed money from family.

11 96. Ms. Healy was instructed by Defendants and its representatives to  
12 consistently purchase new inventory and was pressured by Defendants and its  
13 representatives to use any money she obtained from selling the products to  
14 purchase more inventory. These Communications were made by LLR owners  
15 Deanne and Mark Stidham, on weekly live video calls and reiterated by LLR  
16 representatives.

17 97. Because of the severe marketing restrictions that Defendants placed  
18 on Fashion Consultants, Ms. Healy faced great challenges selling Defendants'  
19 products. Additionally, the market had become saturated with current Fashion  
20 Consultants who were trying to move the inventory they were perpetually  
21 purchasing requiring Ms. Healy to substantially discount her products and offering  
22 free services. Moreover, Healy was eventually competing against disillusioned  
23 Fashion Consultants who were trying to unload their unsold inventory at deep  
24 discounts.

25 98. Based on Ms. Healy's experience with LLR, the main focus of the  
26 business is on recruitment of other Fashion Consultants and inventory loading,  
27 rather than selling inventory to customers.

28



1           99. Ms. Healy had no choice but to liquidate her inventory on or around  
2 April, 2017 or she would continue to lose money purchasing inventory over which  
3 she had no control and could not sell. She lost about \$4,000.00 on Defendants'  
4 products, despite her efforts.

5           100. Plaintiff Jocelyn Burke-Craig has a special needs child so needed to  
6 work from home.

7           101. Plaintiff Burke-Craig signed up to become a LLR Fashion Consultant  
8 on or around November, 2015 and subsequently invested approximately \$3,000 in  
9 LuLaRoe inventory. She additionally invested approximately \$2,000 in supplies,  
10 including but not limited to hangers, portable clothing racks, shipping supplies,  
11 shipping program, scales, etc.

12           102. She financed her initial \$5,000.00 investment through her credit card.

13           103. Plaintiff Burke-Craig was instructed by Defendants and its  
14 representatives to consistently purchase new inventory and was pressured by  
15 Defendants and its representatives to use any money she obtained from selling the  
16 products to purchase more inventory. These Communications were made by LLR  
17 owners Deanne and Mark Stidham, on weekly live video calls and reiterated by  
18 LLR representatives.

19           104. Because of the severe marketing restrictions that Defendants placed  
20 on Fashion Consultants, Plaintiff Burke-Craig faced great challenges selling  
21 Defendants' products. Additionally, the market had become saturated with current  
22 Fashion consultants who were trying to move the inventory they were perpetually  
23 purchasing.

24           105. Based on Burke-Craig's experience with LLR, the main focus of the  
25 business is on recruitment of other Fashion Consultants and inventory loading,  
26 rather than selling inventory to customers.

1           106. Plaintiff Burke-Craig had no choice but to liquidate her inventory or  
2 she would continue to lose money purchasing inventory over which she had no  
3 control and could not sell. Based on her accountant, she lost about \$20,000.00 in  
4 Defendants' products, despite her efforts.

5           107. Plaintiff Kerry Tighe-Schwegler was persuaded to become a Fashion  
6 Consultant from another Fashion Consultant. She was persuaded to join, in part,  
7 because her family was experiencing financial difficulties and she needed to  
8 supplement the family income.

9           108. Plaintiff Tighe-Schwegler signed up to become a LLR Fashion  
10 Consultant on or around July, 2016 and subsequently invested approximately  
11 \$6,000 in LuLaRoe inventory. She additionally invested approximately \$2,000 in  
12 supplies, including but not limited to hangers, portable clothing racks, shipping  
13 supplies, shipping program, scales, containers, a display mannequin, etc.

14           109. She financed her initial \$8,000.00 investment with a credit card  
15 obtained for the purpose of investing in the LLR business.

16           110. Plaintiff Tighe-Schwegler was instructed by Defendants and its  
17 representatives to consistently purchase new inventory and was pressured by  
18 Defendants and its representatives to use any money she obtained from selling the  
19 products to purchase more inventory. These Communications were made by LLR  
20 owners Deanne and Mark Stidham, on weekly live video calls and reiterated by  
21 LLR representatives.

22           111. Because of the severe marketing restrictions that Defendants placed  
23 on Fashion Consultants, Plaintiff Tighe-Schwegler faced great challenges selling  
24 Defendants' products. Additionally, the market had become saturated with current  
25 Fashion consultants who were trying to move the inventory they were perpetually  
26 purchasing.

1 112. Based on Tighe-Schwegler's experience with LLR, the main focus of  
2 the business is on recruitment of other Fashion Consultants and inventory loading,  
3 rather than selling inventory to customers.

4 113. Plaintiff Tighe-Schwegler had no choice but to liquidate her inventory  
5 or she would continue to lose money purchasing inventory over which she had no  
6 control and could not sell. Based on her 2016 tax return, she lost about \$17,000.00  
7 in Defendants' products, despite her efforts.

8 **CLASS ACTION ALLEGATIONS**

9 114. This action is brought by Plaintiffs as a class action pursuant to  
10 Federal Rule of Civil Procedure 23.

11 115. Plaintiffs Lora Haskett, Ashley Healy, Jocelyn Burke-Craig, Kerry  
12 Tighe-Schwegler, and Brittany Bianchi seek relief on behalf of themselves and a  
13 nationwide class of all persons who were LLR Fashion Consultants from October  
14 2013 until the present (the "class"). Excluded from the class are the defendants,  
15 their employees, family members, and affiliates any Fashion Consultant who  
16 obtained Trainer, Coach, or Mentor status.

17 116. Plaintiffs Lora Haskett, Ashley Healy, Jocelyn Burke-Craig, Kerry  
18 Tighe-Schwegler, and Brittany Bianchi also seek disgorgement and other relief for  
19 themselves and a subclass pursuant to the California State law claims, which  
20 includes all persons who are members of the class and who were or are LLR  
21 distributors resident in California (the "subclass").

22 117. Plaintiffs Lora Haskett, Ashley Healy, Jocelyn Burke-Craig, Kerry  
23 Tighe-Schwegler, and Brittany Bianchi further seek to pursue a private attorney  
24 general action for injunctive relief on behalf of the people of California, and they  
25 satisfy the applicable standing and class action requirements, as described herein.  
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1 118. Plaintiffs Lora Haskett, Ashley Healy, Jocelyn Burke-Craig, Kerry  
2 Tighe-Schwegler, and Brittany Bianchi would consider rejoining LLR if it reforms  
3 its practices to comply with the law.

4 119. The members of the class and the subclass number in the thousands  
5 and joinder of all Class members in a single action is impracticable.

6 120. There are questions of law and/or fact common to the class and  
7 subclass, including but not limited to:

- 8 a. Whether LLR was operating an unlawful pyramid scheme;
  - 9 b. Whether Fashion Consultants paid money to LLR in exchange  
10 for (1) the right to sell a product and (2) the right to receive, in  
11 return for recruiting others in to the program, rewards which  
12 historically were unrelated to the sale of the product to retail  
13 consumers;
  - 14 c. Whether Fashion Consultants were required to make an  
15 investment into the pyramid scheme;
  - 16 d. Whether Defendants enforced the 70% rule;
  - 17 e. Whether Defendants enforced the buy-back rule;
  - 18 f. Whether Defendants enforced the ten customer rule;
  - 19 g. Whether Defendants' conduct constitutes an "Endless Chain"  
20 under the California Penal Code;
  - 21 h. Whether Defendants omitted to inform plaintiffs and the  
22 plaintiff class that they were entering into an illegal pyramid  
23 scheme and that most participants lose money;
  - 24 i. Whether Defendants misrepresented or omitted facts about  
25 Fashion Consultant's ability to pay back their initial investment
  - 26 j. Whether and to what extent the conduct has caused injury to  
27 Plaintiffs and the plaintiff class;
- 28

1 k. Whether Defendants' conduct constitutes an unlawful, unfair  
2 and fraudulent business practice under the California Business and  
3 Professions Code; and

4 1. Whether Defendants' conduct constitutes false advertising  
5 under the California Business and Professions Code.

6 121. These and other questions of law and/or fact are common to the class  
7 and the subclass, and predominate over any question affecting only individual class  
8 members.

9 122. Plaintiffs' claims are typical of the claims of the class and the subclass  
10 in that Plaintiffs were distributors for LLR and lost money as a result of the  
11 pyramid scheme.

12 123. Plaintiffs will fairly and adequately represent the interests of the class  
13 and the subclass in that plaintiffs' claims are typical of those of the class and  
14 plaintiffs' interests are fully aligned with those of the class. Plaintiffs have  
15 retained counsel who is experienced and skilled in complex class action litigation.

16 124. Class action treatment is superior to the alternatives, if any, for the fair  
17 and efficient adjudication of the controversy alleged herein, because such treatment  
18 will permit a large number of similarly-situated persons to prosecute their common  
19 claims in a single forum simultaneously, efficiently and without unnecessary  
20 duplication of evidence, effort, and expense that numerous individual actions  
21 would engender.

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

24 **FIRST CLAIM FOR RELIEF**  
25 **(Endless Chain Scheme: California Penal Code §327**  
26 **and Section 1689.2 of the California Civil Code)**

27 126. Plaintiffs re-allege the foregoing paragraphs as though fully set forth  
28

1 herein.

2 127. Section 1689.2 of the California Civil Code provides:

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

7 128. LLR is operating an endless chain scheme.

8 129. Plaintiffs and the class have suffered an injury in fact and have lost  
9 money or property because of LLR's operation of an endless chain, business acts,  
10 omissions, and practices.

11 130. Plaintiffs and the class are entitled to:

12 a. rescind the contract upon which the scheme is based and  
13 recover all consideration paid under the scheme, less any amounts paid or  
14 consideration provided to the participant under the scheme;

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

17 c. attorneys' fees, costs, pre- and post-judgment interest.

18 **SECOND CLAIM FOR RELIEF**  
19 **(Unlawful, Unfair and Fraudulent Business Practices Under the California**  
20 **Business and Professions Code § 17200, *et seq.*)**

21 131. Plaintiffs re-allege the foregoing paragraphs as though fully set forth  
22 herein.

23 132. Defendants are engaged in ongoing and continuous unlawful, unfair,  
24 and fraudulent business acts or practices, and unfair, deceptive, untrue and  
25 misleading advertising within the meaning of the California Business and  
26 Professions Code § 17200, *et seq.* The acts practices alleged herein constitute a  
27  
28

1 pattern of behavior, pursued as wrongful business practice that has victimized and  
2 continues to victimize thousands of California consumers.

3 133. Pursuant to California Business and Professions Code § 17200, an  
4 “unlawful” business practice is one that violates California law. Defendants’  
5 business practices are unlawful because they involve the creation and promotion of  
6 an illegal pyramid scheme or “endless chain” under California law.

7 134. Defendants are engaged in an illegal pyramid scheme or “endless  
8 chain” as defined under California Penal Code § 327. Defendants utilize this illegal  
9 pyramid scheme with the intent, directly or indirectly to dispose of property, in the  
10 form of LLR products and to convince distributors to recruit others to do the same.

11 135. Pursuant to California Business and Professions Code § 17200, an  
12 “unfair” business practice includes a practice that offends an established public  
13 policy, or that is immoral, unethical, oppressive, unscrupulous or substantially  
14 injurious to consumers.

15 136. Defendants’ promotion and operation of an illegal pyramid scheme is  
16 unethical, oppressive and unscrupulous in that defendants are duping California  
17 consumers out of millions of dollars through their illegal pyramid scheme.

18 137. Pursuant to California Business and Professions Code § 17200, a  
19 “fraudulent” business practice is one that is likely to deceive the public.  
20 Defendants’ business practice is fraudulent in that they have deceived the public by  
21 misrepresenting the nature of their business. For example, Defendants have failed  
22 to inform the public that they are openly an illegal pyramid scheme. California  
23 citizens have relied, and continue to rely on defendants’ misrepresentations and  
24 omissions to their detriment. Moreover, Defendants misrepresented facts about the  
25 amount of money that a Fashion Consultant would earn, including false statements  
26 about the average selling prices and number of pieces sold by Fashion Consultants  
27  
28

1 at Pop Up Boutiques and the amount of time in which Fashion Consultants could  
2 recoup their investment and become profitable.

3 138. As a result of their unlawful, unfair and fraudulent acts, Defendants  
4 have reaped and continue to reap unfair benefits and illegal profits at the expenses  
5 of Plaintiffs and the class members.

6 139. Defendants should be made to disgorge these ill-gotten gains and  
7 restore Plaintiffs and the class the wrongfully taken revenue.

8 140. Defendants' unlawful, unfair and fraudulent acts and/or omissions  
9 will not be completely and finally stopped without orders of an injunctive nature.  
10 Under California Business and Professions Code section 17203, Plaintiffs seek a  
11 judicial order of an equitable nature against all Defendants, including, but not  
12 limited to, an order declaring such practices as complained of to be unlawful,  
13 unfair, fraudulent and/or deceptive, and enjoining them from undertaking any  
14 further unfair, unlawful, fraudulent and/or deceptive acts or omissions related to  
15 operating the illegal pyramid scheme. Plaintiffs also seek restitution, disgorgement,  
16 and any other appropriate equitable relief.

17 **THIRD CLAIM FOR RELIEF**  
18 **(California Business and Professions Code § 17500, *et seq.*)**

19 **False Advertising**

20 141. Plaintiffs and the subclass re-allege the foregoing paragraphs as  
21 though fully set forth herein.

22 142. Defendants' business acts, false advertisements and materially  
23 misleading omissions alleged herein constitute unfair trade practices and false  
24 advertising, in violation of the California Business and Professions Code § 17500,  
25 *et seq.*  
26  
27  
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1 143. Defendants engaged in false, unfair and misleading business practices,  
2 consisting of false advertising and materially misleading omissions that were likely  
3 to deceive the public and include, but are not limited to:

4 a. Defendants' failing to disclose to Plaintiffs that they were entering  
5 into an unlawful pyramid scheme; and

6 b. Defendants' misrepresenting facts about the amount of money that a  
7 Fashion Consultant would earn, including false statements about the  
8 average selling prices and number of pieces sold by Fashion Consultants  
9 at Pop Up Boutiques and the amount of time in which Fashion  
10 Consultants could recoup their investment and become profitable.

11 144. Defendants' marketing and promotion of the illegal pyramid scheme  
12 constitutes misleading, unfair and fraudulent advertising in connection with their  
13 false advertising to induce consumers to join the illegal pyramid scheme.  
14 Defendants knew or should have known, in the exercise of reasonable care, that the  
15 statements they were making were untrue or misleading and did deceive members  
16 of the public. Defendants' knew or should have known, in the exercise of  
17 reasonable care, that California citizens, including Plaintiffs, would rely, and did in  
18 fact rely, on defendants' misrepresentations and omissions.

19 145. Defendants should be ordered to disgorge, for the benefit of Plaintiffs  
20 and the plaintiff class, their LLR profits and compensation and/or make restitution  
21 to the Plaintiffs and the class.

22 146. Under California Business and Professions Code section 17535,  
23 Plaintiffs and the Class Members seek a judicial order directing Defendants to  
24 cease and desist with all false advertising related to the Defendants' illegal  
25 pyramid scheme and any such other injunctive relief as the Court finds just and  
26 appropriate. Plaintiffs also seek restitution, disgorgement, and any other  
27 appropriate equitable relief.  
28

1 **PRAYER FOR RELIEF**

2 The named plaintiffs and the plaintiff class request the following relief:

- 3 a. Certification of the class;
- 4 b. Judgment against Defendants;
- 5 c. Rescission of the agreements upon which the scheme is based, and  
6 recovery of all consideration paid pursuant to the scheme, less any amounts paid or  
7 consideration provided to the participant pursuant to the scheme;
- 8 d. Damages for the financial losses incurred by Plaintiffs and by the  
9 class because of Defendants' conduct and for injury to their business and property;
- 10 e. Restitution and disgorgement of monies;
- 11 f. Temporary and permanent injunctive relief enjoining Defendants from  
12 further unfair, unlawful, fraudulent and/or deceptive acts, including, but not limited  
13 to, false advertising;
- 14 g. The cost of suit including reasonable attorneys' fees in accordance  
15 with California Code of Civil Procedure section 1021.5, and otherwise provided by  
16 law;
- 17 h. For damages in an amount yet to be ascertained as allowed by law;  
18 and
- 19 i. For such other damages, relief and pre- and post-judgment interest as  
20 the Court may deem just and proper.

21 **DEMAND FOR JURY TRIAL**

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

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1 Dated: October 27, 2017

**GLANCY PRONGAY & MURRAY LLP**

2  
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