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KING COUNTY
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CASE #: 19-2-02325-2 SEA

STATE OF WASHINGTON
KING COUNTY SUPERIOR COURT

STATE OF WASHINGTON,

Plaintiff,

v.

LLR, Inc.; LLR LULAROE, Inc.;
LENNON LEASING, LLC; MARK A.
STIDHAM; DEANNE S. BRADY a/k/a
DEANNE STIDHAM; and JORDAN K.
BRADY.

Defendants.

NO.

COMPLAINT FOR INJUNCTIVE
AND OTHER RELIEF UNDER
THE CONSUMER PROTECTION ACT,
RCW 19.86, AND THE ANTIPYRAMID
PROMOTIONAL SCHEME ACT,
RCW 19.275

Plaintiff, the State of Washington, appearing through its attorneys, Robert W. Ferguson, Attorney General, and Tiffany L. Lee, Assistant Attorney General, brings this Action against corporate defendants, LLR, Inc; LLR LuLaRoe, Inc.; and Lennon Leasing, LLC (collectively "Corporate Defendants" or "LuLaRoe"); and individual defendants Mark A. Stidham; DeAnne S. Brady (a/k/a DeAnne Stidham); and Jordan K. Brady (collectively, "Individual Defendants"). Plaintiff, on information and belief, alleges as follows:

I. INTRODUCTION

1.1 Corporate Defendants LLR, Inc.; LLR LuLaRoe, Inc.; Lennon Leasing, LLC, and Individual Defendants Mark. A Stidham; DeAnne S. Brady; and Jordan K. Brady through the establishment, promotion, operation, and participation in the LuLaRoe multi-level marketing business have established, promoted, operated, and participated in an unlawful pyramid scheme

1 in violation of the Washington Antipyrnid Promotional Scheme Act, RCW 19.275 a *per se*
2 violation of the Washington Consumer Protection Act (CPA), and further committed other unfair
3 and deceptive acts or practices in trade or commerce also in violation of the CPA.

4 **II. JURISDICTION AND VENUE**

5 2.1 This Complaint is filed and these proceedings are instituted under the provisions
6 of the Unfair Business Practices – Consumer Protection Act, RCW 19.86, and the Antipyrnid
7 Promotional Scheme Act, RCW 19.275.

8 2.2 The violations alleged in this Complaint were and are committed in whole or in
9 part in the State of Washington, including in King County, Washington, by Defendants named
10 herein.

11 2.3 The violations alleged in this Complaint are injurious to the public interest.

12 2.4 The Attorney General has authority to commence this action as conferred by
13 RCW 19.86.080; RCW 19.86.140; and RCW 19.275.040.

14 **III. THE PARTIES**

15 3.1 Plaintiff is the State of Washington.

16 **Corporate Defendants**

17 3.2 Corporate Defendant LLR, Inc. is a Wyoming Corporation with its principal place
18 of business at 1375 Sampson Avenue, Corona, CA 92879.

19 3.3 Corporate Defendant LLR, Inc. d/b/a LLR LuLaRoe, Inc. is a California
20 Corporation with its principal place of business at 1375 Sampson Avenue, Corona, CA 92879.

21 3.4 Corporate Defendant Lennon Leasing, LLC, is a Wyoming Corporation with its
22 principal place of business at 1375 Sampson Avenue, Corona, CA 92879.

23 3.5 Together, Corporate Defendants LLR, Inc., LLR, Inc. d/b/a LLR LuLaRoe, Inc.
24 and Lennon Leasing, LLC, comprise the LuLaRoe multi-level marketing (MLM) apparel
25 business (collectively “LuLaRoe”). Corporate Defendants LLR, Inc., LLR LuLaRoe, LLC, and
26 Lennon Leasing, Inc. operated as a common enterprise while engaging in the deceptive and

1 unlawful practices alleged herein. At all times material to this Complaint, acting alone or in
2 concert with others, LuLaRoe advertised, marketed, distributed, or sold business opportunities
3 to consumers throughout the State of Washington. Defendants have conducted the business
4 practices described below through interrelated companies that commingle funds and have
5 common ownership, officers, directors, and office locations. Because LuLaRoe operated as a
6 common enterprise, each entity is jointly and severally liable for the acts and practices alleged.

7 **Individual Defendants**

8 3.6 Individual Defendant Mark A. Stidham ("Stidham") is a California resident and
9 co-founder of LuLaRoe. He serves as President and CEO of LLR, Inc., President of LLR
10 LuLaRoe, LLC, and President and Chief Executive Officer of Lennon Leasing, LLC. At all
11 times material to this Complaint, acting alone or in concert with others, Defendant Stidham
12 formulated, directed, controlled, had the authority to control, or participated in the acts and
13 practices set forth in this Complaint. Defendant Stidham transacts or has transacted business in
14 this county, and throughout the State of Washington.

15 3.7 Individual Defendant DeAnne Brady ("Brady") is a California resident and co-
16 founder of LuLaRoe. She serves as Secretary of LLR, Inc.; Chief Executive Officer and
17 Secretary of LLR LuLaRoe, LLC, and Secretary of Lennon Leasing, LLC. At all times material
18 to this Complaint, acting alone or in concert with others, Brady formulated, directed, controlled,
19 had the authority to control, or participated in the acts and practices set forth in this Complaint.
20 Defendant Brady transacts or has transacted business in this county, and throughout the State of
21 Washington.

22 3.8 Individual Defendant Jordan K. Brady ("Jordan Brady") is a promotor of the
23 business opportunities offered by LuLaRoe. Since November 2014, Jordan Brady has served in
24 a Leadership and Culture Development role at LuLaRoe. At all times material to this Complaint,
25 acting alone or in concert with others, Jordan Brady participated in the acts and practices set
26 forth in this Complaint. Defendant Jordan Brady is a California resident, and in connection with

1 the matters alleged herein, transacts or has transacted business in this county, and throughout the
2 State of Washington.

3 IV. THE FACTS

4 4.1 LuLaRoe is MLM company founded by husband and wife couple, Individual
5 Defendants Mark Stidham and DeAnne Brady in 2013, that promotes and sells colorfully
6 patterned leggings, shirts, skirts, and dresses through a network of independent distributors
7 called "Independent Fashion Consultants" (hereinafter "Consultants"). LuLaRoe operated an
8 unlawful pyramid scheme in the State of Washington through the Leadership Bonus Plan of its
9 Independent Fashion Consultant Program ("LuLaRoe MLM").

10 Unlawful Compensation Structure

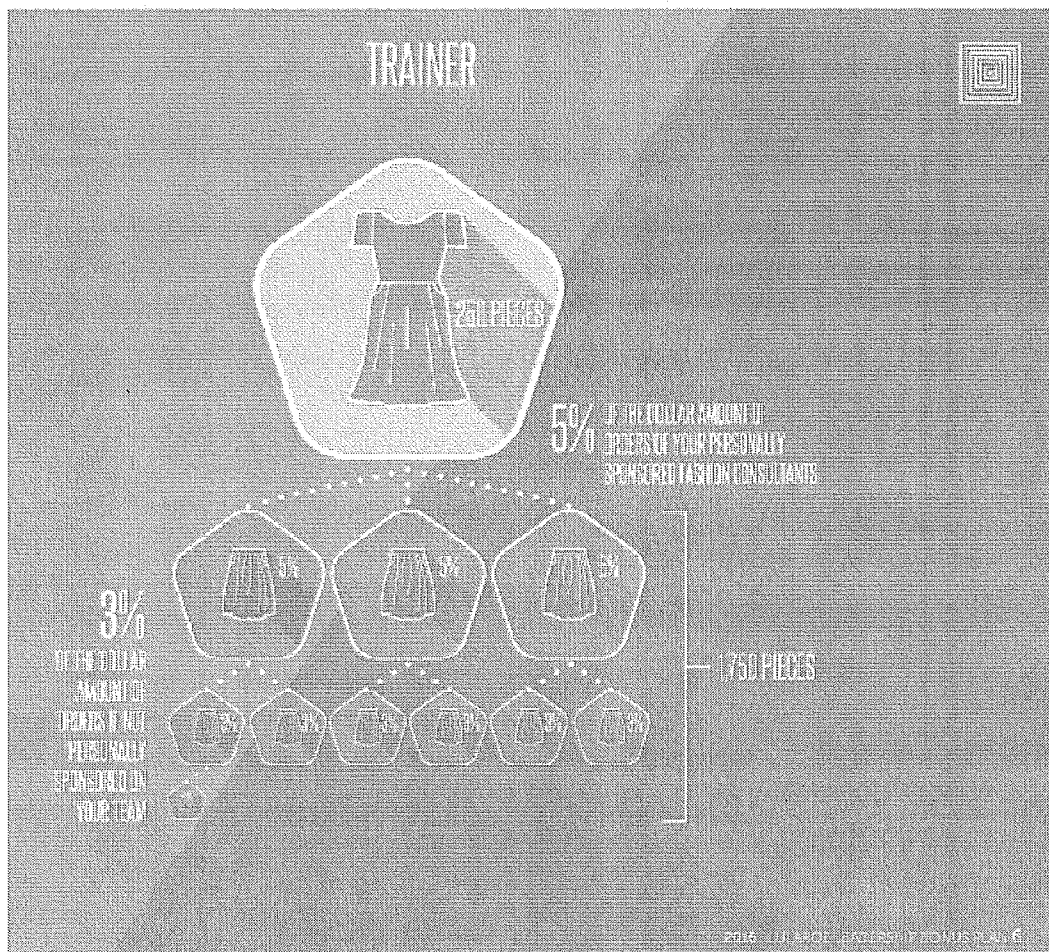
11 4.2 Any Consultant who signs up for the LuLaRoe MLM and pays the initial
12 "onboarding" fee, which ranges from \$2,000 to \$9,000 depending on the package, is eligible to
13 participate in LuLaRoe's Leadership Bonus Plan. Until July 1, 2017, LuLaRoe's Leadership
14 Bonus Plan gave Consultants a right to receive compensation entirely based on the recruitment
15 of other persons as participants in the LuLaRoe MLM.

16 4.3 LuLaRoe incentivized existing Consultants to recruit and sponsor new
17 Consultants, and to encourage them and their recruits to purchase large amounts of inventory,
18 by basing its bonus structure on the dollar amount of wholesale orders paid for, instead of on
19 bona-fide retail sales to end-consumers. Historically, the Leadership Bonus Plan rewarded
20 Consultants based on a percentage of the "Personal Volume" or "total of pieces ordered for
21 which payments are received in a calendar month" of their teams (or "T.E.A.M.s", LuLaRoe's
22 acronym for "Together, Everyone, Achieves, More").

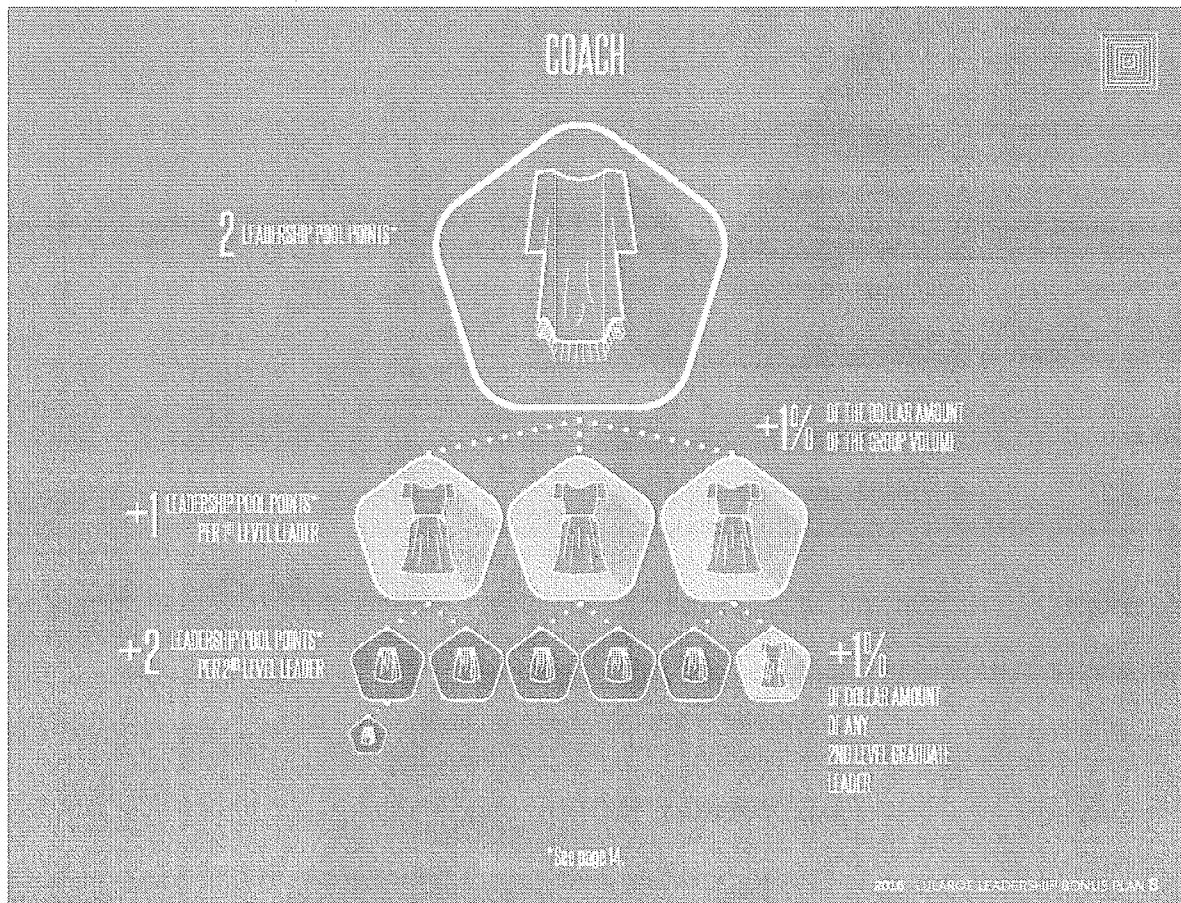
23 4.4 LuLaRoe's Leadership Bonus Plan generally had four tiers of status, which
24 Consultants qualified for based upon the number of inventory pieces purchased by a Consultant
25 and her or his team (referred to as "Group Volume"), and the number and status of recruits in a
26 Consultant's team.

4.5 Any Consultant could participate in the Leadership Bonus plan by recruiting Consultants to be part of their teams. Prior to July 2017, the Leadership Bonus Plan was generally structured as follows:

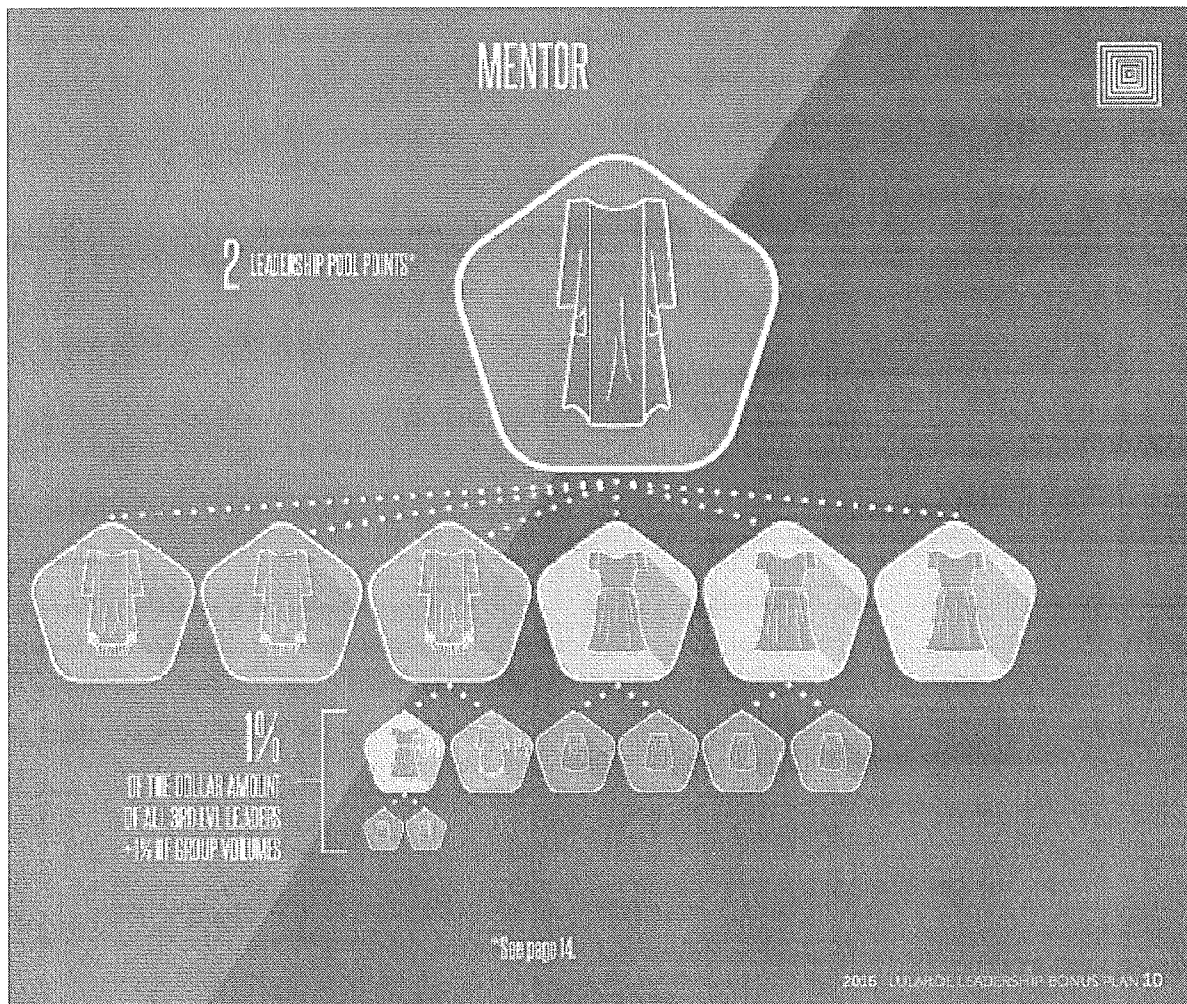
- a. "Sponsors" were the lowest tier. Any Consultant could become a "Sponsor" by recruiting Consultants. Sponsors who met a minimum purchase requirement of 175 pieces per month were eligible for a 5% "override bonus on the Personal Volume (Payments Received)" of their sponsored Consultants.
- b. "Trainers" were the second tier. A "Trainer" had to qualify with "250 pieces (100 of which must be generated by their personal orders), at least three Personally Sponsored Fashion Consultants, with a total of ten Fashion Consultants in their team and 1,750 Total Group pieces ordered and paid for." Trainers were eligible to earn "qualification points" to reduce their own personal purchase requirement. Trainers earned a 5% bonus on personally sponsored Consultants and a 3% bonus on the rest of the team's inventory purchases.



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



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



4.6 Income earned through the Leadership Bonus Plan significantly dwarfed retail profits for top consultants. At a Leadership Conference themed, “Be the Light” hosted at the Riverside Convention Center in California in January 2017, Defendant Brady asked Consultants to publicly state their last month’s total retail sales and bonus checks. Consultants, at Defendant Brady’s direction, announced the amounts of their monthly bonus checks, which ranged from \$85,000 to \$307,000. Compared to their monthly retail sales, which ranged from \$12,000 to

1 \$25,000, it was clear that the primary opportunity for compensation was not through sale of
2 LuLaRoe apparel, but bonuses earned through recruiting.

3 4.7 On July 1, 2017, LuLaRoe revised their Leadership Bonus Plan to compensate
4 Consultants based on actual retail sales rather than inventory purchases. As explained by
5 Defendant Jordan Brady in a "Train the trainers" webinar on October 27, 2016:

6 What it is, is we've always been planning this, talked about for the last year.
7 *We need to get away from being a pyramid scheme.* Ok! What it is, is if you
8 sign up Sally, you have, you have no reason to help Sally, sell the product in
9 her room. Right? You can just keep promoting her to buy, to buy, to buy,
10 to buy. You can even be paying for her inventory to make your bonus check,
11 there are some dishonest consultants that do that. Ok! *So, the way we get
12 away from a pyramid scheme and incentivize you as leaders, is we change
13 it.* Sally needs to sell, in order for you to get a bonus check that means you
14 have to have a personal connection with Sally in order to get a bonus check.

15 *(emphasis added)*

16 4.8 Following the change in bonus structure on July 1, 2017, Consultants
17 participating in the Leadership Bonus Plan were no longer financially rewarded primarily based
18 on recruiting. Rather, Consultants would not earn money from the LuLaRoe MLM until they or
19 their recruits actually sold merchandise to consumers. In other words, LuLaRoe moved away
20 from having a compensation structure that primarily rewarded Consultants based on recruiting
21 towards a compensation structure based on bona fide retail sales to consumers.

22 **Sales and Marketing Activities**

23 4.9 Defendants' sales and marketing activities similarly emphasize recruiting
24 individuals into the LuLaRoe MLM and encouraging inventory purchases in connection with
25 their participation, rather bona fide retail sales. As stated in their marketing materials, "One of
26 the greatest financial awards LuLaRoe has to offer Consultants is its proven Leadership Bonus
Plan" where "you can earn significant income when you sponsor and build a strong T.E.A.M.
that has consistently grown sales."

1 4.10 Defendants promote the LuLaRoe program through a variety of channels,
2 including websites, social media, videos, testimonials, weekly webinars, conference calls,
3 training calls, and live presentations and meetings at conferences. Defendants used a number of
4 channels to promote the LuLaRoe Program, such as “opportunity calls,” “opportunity events,”
5 “trainer calls,” and “pop-ups.” LuLaRoe’s core management team, including Defendants
6 Stidham, Brady, and Jordan Brady, plan, host, and execute “opportunity calls,” “opportunity
7 events,” and “trainer calls.”

8 4.10.1 “Opportunity events” are events designed to recruit new Consultants and
9 motivate existing Consultants to do the same, typically hosted in hotel ballrooms, conference
10 rooms, or convention centers around the country. LuLaRoe annually hosted a conference called
11 VISION for active Consultants. Individual Defendants often spoke at “opportunity events.”

12 4.10.2 “Opportunity calls,” often hosted by Defendant Brady, are weekly
13 conference calls to promote and market the LuLaRoe MLM to potential recruits.

14 4.10.3 “Trainer calls,” often hosted by Defendant Jordan Brady, are calls
15 designed to entice and train consultants to grow their teams through the Leadership Bonus
16 Program.

17 4.10.4 “Pop-ups” are events hosted by Consultants, where Consultants are
18 encouraged to recruit “Hostesses” in order to help them sell LuLaRoe merchandise. LuLaRoe
19 encourages Consultants to reward “Hostesses” with free LuLaRoe merchandise, and at each
20 “pop-up,” recruit additional “Hostesses” for additional “pop-ups.”

21 4.11 Through each of these channels, Defendants encouraged consumers to become
22 LuLaRoe Consultants and to recruit others, including friends and family members, to do the
23 same. For example, in trainings, Defendants represent that a key to success is “Buy more, sell
24 more”, further emphasizing the key to success is growing “Group Volume” to receive large
25 rewards through the Leadership Bonus Plan.
26

Defendants' Business Opportunity and Income Claims

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

4.13 Defendants repeatedly tout that the LuLaRoe MLM offers anyone an easy path to financial freedom and independence with part-time work. Print materials for recruiting distributed by LuLaRoe state: "MAKE A FULL-TIME INCOME DOING PART TIME WORK. BECOME A LULAROE INDEPENDENT BUSINESS OWNER" and "WANT TO EARN FULL-TIME INCOME FOR PART-TIME WORK? ASK ME HOW?" LuLaRoe encouraged consultants to frame and hang these print materials at "pop-up parties" and distribute these materials to potential recruits. At an opportunity event in 2015, Defendant Stidham also made similar lifestyle claims of "full-time income on part-time work":

- a. "We started this business on the premise that you could make a full-time income on part-time, part-time work, alright? I always boiled that down to this, a party takes about 5 hours. Uh, we say it takes 5 hours because the party itself takes about an hour and half because you got to set it up. You take it down. You gotta call and prep the hostess. You have to organize your inventory. So, you have lots of ancillary . . . activities that goes with the party. So . . . , I think it's very generous to say you have 5 hours for a party. Now, can you do 4 parties in a week? 4 parties times 5 hours is 20 hours; 20 hours in the week is definitely part time work. Now what do you make if you do 4 parties in a week? Average party sales are about 25 pieces. Okay, so 4 parties in a week equals 100 pieces sold in a week. There's are 52 weeks in a year, but we're gonna give you two weeks off. So 50 weeks take 100 pieces, that's 5000 pieces sold in a year. Average profit is 12 to 15 dollars per item, that's 60 to 75 thousand dollars a year working 20 hours a week."

4.14 Defendant Brady made lifestyle and income claims during "opportunity calls" designed to recruit new Consultants, "opportunity events" designed to motivate Consultants to recruit others, and in webinars put on by existing Consultants:

- 1 a. "You are going to make about three to five-thousand on average, I'm
2 saying on average, you know, you gonna, you're going to have to get
3 yourself going. . . . Your business will start to grow and it will grow and
4 grow and grow. . . . On average our consultants are paying their debt back
5 . . . anywhere from 2 weeks to 2 months, depending on how much you
6 want to commit to. . . ."
- 7 b. "In fact, today, I was making calls. I reached out to 25 retailers that are
8 selling an average of 12 to 15, [correct self] 10 to 15 thousand a month,
9 I mean is that, is that comprehensible or what, it's amazing, to make that
10 kind of money, doing it part-time, being a stay at home mom. . . ."
- 11 c. "I mean I could blow your, your mind away by telling you that we have
12 over 100 people that make a lot of money, like between 50 thousand to
13 500 thousand dollars a month, and I'm not lying."
- 14 d. "What really affects me is when women call me and say, 'my husband
15 just lost his job, so I guess I'm it.' And they say, 'do you think I can do
16 it DeAnne?' And I get to get my pom-poms out, and I say, 'But don't
17 you see this is an answer! This is easy! This is fun! This is something
18 you guys can do together and he can watch the kids while you go and do
19 parties.'"
- 20 e. "This is a business that is going to bring in a lot of money for you, a lot
21 of money, I mean a lot. I'm going to say that over."

22 **Defendants' Training Materials Emphasized Recruiting Over Bona Fide Retail Sales**

23 4.15 Defendants claimed that anyone who followed LuLaRoe's "process" could
24 succeed through the LuLaRoe MLM. But even LuLaRoe's "process" to sell merchandise
25 emphasized recruiting "Hostesses" to help sell LuLaRoe apparel and using "pop-up" parties as
26 Consultant-recruiting opportunities. LuLaRoe's onboarding print materials advise Consultants
to recruit "Hostesses" to host "pop-up boutiques" to help sell LuLaRoe merchandise. LuLaRoe
encourages Consultants to reward Hostesses for their efforts with free merchandise, and to share
their excitement, including by rewarding them with additional free merchandise, with Hostesses
when any piece sells. Further, a Consultant should promote pop-up boutiques through "personal
phone calls, text messages, conversations, emails Facebook, Instagram, Events, and flyers"

1 LuLaRoe recommended that at each pop-up boutique, a Consultant recruit three additional
2 “Hostesses” to host more pop-up boutiques.

3 4.16 LuLaRoe encouraged Consultants to flaunt their success in order to recruit others.

4 Training materials state:

5 a. “By sharing your success stories with others around you, you allow that
6 success to grow.”

7 b. “SHARE THE OPPORTUNITY. LuLaRoe believes that anyone,
8 anywhere has the ability to share the amazing opportunity LuLaRoe has
9 to offer! . . . One direct way to ensure that your LuLaRoe business will
10 succeed is by growing your clientele and your potential T.E.A.M. People
11 are intrigued and excited by another’s personal triumphs! Share with
12 those interested about your success and how they too can have a business
13 of their own and the freedom that comes with it.”

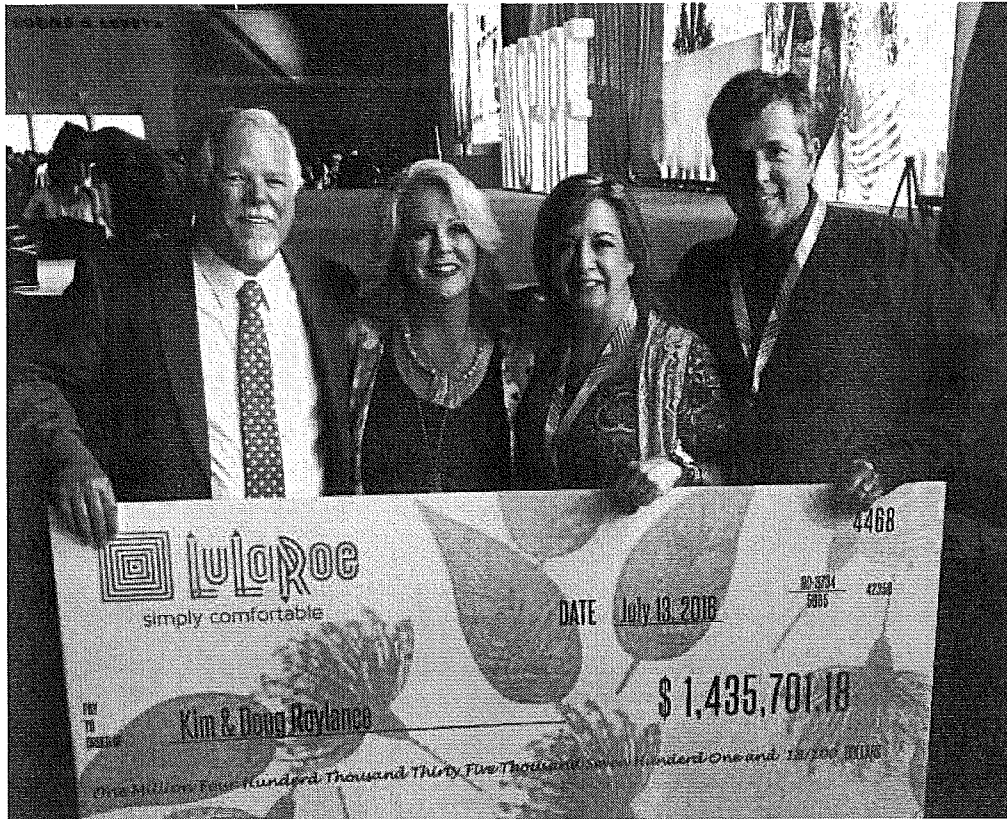
12 4.17 Although it is against LuLaRoe’s written Policies and Procedures for Consultants
13 to make income claims; Defendants encourage Consultants to make income and lifestyle claims
14 and flaunt their success in order to recruit additional Consultants. At several Opportunity Events,
15 Defendant Brady led panels and asked top Consultants present their Leadership bonus checks
16 publicly, which were much larger than the amount of profits earned from retail sales. On July
17 13, 2015, Defendants Stidham and Brady publicly presented a Consultant and her husband an
18 oversized bonus check at VISION Leadership Conference in the amount of \$1,425,701.18,
19 creating the impression that other Consultants could also achieve such income through the
20 LuLaRoe Program. Defendants Stidham and Brady posed with the Consultants for a photo with
21 the check, which was then posted on a Consultant’s blog site designed to recruit additional
22 Consultants.

23 ///

24 ///

25 ///

26 ///



Failure to Disclose Material Terms

4.18 While Defendants sometimes provide disclaimers when making these and other income or lifestyle claims, their attempts are inadequate. LuLaRoe typically dilutes purported disclaimers, with statements such as “results will vary” and other statements implying that negative results are due to the inadequate efforts of the Consultant. For example, many prospective Consultants rely on information publicly available on LuLaRoe’s website in evaluating whether the LuLaRoe MLM will be a worthwhile business opportunity. However, LuLaRoe fails to disclose accurate information material to their decision.

4.19 For example, LuLaRoe has published annual disclosure statements on its website since 2014. The figures contained in the company’s disclosure statements do not show the whole picture and are misleading. Among other things, the disclosure statements only take into account “active” Consultants who have met minimum purchase thresholds and omit participants who

1 | fared worse. Additionally, LuLaRoe never published a 2017 Income Statement, leaving a 2016
2 | Income Statement on its website, which was not reflective of 2017 when business declined. As
3 | such, LuLaRoe misled prospective Consultants who evaluated whether to join the LuLaRoe
4 | MLM in 2017, by omitting material information from its disclosures.

5 | 4.20 LuLaRoe's "Retailer Map" which is published on its website, misrepresents the
6 | number of active Consultants in a particular geographic location. While LuLaRoe maintains
7 | exact data and statistics on the location and number of active and inactive retailers, the map
8 | understates the number of Consultants, misleading potential Consultants about the level of
9 | saturation of active Consultants in a location. The map informs prospective Consultants about
10 | market saturation, which is material information about the potential business opportunity.
11 | Instead of updating the map with accurate information, LuLaRoe added a disclaimer to the map
12 | in 2018, the efficacy of which was diluted by stating that it "cannot and does not guarantee the
13 | accuracy of the Retailer Map" in non-conspicuous fine grey print.

14 | **Unfair and Deceptive Practices Encouraging Inventory Loading**

15 | 4.21 LuLaRoe also engages in a number of practices that encourage Consultants to
16 | purchase significant wholesale inventory, further reinforcing the pyramid scheme. In addition
17 | to the unlawful Leadership Bonus Plan, LuLaRoe engaged in unfair and deceptive business
18 | practices that encourage inventory loading. Such practices include educating Consultants that a
19 | key to success is maintaining significant inventory; not permitting Consultants to pick the pattern
20 | or size of apparel included in inventory purchases; minimum monthly inventory purchase
21 | requirements to stay "active" or qualify for the Leadership Bonus Plan; and marketing limited
22 | edition "unicorn" pieces to create a "frenzy" of inventory ordering.

23 | 4.22 Defendants deceptively trained Consultants that the key to success is "Buy more,
24 | sell more". In training materials, LuLaRoe encourages Consultants to invest all profits from
25 | retail sales back into inventory purchases:
26 |

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

7
8 4.23 Defendant Brady stated in a November 14, 2016 mentor call:

9 “The way this business was created, was you have the merchandise, you put it
10 before people and you sell it and you have money in your bank account. That is
11 how this business goes and the more investment that you put into your business,
12 you treating it like a business, the first 90 days to 120 days, YOU DO NOT
13 SPEND YOUR MONEY. Sorry, you can buy an ice cream cone, or a diet coke
14 or cup of coffee and gas, you pour everything back in your business . . . well this
15 kind of business is driven by the more you invest in your business, the more you
16 have, the more you are going to sell it. So I want to reach out to you and let you
17 know and give you permission that this is a business that is going to bring in a lot
18 of money for you, A LOT, I mean A LOT, I’m going to say that over.”

19 4.24 Despite encouraging Consultants to maintain a large variety of inventory,
20 LuLaRoe does not permit Consultants to select the pattern or size of the merchandise ordered.
21 Inventory is sold in 33-piece sets called “pods,” pre-selected by LuLaRoe. Consultants may not
22 specify the size or print of an inventory order. Thus, in order to obtain merchandise of a
23 particular size or print, such as a particularly desirable “unicorn” piece, Consultants were
24 required to “to buy, to buy, to buy”, but could only hope to receive specific desirable sizes or
25 prints.

26 **Exiting Consultant Refund Policy**

1 4.25 As part of its “Policies and Procedures,” LuLaRoe has an official inventory buy
2 back policy for exiting consultants. Section 3.16.3 permits retailers to receive “90% of the net
3 cost of the original purchase price(s)” upon “cancellation of an Independent Fashion
4 Consultant’s Agreements.” LuLaRoe’s “Returns on Cancellation of the Agreement” repurchase
5 policy assured prospective Consultants that they could recoup most of their investment in the
6 LuLaRoe Program if the opportunity did not work out for them.

7 4.26 However, LuLaRoe implemented a very complex process for initiating a refund,
8 which it did not clearly disclose to Consultants. While the process has varied over time,

1 currently, the process is as follows: In order to obtain a refund, a Consultant must log into
2 “Build”, LuLaRoe’s online portal, and click the “cancel my business” button. Then, LuLaRoe
3 sends “formstacks” for Consultants to list inventory they plan to return for a refund. After a
4 Consultant submits her or his formstacks, LuLaRoe sends Consultants a confirmation of the
5 refund amount they are eligible for, which according to their policies and procedures should be
6 90% of the wholesale price of inventory purchased within the last year, less any bonus earned
7 through the Leadership Bonus Plan. If the refund offered is satisfactory to the Consultant, the
8 Consultant must pay for shipping, and return her or his merchandise to LuLaRoe. After
9 LuLaRoe inventories the merchandise and deems it resalable, LuLaRoe issues a refund check.

10 4.27 On April 25, 2017, in response to market saturation and a growing number of
11 “G.O.O.B” or “Going Out of Business” sales, LuLaRoe announced it would be changing its 90%
12 policy to 100%, and committed to paying for return shipping. LuLaRoe made representations
13 that the revised 100% policy would not go away. On June 30, 2017, LuLaRoe deceptively posted
14 a “Home Office Update” on LuLaRoe’s online portal “Build,” “This policy does not have an
15 expiration date, nor does it have a required timeframe in which the product should have been
16 purchased in” However, without any advance notice to Consultants, LuLaRoe announced
17 on September 13, 2017, that it would no longer honor its 100% refund policy.

18 4.28 Following the announcement, many retailers who had started the exit process
19 experienced issues with their refunds, including a lack of response to initiating refunds, delays
20 in sending formstacks, miscalculations in the amount of refunds owed (which became known
21 among Consultants as “LuLaMath”), and significantly delayed or non-payment of refunds.
22 Word spread quickly amongst LuLaRoe Consultants about LuLaRoe’s failure to honor the
23 repurchase policy. As a result of LuLaRoe’s failure to honor its written repurchase policy, many
24 Consultants who initiated a cancellation did not send in their merchandise because they believed
25 LuLaRoe would not refund them the appropriate amount, if at all. Others were forced to attempt
26 to mitigate their losses through other means, such as G.O.O.B. sales, consignment thrift shops,

1 or donating merchandise at a loss. Many others are still holding onto boxes of unsaleable
2 inventory.

3 **Harm to Washingtonians and the Public Interest**

4 4.29 In sum, LuLaRoe's business model was a pyramid scheme. The primary business
5 opportunity in the LuLaRoe MLM was its Leadership Bonus Plan, which until July 2017,
6 rewarded compensation solely based on recruiting and inventory purchases. Further, LuLaRoe's
7 marketing and sales activities, misleading income and lifestyle claims, emphasis on recruiting
8 and inventory purchases over emphasis on sales to consumers outside the LuLaRoe organization,
9 and inventory loading practices ensured that the primary business opportunity with LuLaRoe
10 was through recruitment.

11 4.30 Using this business model, LuLaRoe experienced exponential growth. In
12 Washington, the LuLaRoe MLM grew from 19 Consultants in 2014, to 180 in 2015, to 2,343 in
13 2016, to over 3,500 Consultants in 2017. Defendant Stidham announced in February 2017, that
14 LuLaRoe had over 70,000 Consultants nationwide and that by August 10, 2017, LuLaRoe had
15 achieved "over \$1.5 Billion in retail sales for 2017 so far this year."

16 4.31 As a result of LuLaRoe's business and marketing practices that encouraged
17 inventory loading, LuLaRoe faced so much demand for inventory that it could not keep up with
18 orders. In early 2017, the quality of LuLaRoe's merchandise declined, with Consultants
19 receiving mis-sized merchandise or low quality merchandise, such as leggings with mismatched
20 pant leg lengths or merchandise that quickly developed holes. Even with these production and
21 quality problems, LuLaRoe continued to keep its minimum purchase requirements in place, and
22 instead routinely shipped backorder slips in lieu of merchandise.

23 4.32 Defendants market the LuLaRoe MLM as a transformational, empowering
24 opportunity to achieve dreams and achieve financial freedom while providing a flexible and part
25 time alternative to traditional employment. LuLaRoe's marketing prominently features
26 testimonials of independent, stylish, affluent women who have it all: a successful career,

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

7 **V. COUNT I: ILLEGAL PYRAMID**

8 **(ANTI-PYRAMID PROMOTIONAL SCHEME ACT, RCW 19.275)**

9 5.1 Plaintiff re-alleges paragraphs 1.1 through 4.32, and fully incorporates them
10 herein.

11 5.2 As alleged above, Defendants have established, operated, promoted, and
12 participated in the LuLaRoe MLM, which primarily rewards participants on recruitment of new
13 participants rather than on bona fide retail sales, thereby resulting in a substantial percentage of
14 participants losing money. Through the establishment, promotion, operation, and participation
15 of LuLaRoe in the State of Washington, Defendants have committed acts in furtherance of a
16 pyramid scheme. These acts include, but are not limited to the following:

17 5.2.1 Establishing, promoting, and operating a plan where the opportunity to
18 receive compensation is derived primarily from the recruitment of other Consultants;

19 5.2.2 Establishing and engaging in unfair business practices and deceptive
20 marketing practices which encourage inventory loading; and

21 5.2.3 Failing to honor LuLaRoe’s Returns on Cancellation of the Agreement
22 for exiting consultants by miscalculating, delaying, or failing to issue refunds according to
23 LuLaRoe’s written repurchase policy.

24 5.3 The conduct described in paragraphs 1.1 through 4.32 constitutes unreasonable
25 business practices in violation of RCW 19.275, and *per se* unfair and deceptive acts and practices
26

1 in trade or commerce and unfair methods of competition in violation of RCW 19.86.020 and
2 pursuant to RCW 19.275.040 is contrary to the public interest.

3 **VI. COUNT II: MISLEADING INCOME CLAIMS**

4 **(CONSUMER PROTECTION ACT, RCW 19.86.020)**

5 6.1 Plaintiff re-alleges paragraphs 1.1 through 4.32, and fully incorporates them
6 herein.

7 6.2 In numerous instances in connection with the advertising, marketing, promotion,
8 offering for sale, or sale of right to participate in the LuLaRoe program, Defendants have
9 represented, directly or indirectly, expressly or by implication, that consumers who become
10 LuLaRoe Consultants are likely to earn substantial income.

11 6.3 In truth, in numerous instances in which Defendants have made representations
12 set forth in Paragraph 6.1 of this complaint, consumers who become LuLaRoe Consultants are
13 not likely to earn substantial income.

14 6.4 Therefore, Defendants' representations are false or misleading, and constitute
15 unfair or deceptive acts or practices in trade or commerce and unfair methods of competition in
16 violation of RCW 19.86.020, and are contrary to the public interest.

17 **VII. COUNT III: FAILURE TO DISCLOSE MATERIAL TERMS IN VIOLATION**

18 **(CONSUMER PROTECTION ACT, RCW 19.86.020)**

19 7.1 Plaintiff re-alleges paragraphs 1.1 through 4.32, and fully incorporates them
20 herein.

21 7.2 In numerous instances in connection with the advertising, marketing, promotion,
22 offering for sale, or sale of the right to participate in the LuLaRoe program, Defendants have
23 represented, directly or indirectly, expressly or by implication, that individuals have earned
24 substantial income from participation in the LuLaRoe program, and that any consumer who
25 becomes a LuLaRoe Consultant has the ability to earn substantial income.
26

1 7.3 In numerous instances in which Defendants have made the representations set
2 forth in Paragraph 7.1 of this Complaint, Defendants have failed to disclose, or disclose
3 adequately, that LuLaRoe's structure ensures that most consumers who become LuLaRoe
4 Affiliates will not earn substantial income.

5 7.4 This additional information is material to consumers in considering whether to
6 participate in the LuLaRoe program.

7 7.5 Therefore, Defendants' practices, as described in Paragraph 7.1 of this Complaint
8 constitute unfair or deceptive acts or practices in trade or commerce and unfair methods of
9 competition in violation of RCW 19.86.020, and are contrary to the public interest.

10 **VIII. COUNT IV: MEANS AND INSTRUMENTALITIES**

11 **(CONSUMER PROTECTION ACT, RCW 19.86.020)**

12 8.1 Plaintiff re-alleges paragraphs 1.1 through 4.32, and fully incorporates them
13 herein.

14 8.2 By furnishing LuLaRoe Consultants with promotional materials to be used in
15 recruiting new participants that contain false or misleading representations, Defendants have
16 provided the means and instrumentalities for the commission of deceptive acts and practices.

17 8.3 Therefore, Defendants' practices as described in Paragraph 8.1 of the Complaint
18 constitute unfair or deceptive acts or practices in trade or commerce and unfair methods of
19 competition in violation of RCW 19.86.020, and are contrary to the public interest.

20 **IX. PRAYER FOR RELIEF**

21 WHEREFORE, Plaintiff, STATE OF WASHINGTON, prays that this Court grant the
22 following relief:

23 9.1 That the Court adjudge and decree that Defendants have engaged in the conduct
24 complained of herein.

9.2 That the Court adjudge and decree that the conduct complained of in the Complaint constitutes unfair or deceptive acts or practices and unfair methods of competition in violation of the Consumer Protection Act, Chapter 19.86 RCW.

9.3 That the Court issue a permanent injunction enjoining and restraining Defendants and their representatives, successors, assigns, officers, agents, servants, employees, and all other persons acting or claiming to act for, on behalf of, or in active concert or participation with Defendants from continuing or engaging in the unlawful conduct complained of herein.

9.4 That the Court assess civil penalties, pursuant to RCW 19.86.140, of up to \$2,000 per violation against Defendants for each and every violation of RCW 19.86.020 alleged herein.

9.5 That the Court make such orders pursuant to RCW 19.86.080 as it deems appropriate to provide for restitution to consumers of money or property acquired by Defendants as a result of the conduct complained of herein.

9.6 That the Court order such other relief as it may deem just and proper to fully and effectively dissipate the effects of the conduct complained of herein, or which may otherwise seem proper to the Court.

DATED this 23rd day of January, 2019.

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