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21 *Attorneys for Plaintiff and the Putative Class*

22 **IN THE UNITED STATES DISTRICT COURT**  
23 **FOR THE NORTHERN DISTRICT OF CALIFORNIA**

24 JUSTIN WILLIAM LEMON, individually and )  
25 on behalf of all others similarly situated, )

26 Plaintiff, )

27 v. )

28 ROBINHOOD FINANCIAL LLC, a Delaware )  
29 LLC, and ROBINHOOD SECURITIES, LLC, a )  
30 Delaware LLC, )

31 Defendants. )

Case No. 3:20-cv-9328

**CLASS ACTION COMPLAINT**

**JURY TRIAL DEMANDED**

1 **INTRODUCTION**

2 1. Plaintiff Justin William Lemon (“Plaintiff”), by and through his counsel, files this Class  
3 Action Complaint against Robinhood Financial LLC (“Robinhood Financial”) and Robinhood  
4 Securities, LLC (“Robinhood Securities”) (collectively, “Defendants” or “Robinhood”) on behalf of  
5 himself and on behalf of a class of similarly situated individuals, and alleges, upon personal knowledge  
6 as to his own actions, and upon investigation of counsel as to all other matters, as follows:

7 **NATURE OF THE ACTION**

8 2. Robinhood, a multi-billion dollar mobile application and website investment service, has  
9 capitalized on a surge of first-time market investors by misleading and luring unsuspecting consumers  
10 to execute inferior market trades on the platform under the guise of “commission free” trading.

11 3. Through a process of deceit and omission, Defendants misled consumers and failed to  
12 disclose that Robinhood’s business operations relied extensively upon “payment for order flow,” in  
13 which Defendants received payment from market makers in exchange for executing the service’s trades.

14 4. These payments often came at the expense of the consumer. While Defendants promoted  
15 and advertised an easy-to-use “commission free” trading platform, Defendants profited extensively from  
16 unsuspecting consumers who executed trades on Defendants’ platform at inferior execution prices  
17 compared to what consumers would have received from Robinhood’s competitors. For larger value  
18 orders, this price differential often exceeded the commission its competitors would have charged. These  
19 inferior prices were caused in large part by the unusually high charges Robinhood required from  
20 principal trading firms for the opportunity to obtain Robinhood’s customer order flow.

21 5. The principal trading firms/electronic market makers in turn passed these costs along to  
22 Robinhood’s clients on each trade through inferior execution quality—the price at which the requested  
23 market orders were executed.

24 6. Effectively, Robinhood charged backdoor commission fees to each of its clients’ orders,  
25 while concealing and denying the payment for order flow scheme.

26 7. To effectuate this scheme, Defendants published misleading statements and omissions in  
27 customer communications relating to the execution of trades and Robinhood’s revenue sources. For  
28

1 though it was Robinhood’s single largest source of revenue.

2 8. Robinhood failed to disclose and omitted information regarding this process in numerous  
3 ways, including instructing customer service representatives not to mention payment for order flow in  
4 response to questions about Robinhood’s sources of revenue and omitting it from its website’s FAQ  
5 section.

6 9. As a broker-dealer that routed customer orders for execution, Robinhood had a duty of  
7 best execution to its clients, a duty to seek and obtain the best reasonably available terms for customers’  
8 orders. Robinhood knowingly violated its duty of best execution by charging unusually high payment  
9 for order flow rates to its vendors and failing to conduct adequate regular and rigorous reviews of the  
10 execution quality it was providing on customer orders.

11 10. Plaintiff brings this action on behalf of himself and a class of similarly situated individuals  
12 who were victims of Defendants’ materially deceptive acts and omissions, relying upon Robinhood’s  
13 warranties, advertisements, and representations, as well as Robinhood’s duty of best execution in  
14 executing trades on consumer’s behalf.

15 11. Defendants have quietly sought to force its customers to execute trades on Defendants’  
16 platform at inferior prices compared to what consumers would have received from Robinhood’s  
17 competitors, while profiting on the back end of those trades.

18 12. Defendants uniform conduct is equally applicable to the class. Plaintiff brings this class  
19 action against Defendants for: (1) Violation of Section 10(b) of the Securities Exchange Act of 1934 and  
20 Rule 10b-5; (2) Violations of California Consumers Legal Remedies Act (“CLRA”), Civil Code § 1750,  
21 et seq.; (3) Violations of California Unfair Competition Law (“UCL”), Bus. & Prof. Code § 17200, et  
22 seq.; (4) Violations of California False Advertising Law (“FAL”), Bus. & Prof. Code § 17500, et seq.;  
23 (5) Negligent Misrepresentation; (6) Breach of Implied Covenant of Good Faith and Fair Dealing; and  
24 (7) Breach of Fiduciary Duty.

25 13. Plaintiff seeks an order for relief including but not limited to the following: (1) requiring  
26 Defendants to pay damages and restitution to Plaintiff and the Class; and (2) enjoining Defendants from  
27 further legal violations through Robinhood’s payment for order flow collection scheme and requiring

28 Defendants to publicly correct the false and misleading statements and omissions alleged herein.

1 **JURISDICTION AND VENUE**

2 14. This Court has original jurisdiction pursuant to the Securities Exchange Act of 1934, 15  
3 U.S.C. § 78a, *et seq.* This Court also has Class Action Fairness Act (CAFA) jurisdiction pursuant to 28  
4 U.S.C. § 1332(d)(2)(a). CAFA jurisdiction is appropriate as this action’s amount in controversy,  
5 exclusive of interest and costs, exceeds the sum or value of \$5,000,000 and is a class action in which  
6 there are numerous class members who are citizens of states different from Defendants.

7 15. This Court has personal jurisdiction over Defendants because Defendants are citizens of  
8 California, conduct significant, substantial, and not-isolated business activities in California and a  
9 substantial portion of the acts complained of took place in California.

10 16. Venue is proper in the Northern District of California because Defendants conduct  
11 business in this District and many of the events that gave rise to Plaintiff’s claims occurred in this  
12 District.

13 **PARTIES**

14 17. Plaintiff Justin William Lemon is an individual and citizen of New Hampshire.

15 18. Defendant Robinhood Financial LLC is a Delaware LLC with its principal place of  
16 business located at 85 Willow Road, City of Menlo Park, County of San Mateo, State of California.

17 19. Defendant Robinhood Securities, LLC is a Delaware LLC with its principal place of  
18 business located at 85 Willow Road, City of Menlo Park, County of San Mateo, State of California.

19 **FACTUAL ALLEGATIONS**

20 **A. Background**

21 20. Robinhood offers self-directed securities brokerage services to customers by means of its  
22 website and smartphone applications. Robinhood is a Commission-registered broker-dealer and a  
23 member of Financial Industry Regulatory Authority (“FINRA”). Robinhood Financial acts as an  
24 introducing broker and has a clearing arrangement with Robinhood Securities. When customers open  
25 accounts with Robinhood, they enter into a customer agreement with Robinhood Financial and  
26 Robinhood Securities.

27 21. Robinhood was founded in 2013 and began offering retail brokerage accounts to the  
28 general public in March 2015. Robinhood distinguished itself from other retail-oriented broker-dealers

1 by, among other things, allowing customers to place orders to buy and sell securities without paying a  
2 trading commission. It was this price-value proposition that allowed Robinhood to rapidly grow.

3 22. By June 2019, Robinhood had 9 million approved customer accounts.

4 **B. Principal Trading Firms and Payment for Order Flow**

5 23. Rather than sending customer orders to buy or sell equity securities directly to national  
6 exchanges, Robinhood, like other retail broker-dealers, routed its orders to other broker-dealers (often  
7 referred to as “principal trading firms” or “electronic market makers”) to either execute those orders or  
8 route them to other market centers.

9 24. Principal trading firms attempt to profit from executing large volumes of retail buy and  
10 sell orders either by taking the other side of customer orders and exiting the positions at a profit, which  
11 is also known as “internalization,” or by routing the orders to other market centers.

12 25. Historically, market makers paid fees to regional intermediaries for their services in  
13 executing trades with other local firms on behalf of the market maker. In order to grow a guaranteed  
14 supply of liquidity in their markets, market makers began offering payments to not only the  
15 intermediaries, but also retail firms, including brokers, in exchange for the retail firms routing their  
16 orders to the market makers. This practice, which expanded from off-exchange securities (over-the-  
17 counter or “OTC” securities) to exchange-traded securities, came to be known as “payment for order  
18 flow.” Over time, different types of venues, including Electronic Communication Networks (“ECNs”)  
19 and exchanges, also began making payments for order flow.

20 26. Principal trading firms offer incentives to retail broker-dealers to send them order flow.  
21 One such incentive is “payment for order flow,” which is defined in Rule 10b-10(d)(8) of the Exchange  
22 Act to include any monetary payment, service, property, or other benefit that results in remuneration,  
23 compensation, or consideration to a broker-dealer in return for the routing of customer orders.

24 27. Since it began operating as a broker-dealer, Robinhood, like other retail broker-dealers,  
25 has received payment for order flow in exchange for routing its customer orders to principal trading  
26 firms.

27 28. SEC rules permit the receipt of payment for order flow by broker-dealers as long as it

28 does not interfere with their efforts to obtain best execution on behalf of the routing of that order flow.

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