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6 **UNITED STATES DISTRICT COURT**  
 7 **NORTHERN DISTRICT OF CALIFORNIA**

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 9 ISAAC LANDRETH and JAIME  
 MARQUEZ, Individually and on  
 10 Behalf of All Others Similarly  
 Situated,

11 Plaintiff,

12 vs.

13 ROBINHOOD FINANCIAL, LLC,  
 14 ROBINHOOD SECURITIES, LLC,  
 AND ROBINHOOD MARKETS  
 15 LLC,

16 Defendants.  
 17

CASE NO.:

**CLASS ACTION COMPLAINT**

- (1) VIOLATIONS OF SECTION 10(B) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 10B-5;**
- (2) VIOLATIONS OF THE CALIFORNIA UNFAIR COMPETITION LAW;**
- (3) BREACH OF FIDUCIARY DUTY**
- (4) BREACH OF IMPLIED COVENANT OF GOOD FAITH & FAIR DEALING;**
- (5) NEGLIGENCE;**
- (6) UNJUST ENRICHMENT; AND**
- (7) VIOLATIONS OF THE MAINE UNFAIR TRADE PRACTICES ACT**

**DEMAND FOR JURY TRIAL**

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 20 Plaintiffs Isaac Landreth and Jaime Marquez (“Plaintiffs”) allege the following based  
 21 upon the investigation of their counsel, which included a review of, among other things, United  
 22 States Securities and Exchange Commission (“SEC”) filings by Robinhood Financial, LLC  
 23 (“Robinhood” or the “Company”), as well as regulatory filings and reports, press releases and

1 other public statements issued by Robinhood, and various agreements between Robinhood and  
2 its clients, except for allegations regarding his own acts, which are based on knowledge:

3 **NATURE OF THE ACTION**

4 1. This is a class action on behalf of all clients of Robinhood who placed trade orders  
5 with Robinhood between September 1, 2016, and June 30, 2019, (the “Class Period”) which were  
6 not executed in accordance with Defendant’s duty to secure the best execution available. Plaintiffs  
7 assert claims for violations of Section 10(b) of the Securities Exchange Act of 1934 (the  
8 “Exchange Act”) and SEC Rule 10b-5; violations of the California Unfair Competition Law;  
9 breach of fiduciary duty; breach of the implied covenant of good faith and fair dealing;  
10 negligence; unjust enrichment; and violations of the Maine Unfair Trade Practices Act, on behalf  
11 of themselves and all similarly-situated customers of Robinhood, a wholly owned subsidiary of  
12 co-defendant Robinhood Markets, Inc.

13 2. Robinhood is a privately-owned financial services company that offers its  
14 customers the ability to self-direct their investments in stocks, ETFs, options, and cryptocurrency  
15 through its website and mobile application. Since its launch in 2015, Robinhood has grown into  
16 a multi-billion-dollar enterprise. With the stated mission to “democratize finance for all,”<sup>1</sup> the  
17 Company has targeted young adults—the median age of a Robinhood user is thirty one<sup>2</sup>—and  
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21 <sup>1</sup> Our Mission, Robinhood.com, *available at*  
<https://robinhood.com/us/en/support/articles/our-mission/> (*last visited* Feb.19, 2021).

22 <sup>2</sup> *In re Robinhood Financial LLC*, Administrative Complaint, Docket No. E-2020-0047  
23 (the “Massachusetts Complaint”), *available at*  
<https://www.sec.state.ma.us/sct/current/sctrobinhood/MSD-Robinhood-Financial-LLC-Complaint-E-2020-0047.pdf>.  
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1 novice investors through youth-forward marketing and an interface that “gamifies” investing.<sup>3</sup>  
2 Robinhood encourages its largely unsophisticated customer base to trade frequently, most notably  
3 by promising “commission-free investing” and offering “unlimited commission-free trades in  
4 stocks, funds, and options.”<sup>4</sup>

5 3. Robinhood’s customers pay a hidden cost on each trade, however, one which often  
6 exceeds the cost Robinhood’s competitors’ commissions. Robinhood accomplished this sleight  
7 of hand through undisclosed arrangements that generate substantial profit for Robinhood in  
8 exchanged for inferior execution quality for each and every one of its customers’ trades. In order  
9 to conceal these arrangements, the sizable revenue resulting therefrom, and their impact on  
10 customer trade execution prices, Robinhood omitted, misrepresented, and concealed material  
11 facts from its customers and the public. The SEC found that this scheme cost Robinhood’s  
12 customers approximately \$34.1 million “even after netting the approximately \$5 per-order  
13 commission costs” charged by Robinhood’s competitors.<sup>5</sup>

14 4. Robinhood, like all broker-dealers, owes its customers the duty of best execution.  
15 Under Financial Industry Regulation Authority (“FINRA”) and SEC rules, this duty requires  
16 Robinhood to conduct “reasonable diligence to ascertain the best market for the subject security  
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20 <sup>3</sup> See, *id.* at 12-14 (discussing Robinhood’s strategies to encourage investor engagement  
21 with its application).

22 <sup>4</sup> <https://robinhood.com/>; <https://robinhood.com/signup>.

23 <sup>5</sup> *In re Robinhood Financial, LLC*, SEC Admin. Proceeding, File No. 3-20171 (Dec. 17,  
24 2020) (order instituting administrative cease and desist proceedings) (hereinafter “Cease and  
Desist Order”) at 10.

1 and buy or sell in such market so that the resultant price to the customer is as favorable as possible  
2 under prevailing market conditions.”<sup>6</sup>

3 5. Throughout the Class Period, Robinhood sought to conceal its practice of routing  
4 customer orders to a group of outside trading firms (the “Trading Partners”) in exchange for  
5 compensation. This compensation is remitted to Robinhood either as “liquidity rebates” or  
6 “payment for order flow” (together, “PFOF”) (*i.e.*, revenue to the Company) or “price  
7 improvement” (*i.e.*, improved prices for customer trade executions). Robinhood negotiated a  
8 compensation split that reduced price-improvement for its customers in order to boost its own  
9 revenues—approximately 20 per cent of the order flow compensation went to price improvement,  
10 while 80 per cent went to Robinhood. This inverted the industry standard, generating 400 per cent  
11 more revenue than the typical PFOF split, and reducing price improvement by 75 per cent. It was  
12 a lucrative arrangement: Robinhood’s PFOF payments constituted the majority of its revenue  
13 during the Class Period.

14 6. Until late 2018, Robinhood wholly concealed the fact that it generated revenue  
15 from PFOF, let alone that most of its revenue came from PFOF or that its arrangements deviated  
16 from industry standards. Throughout the Class Period Robinhood continually acknowledged that  
17 it owes its clients a duty of best execution and claimed to consider factors relevant to fulfilling  
18 such duty when routing clients’ orders. It also expressly stated that its execution quality matched  
19 or surpassed competing retail brokers. After the media raised concerns about its PFOF  
20 arrangements in late 2018, Robinhood acknowledged that it relied on PFOF revenue while  
21 maintaining that its order execution quality was equal to or better than its competitors. This claim  
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23 <sup>6</sup> FINRA Rule 5310.  
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1 was false, and senior personnel at Robinhood knew that it was false at the time, but the misleading  
2 statements remained on Robinhood's website until the end of June 2019.

3 7. Robinhood's reliance on PFOF revenue and its poor execution quality are material  
4 facts. The Company omitted, concealed, and misrepresented its order flow practices and its  
5 execution quality to continue growing its customer base and encourage its customers to continue  
6 trading. Plaintiffs and other members of the Class relied on Defendant's misrepresentations  
7 regarding PFOF and execution quality, as well as Defendant's omissions regarding its reliance on  
8 PFOF, in continuing to use Robinhood's trading platform.

9 8. Robinhood's failure to disclose these material facts regarding its actual order  
10 routing practices and execution quality caused Plaintiffs and the Class substantial harm in the  
11 form of, *inter alia*, higher prices for purchase orders, lower prices for sale orders, slower  
12 executions, lesser fill rates, and exposure to a greater risk of adverse selection, than they could  
13 have obtained by using a broker than fulfilled its legal and regulatory duties to provide best  
14 execution.

15 9. Robinhood's material omissions and misrepresentations regarding its PFOF  
16 arrangements and execution quality were a breach of Robinhood's fiduciary duty to Plaintiffs and  
17 the Class and violated section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5,  
18 among other laws.

19 10. Plaintiffs hereby seek, on behalf of themselves and all similarly-situated clients of  
20 Robinhood, damages as well as restitution of benefits unjustly received by Robinhood at their  
21 expense.  
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