

1 MAURICE D. PESSAH (SBN: 275955)
maurice@pessahgroup.com
2 **PESSAH LAW GROUP, PC**
9100 Wilshire Boulevard, Suite 850E
3 Beverly Hills, CA 90212
4 Tel. (310) 772-2261

5 STUART N. CHELIN (SBN: 320357)
stuart@chelinlaw.com
6 **CHELIN LAW FIRM**
16133 Ventura Boulevard, Suite 700
7 Encino, CA 91436
8 Tel. (310) 556-9664

9 JEFFREY A. KLAFTER (*pro hac vice to be requested*)
10 jak@klafterlesser.com
11 **KLAFTER LESSER LLP**
Two International Drive, Suite 350
12 Rye Brook, NY 10573
13 Tel. (914) 934-9200

14 *Attorneys for Plaintiffs and the Proposed Class*

15 **UNITED STATES DISTRICT COURT**
16 **CENTRAL DISTRICT OF CALIFORNIA**

17 MAURICE SCARBOROUGH and
18 SCOTT SCHILLER, each individually,
and on behalf of all others similarly
19 situated,

20 Plaintiffs,

21 v.

22 ROBINHOOD FINANCIAL, LLC, a
23 Delaware limited liability company;
24 ROBINHOOD SECURITIES, LLC, a
25 Delaware limited liability company; and
26 ROBINHOOD MARKETS, INC.,

27 Defendants.
28

Case No.:

CLASS ACTION COMPLAINT FOR DAMAGES

[DEMAND FOR JURY TRIAL]

1 Plaintiffs Maurice Scarborough and Scott Schiller (“Plaintiffs”), individually
2 and on behalf of all other persons similarly situated, by Plaintiff’s undersigned attorneys,
3 for Plaintiffs’ Complaint against defendants Robinhood Markets, Inc. and two of its
4 wholly owned subsidiaries, Robinhood Financial, LLC and Robinhood Securities, LLC
5 (unless otherwise noted, collectively “Robinhood” or the “Robinhood Defendants”)
6 alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own
7 acts, and information and belief as to all other matters, based upon, *inter alia*, the
8 investigation conducted by and through their attorneys, which included, among other
9 things, a review of the statements made by defendants and their senior management,
10 SEC filings, court records, Congressional testimony, administrative proceedings, and
11 information readily obtainable on the Internet. Plaintiffs believe that substantial
12 evidentiary support will exist for the allegations set forth herein after a reasonable
13 opportunity for discovery.

14 **SUMMARY OF THE ACTION**

15 1. This is a class action on behalf of persons or entities who held call options
16 (collectively the “Affected Options”) to purchase common stock in AMC
17 Entertainment Holdings, Inc., GameStop Corp. (“GME”), American Airlines Group
18 Inc. (NASDAQ: AAL), Bed Bath & Beyond Inc. (“BBBY”), BlackBerry Ltd. (“BB”),
19 or American Depositary Shares of foreign-issuers Nokia Corp. (“NOK”) (collectively
20 the “Affected Stocks”), as of the close of trading on January 27, 2021, and who sold such
21 Affected Options at a loss, or whose Affected Options expired between January 28, 2021
22 and February 19, 2021 (the “Class”). Excluded from the Class are the Defendants, the
23 officers and directors of Defendants, members of their immediate families and their
24 legal representatives, heirs, successors or assigns and any entity in which Defendants
25 or any excluded persons have or had a controlling interest.

26 2. Robinhood’s singular actions distorted the prices of the Affected Stocks
27 and of the Affected Options for many weeks because of its domination of the online
28 retail brokerage industry. Robinhood, which claims to have opened nearly 50% of all

1 retail brokerage accounts in the past five years,¹ boasted an industry-leading 12.5
2 million online accounts by the end of 2020 and added another 3 million during the
3 month of January 2021. By one estimate, approximately *4% of all shares traded in the*
4 *U.S. in January 2021* were traded on the Robinhood app.²

5 3. Robinhood violated the bedrock principle of our free-market economy:
6 the price of a stock and options on such stock are meant to be set by the law of supply
7 and demand, unfettered by external controls. Robinhood’s deliberate interference with,
8 and manipulation of, the market changed that.

9 4. Only in rare instances of extreme price volatility, and in accordance with
10 a SEC- regulated plan, would all trading be halted in a particular issuer, and even then
11 for only a few minutes at a time. By completely shutting down, initially, and later
12 restricting, the demand side of the equation for the Affected Stocks and Affected
13 Options in the accounts of more than 15 million very active traders,³ *for days* rather
14 than just minutes, Robinhood unlawfully manipulated market prices for the Affected
15 Stocks and the Affected Options.

16 5. Although it was relatively unknown to a national audience before January
17 28, 2021, Robinhood’s name was on everyone’s lips after it roiled the markets for the
18 Affected Stocks and Affected Options through the unique and extreme actions it took
19 that day. Not only were there immediate calls for government investigations, and
20 questions raised about whether Robinhood colluded with hedge funds and market
21 makers to stop an alleged short squeeze by retail investors (Robinhood’s own customer
22

23 ¹ Robinhood Markets, Inc, S-1, filed July 2021, at 2.

24 ² Caitlin McCabe, “It Isn’t Just AMC. Retail Traders Increase Pull in the Stock Market,” The Wall
25 Street Journal (June 18, 2021).

26 ³ In the first quarter of 2020, Robinhood customers traded nine times as many shares as online retail
27 broker E*Trade’s customers and 40 times the number of shares traded by the customers of Charles
28 Schwab. See Nathaniel Popper, “Robinhood Has Lured Young Traders, Sometimes With
Devastating Results,” The New York Times (July 8, 2020, last updated Sept. 25, 2021). The numbers
are even more skewed with respect to options trading.

1 base), but the impact that this single online broker had on the markets suddenly
2 demonstrated Robinhood’s significant market power.

3 6. Despite facing heavy criticism by many in government and in the media,
4 Robinhood became a venture capital darling overnight. By February 1, 2021, only four
5 days after its severe undercapitalization almost caused Robinhood to close its doors as
6 a result of a major liquidity crisis, Robinhood had raised \$3.4 billion in 96 hours –
7 significantly more that it had raised in the eight years since its founding. While the
8 national exposure delivered a critical funding boost that propelled Robinhood to its
9 initial public offering (“IPO”) in the summer of 2021; however, Class members were
10 left with staggering losses.

11 7. At the 2014 LAUNCH Festival in San Francisco, Robinhood Markets
12 CEO Vladimir Tenev challenged the supposition that “brokerages exist for the purpose
13 of making money,” claiming instead: “The purpose of Robinhood is to make buying
14 and selling stocks as frictionless as possible. So, if we make money as a side effect of
15 that, you know, that’s great *but it will never be at the cost of introducing frictions*
16 *between our customers and the markets.*” (Emphasis supplied.) Commencing on
17 January 28, 2021, substantial frictions between its customers and the markets were the
18 very cost Robinhood forced its customers.

19 8. Throughout 2020 and in January 2021, Robinhood whipped up a frenzy
20 of trading and then shut it down, unevenly reopening the demand spigot over the course
21 of a week, directly affecting the markets’ bid-offer pricing mechanism for the Affected
22 Stocks and the Affected Options. As set forth in greater detail below, with a lucrative
23 IPO already being planned, Robinhood manipulated the share prices of the Affected
24 Stocks and the prices of the Affected Options, which were contributing to the rapid
25 increases in the prices of the Affected Stocks and the Affected Options, to avoid
26 liquidation due to an inability to pay its core charges and excess net capital charges to
27 the NSCC:

28

1 (a) On January 28, 2021, only a combination of disabling the “buy”
2 button for eight (soon thereafter, 13) stocks, including the Affected Stocks and
3 the Affected Options, and the NSCC waiving the excess capital premium charge
4 – more than \$2.2 billion of the \$3.7 billion deposit requested that day –
5 temporarily solved what Robinhood Markets’ COO described as a “major
6 liquidity issue”. However, the NSCC only used its discretion to waive excess
7 capital premium charges until February 1, 2021, the two days it took transactions
8 from January 27, 2021 and January 28, 2021 to clear.

9 (b) On January 29, 2021, when all other brokers lifted stock purchase
10 restrictions and Robinhood started to do the same, the prices of the Affected
11 Stocks and the Affected Options rebounded so strongly that Robinhood – which
12 had only raised capital of \$1 billion on January 28, 2021 – realized that it would
13 be unable to meet an excess capital premium charge on February 2, 2021 for the
14 trading on its platform on January 29, 2021 and could once again face a major
15 liquidity issue. For this reason, at several points throughout the trading day
16 Robinhood – the only retail broker still restricting stock and option purchases –
17 not only tightened the purchase restrictions on the Affected Stocks and the
18 Affected Options but increased the number of issuers to which restrictions
19 applied from 13 to 23 to 50. That Friday was the day set for certain options on
20 the Affected Stocks to expire. Specifically, Robinhood imposed the following
21 purchase limits on the Affected Stocks and the Affected Options on January 29,
22 2021, before market open:

23 Symbol Shares Options contracts

24 AAL 55 50

25 AMC 115 100

26 BB 65 100

27 BBBY 30 50
28

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