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9 [Additional Counsel listed on signature block.]

10  
11 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**  
12 **COUNTY OF LOS ANGELES**

13 RUBINA MIRZA, Individually and on Behalf of  
14 All Others Similarly Situated,

15 Plaintiff,

16 v.

17 YOGAWORKS, INC., ROSANNA  
18 MCCOLLOUGH, VANCE CHANG, PETER L.  
19 GARRAN, MICHAEL A. KUMIN, MICHAEL J.  
20 GEREND, BRIAN T. COOPER, GREAT HILL  
21 PARTNERS, L.P., GREAT HILL EQUITY  
22 PARTNERS V, L.P., GREAT HILL INVESTORS,  
23 LLC, COWEN AND COMPANY, LLC, ROTH  
24 CAPITAL PARTNERS, LLC, STEPHENS INC.,  
25 GUGGENHEIM SECURITIES, LLC, IMPERIAL  
26 CAPITAL, LLC, and DOES 1-25, inclusive,

27 Defendants.

Case No.

CLASS ACTION

**COMPLAINT FOR VIOLATIONS OF  
SECTIONS 11 AND 15 OF THE  
SECURITIES ACT OF 1933**

28 Plaintiff Rubina Mirza ("Plaintiff"), brings this action pursuant to sections 11 and 15 of the Securities Act of 1933 (the "Securities Act") individually and on behalf of all persons or entities other than defendants who purchased common stock issued by YogaWorks, Inc. ("YogaWorks" or the "Company") pursuant to or traceable to the Company's Initial Public Offering (the "IPO" or "Offering") that commenced on August 10, 2017 and closed on August 16, 2017.

Plaintiff alleges the following based upon personal knowledge as to herself and her own acts, and upon information and belief as to all other matters. Plaintiff's information and belief is based on

1 the investigation of her undersigned Counsel, which included, among other things, review and analysis  
2 of: (i) YogaWorks's public filings with the U.S. Securities and Exchange Commission ("SEC");  
3 (ii) YogaWorks's other public statements, including press releases; (iii) reports of securities and  
4 financial analysts; and (iv) news articles, and other commentary and analysis concerning YogaWorks  
5 and the industry in which it operates. Counsel's investigation into the matters alleged herein is  
6 continuing, and many relevant facts are known only to, or are exclusively within the custody or control  
7 of, the defendants. Plaintiff believes that substantial additional evidentiary support will exist for the  
8 allegations set forth herein after a reasonable opportunity for discovery.

9 **NATURE AND SUMMARY OF THE ACTION**

10 1. For all claims stated herein, Plaintiff expressly disclaims any allegation that could be  
11 construed as alleging fraud or intentional or reckless misconduct.

12 2. This securities class action is brought under sections 11 and 15 of the Securities Act  
13 against: (i) YogaWorks; (ii) certain members of YogaWorks's senior management and its board of  
14 directors (the "Board") that signed the Registration Statement (as defined herein) in connection with  
15 the Company's Offering (the "Individual Defendants"); (iii) the private equity group and its wholly  
16 owned subsidiaries that maintained control over the majority of the Company's outstanding common  
17 stock and several seats on the YogaWorks Board, both prior to and after the IPO (the "Private Equity  
18 Defendants"); and (iv) each of the investment banks that participated in the Offering as an underwriter  
19 (the "Underwriter Defendants" and, together with YogaWorks, the Individual Defendants, and the  
20 Private Equity Defendants, the "Defendants").

21 3. Founded in 1987, YogaWorks claims to be "one of the largest and fastest growing  
22 providers of high quality yoga instruction in the U.S." and "the only national, multi-discipline yoga  
23 instruction company."

24 4. On June 23, 2017, the Company filed a registration statement on Form S-1 relating to a  
25 proposed initial public offering of shares of its common stock.

26 5. The June 23, 2017 Form S-1 registration statement was followed by several  
27 amendments, the last of which was filed on August 10, 2017, which became effective on August 10,  
28 2017 (as amended, the "Registration Statement").

1           6.     On August 11, 2017, YogaWorks filed with the SEC a Prospectus pursuant to rule  
2 424(b)(4) (the "Prospectus" and, together with the Registration Statement, the "Offering Materials"),  
3 commencing the public offering of 7.3 million shares of YogaWorks common stock priced at \$5.50 per  
4 share.

5           7.     In violation of the Securities Act, Defendants negligently issued untrue statements of  
6 material facts in, and omitted to state material facts required to be stated from, the Offering Materials  
7 filed by the Company with the SEC and presented to the investing public in support of the IPO.

8           8.     In their capacities as signers of the Registration Statement and/or as an issuer, statutory  
9 seller, offeror, control persons, and/or underwriter of the shares sold pursuant to the Offering, each of  
10 the Defendants are strictly liable for such misstatements and omissions therefrom.

11           9.     Further, because of the materially deficient Registration Statement, Defendants have  
12 also violated their independent, affirmative duty to provide adequate disclosures about adverse  
13 conditions, risk, and uncertainties. *See* Item 303 of SEC Reg. S-K, 17 C.F.R. § 229.303(a)(3)(ii)  
14 (requiring that the materials incorporated in a registration statement disclose all "known trends or  
15 uncertainties" reasonably expected to have a material unfavorable impact on the Company's  
16 operations).

17           10.    Defendants further violated their independent, affirmative duty to adequately "provide  
18 under the caption 'Risk Factors' a discussion of the most significant factors that make the offering  
19 speculative or risky," *see* Item 503 of SEC Reg. S-K, 17 CFR § 229.503(c), failing to disclose of several  
20 risks that had already materialized at the time of the Offering that were unknown to Plaintiff and other  
21 Company investors.

22           11.    As alleged herein, Defendants failed in their duty by inducing public investment in the  
23 Company by means of the materially untrue, inaccurate, misleading, and/or incomplete Offering  
24 Materials. As a result of the materially misleading Offering Materials, the Company's share price was  
25 inflated at the time of the August 11, 2017 IPO, through which YogaWorks raised approximately  
26 \$40.15 million in gross proceeds.

27           12.    Unfortunately for YogaWorks stockholders, the Company's stock has consistently  
28 traded lower than the \$5.50 Offering price, weighed down by the truth regarding the Company's

1 business and financial prospects.

2 13. As alleged herein, Plaintiff, individually and on behalf of similarly situated Class  
3 (defined herein) members who also acquired the Company's shares pursuant or traceable to the  
4 Offering, now seeks to obtain a recovery for the damages suffered as a result of Defendants' violations  
5 of the Securities Act.

6 **I. JURISDICTION AND VENUE**

7 14. The claims asserted herein arise under sections 11 and 15 of the Securities Act, 15  
8 U.S.C. §§ 77k and 77(o). This Court has subject matter jurisdiction over this action under § 22 of the  
9 Securities Act (15 U.S.C. § 77v). Section 22 of the Securities Act, 15 U.S.C. § 77v, states "[e]xcept as  
10 provided in section 16(c), no case arising under this title and brought in any State court of competent  
11 jurisdiction shall be removed to any court in the United States." 15 U.S.C. § 77v(a) (emphasis added).  
12 Section 16(c) of the Securities Act refers to "covered class actions," which are defined as lawsuits  
13 brought as class actions or brought on behalf of more than 50 persons asserting claims under state or  
14 common law. 15 U.S.C. § 77p(c), (f). This is an action asserting federal law claims. Thus, it does not  
15 fall within the definition of a "covered class action" under section 16(b)-(c) and it therefore is not  
16 removable to federal court under the Securities Litigation Uniform Standards Act of 1998. *Cyan, Inc.*  
17 *v. Beaver Cty. Emples. Ret. Fund*, 138 S. Ct. 1061 (2018).

18 15. Venue is proper in this court as: (i) YogaWorks's headquarters are found within this  
19 county; and (ii) the majority of the Underwriter Defendants have executive offices and/or sizable  
20 practices in this county and each maintains substantial and continuous contact with California by  
21 conducting significant investment banking operations in this county and throughout the state; and  
22 (iii) the violations of law complained of herein occurred in this state and in large part in this county,  
23 including the dissemination of the materially false and misleading Offering Materials.

24 **II. PARTIES**

25 **A. Plaintiff**

26 16. Plaintiff purchased YogaWorks common stock pursuant to or traceable to the Offering  
27 Materials issued in connection with the Company's IPO and has been damaged thereby.  
28

1           **B. YogaWorks**

2           17. Defendant YogaWorks is incorporated in the state of Delaware with principal executive  
3 offices located at 5780 Uplander Way, Culver City, California 90230. Shares of YogaWorks's common  
4 stock are traded on the Nasdaq Global Market ("Nasdaq") under the ticker symbol "YOGA."

5           18. Defendant YogaWorks is strictly liable for the materially untrue and misleading  
6 statements incorporated into the Registration Statement.

7           **C. The Individual Defendants**

8           19. Defendant Rosanna McCollough ("McCollough") was at the time of the IPO the  
9 Company's President and Chief Executive Officer and a member of the Board and signed or authorized  
10 the signing of the Company's Registration Statement and issuance of the Offering Materials.

11           20. Defendant Vance Chang ("Chang") was at the time of the IPO, YogaWorks's Chief  
12 Financial Officer and signed or authorized the signing of the Company's Registration Statement.

13           21. Defendant Peter L. Garran ("Garran") served as Chairman of the Board of YogaWorks  
14 at the time of the IPO and signed or authorized the signing of the Company's Registration Statement.  
15 At the time of the IPO, Garran was also a Partner at Great Hill Partners, L.P. In connection with the  
16 IPO, YogaWorks's Board formed an Audit Committee on which Garran serves as a member.

17           22. Defendant Michael A. Kumin ("Kumin") served as a director of the Board at the time  
18 of the IPO and signed or authorized the signing of the Company's Registration Statement. At the time  
19 of the IPO, Kumin was also a Managing Partner of Great Hill Partners, L.P.

20           23. Michael J. Gerend ("Gerend") served as a director of YogaWorks's Board at the time of  
21 the IPO and signed or authorized the signing of the Company's Registration Statement. In connection  
22 with the IPO, YogaWorks's Board formed Audit and Compensation Committees. Gerend serves as the  
23 Chairman of the Compensation Committee and as a member of the Audit Committee.

24           24. Brian T. Cooper ("Cooper") served as a director of the Company's Board at the time of  
25 the IPO and signed or authorized the signing of the Company's Registration Statement. In connection  
26 with the IPO, YogaWorks's Board formed Audit and Compensation Committees. Cooper serves as the  
27 Chairman of the Audit Committee and as a member of the Compensation Committee.

28           25. Defendants McCollough, Chang, Garran, Kumin, Gerend, and Cooper are referred to

1 herein as the "Individual Defendants."

2 26. The Individual Defendants each participated in the preparation of and signed (or  
3 authorized the signing of) the Registration Statement and/or an amendment thereto, and the issuance of  
4 the Offering Materials.

5 27. The Individual Defendants are strictly liable for the materially untrue and misleading  
6 statements incorporated into the Registration Statement. By virtue of their positions with the Company,  
7 the Individual Defendants possessed the power and authority to control the contents of YogaWorks's  
8 reports to the SEC, press releases, and presentations to securities analysts, money and portfolio  
9 managers, and market investors.

10 28. The Individual Defendants negligently allowed the Offering Materials to contain  
11 materially untrue and misleading statements and/or omissions to the extent that they knew or should  
12 have known that the Offering Materials were materially misleading, but failed to act in a reasonable  
13 manner to prevent the Offering Materials from containing materially misleading statements and/or  
14 preventing the materially misleading Offering Materials from being disseminated.

15 29. On this basis, the Individual Defendants knew, or should have known, of YogaWorks'  
16 existing business concerns and shortcomings, as discussed *infra*, and, pursuant to the Securities Act,  
17 are liable for the false and misleading statements in the Registration Statement.

18 **D. The Private Equity Defendants**

19 30. Great Hill Partners, L.P., through its subsidiaries and/or affiliated companies, including  
20 Great Hill Equity Partners V, L.P. and Great Hill Investors, LLC (collectively, "Great Hill"), acquired  
21 YogaWorks in July 2014 and was a controlling stockholder at the time of the IPO. Great Hill Partners,  
22 L.P. has executive offices at One Liberty Square, Boston, Massachusetts 02109. As of August 28,  
23 2018, Great Hill Equity Partners V, L.P. was the record holder of 11,589,865, or 71.5%, of the  
24 outstanding shares of YogaWorks. Great Hill Investors, LLC was the record holder of 38,699, or 0.2%,  
25 of the outstanding shares of YogaWorks as of August 28, 2018. According to the Prospectus, Great  
26 Hill "will have significant influence over [YogaWorks's] management and policies for the foreseeable  
27 future."  
28

1           **E. The Underwriter Defendants**

2           31. Defendant Cowen and Company, LLC ("Cowen") acted as an underwriter for the  
3 Company's IPO. In the Offering, Cowen agreed to purchase 2,277,600 shares of the Company's  
4 common stock, exclusive of any over-allotment option. Cowen maintains executive offices at  
5 599 Lexington Avenue, 20<sup>th</sup> Floor, New York, New York 10022 and a registered agent for service at  
6 Cogency Global Inc., 1325 J Street, Suite 1550, Sacramento, California 95814.

7           32. Defendant Roth Capital Partners, LLC ("Roth") acted as an underwriter for the  
8 Company's IPO. In the Offering, Roth agreed to purchase 700,800 shares of the Company's common  
9 stock, exclusive of any over-allotment option. Roth maintains executive offices at 888 San Clemente  
10 Drive, Newport Beach, California 92660 and a registered agent for service at 888 San Clemente Drive,  
11 Newport Beach, California 92660.

12           33. Defendant Stephens Inc. ("Stephens") acted as an underwriter for the Company's IPO.  
13 In the Offering, Stephens agreed to purchase 2,277,600 shares of the Company's common stock,  
14 exclusive of any over-allotment option. Stephens maintains executive offices at 111 Center Street,  
15 Little Rock, Arkansas 72201 and a registered agent for service at C T Corporation System, 818 West  
16 Seventh Street, Suite 930, Los Angeles, California 90017.

17           34. Defendant Guggenheim Securities, LLC ("Guggenheim") acted as an underwriter for  
18 the Company's IPO. In the Offering, Guggenheim agreed to purchase 1,752,000 shares of the  
19 Company's common stock, exclusive any over-allotment option. Guggenheim maintains executive  
20 offices at 330 Madison Avenue, New York, New York 10017 and a registered agent for service at the  
21 CSC – Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California  
22 95833.

23           35. Defendant Imperial Capital, LLC ("Imperial") acted as an underwriter for the  
24 Company's IPO. In the Offering, Imperial agreed to purchase 292,000 shares of the Company's  
25 common stock, exclusive of any over-allotment option. Imperial maintains executive offices at  
26 10100 Santa Monica Boulevard, Suite 2400, Los Angeles, California 90067 and a registered agent for  
27 service at National Registered Agents, Inc., 818 West Seventh Street, Suite 930, Los Angeles,  
28 California 90017.

1           36. Defendants Cowen, Roth, Stephens, Guggenheim, and Imperial are referred to herein as  
2 the "Underwriter Defendants."

3           37. Each of the Underwriter Defendants received commissions for their participation in the  
4 IPO, receiving \$0.385 for every share underwritten, totaling approximately \$2.8 million.

5           38. Per the Form of Underwriting Agreement filed as an exhibit to the Registration  
6 Statement, each Underwriter Defendant agreed, severally and not jointly, to purchase from the  
7 Company the number of firm shares.

8           39. In the run-up to the IPO, the Underwriter Defendants: (i) assisted in the preparation and  
9 presentation of any "road show" materials designed to induce investment in the Company;  
10 (ii) conducted due diligence on the Company, including, *inter alia*, access to confidential corporate  
11 information concerning YogaWorks's business operations unknown to the investing public; and  
12 (iii) consulted with Company management regarding the content of the Registration Statement.

13           40. Pursuant to the Securities Act, the Underwriter Defendants are liable for the materially  
14 untrue and misleading statements in the Offering Materials. The Underwriter Defendants assisted  
15 YogaWorks and the Individual Defendants in planning the IPO and were required to conduct an  
16 adequate and reasonable investigation into the business and operations of YogaWorks—a process  
17 known as a "due diligence" investigation. The Underwriter Defendants were required to conduct a due  
18 diligence investigation in order to participate in the IPO. During the course of their due diligence  
19 investigation, the Underwriter Defendants had continual access to confidential corporate information  
20 concerning YogaWorks's operations and financial prospects.

21           41. In addition to availing themselves of virtually unlimited access to internal corporate  
22 documents, agents of the Underwriter Defendants met with YogaWorks's lawyers, management and  
23 top executives and made joint decisions regarding: (i) the terms of the IPO, including the price at which  
24 YogaWorks shares would be sold to the public; (ii) the strategy to best accomplish the IPO; (iii) the  
25 information to be included in the Offering Materials; and (iv) what responses would be made to the  
26 SEC in connection with its review of the Offering Materials. As a result of those constant contacts and  
27 communications between the Underwriter Defendants' representatives and YogaWorks's management  
28 and top executives, the Underwriter Defendants knew of, or in the exercise of reasonable care should



1 have known of, YogaWorks's existing problems as detailed herein.

2 42. The Underwriter Defendants negligently allowed the Offering Materials to contain  
3 materially untrue and misleading statements and/or omissions to the extent that they knew or should  
4 have known that the Offering Materials were materially misleading, but failed to act in a reasonable  
5 manner to prevent the Offering Materials from containing materially misleading statements and/or  
6 preventing the materially misleading Offering Materials from being disseminated.

7 43. On this basis, the Underwriter Defendants knew, or should have known, of  
8 YogaWorks's existing business concerns and shortcomings, as discussed *infra*, and, pursuant to the  
9 Securities Act, are liable for the false and misleading statements in the Registration Statement.

10 **F. The Unknown Defendants**

11 44. The true names and capacities of defendants sued herein under California Code of Civil  
12 Procedure § 474 as Does 1 through 25, inclusive, are presently not known to Plaintiff, who therefore  
13 sues these defendants by such fictitious names. Plaintiff will seek to amend this complaint and include  
14 these Does defendants' true names and capacities when they are ascertained. Each of the fictitiously  
15 named defendants is responsible in some manner for the conduct alleged herein and for the injuries  
16 suffered by the Class.

17 **SUBSTANTIVE ALLEGATIONS**

18 **A. Company Background**

19 45. YogaWorks was founded in 1987 with a single yoga studio in Santa Monica, California.  
20 Great Hill acquired YogaWorks in July 2014 for \$45.6 million in cash. Currently, Great Hill owns  
21 approximately 70% of the Company's outstanding common stock.

22 46. YogaWorks claims to be "one of the largest and fastest growing providers of high  
23 quality yoga instruction in the U.S." and "the only national, multi-discipline yoga instruction  
24 company." As of December 31, 2017, YogaWorks employed over 2,000 people, including over  
25 700 part-time employees at studios and approximately 60 employees at its corporate headquarters.

26 47. The Company mission statement reads:

27 YogaWorks is a healthy lifestyle brand focused on enriching and transforming lives  
28 through yoga. We strive to honor and empower our students' journey toward personal  
growth and well-being, no matter their age or physical ability, in an inclusive and  
community-oriented environment.

1  
2 48. YogaWorks generates revenue primarily from a variety of yoga classes held at its  
3 studios. The Company's in-studio classes offer instruction for all yoga skill levels in various yoga  
4 styles from "fast-paced flow classes (such as Vinyasa flow, some set to music)" to "relaxing restorative  
5 classes." While pricing for YogaWorks classes varies by region, on average students pay \$90-135 per  
6 month for an unlimited membership. The Company also offers six-month and annual prepaid  
7 memberships, as well as class packages in increments of 10 to 20 classes.

8 49. In addition to in-studio classes, the Company derives revenues from teacher training  
9 programs and online subscriptions to MyYogaWorks.com. Since its establishment in 1990, the teacher  
10 training program has graduated approximately 12,000 students whom the Company views as  
11 "ambassadors of the YogaWorks brand." YogaWorks offers a 200-hour and a 300-hour training  
12 program taught in 16 countries at YogaWorks studios as well as non-YogaWorks studios. The tuition  
13 for the 200-hour program is approximately \$3,500 and tuition for the 300-hour program is  
14 approximately \$4,200.

15 50. MyYogaWorks.com provides online subscriptions for access to the Company's on-  
16 demand video library of over 1,100 classes. For 2017, MyYogaWorks.com streamed approximately  
17 700,000 classes to over 25,000 users. The Company charges \$15 per month for the subscription,  
18 reduced to \$5 per month for those with YogaWorks studio memberships.

19 51. As discussed below, profitable studio acquisitions are vital to YogaWork's growth and  
20 financial viability.

21 **B. YogaWork's Growth Is Dependent on Acquiring Profitable YogaWorks Studios**

22 52. Since inception, YogaWorks has focused on acquiring additional yoga studios. At the  
23 time of the IPO in August 2017, YogaWorks owned 50 studios in the Los Angeles, Orange County  
24 (California), New York City, Northern California, Boston, and the Baltimore/Washington D.C. areas.

25 53. YogaWorks's growth is driven mainly through acquisition of yoga studios in highly  
26 fragmented markets. According to the Prospectus, "[t]hrough acquisitions, we believe we can quickly  
27 gain students, grow our market share and build on the operating momentum of these acquired business."

28 54. YogaWorks's decision to pursue growth by acquisition rather than organic growth is  
driven by its purported belief that acquisitions of existing studios that already have a student base is an

1 "effective, profitable and risk-mitigating way to enter a new regional market," as opposed to building  
2 new studios and waiting for attendance to ramp up.

3 55. In choosing acquisition targets, YogaWorks claims to apply a "multi-factor evaluation  
4 system that allows [YogaWorks] to quickly assess potential acquisition candidates and continually add  
5 qualified new targets to our active outreach process." The Company stated in its Prospectus that it  
6 intends to increase its yoga studio count from 50 studios as of August 2017 to over 250 studios in the  
7 near term.

8 56. Once the acquisition is completed, YogaWorks boasts "a proven post-acquisition  
9 integrated methodology that is designed to facilitate a seamless student, teacher and staff transition to  
10 the YogaWorks operating model."

11 57. Accordingly, YogaWorks claims to have a "proven history of retaining and improving  
12 the student and teacher focus of each studio or chain of studios acquired."

13 **DISCLOSURE OBLIGATIONS UNDER THE SECURITIES ACT**

14 **A. Disclosure Obligations under the Securities Act and Regulation S-K**

15 58. "The Securities Act of 1933 . . . was designed to provide investors with full disclosure  
16 of material information concerning public offerings of securities in commerce, to protect investors  
17 against fraud, and, through the imposition of specified civil liabilities, to promote ethical standards of  
18 honesty and fair dealing." *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 195 (1976); *see also Randall v.*  
19 *Loftsgaarden*, 478 U.S. 647, 659 (1986) (The Securities Act aims "to place adequate and true  
20 information before the investor"); *Pinter v. Dahl*, 486 U.S. 622, 638 (1988) ("The primary purpose of  
21 the Securities Act is to protect investors by requiring publication of material information thought  
22 necessary to allow them to make informed investment decisions concerning public offerings of  
23 securities in interstate commerce.").

24 59. To effectuate this purpose, a company's registration statement must provide a full  
25 disclosure of material information. *See Herman & MacLean v. Huddleston*, 459 U.S. 375, 381 (1983).  
26 Failure to do so gives rise to private rights of action under the Securities Act. *Id.* at 381-82 (Private  
27 rights of action were "designed to assure compliance with the disclosure provisions of the Act by  
28 imposing a stringent standard of liability on the parties who play a direct role in a registered offering");

1 *see also* 15 U.S.C. § 77k(a).

2 60. Section 11 prohibits materially misleading statements or omissions in registration  
3 statements filed with the SEC. *See* 15 U.S.C. § 77k. Accordingly, Section 11 gives rise to liability if  
4 “any part of [a company’s] registration statement, when such part became effective, contained an untrue  
5 statement of a material fact or omitted to state a material fact required to be stated therein or necessary  
6 to make the statements therein not misleading.” 15 U.S.C. § 77k(a). Section 11 provides for a cause  
7 of action by the purchaser of a registered security against certain statutorily enumerated parties,  
8 including: “(1) every person who signed the registration statement; (2) every person who was a director  
9 . . . at the time of the filing of . . . the registration statement with respect to which his liability is asserted;  
10 (3) every person who, with his consent, is named in the registration as being or about to become a  
11 director [;]” (4) “any person . . . who has with his consent been named as having prepared or certified  
12 any part of the registration statement[;]” and (5) “every underwriter with respect to such security.”  
13 15 U.S.C. § 77k(a)(1-5).

14 61. Item 303 of Regulation S-K imposes an affirmative duty on issuers to disclose “known  
15 trends or any known demands, commitments, events or uncertainties that will result in or that are  
16 reasonably likely to result in the registrant’s liquidity increasing or decreasing in a material way.” *gmt’s*  
17 *Discussion and Analysis of Fin. Condition and Results of Operation*, S.E.C. Release No. 6835,  
18 1989 WL 1092885, at \*4 (May 18, 1989); *see also* 17 C.F.R. § 229.303(a)(3). Disclosure of known  
19 trends or uncertainties that the registrant reasonably expects will have a material impact on net sales,  
20 revenues, or income from continuing operations is also required. *Id.*

- 21 62. Pursuant to Item 303(a), a registrant thus has an affirmative duty to:
- 22 i. Describe any *unusual or infrequent events or transactions* or any  
23 significant economic changes that materially affected the amount of  
24 reported income from continuing operations and, in each case, indicate  
25 the extent to which the income was so affected.
  - 26 ii. Describe *any known trends or uncertainties that have had or that the*  
27 *registrant reasonably expects will have a material favorable or*  
28 *unfavorable impact on net sales or revenues or income* from continuing  
operations. If the registrant knows of events that will cause a material  
change in the relationship between costs and revenues (such as known  
future increases in costs of labor or materials or price increases or  
inventory adjustments), the change in the relationship shall be disclosed.  
2017 C.F.R. § 229.303(a)(3)(i)-(ii) (emphasis added); *see also* S.E.C.  
*Release No. 6835*, 1989 WL 211092885, at \*8 (May 18, 1989) (“Other

1 non-recurring items should be discussed as unusual or infrequent events  
2 or transactions that materially affected the amount of reported income  
3 from continuing operations.”) (citation and quotation omitted).

4 63. Under these requirements, even a one-time event, if “reasonably expect[ed]” to have a  
5 material impact of results, must be disclosed. Examples of such *required* disclosures include: “[a]  
6 reduction in the registrant’s product prices; erosion in the registrant’s market share; changes in  
7 insurance coverage; or the likely non-renewal of a material contract.” *S.E.C. Release No. 6835*, 1989  
8 WL 1092885, at \*4 (May 18, 1989).

9 64. Accordingly, as the SEC has emphasized, the “specific provisions of Item 303 [as set  
10 forth above] require disclosure of forward-looking information.” *See S.E.C. Release No. 6835*, 1989  
11 WL 1092885, at \*3. Indeed, the SEC has stated that disclosure requirements under Item 303 are  
12 “intended to give the investor an opportunity to look at the company through the eyes of management  
13 by providing both a short and long-term analysis of the business of the company” and “a historical and  
14 prospective analysis of the registrant’s financial condition . . . with particular emphasis on the  
15 registrant’s prospects for the future.” *Id.* at \*3, \*17. Thus, “material forward-looking information  
16 regarding known material trends and uncertainties is required to be disclosed as part of the required  
17 discussion of those matters and the analysis of their effects.” *See Comm’n Guidance Regarding Mgmt’s*  
18 *Discussion and Analysis of Fin. Condition and Results of Operations*, *S.E.C. Release No. 8350*, 2003  
19 WL 22996757, at \*11 (Dec. 19, 2003).

20 65. Item 503 of Regulation S-K is intended “to provide investors with a clear and concise  
21 summary of the material risks to an investment in the issuer’s securities.” *Sec. Offering Reform*, *S.E.C.*  
22 *Release No. 8501*, 2004 WL 2610458, at \*86 (Nov. 3, 2004). Accordingly, Item 503 requires that  
23 offering documents “provide under the caption ‘Risk Factors’ a discussion of the most significant  
24 factors that make the offering speculative or risky.” 17 CFR § 229.503(c). The discussion of risk  
25 factors: must be specific to the particular company and its operations, and should explain how the risk  
26 affects the company and/or the securities being offered. Generic or boilerplate discussions do not tell  
27 the investors how the risks may affect their investment. *Statement of the Comm’n Regarding*  
28 *Disclosure of Year 2000 Issues and Consequences by Pub. Cos., Inv. Advisers, Inv. Cos., & Mun. Sec.*  
*Issuers*, 1998 WL 425894, at \*14 (July 29, 1998).

66. Thus, Item 503 provides that a registration statement must disclose all known material risks that are “specific to the particular company and its operations.” 17 CFR § 229.503(c). Item 503(c) warns issuers: “Do not present risks that could apply to any issuer or any offering.” *Id.*

**ADVERSE TRENDS KNOWN TO DEFENDANTS AT THE TIME OF THE IPO,  
BUT UNKNOWN TO INVESTORS**

**A. Material Adverse Trend of Declining Studio Profitability**

67. While YogaWorks touted its expertise, experience, and method of acquiring and integrating profitable yoga studios in the Offering Materials as the basis for achieving its aggressive growth target of 250 studios and higher gross margins in the near term, unbeknownst to investors, YogaWorks had been experiencing declining student visits, class size, and lower revenue per studio.

68. As demonstrated in the chart below, while YogaWorks has added 23 studios since 2015, the Company has seen the number of students visiting its studios and studio profitability steadily declining in the quarters leading up to the IPO and continuing on until the filing of this complaint.

	# of Studios	Revenue Per Studio (thousands)	Studio Level EBITDA (thousands)	Student Visits	Classes	Classes Per Studio	Students Per Class
<b>FY 2015</b>	<b>47</b>	<b>\$1,032.04</b>	<b>\$12,398.00</b>	<b>2,439,469</b>	<b>146,846</b>	<b>3124.38</b>	<b>16.61</b>
Q1 2016	49	\$308.00	\$4,392.00	789,677	44,772	913.71	17.64
Q2 2016	50	\$266.60	\$2,581.00	754,595	46,188	923.76	16.34
Q3 2016	49	\$275.41	\$2,882.00	720,870	45,678	932.20	15.78
Q4 2016	49	\$268.84	\$2,518.00	681,665	45,158	921.59	15.10
<b>FY 2016</b>	<b>49</b>	<b>\$1,124.29</b>	<b>\$12,373.00</b>	<b>2,946,807</b>	<b>181,796</b>	<b>3710.12</b>	<b>16.21</b>
Q1 2017	50	\$279.80	\$3,205.00	760,707	45,154	903.08	16.85
Q2 2017	50	\$249.86	\$2,172.00	705,979	45,375	907.50	15.56
Q3 2017	53	\$255.08	\$2,627.00	710,256	46,183	871.38	15.38
Q4 2017	66	\$219.88	\$2,727.00	794,090	52,524	795.82	15.12
<b>FY 2017</b>	<b>66</b>	<b>\$825.97</b>	<b>\$10,731.00</b>	<b>2,971,032</b>	<b>189,236</b>	<b>2867.21</b>	<b>15.70</b>
Q1 2018	66	\$235.30	\$2,829.00	918,386	56,850	861.36	16.15
Q2 2018	71	\$209.44	\$2,210.00	868,857	59,790	842.11	14.53
Q3 2018	70	\$216.44	\$1,844.00	846,353	60,975	871.07	13.88

69. As demonstrated above, despite a 50% increase in the number of studios, overall

1 students per class size has steadily declined from 16.6 students per class in 2015 to 15.7 in 2017 and  
2 13.9 students per class by the third quarter 2018. Further, total student visits per quarter for the last  
3 four consecutive quarters of 2016 leading up to the IPO steadily declined, despite increasing the number  
4 of classes. Student visits similarly decreased quarter over quarter leading up to the IPO, declining from  
5 789,677 in Q1 2016 to 760,707 in Q1 2017 and from 754,595 in Q2 2016 to 705,979 in Q2 2017.  
6 Likewise, students per class decreased from 17.6 in Q1 2016 to 16.9 in Q1 2017 and from 16.3 in Q2  
7 2016 to 15.6 in Q2 2017.

8 70. The decline in student visits resulted in fewer classes per studio and lower revenue per  
9 studio. During the five consecutive quarters leading up to the IPO, classes per studio steadily declined.  
10 Classes per studio also declined quarter over quarter leading up to the IPO. These facts, undisclosed  
11 in the IPO, directly contradict YogaWorks's claim in the Prospectus that the decline in revenue was  
12 due to a shift in memberships to class packages.

13 71. Moreover, although the topline number of classes and student visits increased through  
14 the addition of new studios, those metrics have only increased by 22% and 29%, respectively, from  
15 2015 to 2017, failing to correlate with the 50% in total number of studios.

16 72. As a result of the Company's lack of growth, declining revenue and declining studio  
17 profitability, YogaWorks was unable to fund any new acquisitions for five quarters leading up to the  
18 IPO from Q2 2016 through Q2 2017. Thus, starting in Q2 2017, YogaWorks was forced to acquire  
19 less expensive and less efficient smaller studios to increase the number of studios and has consistently  
20 departed from its stated practice in the Prospectus of acquiring studios that generate between \$500,000  
21 to \$700,000 in revenue to acquire smaller, less efficient studios. For example, in the third quarter of  
22 2017, YogaWorks acquired three new studios for \$445,000, or an average of \$148,333 per studio. In  
23 the fourth quarter 2017, YogaWorks acquired thirteen new studios for a total cost of \$5,995,090, or an  
24 average cost of \$461,160 per studio.

25 73. These facts were not disclosed to investors in the Offering Materials.

26 **B. Material Undisclosed Adverse Trend of Increasing Corporate Overhead and Costs Eat  
27 Away at YogaWorks's Profits**

28 74. Despite adding new studios, which should have allowed YogaWorks to experience  
economies of scale and lower costs as a percentage of overall net revenue, according to Defendants'

statements in the Offering Materials, as demonstrated in the chart below, YogaWorks's corporate Selling, General, and Administrative Expenses ("SG&A") was *increasing* in terms of whole dollars and as a percentage of net revenue in the run up to the Offering, so much so that the expenses often accounted for the entirety of the Company's net loss:

Period	Net Revenue	Net Gain/ Loss	SG&A	Stock-Based Compensation	SG&A and Stock-Based Comp as % of Net Loss
FY 2015	\$48,506,000.00	-\$9,215,000.00	\$12,556,000.00	\$16,942.00	-136%
Q1 2016	\$15,091,646.00	-\$1,546,000.00	\$3,178,297.00	\$6,652.00	-206%
Q2 2016	\$13,330,076.00	-\$2,832,462.00	\$2,725,056.00	\$11,854.00	-97%
Q3 2016	\$13,494,703.00	-\$2,422,411.00	\$2,572,095.00	\$2,528.00	-106%
Q4 2016	\$13,173,575.00	-\$2,703,127.00	\$2,591,552.00	\$2,409.00	-96%
FY 2016	\$55,090,000.00	-\$9,504,000.00	\$11,067,000.00	\$23,443.00	-117%
Q1 2017	\$13,990,094.00	-\$2,617,000.00	\$3,010,386.00	\$538,872.00	-136%
Q2 2017	\$12,493,461.00	-\$4,447,705.00	\$4,094,443.00	\$286,273.00	-98%
Q3 2017	\$13,518,513.00	-\$4,590,824.00	\$4,556,887.00	\$1,294,107.00	-127%
Q4 2017	\$14,511,877.00	-\$11,780,471.00	\$4,365,042.00	\$463,531.00	-41%
FY 2017	\$54,513,945.00	-\$23,436,000.00	\$16,026,758.00	\$2,582,783.00	-79%

75. Noticeably, prior to the IPO, so too was the Company's stock-based compensation awards to executives increasing, despite the Company's poor financial performance, causing a further drag on the Company's net loss which would work in concert to entirely negate any positive studio-level performance.

**C. Material Undisclosed Adverse Trend of Deteriorating Financial Markers that Would Necessitate the Recording of a Significant Goodwill Impairment**

76. The Registration Statement was wholly deficient in its omission of certain financial metrics that were trending downward and which would ultimately lead to a significant goodwill impairment taken by the Company at the end of 2017.

77. The Registration Statement states:

In 2015, we recorded an impairment of goodwill of \$0.9 million. We did not record any impairment losses related to goodwill in 2016. As of December 31, 2016, our goodwill balance was \$17.7 million. Accounting rules require the evaluation of our goodwill at least annually, or more frequently when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Such indicators are based on market conditions and the operational performance of our business. In testing goodwill



1 for impairment, if the implied fair value of the goodwill is less than the reporting unit's  
2 carrying amount, then goodwill is impaired and is written down to the implied fair value  
3 amount. If a significant amount of our goodwill were deemed to be impaired, our  
4 business, financial condition and results of operations could be materially adversely  
5 affected.

6 We incurred a net loss of \$2.6 million for the three months ended March 31, 2017, \$1.5  
7 million for the three months ended March 31, 2016, \$9.5 million in 2016 and \$9.2  
8 million in 2015 and had net cash provided by operating activities of \$0.8 million in 2016.  
9 If we continue to experience net losses or our cash flows from operating activities  
10 decline or become negative, it could require us to lower our assessment of the fair value  
11 of our business. If this were to occur, we could be required to record additional material  
12 impairment charges to goodwill or other intangible assets which could have a material  
13 adverse effect on our business, financial condition and results of operations.

14 78. What the Registration Statement failed to disclose, however, was that the Company's  
15 net loss for the quarter ended June 30, 2017 (which had concluded by the time of the Offering, but  
16 whose financial statements were not disclosed until well after), had increased by more than 57% over  
17 the same quarter, prior year, with the quarterly net cash flows from operating activities decreasing from  
18 (\$450,069) to (\$821,650). These declines were part of a quarter-over-quarter trend known by Company  
19 management at the time of the IPO but undisclosed in the Offering that showed deteriorating net losses  
20 that would continue throughout 2017 and ultimately necessitate the recording of a goodwill impairment  
21 of \$7.5 million at the end of 2017, with an additional goodwill impairment of \$2.5 million assessed in  
22 the second quarter of 2018.

23 **D. Material Adverse Trends and Conditions that Caused the Delay of the Offering**

24 79. The Offering was YogaWork's second attempt at going public, having abandoned its  
25 previous initial public offering on the eve of its requested effective date, citing "market conditions."

26 80. On June 23, 2017, the Company filed with the SEC the Registration Statement, seeking  
27 to offer shares of common stock of YogaWorks. This Registration Statement was the product of months  
28 of correspondence with the SEC in a process that began as far back as at least April 2017, as evidenced  
by the draft registration statement filed with the SEC on April 18, 2017.

81. On July 10, 2017, the Company filed a preliminary prospectus as an amendment to the  
Registration Statement, announcing an intention to sell 5 million shares, priced between \$12 to \$14  
each, a range reaffirmed in the Company's July 18, 2017 amended registration statement, as the  
Company sought to raise between \$60 and \$70 million.

1 82. On July 17, 2017, defendant Chang, on behalf of YogaWorks, and defendants Cowen,  
2 Stephens, and Guggenheim (collectively), on behalf of all Underwriter Defendants, wrote separately to  
3 the SEC requesting that YogaWorks's Registration Statement be accelerated and declared effective as  
4 of July 19, 2017.

5 83. Despite Defendants' efforts to accelerate the offering process, this initial offering would  
6 be abandoned just two days later, with the Company announcing through a spokesperson on July 20,  
7 2017, that it would be postponing the public rollout of shares due to nebulous "market conditions."

8 84. No further explanation was ever provided as to why the Company pumped the brakes  
9 on the upsized offering and the "market conditions" that had been so dire as to cause the Company to  
10 halt its process just days after requesting expedition, and which ultimately caused the Company to  
11 instead offer substantially more shares at a reduced Offering price less than one month later:

	<u>Number of Shares Offered</u>	<u>Price Range</u>		<u>Expected Capital</u>	
		<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Abandoned Offering	5,000,000	\$12.00	\$14.00	\$60,000,000.00	\$70,000,000.00
IPO	7,300,000	\$5.50	\$6.50	\$40,150,000.00	\$47,450,000.00

12  
13  
14  
15  
16  
17 85. The Company's non-explanation was met with skepticism by the financial news media,  
18 with *Marketwatch* pointing to the fact that the second quarter of 2017 was the healthiest initial public  
19 offering market in the prior two years, with double the number of offerings over the prior quarter,  
20 according to PricewaterhouseCoopers, with the S&P 500 and Nasdaq hitting all-time highs the day  
21 prior to the Company's postponement announcement.

22 86. Likewise, *Business Insider* pointed to the CBOE Volatility Index ("VIX"), a measure of  
23 the stock market's expectation of volatility calculated by the Chicago Board Options Exchange  
24 ("CBOE") colloquially known as the "fear index," was "locked near its lowest levels on record" at the  
25 time of the abandoned offering.

26 87. Thus, there existed a trend known to the Company that was likely, and did, impact its  
27 financial performance going forward at the time of the IPO, as evidenced by the delayed offering date  
28 and the downsized Offering that the Defendants were required to include in its disclosures in the

1 Registration Statement for the benefit of investors, which they did not do.

2 88. The trends that rendered the Company unable to support its upsized valuation of \$12 to  
3 \$14 per share have proven to have a continuous negative impact on the Company since the Offering,  
4 as evidenced by YogaWorks's consistent stock price decline.

5 **THE COMPANY GOES PUBLIC BY MEANS OF THE MATERIALLY FALSE AND**  
6 **MISLEADING OFFERING MATERIALS**

7 89. After a nearly three week delay, the Registration Statement was declared effective by  
8 the SEC on August 10, 2017.

9 90. The Prospectus was subsequently filed with the SEC on Form 424B4 on August 11,  
10 2017, and offered 7,300,000 shares of YogaWorks common stock at the reduced price of \$5.50 per  
11 share. The Offering Materials stated that the intended use of the IPO proceeds was for capitalization  
12 and financial flexibility, repayment of a \$3.3 million note to Great Hill and a \$7 million loan to Deerpath  
13 Funding, LP, funding of acquisitions, and for working capital and other general corporate purposes.  
14 The IPO reaped net proceeds of \$35 million.

15 91. The Registration Statement contained untrue statements of material facts, omitted to  
16 state other facts necessary to make the statements made not misleading, and/or was not prepared in  
17 accordance with the rules and regulations governing its preparation concerning three categories:  
18 (1) studio-level economics; (2) the reasons for declining revenue; and (3) corporate infrastructure costs  
19 and economies of scale.

20 **A. Materially Misleading Statements Regarding Studio-Level Economics**

21 92. In the Prospectus, YogaWorks represented that its yoga studios had "strong studio-level  
22 economics" as a result of targeting studios with average annual revenues of at least 500,000 and a return  
23 of capital within two to four years of opening the new studio:<sup>1</sup>

24 **Strong Studio-Level Economics**

25 We seek to generate attractive studio-level margins by increasing the average  
26 number of students per class which in turn provides better return on our fixed costs, such  
27 as teacher salaries and rent. **We target studios with average annual revenues between**  
**\$500,000 to \$700,000 and a return on our invested capital to be within two to four**

28 <sup>1</sup> Plaintiff alleges that the statements quoted in **underlined, bolded text** are materially false and misleading for the reasons set forth in the Complaint. Any additional text is provided for context.

1 years of opening a new studio. We approach our acquisition targets seeking similar  
2 returns. We believe that our strong studio-level economics are important for us to  
3 grow our studio base and successfully execute our acquisition strategy.

4 93. In order to obtain a complete return on invested capital within two to four years, the  
5 studio-level margins, however, had to be at least 20%.<sup>2</sup>

6 94. In the Prospectus, YogaWorks reported Studio-Level EBITDA for the three months  
7 ended March 31, 2017 and March 31, 2016 of \$3.2 million and \$4.4 million, respectively, and Studio-  
8 Level EBITDA margins for the same periods of 22.9% and 29.1%, respectively. The Company also  
9 reported Studio-Level EBITDA for both the year-ended December 31, 2016 and December 31, 2015  
10 of \$12.4 million and Studio-Level EBITDA margins for the same periods of 22.5% and 25.6%,  
11 respectively.

12 95. The above statements were materially false and misleading when made because  
13 YogaWorks's Studio-Level EBITDA margin for the second quarter-ended June 30, 2017, at the time  
14 of the IPO, was only 17.39%, well below the necessary 20% needed to recoup its investment within  
15 two to four years. Moreover, while YogaWorks disclosed Studio-Level EBITDA for 2016 of 22.5%,  
16 it omitted the fact that Studio-Level EBITDA margin for the fourth quarter 2016 was only 19.11%.

17 96. The above statements were further materially misleading because YogaWorks was  
18 experiencing a *known trend of decreasing* Studio-Level EBITDA margin below the 20% threshold.  
19 For the second quarter-ended June 30, 2017, Studio-Level EBITDA margin declined to 17.39% from  
20 19.36% for the second quarter-ended and June 30, 2016. While YogaWorks's Studio-Level EBITDA  
21 increased slightly in the first quarter 2017 as a result of higher class attendance from New Years'  
22 resolutions, Defendants knew it would not last as YogaWorks was acquiring smaller, more inefficient  
23 studios and seeing a significant decline in class attendance. Indeed, this trend continued as YogaWorks  
24 continued to experience Studio-Level EBITDA margin declines below the necessary threshold of  
25 19.4%, 18.8%, 18.2%, and 14.9% for the third quarter 2017, fourth quarter 2017, first quarter 2018 and  
26 second quarter 2018, respectively.

27 97. The above statements were also materially false and misleading because, as a result of

28 <sup>2</sup> See YogaWorks Presentation at Cowen's Future of the Consumer Conference, April 2018, at 18,  
available at <https://ir.yogaworks.com/static-files/1624037d-bee7-473a-9e28-08776ae8aade>

1 YogaWorks's deteriorating financial position, it had begun acquiring smaller, less efficient studios that  
2 did not meet the criteria set forth in the Prospectus of generating \$500,000 to \$700,000 in revenue per  
3 year. For the third quarter 2017, YogaWorks acquired only three new studios for a total of \$445,000.  
4 This trend continued into the fourth quarter 2017 during which YogaWorks acquired 13 studios for a  
5 total of \$5.6 million, or an average cost of \$430,000 per studio. While YogaWorks made no  
6 acquisitions in Q1 2018, it acquired five studios for a total of \$721,930 during Q2 2018.

7 98. Analysts have commented that this "lack of transparency in terms of organic growth  
8 adds to the uncertainty" of YogaWorks's future.

9 **B. Materially Misleading Statements that the Decline in Revenue Would Be Offset by**  
10 **an Increase in Deferred Revenue as a Result of the Change to Class-Based**  
11 **Packages**

12 99. YogaWorks claimed that the Company's revenue for the first quarter 2017 was lower  
13 due to a shift in business and pricing strategy towards selling more class packages, rather than monthly  
14 memberships and assured investors that the difference would be offset by an increase in deferred  
15 revenue:

16 With the adoption of our more flexible pricing strategy in July 2016, our sales mix has  
17 shifted toward a higher number of class-package sales and a corresponding decline in  
18 monthly membership sales. We anticipate this trend to continue at a decreasing rate over  
19 time as students in our existing studios purchase class packages more frequently than  
20 memberships and as we acquire and open additional studios, and expect a more balanced  
21 mix between class packages and memberships over time. **We expect that the impact**  
22 **of this shift in sales mix will be a reduction in the amount of revenue recognized in**  
23 **a given period by an increase in deferred revenue liability associated with class**  
24 **package sales**, as well as a decrease in student visits, as students on class packages tend  
25 to visit studios less than students with membership.

26 100. With respect to first quarter 2017 revenue, YogaWorks claimed that the 7.5% quarter to  
27 quarter reduction in revenue was based on the Company selling more class packages:

28 During the first quarter of 2017, we sold more class packages and paid-in-full  
memberships (which require a longer period of time to be recognized as revenue in  
comparison to our other sales options) than we did in the first quarter in 2016 (in which  
we had a higher percentage of monthly membership fee revenue in comparison to the  
first quarter of 2017), which resulted in less revenue being recognized during the first  
quarter of 2017. **We believe the implementation of our strategy to sell more class**  
**packages allows us to better serve our students and will draw a broader student**  
**base over time**. We anticipate our deferred revenue, subject to refunds, to be recognized  
as net revenue over time as it is deemed earned based on pattern of usage or the  
applicable product's expiration period.

1 101. In the Prospectus, YogaWorks reported Q2 2017 preliminary results, stating:  
2 We are providing the following estimated results for the quarter ended June 30, 2017:

- 3 • Net revenues of between \$12.3 million and \$12.6 million; and
- 4 • Visits of between 700,000 and 720,000.

5 **The decrease in net revenues from \$13.3 million for the quarter ended June 30,**  
6 **2016 was primarily due to a larger portion of our sales for the quarter ended June**  
7 **30, 2017 being recognized as deferred revenue. The increase in deferred revenue**  
8 **was driven by our initiation of a more flexible pricing strategy in July 2016** that, as  
9 expected, has resulted in a shift in sales toward class packages which require recognition  
of revenue over a longer time period than other sales options. This sales mix shift  
resulted in less revenue being recognized during the second quarter of 2017 than the  
same quarter in 2016, in which we had a higher percentage of monthly membership  
revenue.

10 Our decision to offer class packages at all of our studios also impacted our number of  
11 visits, as students on class packages tend to visit studios less than students with  
memberships, which primarily led to the decrease from 754,567 visits for the quarter  
12 ended June 30, 2016. **We anticipate this trend to continue at a decreasing rate over**  
13 **time as students in our existing studios purchase class packages more frequently**  
14 **than memberships and as we acquire and open additional studios, and expect a**  
15 **more balanced mix between class packages and memberships over time.** While our  
strategy to sell more class packages has had an impact on both our net revenues and  
visits during the transition period, we believe the implementation of this strategy allows  
us to better serve our students and will draw a broader student base as consumers favor  
more flexible pricing options.

16 102. The above statements were materially false and misleading when made because the shift  
17 to class packages was actually because of the increasing trend of fewer student visits during 2016,  
18 resulting in fewer class per studio and the acquisition of smaller, less efficient studios.

19 103. Moreover, YogaWorks reported deferred revenue of \$4.5 million for the first quarter-  
20 ended March 31, 2017, \$4.6 million for the year-ended December 31, 2016 and \$5.2 million for the  
21 year-ended December 31, 2015. Thus, contrary to the Prospectus, deferred revenue was higher when  
22 YogaWorks relied on monthly revenue. Further, despite adding more studios, total revenue plus  
23 deferred revenue was actually declining.

24 104. Defendants also represented in the Prospectus that YogaWorks was “uniquely  
25 positioned to grow via acquisitions due to . . . (vi) our tested integration procedures,” which they claim  
26 enabled YogaWorks to “preserve the acquired studio’s unique appeal . . . **while successfully increasing**  
27 **visits and net revenue under our ownership.**”

28 105. The above statements were materially false and misleading when made because, as a

1 result of YogaWorks's declining financial condition, it was unable to acquire the yoga studios it told  
2 investors it was targeting, resulting in lower net revenue.

3 C. **Materially Misleading Statements Regarding Corporate Infrastructure Costs and**  
4 **Economies of Scale**

5 106. Defendants claimed that at that time of the Offering that YogaWorks would benefit from  
6 economies of scale and from centralized management and less overhead per capita and that YogaWorks  
7 had a corporate infrastructure in place to support its future acquisition growth such that as YogaWorks  
8 grew, its overhead costs would become a smaller percentage of revenue and profitability:

9 In preparation for our continued growth, we have built out our corporate infrastructure  
10 over the past several years. **We now have the corporate, regional and studio-level**  
11 **management personnel in place, as well as the information technology platform, to**  
12 **support our future growth and acquisition strategy, without significant new**  
13 **investments in corporate infrastructure.**

14 107. Further, YogaWorks claimed that its strong studio-level economies would allow the  
15 Company to achieve economies of scale, thereby reducing overhead costs as a percentage of revenue:  
16 **"[a]s our studio base grow, expense for our corporate and regional overhead should become a**  
17 **smaller percentage of our new revenue and profitability."**

18 108. The above statements were materially false and misleading when made because, at the  
19 time of the IPO, YogaWorks's corporate overhead expenses were *increasing* as a percentage of sales  
20 and profitability. For the second quarter-ended June 30, 2017, YogaWorks incurred "Other general  
21 and administrative expenses"<sup>3</sup> of \$2.7 million, or 21.7% of net revenue as compared to \$2.6 million for  
22 the same quarter in 2016, or 19.8% of revenue. YogaWorks knew this trend would continue as the  
23 Company was acquiring smaller, less efficient studios that generated revenue substantially below the  
24 \$500,000 to \$700,000 level Defendants claimed in the Prospectus. In fact, this trend was continuing  
25 into the third quarter 2017, half of which was over at the time of the IPO in which YogaWorks incurred  
26 "Other general and administrative expenses" of \$3.1 million, or 22.6% of net revenue as compared to  
27 \$2.5 million for the same quarter in 2016, or 18.2% of revenue.

28 109. Further, any claim of having right-sized the Company's corporate infrastructure at the

<sup>3</sup> Defined as "general and administrative expenses that are corporate and regional expenses and not incurred by our studios . . . ."

1 time of the IPO was belied by the quarter-to-quarter increase following the Offering—starting in the  
2 second quarter of 2017, which had already been completed by that point:

<u>Period</u>	<u>Other General and Administrative Expenses</u>	<u>Percentage Increase Over Other G&amp;A at Time of IPO</u>
Q1 2017	\$2,364,000.00	
Q2 2017	\$2,723,000.00	15%
Q3 2017	\$3,059,000.00	29%
Q4 2017	\$3,795,000.00	61%
Q1 2018	\$3,898,000.00	65%
Q2 2018	\$3,590,000.00	52%
Q3 2018	\$3,597,000.00	52%

11 110. Corporate overhead continued to eat earnings throughout the relevant period as  
12 Defendants increased stock-based compensation for its named executives in the wake of the Offering,  
13 at the expense of stockholders:

<u>Period</u>	<u>Stock-Based Compensation</u>
FY 2015	\$16,942.00
Q1 2016	\$6,652.00
Q2 2016	\$11,854.00
Q3 2016	\$2,528.00
Q4 2016	\$2,409.00
FY 2016	\$23,443.00
Q1 2017	\$538,872.00
Q2 2017	\$286,273.00
Q3 2017	\$1,294,107.00
Q4 2017	\$463,531.00
FY 2017	\$2,582,783.00

24 111. As announced on August 16, 2017, YogaWorks closed its IPO on that day, selling  
25 7.3 million shares at a public offering price of \$5.50 per share, raising cash proceeds for the Company  
26 of approximately \$35.3 million after deducting underwriting discounts, commissions, and expenses.



1 **THE OFFERING MATERIALS FAILED TO WARN OF RISKS THAT HAD ALREADY**  
2 **MATERIALIZED AT THE TIME OF THE IPO**

3 112. The Offering Materials contained a litany of generic and boilerplate risk warnings, in  
4 contravention of SEC directives under Item 503, that failed to disclose several known risks that had  
5 already materialized at the time of the Offering.

6 113. The Offering Materials state:

7 ***Our growth strategy is highly dependent on our ability to successfully identify and***  
8 ***acquire studio targets and integrate their operations with ours.***

9 Our growth strategy primarily contemplates expansion through targeted acquisitions of  
10 other yoga studio businesses. Implementing this strategy depends on our ability to  
11 successfully identify opportunities that complement our businesses, share our business  
12 and company philosophy and operate in markets that are complementary to our  
13 operations and the communities in which we operate. We will also need to assess and  
14 mitigate the risk of any target opportunity, to acquire targets on favorable terms and to  
15 successfully integrate their operations with ours. We may not be able to successfully  
16 identify opportunities that meet these criteria, or, if we do, we may not be able to  
17 successfully negotiate, finance, acquire and integrate them. Even if we enter into  
18 confidentiality agreements or letters of intent with potential studios, we may not be  
19 able to complete the acquisition. If we are unable to identify and acquire suitable  
20 studios, our revenue growth rate and financial performance may fall short of our  
21 expectations. If we are successful in acquiring studio targets, we may not be able  
22 to successfully integrate the operations of these studios with ours, to execute the  
23 growth objectives of our combined operations or to realize the revenue  
24 opportunities or cost savings that may be assumed. In addition, any such opportunity  
25 may require us to raise additional capital, which may be dilutive to our existing  
26 shareholders, or require us to incur additional indebtedness. If our analysis of the  
27 suitability of a studio or group of studios for acquisition is incorrect, we may not be able  
28 to recover our capital investment in acquiring such studios.

19 114. This risk factor was wholly deficient as it failed to warn of the state of affairs then  
20 existing at the Company—that the Company was targeting and acquiring low performing studios and  
21 was not able to successfully integrate these studios in a manner that led to revenue growth.

22 115. The Company's risk factors also failed to warn of existing issues with the Company's  
23 newly-acquired studios, claiming:

24 ***Our recently acquired or newly opened studios may negatively impact our financial***  
25 ***results in the short-term, and may not achieve sales and operating levels consistent***  
26 ***with our existing studios on a timely basis, or at all.***

27 **We have actively pursued new studio growth, primarily through acquisitions, and**  
28 **plan to continue doing so in the future.** Many of our studios are still relatively new as  
YogaWorks-branded studios, as we have opened or acquired 23 studios since January 1,  
2015. We cannot assure you that our recently acquired or newly opened studios will be  
successful or reach the sales and profitability levels of our existing studios. **New studio**  
**acquisitions may negatively impact our financial results in the short term due to**

1 **the effect of studio conversion costs, loss of students or teachers at the acquired**  
2 **studios, lower class package and drop-in class sales and lower contribution to**  
3 **overall profitability during the initial period following an acquisition.** Acquired and  
4 newly opened studios require a transition period to build their sales volume and their  
5 student base and, as a result, generally have lower margins and higher operating  
6 expenses, as a percentage of net revenues, when initially acquired or opened. **Newly**  
7 **acquired and opened studios may not achieve membership levels, class package**  
8 **and drop-in class sales and operating levels consistent with our existing studio base**  
9 **on a timely basis, or at all.** We cannot assure you that our recently acquired or newly  
10 opened studios will generate revenue, cash flow or profitability levels comparable with  
11 those generated by our existing studios. These risks may have an adverse effect on our  
12 financial condition, operating results and growth rate.

13 116. At the time of the IPO, this risk had already materialized as newly acquired and opened  
14 studios were vastly underperforming, with the Company being forced to curtail any further expansion  
15 to address its plummeting finances for more than a year preceding the IPO and in the immediate  
16 aftermath thereof.

17 117. Further, the Registration Statement purportedly warned:  
18 *If we fail to attract new students and teachers and retain existing students and*  
19 *teachers, it could have an adverse impact on our growth strategy as we may not be*  
20 *able to increase the number of visits to our studios or students that go through our*  
21 *teacher training.*

22 The performance of our studios and success of our growth strategy is largely dependent  
23 on our ability to continuously attract new students and teachers and retain existing  
24 students and teachers. We cannot be sure that we will be successful in these efforts, or  
25 that visits to our studio classes and teacher trainings or participation in  
26 MyYogaWorks.com will not materially decline. There are numerous factors that could  
27 lead to a decline in visits at established studios or that could prevent us from increasing  
28 our student visits at newer or acquired studios, including harm to our reputation, a  
decline in our ability to deliver quality yoga classes and teacher trainings at a  
competitive cost, the opening or acquisition of new studios or hosting of additional  
teacher trainings that may have the potential to cannibalize store sales in existing areas,  
the heightened presence of direct and indirect competition in the areas in which the  
studios are located, the decline in the public's interest in fitness through yoga, a  
deterioration of general economic conditions and a change in consumer spending  
preferences or buying trends. As a result of these factors, we cannot be sure that our  
student visits will be adequate to maintain or permit the expansion of our operations. **A**  
**decline in student visits levels may have a material adverse effect on our business,**  
**financial condition, results of operations and growth rate.**

29 118. In actuality, at the time of the Offering, student visits were already in decline quarter  
30 over quarter and negatively impacting the Company's business.

31 119. The Offering Materials also failed to warn about the risks associated with the  
32 Company's inability to increase its customer base, claiming:

33 *If we are unable to anticipate student preferences and provide high quality yoga*  
34 *offerings, we may not be able to maintain or increase our membership base, sales*

1 *from class packages, drop-ins and teacher trainings, participation in*  
2 *MyYogaWorks.com and profitability.*

3 Our success in maintaining and increasing our student base depends on our ability to  
4 identify and originate trends as well as to anticipate and react to changing customer  
5 preferences and trends in a timely manner. All of our yoga offerings and retail products  
6 are subject to changing consumer preferences that cannot be predicted with certainty. **If**  
7 **we are unable to introduce new yoga offerings or retail products in a timely**  
8 **manner, or our new yoga offerings or retail products are not accepted by our**  
9 **students, our competitors may introduce similar yoga offerings or retail products**  
10 **in a more timely fashion, which could negatively affect our rate of growth.** Our new  
11 yoga offerings or retail products may not receive acceptance as preferences could shift  
12 rapidly to different types of healthy lifestyle offerings or athletic apparel or away from  
13 these types of yoga offerings or retail products altogether, and our future success  
14 depends in part on our ability to anticipate and respond to these changes. **Failure to**  
15 **anticipate and respond in a timely manner to changing customer preferences could**  
16 **lead to, among other things, lower class visits and lower retail sales and excess**  
17 **inventory levels.** Even if we are successful in anticipating customer preferences, our  
18 ability to adequately react to and address those preferences will in part depend upon our  
19 continued ability to provide high-quality yoga offerings and retail products. Our failure  
20 to address student preferences could result in a decrease in net revenues, which could  
21 have a material adverse effect on our financial condition.

22 120. At the time of the IPO, the Company was already suffering from the ill-effects of its  
23 inability to meet customer preferences and convert those customers into increased revenues, with lower  
24 class visits and revenues per visit leading to increased net losses for YogaWorks.

25 121. With respect to the Company's goodwill asset, the Offering Materials state:

26 Any further impairment of goodwill could adversely affect our financial condition and  
27 results of operations.

28 In 2015, we recorded an impairment of goodwill of \$0.9 million. We did not record any  
impairment losses related to goodwill in 2016. As of December 31, 2016, our goodwill  
balance was \$17.7 million. Accounting rules require the evaluation of our goodwill at  
least annually, or more frequently when events or changes in circumstances indicate that  
the carrying value of such assets may not be recoverable. **Such indicators are based**  
**on market conditions and the operational performance of our business.** In testing  
goodwill for impairment, if the implied fair value of the goodwill is less than the  
reporting unit's carrying amount, then goodwill is impaired and is written down to the  
implied fair value amount. **If a significant amount of our goodwill were deemed to**  
**be impaired, our business, financial condition and results of operations could be**  
**materially adversely affected.**

We incurred a net loss of \$2.6 million for the three months ended March 31, 2017, \$1.5  
million for the three months ended March 31, 2016, \$9.5 million in 2016 and  
\$9.2 million in 2015 and had net cash provided by operating activities of \$0.8 million  
in 2016. **If we continue to experience net losses or our cash flows from operating**  
**activities decline or become negative, it could require us to lower our assessment**  
**of the fair value of our business. If this were to occur, we could be required to**  
**record additional material impairment charges to goodwill or other intangible**  
**assets which could have a material adverse effect on our business, financial**  
**condition and results of operations.**

1  
2 122. At the time of the Offering, the Company had previously, and was continuing to  
3 experience continued net losses and lowered cash flows from operating activities which would  
4 ultimately necessitate the assessment of more than \$10 million in goodwill impairment charges within  
5 one year of the Offering on the basis of trends existing at the time of the IPO.

6 123. Thus, at the time of the Offering it was clear that the Company's finances were already  
7 being impacted by several of the adverse trends identified herein, yet the Company shirked its  
8 responsibilities under Item 503 to make fulsome disclosures to Plaintiff and the Class. As a result,  
9 these investors were harmed when the risks then known, but undisclosed, materialized, causing the  
10 Company's stock price to drop.

11 **POST-IPO EVENTS CAUSE YOGAWORKS'S STOCK PRICE TO PLUMMET AS THE**  
12 **ADVERSE CONDITIONS KNOWN PRIOR TO THE IPO COME TO A HEAD AND**  
13 **NEGATIVELY IMPACT THE COMPANY'S FINANCIAL PERFORMANCE**

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15 financial results for the period ending June 30, 2017. Therein, YogaWorks reported net revenue of  
16 \$12.5 million as compared to \$13.3 million for the second quarter 2016, a net loss of \$4.4 million,  
17 nearly double that of the same quarter in 2016, and Studio-Level EBITDA of \$2.2 million as compared  
18 to \$2.6 million for the second quarter 2016. While YogaWorks blamed the decline in net revenue on  
19 the shift from monthly memberships to class packages, deferred revenue only increased \$0.5 million,  
20 while student visits, number of classes, and students per class were down quarter over quarter.

21 125. Upon the news, YogaWorks's stock price dropped from \$4.00 per share on  
22 September 21, 2018 to \$3.53 per share on September 22, 2018, continuing to tumble down to \$2.83 per  
23 share on September 28, 2017 as investors reacted to the negative financials and growing losses.

24 126. On April 2, 2018, the Company announced its financial results for the fourth quarter and  
25 full year 2017 by filing a non-timely annual report with the SEC on Form 10-K (along with a Form 12b-  
26 25 indicating that the Company had been unable to timely file the annual report "due to a delay in  
27 finalizing a goodwill impairment charge related to the book value of the Company, relative to the  
28 Company's current market capitalization"). For the year, the Company recorded net revenue of  
\$54.5 million (as compared to \$55.1 million in the prior year) and a net loss of \$23.4 million—more  
than double the \$9.5 million loss recorded in 2016. The Company's hand-picked non-GAAP metric

1 Studio-Level EBITDA also declined, from \$12.4 million to \$10.7 million.

2 127. Further, for the quarter, the Company recorded \$454,000 in stock based compensation  
3 expense, up from the \$2,000 in the same quarter the prior year, and capping a fiscal year where the  
4 Company doled out nearly \$2.6 million in stock based compensation to a management team who  
5 oversaw the deterioration of the Company's financial condition.

6 128. Additionally, for the year, the Company recorded a goodwill impairment charge of  
7 \$7.5 million (representing more than a third of the Company's prior goodwill asset) "primarily due to  
8 projected cash flows and the Company's decline in market capitalization since the launch of the IPO:"

9

	Year Ended December 31,	
	2017	2016
Goodwill, beginning of period	\$ 17,746,570	\$ 17,746,570
Goodwill acquired during the year	2,510,602	—
Total goodwill	20,257,172	17,746,570
Less impairment	(7,488,399)	—
Goodwill, end of period	\$ 12,768,773	\$ 17,746,570

13 129. The news sent the Company's common stock down an additional 18.4%, from \$2.88 on  
14 April 2, 2018 to \$2.35 per share on April 3, 2018—greater than 50% **below** the Offering Price.

15 130. On August 14, 2018, the Company announced its financial results for the second quarter  
16 of 2018. Therein, the Company reported a \$2.4 million increase in net revenues over the same quarter  
17 prior year, but a \$2.3 million increase in net loss, despite the fact that the Company raised its studio  
18 count during the quarter.

19 131. Exacerbating matters, the Company again recorded a goodwill impairment during the  
20 second quarter of 2018, recording an additional \$2.5 million impairment in the quarter:

21

	As of	As of
	June 30, 2018	December 31, 2017
Goodwill, beginning of period	\$ 12,768,773	\$ 17,746,570
Goodwill acquired during the year	488,109	2,510,602
Total goodwill	13,256,882	20,257,172
Less impairment	(2,474,819)	(7,488,399)
Goodwill, end of period	\$ 10,782,063	\$ 12,768,773

22 132. The market had seen enough from YogaWorks, with the Company's stock price  
23 careening downward more than 40% to close at \$1.09 per share on August 15, 2018.

24 133. YogaWorks's stock has continued to drop, with the Company filing a Form 8-K on

1 December 12, 2018 reporting that, on December 6, 2018, it had received a letter from the Nasdaq  
2 indicating that the market value of the publicly held shares of the Company for the prior thirty business  
3 days fell below the exchange's \$5 million minimum value and thus, the Company was subject to  
4 delisting if it was unable to regain compliance. The Company then received a second similar letter  
5 from the Nasdaq on December 12, 2018 for its noncompliance with the exchange's \$1.00 minimum  
6 share price requirement.

7 134. As of the filing of this complaint, the Company's stock price has dropped to \$0.58 per  
8 share—**89.5% below the Offering price.**

9 135. As set forth herein, the Company's statements in the Registration Statement, taken  
10 individually and collectively, were materially false and misleading because they failed to disclose and  
11 misrepresented adverse facts that existed at the time of the IPO.

12 136. Plaintiff and members of the Class have been injured.

13 **B. Defendants Violated Their Disclosure Obligations in the Registration Statement**

14 137. Defendants violated their disclosure obligations because the Registration Statement  
15 materially misrepresented and failed to adequately disclose, *inter alia*, the truth concerning the several  
16 known trends negatively impacting the Company's business at the time of the IPO, including:  
17 (i) declining studio profitability; (ii) the impact of increased corporate overhead; (iii) declining financial  
18 metrics that would ultimately lead to a substantial impairment charge; and (iv) the conditions that led  
19 to the Defendants to postpone the initial offering.

20 **CLASS ACTION ALLEGATIONS**

21 138. Plaintiff brings this action as a class action pursuant to section 382 of the California  
22 Code of Civil Procedure on behalf of a class consisting of all persons and/or entities who purchased or  
23 otherwise acquired the common stock of YogaWorks pursuant and/or traceable to the Company's false  
24 and/or misleading Registration Statement and Prospectus issued in connection with the Company's  
25 IPO, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants and their  
26 families, the officers, directors, and affiliates of Defendants, at all relevant times, members of their  
27 immediate families and their legal representatives, heirs, successors or assigns, and any entity in which  
28 Defendants have or had a controlling interest.

1 139. The members of the Class are so numerous that joinder of all members is impracticable.  
2 During the relevant time period, YogaWorks's securities were actively traded on the Nasdaq under the  
3 symbol "YOGA." While the exact number of Class members is unknown to Plaintiff at this time and  
4 can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds, if not  
5 thousands of members in the proposed Class. Record owners and other members of the Class may be  
6 identified from records maintained by YogaWorks or its transfer agent and may be notified of the  
7 pendency of this action by mail, using the form of notice similar to that customarily used in securities  
8 class actions.

9 140. Plaintiff's claims are typical of the claims of the members of the Class as all members  
10 of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is  
11 complained of herein.

12 141. Plaintiff will fairly and adequately protect the interests of the members of the Class and  
13 has retained counsel competent and experienced in class and securities litigation.

14 142. Common questions of law and fact exist as to all members of the Class and predominate  
15 over any questions solely affecting individual members of the Class. Among the questions of law and  
16 fact common to the Class are:

- 17 (a) whether Defendants violated the Securities Act;  
18 (b) whether statements made by Defendants to the investing public in the Registration  
19 Statement and Prospectus misrepresented material facts about the business and  
20 operations of YogaWorks; and  
21 (c) to what extent members of the Class have sustained damages, and if so, the proper  
22 measure of damages.

23 143. A class action is superior to all other available methods for the fair and efficient  
24 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the  
25 damages suffered by individual Class members may be relatively small, the expense and burden of  
26 individual litigation make it impossible for members of the Class to individually redress the wrongs  
27 done to them. There will be no difficulty in the management of this action as a class action.  
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**FIRST CAUSE OF ACTION**  
**VIOLATIONS OF § 11 OF THE SECURITIES ACT OF 1933**  
**AGAINST YOGAWORKS, THE INDIVIDUAL DEFENDANTS, AND THE UNDERWRITER**  
**DEFENDANTS**

144. Plaintiff incorporates each preceding paragraph by reference.

145. This Cause of Action is brought pursuant to section 11 of the Securities Act, 15 U.S.C. § 77k, on behalf of the Class, against YogaWorks, the Individual Defendants, and the Underwriter Defendants.

146. The Registration Statement for the IPO was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein.

147. The Company is the issuer of the securities purchased by Plaintiff and the Class. As such, the Company is strictly liable for the materially untrue statements contained in the Registration Statement and the failure of the Registration Statement to be complete and accurate.

148. The Individual Defendants each signed the Registration Statement or authorized the signing of the Registration Statement on their behalf. As such, each is strictly liable for the materially inaccurate statements contained therein and the failure of the Registration Statement to be complete and accurate, unless they are able to carry their burden of establishing an affirmative "due diligence" defense. The Individual Defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the Registration Statement, and to ensure that they were true and accurate, that there were no omissions of material facts that would make the Registration Statement misleading, and that the document contained all facts required to be stated therein. In the exercise of reasonable care, the Individual Defendants should have known of the material misstatements and omissions contained in the Registration Statement and also should have known of the omissions of material fact necessary to make the statements made therein not misleading. Accordingly, the Individual Defendants are liable to Plaintiff and the Class.

149. The Underwriter Defendants each served as underwriters in connection with the Prospectus. As such, each is strictly liable for the materially inaccurate statements contained in the



1 Registration Statement and the failure of the Registration Statement to be complete and accurate, unless  
2 they are able to carry their burden of establishing an affirmative "due diligence" defense. These  
3 defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and  
4 accuracy of the statements contained in the Registration Statement. They had a duty to ensure that they  
5 were true and accurate, that there were no omissions of material facts that would make the Registration  
6 Statement misleading, and that the documents contained all facts required to be stated therein. In the  
7 exercise of reasonable care, the Underwriter Defendants should have known of the material  
8 misstatements and omissions contained in the Registration Statement and also should have known of  
9 the omissions of material facts necessary to make the statements made therein not misleading.  
10 Accordingly, each of the Underwriter Defendants is liable to Plaintiff and the Class.

11 150. By reason of the conduct herein alleged, each defendant named herein violated section  
12 11 of the Securities Act.

13 151. Plaintiff acquired YogaWorks common stock pursuant or traceable to the Registration  
14 Statement used for the IPO and without knowledge of the material omissions or misrepresentations  
15 alleged herein.

16 152. Plaintiff and the Class have sustained damages, as the value of YogaWorks common  
17 stock has declined substantially subsequent to and due to these Defendants' violations.

18 153. This claim was brought within one year after the discovery of the untrue statements and  
19 omissions and within three years of the date of the Offering.

20 154. By virtue of the foregoing, Plaintiff and the other members of the Class are entitled to  
21 damages under section 11, as measured by the provisions of section 11(e), from the Defendants and  
22 each of them, jointly and severally.

23 **SECOND CAUSE OF ACTION**

24 **FOR VIOLATION OF § 15 OF THE SECURITIES ACT OF 1933**

25 **AGAINST YOGAWORKS, THE INDIVIDUAL DEFENDANTS, AND THE PRIVATE**  
26 **EQUITY DEFENDANTS**

27 155. Plaintiff incorporates each preceding paragraph by reference.

28 156. This Cause of Action is brought pursuant to section 15 of the Securities Act against

1 YogaWorks, the Individual Defendants, and the Private Equity Defendants.

2 157. The Individual Defendants each were control persons of YogaWorks by virtue of their  
3 positions as directors and/or senior officers of YogaWorks. Each of the Individual Defendants had a  
4 series of direct and/or indirect business and/or personal relationships with other directors and/or officers  
5 and/or major stockholders of YogaWorks. Each of the Individual Defendants had a financial interest in  
6 taking the Company's stock public in order to increase the holding value and marketability of their  
7 holdings, as alleged herein.

8 158. The Private Equity Defendants controlled the Company as the controlling stockholder,  
9 including by and through two Board members.

10 159. YogaWorks, the Private Equity Defendants and the Individual Defendants each were  
11 culpable participants in the violations of section 11 of the Securities Act alleged in Count One above,  
12 based on their having signed or authorized the signing of the Registration Statement and having  
13 otherwise participated in the process which allowed the IPO to be successfully completed.

14 **PRAYER FOR RELIEF**

15 WHEREFORE, Plaintiff demands judgment as follows:

16 (A) Declaring this action to be a class action pursuant section 382 of the California Code of  
17 Civil Procedure and certifying Plaintiff as a representative of the Class and her counsel as Class  
18 counsel;

19 (B) Awarding Plaintiff and the members of the Class damages, including interest;

20 (C) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this  
21 action, including and attorneys' fees; and

22 (D) Awarding such equitable/injunctive or other relief as the Court may deem just and  
23 proper.

24 Dated: January 11, 2019

25 **LEVI & KORSINSKY, LLP**

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Rosanne L. Mah

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*Counsel for Plaintiff Rubina Mirza*

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