

**BEFORE THE AMERICAN ARBITRATION ASSOCIATION
SAN DIEGO, CA**

KRYSTAL GUZMAN,
10272 Spruce Woodlands Way
Escondido, CA 92026

Claimant,

v.

BLOOM INSTITUTE OF
TECHNOLOGY formerly d/b/a
LAMBDA SCHOOL
250 Montgomery Street
Floor 16
San Francisco, CA 94104;

AUSTEN ALLRED, in his
individual capacity; and JOHN
DOES 1-9,

Respondents.

AAA Case No. _____

DEMAND FOR ARBITRATION

1. Pursuant to the American Arbitration Association's Consumer Rules, Claimant Krystal Guzman submits this Demand for Arbitration against Bloom Institute of Technology formerly d/b/a Lambda School ("Lambda"), Lambda's co-founder and CEO Austen Allred in his personal capacity, and John Does 1-9 for violations of the California Consumer Legal Remedies Act ("CLRA"), California Civil Code § 1750, *et seq.*, Unfair Competition Law ("UCL"), California Business and Professional Code §17200, *et seq.*, False Advertising Law ("FAL"), California Business and Professional Code § 17500, *et seq.*, as well as for intentional and

negligent misrepresentation. This action seeks declaratory and injunctive relief to cancel Ms. Guzman’s Income Share Agreement (“ISA”), declare the ISA null and void, and refund payments made under the ISA, along with damages and additional relief.

2. Ms. Guzman brings this action to hold Lambda accountable for: (i) falsifying and misrepresenting its job placement rates; (ii) misrepresenting and concealing the true nature of its financial interest in students’ success, including by falsely representing that Lambda only got paid after students found employment and got paid; (iii) misrepresenting and concealing from students, including her, that when she enrolled and entered into an ISA, Lambda did not have the necessary approval from the California Bureau for Postsecondary Education (“BPPE”) to operate as a school; and (iv) in violation of California law, enrolling, signing ISAs with, and providing educational services to students, including Ms. Guzman, before Lambda obtained the BPPE’s approval to operate.

3. Lambda is a private, for-profit online coding school founded in 2017 by its current chief executive officer, Austen Allred. Headquartered in San Francisco, Lambda provides online computer science courses. The length of the courses has varied, but they can currently be completed in four to 18 months.

4. Lambda charged Ms. Guzman \$30,000 for its program, more than double the reported average price of online coding bootcamps.¹

¹ See Cecilia Clark, *How Much is Coding Boot Camp?* Nerdwallet (Jan. 8, 2021), available at: <https://www.nerdwallet.com/article/loans/student-loans/how-much-is-coding-bootcamp>.

5. As Mr. Allred has explained, most students come to Lambda with “no network” and are “from either inner cities or rural areas.”²

6. Lambda’s business model was predicated on convincing prospective students to pay this large amount by promising them that they would not owe tuition unless and until they found a job that paid \$50,000 or more per year.

7. Lambda carried out this model by entering into an ISA with students, wherein students agreed to pay 17% of their post-Lambda salary for twenty-four months once they made more than \$50,000 per year in a qualifying job.

8. Lambda marketed itself as a place where students could enroll in its coding programs, to learn the skills necessary to obtain employment in the competitive computer technology job market.

9. In reality, Lambda was not properly licensed to operate as a postsecondary educational institution. Lambda did not receive the BPPE’s approval to operate until August 17, 2020, nine months after Ms. Guzman executed her ISA. California Education Code § 94886 bars private postsecondary educational institutions from doing business without the BPPE’s “approval to operate.” In addition, California Education Code § 94917 provides that when educational institutions violate this law, any “note, instrument, or other evidence of indebtedness relating to payment” for its programs is “not enforceable.”

² See Y Combinator, *A CS Education That’s Free Until You Get a Job - Austen Allred of LambdaSchool*, YouTube (Apr. 3, 2019) at 9:10 (hereinafter “Y Combinator Interview”), available at: https://www.youtube.com/watch?v=_yIAYZtdrfl&t=551s.

10. Respondents understood that students would only enroll if Lambda helped them secure a job. As Lambda describes it, job placement is “the most critical component of Lambda’s operations, not only in the School’s obligation to its students, but to the prosperity of the company as a whole.” One of the most important statistics for prospective students was Lambda’s purported record of successfully placing students in computer technology careers.

11. Lambda prominently displayed its purported record of job placement on its website, in marketing materials, and on social media, including Mr. Allred’s personal Twitter account. At all times relevant to this Complaint, Lambda advertised that its job placement rate was above 80%.

12. Lambda’s senior management, including Mr. Allred, knew that these widely disseminated job placement statistics were false and misleading.

13. At the same time Lambda was publicly touting an 85.9% job placement rate, Lambda and Mr. Allred warned Lambda’s largest investor, Y Combinator, in a private memo: “We’re at roughly 50% placement for cohorts that are 6 months graduated,” that Lambda was “unable to place students at scale,” and that “[p]lacement to date has been manual and one-off, which isn’t possible at scale.” See Lambda Memorandum to Investors, *Human Capital: The Last Unoptimized Asset Class* at 10 (May 2019), attached hereto as Exhibit A.

14. In addition, Lambda prominently advertised that “[w]e don’t get paid until you do, so we’re in this together, from your first day of classes to your first day on the job.” Together with its purportedly high job placement rate, this statement

led Ms. Guzman to enter into her ISA. But this statement was also false, as Lambda packaged and sold financial shares in ISAs to investors long before students found employment.

15. Ms. Guzman relied on Lambda's advertised job placement rate and the representation that they would not get paid until she did when she decided to enroll in November of 2019, financed by an ISA.

16. Ms. Guzman's ISA is a "note, instrument, or other evidence of indebtedness relating to payment for her educational program," under the California Education Code, and therefore her ISA, as a matter of law, is "not enforceable."

17. Had Ms. Guzman known Lambda lacked BPPE approval, the truth about its job placement rates, or its practice of selling ISAs to investors prior to students obtaining jobs, she would not have signed the ISA that indebted her to pay Lambda \$30,000 if she secured qualifying employment.

18. Ms. Guzman brings this arbitration to cancel her ISA and for actual and punitive damages.

THE PARTIES

19. Krystal Guzman is a resident of California. She signed her ISA on November 12, 2019. She was enrolled as a student at Lambda from late November or early December 2019 until September 2020, when she graduated from the program. Ms. Guzman's ISA is attached as Exhibit B.

20. Respondent Lambda is a corporation organized and existing under the laws of the State of Delaware, having its principal place of business at 250 Montgomery Street, Floor 16, San Francisco, California 94104.

21. Respondent Austen Allred is Lambda's founder and CEO. Upon information and belief, Mr. Allred resides in San Francisco, California.

22. John Does 1-9 are officers and/or directors of Lambda as well as individuals or corporations who may own all or a portion of Ms. Guzman's ISA.

JURISDICTION AND VENUE

23. The American Arbitration Association ("AAA") has jurisdiction over this action pursuant to Claimant's ISA, which specifies that "any Claim against [Lambda] shall be submitted to and resolved by binding arbitration under the Federal Arbitration Act ("FAA"), 9 U.S.C. §§1 *et seq.*, before the American Arbitration Association ("AAA") under its Consumer Arbitration Rules then in effect." Claimant's ISA further specifies that any arbitration hearing "shall be held in the same city as the U.S. District Court closest to [claimant's] address."

FACTUAL ALLEGATIONS

Lambda Background

24. Lambda is a private, for-profit online coding school founded in 2017 by its current CEO, Austen Allred. Lambda is not a degree-granting institution and is not accredited.

25. As Lambda’s CEO, Mr. Allred was the company’s primary decisionmaker, in a position of control over daily operations and aware of the company’s public representations and status with the BPPE.

26. Since 2017, Lambda has offered various computer science programs including UX design, data science, and full stack web development.

27. When Ms. Guzman enrolled, nearly all students (including her) chose to finance their Lambda education through an ISA. As Lambda described it: “A Lambda School ISA is a contract under which you agree to pay 17% of your post-Lambda School salary for 24 months, but only once you’re making more than \$50,000 per year (or the equivalent of \$4,166.66 per month). The ISA is capped at a maximum repayment of \$30,000, so you won’t pay more than \$30,000 under any circumstances.”³

28. Lambda ISAs are managed by third-party servicers who handle ISA origination and payment processing.⁴ Ms. Guzman’s ISA is serviced by Leif Technologies, Inc. (“Leif”).

29. Ms. Guzman entered into an ISA with Lambda on November 12, 2019. Lambda has not informed her whether it has sold her ISA.

30. Lambda has long touted “experienced industry expert” instructors and a top-of-the-line curriculum that is “designed to get you hired.” On April 3, 2019,

³ Lambda School Website, *Frequently Asked Questions*, available at: <https://lambdaschool.com/faq> (last visited May 12, 2021).

⁴ Lambda School Website, *The Lambda School Income Share Agreement*, available at: <https://lambdaschool.com/tuition/isa> (scroll to FAQs) (last visited May 12, 2021).

Mr. Allred stated that Lambda’s “educational experience is, I think, among the best in the world.”⁵

31. By April 2019, Lambda was growing at “an insane pace.” As Mr. Allred explained:

We agreed as a team to no longer share the number of students that we have enrolled, but it is not a small number and it is growing at an insane pace. We’ll soon be measuring Lambda School scale by percentage of the overall number of students learning to program every year, to give you some context. And being able to support that kind of scale effectively is what keeps me up at night. Mostly specifically hiring, mostly hiring executives right now who can build out 100, 150 person teams beneath them . . . and we need like 5 of them yesterday.⁶

32. In a May 2019 memorandum to its investor Y Combinator, Lambda executives stated:

When a Lambda School student is hired for \$75k/yr, they pay us back approximately \$25k. At 4,000 placed software engineers/year we’ll hit a \$100mm/yr run rate. In 2019 we’ll enroll over 3,000 students. In May 2019 we’ll enroll over 500. We plan on enrolling more than 10,000 students in 2020.

33. Mr. Allred attributed Lambda’s growth in part to his personal Twitter account, stating in January 2020 that his frequent tweets have “certainly helped Lambda school grow.”⁷

34. Mr. Allred also stated: “If there’s one thing I’m good at in life, it’s growing something quickly, building hype for something quickly. That’s kind of my superpower.”⁸

⁵ Y Combinator Interview at 15:05.

⁶ *Id.* at 47:50.

⁷ Vincent Woo, *Interview with Austen Allred*, Soundcloud (Jan. 22, 2020) at 42:10 (hereinafter “Woo Interview”), available at: <https://soundcloud.com/vwoo/interview-with-austen-allred>.

⁸ *Id.* at 22:25.

Lambda Operated Without State Approval, in Violation of California Law

35. As a California company with its headquarters and principal place of business in San Francisco, Lambda is subject to the laws of the state of California. One of those laws, California Education Code § 94886, bars private postsecondary educational institutions from doing business without “approval to operate.”

36. Another, Section 94917, provides that when educational institutions violate this law, any “note, instrument, or other evidence of indebtedness relating to payment” for its programs is “not enforceable.”

37. On March 20, 2019, the BPPE issued a “Citation: Assessment of Fine and Order of Abatement” (“Citation”) to Lambda. The Citation found that Lambda was “operating without Bureau approval,” in violation of the California Education Code. A copy of the Citation is attached hereto as Exhibit C.

38. As is clear from the Citation, Lambda was not licensed by the BPPE nor was it permitted to operate as an educational institution when it signed an ISA with Ms. Guzman in November 2019.

39. Further, in the Citation, the BPPE ordered Lambda to “cease to operate as a private postsecondary educational institution” and “submit a school closure plan.” The Citation further required Lambda to “discontinue recruiting or enrolling students and cease all instructional services and advertising in any form or type of media, including the <https://lambdaschool.com> and any other websites not identified here that are associated with the Institution, until such time as an approval to operate is obtained from the Bureau.”

40. On May 14, 2019, Lambda submitted its application to the BPPE, seeking approval to operate.

41. Lambda appealed the Citation and, on July 24, 2019, the BPPE issued an “Appeal of Citation Informal Conference Decision: Citation Affirmed” (the “Citation Affirmance”). The BPPE affirmed the Citation because “[n]o new substantive facts were presented,” and thus, Lambda was required to “comply with the orders described in the ‘Violation Code Sections’ of this document and submit evidence of compliance within 30 days from the date of this decision.” Citation Affirmance at 1–3. A copy of the Citation Affirmance is attached hereto as Exhibit D.

42. In direct violation of California law, the Citation, and the Citation Affirmance, Lambda continued to operate, advertise its educational services to the public, and enroll students.

43. On August 21, 2019, the BPPE denied Lambda’s May 14, 2019 application, stating in a letter to Lambda that it was “unable to grant approval.” A copy of the August 21 order is attached hereto as Exhibit E.

44. On November 25, 2019, the BPPE issued an order denying Lambda’s updated application for approval, explaining that “at this time the Bureau is unable to grant approval, based on the requirements of the California Education Code.” A copy of the November 25 order is attached hereto as Exhibit F.

45. On June 22, 2020, the BPPE issued yet another order denying Lambda’s further updated application for approval to operate, explaining that “the

Bureau cannot at this time approve Lambda’s application.” A copy of the June 22 order is attached hereto as Exhibit G.

46. The June 22, 2020 order also stated that Lambda’s ISAs constitute “an instrument or evidence of indebtedness” under the California Education Code. *Id.* at 5.

47. On August 17, 2020, the BPPE issued an order approving Lambda’s application. The approval letter stated that the BPPE had completed its review of Lambda’s “Application for Approval to Operate,” including “supplemental documentation” received on August 14, 2020. The BPPE found that “[a]pproval to operate is granted *effective August 17, 2020*.” (emphasis added). A copy of the August 17 order is attached hereto as Exhibit H.

48. From at least May 2019 until Lambda was approved on August 17, 2020, Lambda’s course catalogs falsely stated that Lambda was approved by the BPPE. In at least three versions of the 2019 and 2020 catalogs—revised in May 2019, September 2019, and July 2020 (all prior to Lambda’s approval)—Lambda falsely stated the following:

APPROVALS

Lambda School is a private institution *approved to operate* by the California Bureau for Private Postsecondary Education. Approval to operate means the institution is compliant with the minimum standards contained in the California Private Postsecondary Education Act of 2009 (as amended) and Division 7.5 of Title 5 of the California Code of Regulations.

See Exhibit I (Excerpts of Three Versions of Lambda Course Catalogs for 2019 and 2020 at 5) (emphasis added)).

49. During the time Lambda was seeking the BPPE’s approval, Mr. Allred engaged in a public misinformation campaign about Lambda’s legal status. For example, in August 2019, Mr. Allred told Business Insider that Lambda was working with the BPPE to obtain approval and that the order had been stayed while the application was pending. Mr. Allred stated that “[b]ecause we’re talking with BPPE, it doesn’t affect students at all.”⁹ This was false.

50. In truth, the Citation and Citation Affirmance were not stayed, multiple of Lambda’s applications had been denied, and Lambda’s future was uncertain. In August 2020, a public information officer with California’s Department of Consumer Affairs “told Business Insider that there is no stay on the order, and that if Lambda School is still operating while its registration is pending, it would be in violation of state law.”¹⁰

51. Had Ms. Guzman been aware in November 2019 that Lambda was operating without a license, and that its future legal status was uncertain, she would have investigated options for pursuing her education at another school and would not have signed an ISA that indebted her for up to \$30,000 of tuition at Lambda.

Lambda’s False and Misleading Job Placement Rates

52. Mr. Allred describes Lambda as “entirely vocational, we’re a trade

⁹ Rosalie Chan, *The hot Silicon Valley coding bootcamp Lambda School is paying a \$75,000 fine for not registering properly with the state of California*, Business Insider (Aug. 29, 2019, 6:32 PM), <https://www.businessinsider.com/lambda-school-coding-bootcamp-california-bppe-2019-8>.

¹⁰ Rosalie Chan, *A California official says red-hot coding bootcamp Lambda School is violating state law if it operates without the right registration — but the company insists classes can go on*, Business Insider (Aug. 30, 2019, 8:54 PM), <https://www.businessinsider.com/lambda-school-california-state-law-coding-bootcamp-y-combinator-2019-8>.

school basically, and we want to help you make as much money as you can.”¹¹

Lambda has further explained that job placement is “the most critical component of Lambda’s operations, not only in the School’s obligation to its students, but to the prosperity of the company as a whole.”

53. Lambda prominently displayed job placement rates on its website as well as in marketing materials and on social media.

54. Throughout at least 2018 and 2019, Lambda’s website advertised job placement rates of over 80%. At all times relevant to this demand, Lambda’s executive leadership, including Mr. Allred, knew that these widely disseminated job placement rates were false and misleading.

55. On August 2, 2018, Mr. Allred, Ben Nelson (co-founder and CTO), and Ryan Holdaway (VP of Outcomes), stated the following in a post on the Lambda School Blog: “[E]very single Lambda School graduate who has been on the job market for six months is either employed in a full-time role as a software engineer or has joined an early startup working for equity.”¹²

56. Yet on August 3, 2018—the very next day—Lambda’s executive leadership team reprimanded Lambda’s Director of Career Readiness for poor job placement rate performance, sending her an “Employee Corrective Action Form.” The form stated that the employee’s “performance in recent months has not met the expectations for the Career Coach/Director of Career Readiness role at Lambda

¹¹ Y Combinator Interview at 13:00.

¹² Austen Allred, *Introducing Lambda Next — Our Revolutionary New Job Search and Placement Program*, Medium: Lambda School Blog (Aug. 2, 2018), available at: <https://medium.com/lambda-school-blog/introducing-lambda-next-our-revolutionary-new-job-search-and-placement-program-603ef12f7d37>.

School. Overall placement numbers are low and the time to placement is much higher than desired.”

57. The Corrective Action Form continued:

Placements are the most critical component of Lambda’s operations, not only in the School’s obligation to its students, but to the prosperity of the company as a whole. A common discussion point in regards to Outcomes is that current placement rates are too low and time to placement is too high. Creative tactics and adjustments to current careers processes as well as follow through are needed to improve both of these measurements. . . .

CS1 students graduated on 1/19/18. Since then we’ve had a new class graduate approximately every five weeks. As of 8/1/18, only 16 students of the 48 graduated students assigned to [the employee] have been placed.

58. Two months later, on October 8, 2018, Lambda continued to tout its high job placement rates, announcing on its website: “Since Lambda School’s inception in April 2017, over 75 Lambda School graduates have been hired, including 83% of early cohorts, with an average salary increase of over \$47,000 per hired graduate.”

59. Lambda's website contained the following statement across the top of the page:

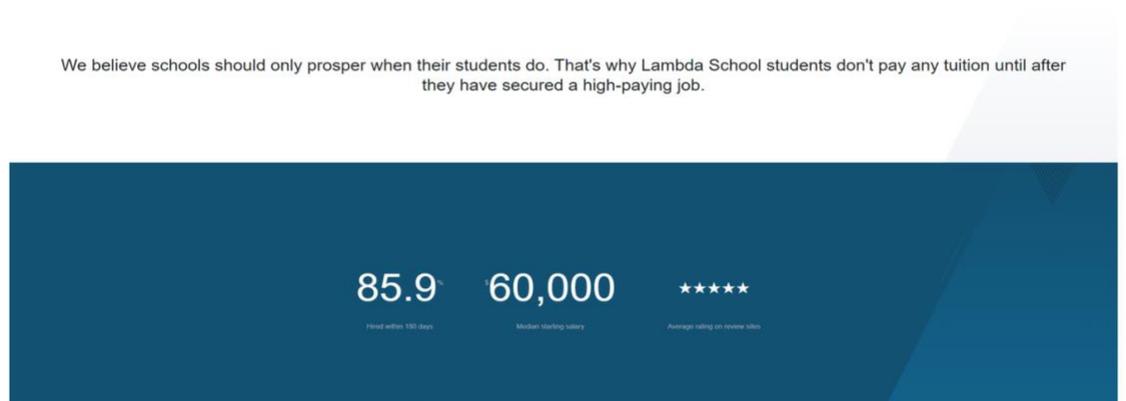
We believe schools should only prosper when their students do. That's why Lambda School students don't pay any tuition until after they have secured a high-paying job.



Screenshot from Lambda's website on December 13, 2018.

60. The representation of an 83% job placement rate remained on the Lambda website until on or about March 2019.

61. The disparity between Lambda’s public representations and private statements would only grow. From on or about April 2019 until at least December 2019, Lambda’s website advertised a job placement rate of over 85%. For example, on April 18, 2019, Lambda’s homepage contained the following statement across the top of the page:



Screenshot from Lambda’s website on April 18, 2019.

62. Prior to signing her ISA, Ms. Guzman read and relied on Respondents’ representations that Lambda’s job placement was 85.9%. Lambda’s purported record of successfully placing students was critical to her decision to enroll.

63. On March 5, 2019, Lambda’s official Twitter account provided a link to a report touting the 85.9% job placement rate and stated: “Lambda only succeeds when our students succeed, and we’re committed to a transparent, no-surprises approach to education.”¹³

¹³ Lambda School (@LambdaSchool), Twitter (Mar. 5, 2019, 7:02 PM), available at: <https://twitter.com/LambdaSchool/status/1103083315945328640>.

64. In May of 2019—at the same time Lambda was advertising an 85.9% job placement rate and touting its transparency—Lambda executives sent a private memorandum to investor Y Combinator. The May 2019 memo stated:

We're unable to place students at scale

- We're at roughly 50% placement for cohorts that are 6 months graduated
- Placement to date has been manual and one-off, which isn't possible at scale

See Ex. A at 10.

65. On May 16, 2021, Mr. Allred tweeted from his personal account that he was the one who made the 50% placement representation to investors, stating: “The 50% came from me telling investors about what % of enrolled students get jobs that require repayment.”

66. Despite Mr. Allred's contrary statement to investors, Lambda's website continued to represent an 85.9% or 86% placement rate through the end of 2019.

67. When asked in an interview to explain the discrepancy between the representations on Lambda's website and representations to its investors, Mr. Allred explained: “I mean you're literally looking at what are the risks, right? Like, we're going to pick our lowest number for that – there are cohorts that have been at 50% placed within 6 months, yes.”¹⁴

68. When asked whether the advertised 85% job placement rate was accurate, he stated: “the way that that number was measured was an average

¹⁴ Woo Interview at 13:00–14:30.

across cohorts at a specific time. I don't know what it is right now, but that's directionally correct.”¹⁵

69. On February 19, 2020, New York Magazine published an article titled “Lambda School’s Misleading Promises,” in which the writer concluded that Lambda was “selling unprepared students an incomplete education, fueled by overpromising marketing and misleading, if not downright fraudulent, figures.”¹⁶ The story described Lambda’s job placement rate misrepresentations and also recounted an interview with a former employee who “confirmed . . . that the company’s own internal numbers, which the interviewee was provided as part of their interview process, seem to indicate a roughly 50 percent or lower placement rate.”¹⁷

70. Mr. Allred has long painted a misleading picture of Lambda’s success on Twitter. For example, on November 16, 2019, he tweeted: “First track just graduated. Hit 100% hired but was VERY small sample size.” Subsequent reporting revealed that this small sample size consisted of a single student.¹⁸

71. Other examples of untrue and exaggerated claims on Mr. Allred’s Twitter account include:

- a) January 24, 2021: “I think we’re like 2-3 solvable problems being solved away from 100% of Lambda School grads being hired. Still a lot of unknowns, but I think it will be possible.” When a commenter

¹⁵ *Id.* at 11:13-11:26.

¹⁶ Vincent Woo, *Lambda School’s Misleading Promises*, New York Magazine (Feb. 19, 2020), available at: <https://nymag.com/intelligencer/2020/02/lambda-schools-job-placement-rate-is-lower-than-claimed.html>.

¹⁷ *Id.*

¹⁸ See Zoe Schiffer and Megan Farokhmanesh, *The High Cost of a Free Coding Bootcamp*, The Verge (Feb. 11, 2020, 11:15 EST), available at: <https://www.theverge.com/2020/2/11/21131848/lambda-school-coding-bootcamp-isa-tuition-cost-free>; Ryan Mac (@RMac18), Twitter (Feb. 11, 2020, 1:59 PM), available at: <https://twitter.com/RMac18/status/1227306243733295108>.

asked what the problems were, Mr. Allred responded: “Boring stuff.”¹⁹

- b) April 22, 2021: “When I started Lambda School early detractors gave me hell because I said that Lambda School would cause thousands of people to become millionaires who wouldn’t have otherwise been. It’s now pretty clear that was very conservative.”²⁰
- c) May 4, 2021: “I get to watch a bunch of people double their income (or more) every single day. Even the worst days are punctuated by a bunch of people changing their lives and the lives of their families forever.”²¹
- d) May 4, 2021: “You can go from near poverty to huge future wealth in just a few months.”²²

72. Mr. Allred and members of his executive leadership team acted willfully and knowingly to disseminate Lambda’s job placement representations to the public—including applicants—with knowledge that they were false and misleading.

¹⁹ Austen Allred (@Austen), Twitter (Jan. 24, 2021, 1:55 AM), *available at*: <https://twitter.com/austen/status/1353234915643568128>.

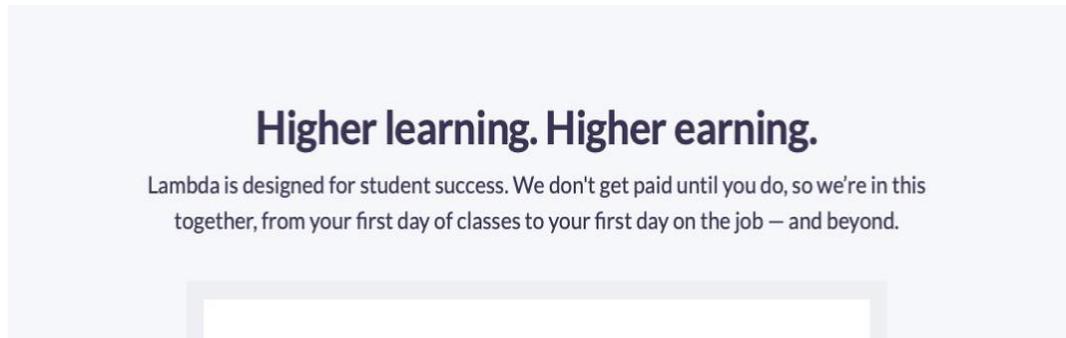
²⁰ Austen Allred (@Austen), Twitter (Apr. 22, 2021, 10:24 AM), *available at*: <https://twitter.com/Austen/status/1385238109185396740>.

²¹ Austen Allred (@Austen), Twitter (May 4, 2021, 11:50 PM), *available at*: <https://twitter.com/Austen/status/1389789532761956352>.

²² Austen Allred (@Austen), Twitter (May 4, 2021, 11:53 PM), *available at*: <https://twitter.com/Austen/status/1389790386659364868>.

Lambda Misrepresents That It Only Gets Paid Once Students Get Paid

73. Until at least April 28, 2021, Lambda’s website has declared that: “We don’t get paid until you do, so we’re in this together, from your first day of classes to your first day on the job.”²³ On June 27, 2019, Lambda’s homepage stated:



Screenshot from Lambda’s homepage on June 27, 2019.

74. Upon information and belief, Lambda made the same or similar misrepresentations prior to Ms. Guzman signing her ISA in November 2019. Knowing that Lambda only got paid if she obtained employment was important to her decision to attend the school.

75. But in reality, Lambda packaged and sold its ISAs to investors long before students obtained employment. Lambda did not disclose this fact to students until public reporting exposed it.

76. In May 2019, Lambda privately told investor Y Combinator: “Currently we sell some income share agreements to hedge funds.” Ex. A at 2.

²³ See, e.g., Lambda School Website, Apply Now Pages, available at: <https://lambdaschool.com/learn-more-social> (last visited Apr. 28, 2021) and <https://lambdaschool.com/go/higher-ed> (last visited Apr. 28, 2021).

77. In 2019, Lambda partnered with Edly, a digital marketplace that helps schools sell ISAs to accredited investors.

78. According to an August 26, 2019 report in *Wired*, “For about half of the ISAs, the company sells the rights to a portion of its returns to investors; in return, it gets cash up front.”²⁴

79. Mr. Allred told *Wired* that this arrangement “lets the business operate without going bankrupt,”²⁵ implicitly acknowledging that the Lambda **does** get paid before its students do.

80. Yet in October 2019, Mr. Allred denied that Lambda got paid for ISAs prior to students getting employed, reportedly stating on Twitter that “We never, ever get paid up front for ISAs.” Mr. Allred confirmed to Mr. Woo on January 22, 2020 that this Tweet was “totally correct.”²⁶

81. On December 11, 2019, Edly tweeted: “Pleased to announce our latest offering [-] a Lambda School ISA Pool. We @edlyISA are excited to work with the amazing team @LambdaSchool[], one of the most impactful ISA programs in the country.”²⁷ To learn how to participate, Edly invited interested investors to join a webinar that night with Mr. Allred.²⁸

²⁴ Gregory Barber, *Lambda School’s For-Profit Plan to Solve Student Debt*, *Wired* (Aug. 26, 2019, 7:00 AM), available at: <https://www.wired.com/story/how-we-learn-lambda-income-sharing-agreements/>.

²⁵ *Id.*

²⁶ Woo Interview at 6:30.

²⁷ @edlyISA, Twitter (Dec. 11, 2019, 3:01 PM), available at: <https://twitter.com/edlyISA/status/1204853625459216385>.

²⁸ @edlyISA, Twitter (Dec. 11, 2019, 3:02 PM), available at: <https://twitter.com/edlyISA/status/1204853900177743872>.

82. On January 22, 2020, Mr. Woo asked Mr. Allred if Lambda sold ISAs to investors. Mr. Allred stated: “that was true in the early days of Lambda School, but it’s not true today.”²⁹

83. On February 12, 2020, The Verge published an article titled “As Lambda students speak out, the school’s debt-swapping partnership disappears from the internet.”³⁰ The article reported the relationship with Edly and stated that the arrangement “allows Lambda to receive money from the ISAs upfront, rather than waiting for students to find jobs.”

84. A few days later, the February 19, 2020 New York Magazine article remarked that Lambda’s “secret financing arrangements are a violation of Lambda’s central promise to its students — that Lambda only makes money when the students make money.”

85. The same day, Lambda admitted in an FAQ posted to its website that it had been selling ISAs before students graduate. When he was deposed as part of a separate case on February 26, 2021, Mr. Allred admitted that this was a blog post he wrote and posted onto Lambda’s website. See Redacted and Excerpted Deposition Transcript of Austen Allred at 19, *Lambda Labs, Inc. v. Lambda, Inc.*, No. 4:19-cv-04060 (N.D. Cal.) Dkt. 235-3.

²⁹ Woo Interview at 6:20.

³⁰ Zoe Schiffer and Megan Farokhmanesh, *As Lambda students speak out, the school’s debt-swapping partnership disappears from the internet*, The Verge (Feb. 12, 2020, 4:41 PM), available at: <https://www.theverge.com/2020/2/12/21135134/lambda-school-students-edly-isa-debt-swapping-partnership-shares-investors>.

86. The FAQ, which is no longer displayed on Lambda’s website, disclosed that “Lambda School’s business model inherently requires financing because our costs to train students precede our revenues on ISAs. That is by design. There are many different forms of financing we can use, but this is the closest thing available to aligning our incentives and your incentives. . . . We believe in keeping the promise we made to students when they signed up for Lambda School.”³¹

87. To the contrary, the “promise [Lambda] made to students when they signed up” was that “We don’t get paid until you do, so we’re in this together.” That promise—which remained prominently displayed on Lambda’s website until at least April 28, 2021—was false and misleading.

Ms. Guzman Attends Lambda

88. Ms. Guzman obtained a Bachelor of Arts Degree in Sociology from UC San Diego. After college, she worked in California as an Office Manager for a company that provides Applied Behavioral Analysis services to children on the autism spectrum. One of her duties was to recruit behavioral therapists. She began a master’s degree in Applied Behavior Analysis but did not complete it. At the time, she was earning around \$52,000.

89. Ms. Guzman got married and had a child. After a difficult pregnancy, she needed a job that would allow her to work from home. Her husband learned about Lambda on Twitter and told her about it. Ms. Guzman did her own research

³¹ *Student FAQs for announcement on 2/19/20*, Lambda, Inc., <https://www.notion.so/Student-FAQs-for-announcement-on-2-19-20-9b2f166f2b234e40ac924a27ecc5ff06> (last visited May 7, 2021).

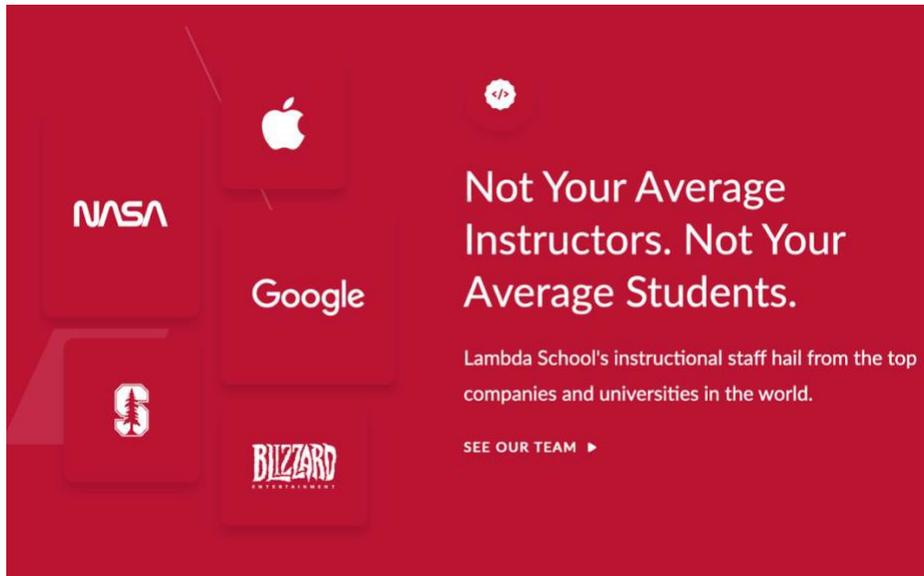
on Twitter and on Lambda's website, and was lured by Lambda's prominently displayed success stories, high job placement rates, and promise that the school would not get paid until she did.

90. Swayed by Lambda's pitch, Ms. Guzman signed an ISA on November 12, 2019, and enrolled in late November or early December 2019. A copy of Ms. Guzman's ISA is attached hereto as Exhibit B.

91. Prior to signing the ISA, Ms. Guzman read and relied on Respondents' job placement rate representations. Had Respondents truthfully represented the job placement rates, Ms. Guzman would have attended one of the other bootcamps she researched on CareerKarma.com, and she would not have signed an ISA that indebted her to up to \$30,000 of tuition at Lambda.

92. Ms. Guzman does not recall signing an enrollment agreement with Lambda, and upon information and belief did not sign one. The failure to obtain a signed enrollment agreement is a violation of California law. *See* Cal. Educ. Code § 94902(a).

93. Shortly after starting at Lambda in its full stack web development program, Ms. Guzman realized that the quality of instruction was far below what was advertised. Lambda's website advertised top-of-the-line curriculum that is "designed to get you hired" and touted "experienced industry expert" instructors. It boasted on its website that "Lambda's instructional staff hail from the top companies and universities in the world," and listed Apple, Google, Stanford, and NASA as examples:



Screenshot from Lambda's website on June 15, 2019.

94. In fact, the curriculum—which was constantly in flux—was comprised primarily of publicly available online materials. The instructors had little knowledge of the curriculum, struggled to keep up with frequent changes, and were often not available to answer students' questions about the material. Near the end of the course, a group project called Lambda Labs was required for graduation. The Lambda Labs project required a technology that the school had not taught Ms. Guzman. The instructors also did not hail from the advertised top companies and universities.

95. Rather than give up, Ms. Guzman worked hard to teach herself the material by watching as many Youtube videos as she could.

96. She knew that she was financially indebted to Lambda, so she remained hopeful that things would improve and that, when she graduated, the

partnerships with “some of the best technology companies in the world” would materialize. But these promises, too, were illusory.

97. In September 2020, Ms. Guzman graduated from Lambda and was “endorsed” by the school. “Endorsement” was the school’s seal of approval that a student was ready for the job market. To earn an endorsement, students had to complete a coding assessment and a coding interview after graduation.

98. Ms. Guzman attempted to use Lambda’s career placement services, but she found that they did not have the relationships with companies that they had advertised. Several months after Ms. Guzman graduated, Lambda added a new hurdle before offering placement help with Lambda’s partner organizations. Graduates now had an additional requirement that they achieve a certain score on a General Coding Assessment before receiving help. Ms. Guzman did not take the assessment, because she was afraid that she had forgotten too much information several months after her graduation. This additional hurdle had not been disclosed to Ms. Guzman prior to enrollment.

99. On her own, Ms. Guzman applied to at least ten jobs every week, and also reached out to people for networking. She did not land a single interview for full stack web development.

100. In April 2021, she obtained a job as a Product Manager, because the company saw that she had a background in full stack web development. However, she was fired after two months because the company said that she did not demonstrate the skill level they needed.

101. Despite being fired for not having sufficient technical skills, the Product Manager job triggered Ms. Guzman's ISA. She paid \$1,823 on her ISA in the two months that she worked at that job.

102. Ms. Guzman could not find another job in the technology field. In February 2022, she accepted a job as a recruiter at the Center for Learning and Autism Support Services. This was the same field that she worked in prior to Lambda, using the same skills. Lambda played no role in her employment offer.

103. Ms. Guzman received a raise at work, and with her new salary of \$30 per hour, her ISA was triggered. On August 5, 2022, she emailed her ISA servicer for clarification, because she did not think her job qualified her for payment under the ISA. The servicer told her that she could request a case-by-case deferment if her job was not in a technology field. Ms. Guzman replied with her last offer letter. The servicer "escalated [her] documents to BloomTech (Lambda) for review" of the deferment request. Lambda denied her deferment request, without even notifying her of its decision. Ms. Guzman learned that her deferment request was denied by following up with the servicer after hearing nothing.

104. Ms. Guzman sent an email to the servicer and to Lambda asking if the school could "please tell me how I used the skills I learned at Lambda School to get a job in a field I was in previous to going there?" In response, Lambda approved her deferment request, meaning that no ISA payments were due for income earned as a Recruiter/Scheduler at the Center for Learning and Autism Support Services.

105. Before Lambda had granted her deferment, Ms. Guzman paid her outstanding balance of \$1,530, because she did not want to be in violation of her obligations under the ISA.

106. Worried about paying her monthly bills, Ms. Guzman pressed Lambda for a refund of the payments that she made while waiting for a response to her requested deferment. Lambda relented and issued a refund for the \$1,530 that she paid while working at the Center for Learning and Autism Support Services.

107. Lambda did not issue a refund for the \$1,823 that Ms. Guzman had previously paid towards her ISA when she worked as a Product Manager.

108. Ms. Guzman still dedicates time each week to search for jobs in the technology field but has not had any success.

CAUSES OF ACTION

FIRST CAUSE OF ACTION

Violations of California's Consumer Legal Remedies Act
Cal. Civ. Code § 1750, *et seq.*
(against Lambda)

109. Ms. Guzman hereby reincorporates the allegations in the foregoing paragraphs as though fully set forth herein.

110. The CLRA makes unlawful “unfair methods of competition and unfair or deceptive acts or practices undertaken by any person in a transaction intended to result or that results in the sale or lease of goods or services to any consumer.” Cal. Civ. Code § 1770(a).

111. The CLRA covers transactions involving the sale of services—such as education—to consumers.

112. Ms. Guzman is a “consumer” within the meaning of Section 1761(d) of the CLRA, and she engaged in “transactions” within the meaning of sections 1761(e) and 1770 of the CLRA.

113. The CLRA enumerates numerous unlawful acts or practices, including:

- a) “Misrepresenting the source, sponsorship, approval, or certification of goods or services.” Cal. Civ. Code § 1770(a)(2).
- b) “Representing that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or quantities that they do not have or that a person has a sponsorship, approval, status, affiliation, or connection that the person does not have.” *Id.* § 1770(a)(5).
- c) “Representing that goods or services are of a particular standard, quality, or grade” when they are not. *Id.* § 1770(a)(7).
- d) “Advertising goods or services with intent not to sell them as advertised.” *Id.* § 1770(a)(9).

114. In violation of these provisions, Lambda misrepresented to the public, prospective students, and current students, including Ms. Guzman, at least the following: (i) its job placement rates; (ii) that it only got paid after students found employment; and (iii) that it was allowed to operate and enroll students.

115. Ms. Guzman brings her claim under the CLRA for injunctive relief, namely, to cancel her ISA and for restitution of payments made.

SECOND CAUSE OF ACTION

Violations of California's Unfair Competition Law Cal. Bus. & Prof. Code §§ 17200, *et seq.* (against Lambda)

116. Ms. Guzman hereby reincorporates the allegations in the foregoing paragraphs as though fully set forth herein.

117. Lambda has engaged in business acts or practices that constitute unfair competition as defined in the UCL, in that such business acts and practices are unlawful, unfair, and fraudulent within the meaning of that statute.

118. The business acts and practices include:

- a) publishing and/or providing the public, prospective students, and current students, including Ms. Guzman, with false, misleading, unreliable, and/or inaccurate job placement rate information;
- b) omitting material facts from statements to the public, prospective students, and current students, including Ms. Guzman, related to job placement rates;
- c) misrepresenting and concealing from the public, prospective students, and current students, including Ms. Guzman, the true nature of Lambda's financial interest in students' success, including by representing that Lambda only got paid after students did;

- d) conducting business without BPPE approval and in violation of multiple BPPE orders requiring it to cease operations;
- e) knowingly operating a private postsecondary institution without approval to do so;
- f) failing to execute an enrollment agreement with Ms. Guzman or, if it did, executing it in violation California law;
- g) concealing from the public, prospective students, and current students, including Ms. Guzman, that in March and July of 2019, the BPPE ordered Lambda to cease operations, stop enrolling students, cease all instructional services, and submit a closure plan, and misrepresenting, concealing, and omitting material facts related to those BPPE orders, including representing that they were stayed when they were not.

Unlawful Prong

119. The UCL bars business practices that are forbidden by law. If a business practice violates any law, it is *per se* a UCL violation.

120. The business acts and practices described above are unlawful because they violate numerous state and federal laws, including but not limited to:

- a) The Federal Trade Commission Act (“FTC Act”), which prohibits “unfair or deceptive acts or practices.”³²

³² See FTC Act § 5(a)(I), 15 U.S.C. § 45(a)(I); FTC Act § 12(a), 15 U.S.C. § 52(a).

- b) Cal Educ. Code § 94897, which provides that institutions shall not “[p]romise or guarantee employment, or otherwise overstate the availability of jobs upon graduation.”
- c) The CLRA, *see supra* ¶¶ 97-100;
- d) The FAL, *see infra* ¶¶ 112-114;
- e) Cal. Educ. Code § 94886, which provides in relevant part that “a person shall not open, conduct, or do business as a private postsecondary educational institution in this state without obtaining an approval to operate under this chapter.” Lambda violated this provision, and therefore the UCL’s unlawful prong, when it enrolled Ms. Guzman without obtaining approval to operate.
- f) Cal. Educ. Code § 94943, which provides that it is illegal to “[k]nowingly operat[e] a private postsecondary institution without an approval to operate.” Lambda violated this provision, and therefore the UCL’s unlawful prong, when it knowingly enrolled Ms. Guzman without approval by the BPPE to operate.
- g) Cal. Educ. Code § 94902(a), which provides that “[a] student shall enroll solely by means of executing an enrollment agreement. The enrollment agreement shall be signed by the student and by an authorized employee of the institution.” Ms. Guzman does not recall signing an enrollment agreement with Lambda, and upon information

and belief did not sign one. Ms. Guzman was therefore never lawfully enrolled with Lambda.

- h) Even if Ms. Guzman did sign an enrollment agreement with Lambda, it is unlawful and unenforceable pursuant to Cal. Educ. Code § 94902(b), which provides:

An enrollment agreement is not enforceable unless all of the following requirements are met:

(1) The student has received the institution's catalog and School Performance Fact Sheet prior to signing the enrollment agreement.

(2) At the time of the execution of the enrollment agreement, the institution held a valid approval to operate.

(3) Prior to the execution of the enrollment agreement, the student and the institution have signed and dated the information required to be disclosed in the Student Performance Fact Sheet pursuant to subdivisions (a) to (d), inclusive, of Section 94910. Each of these items in the Student Performance Fact Sheet shall include a line for the student to initial and shall be initialed and dated by the student.

- i) In violation of Cal. Educ. Code § 94902(b)(1), Ms. Guzman was not provided with Lambda's School Performance Sheet.
- j) In violation of Cal. Educ. Code § 94902(b)(2), Lambda did not have "valid approval to operate" at the time Ms. Guzman enrolled.
- k) In violation of Cal. Educ. Code § 94902(b)(3), Ms. Guzman did not sign the information required to be disclosed in the Student Performance Fact Sheet.

- l) Cal. Educ. Code § 94902(c), which provides that “[a] student shall receive a copy of the signed enrollment agreement, in writing or electronically, regardless of whether total charges are paid by the student.” Ms. Guzman does not have a copy of her signed enrollment agreement and upon information and belief never received one.

121. By violating these and other state and federal laws, Lambda violated the unlawful prong of the UCL.

Fraud Prong

122. To show that a business practice is fraudulent, it is necessary only to show that members of the public are likely to be deceived.

123. Lambda’s business acts and practices—including its false job placement rate representations and representation that it does not get paid until students do—are fraudulent in that they are likely to deceive the public.

124. Each of these false and misleading representations, all of which were material, were substantial factors influencing Ms. Guzman’s decision to attend Lambda and take out an ISA that indebted her to up to \$30,000 of tuition at Lambda.

THIRD CAUSE OF ACTION

Violations of California’s False Advertising Law
Cal. Bus. & Prof. Code §§ 17500, *et seq.*
(against Lambda)

125. Ms. Guzman hereby reincorporates the allegations in the foregoing paragraphs as though fully set forth herein.

126. Lambda has also engaged in acts or practices that constitute violations of the FAL, Business and Professions Code section 17500, *et seq.*, by making or causing to be made untrue or misleading statements with the intent to induce members of the public to purchase Lambda's services. Lambda's untrue or misleading representations include, but are not limited to, the following:

- a) Lambda's statements regarding job placement rates, including but not limited to their published job placement rates in 2018 and 2019 that were prominently displayed on its website;
- b) The following statement, prominently displayed on Lambda's website:
"We don't get paid until you do, so we're in this together, from your first [sic] of classes to your first day on the job."
- c) Failing to inform the public, prospective students, and current students, including Ms. Guzman, that it lacked approval from BPPE to operate, that its operations were therefore unlawful, that BPPE ordered Lambda to cease advertising and instructional activities, and that it could not lawfully enroll students. Instead, Lambda's advertisements implicitly and explicitly misrepresented the lawfulness of its operations by encouraging the public and prospective students to apply for enrollment.

127. At the time these representations were made, Lambda knew or by the exercise of reasonable care should have known that the representations were untrue or misleading.

FOURTH CAUSE OF ACTION

Intentional Misrepresentation (against all Respondents)

128. Ms. Guzman hereby reincorporates the allegations in the foregoing paragraphs as though fully set forth herein.

129. Respondents made statements to Ms. Guzman: (a) that were false representations of material fact; (b) that they knew were false or were made recklessly and without regard for their truth; (c) that they intended Ms. Guzman to rely upon; (d) that Ms. Guzman reasonably relied upon; (e) that Ms. Guzman's reliance upon was a substantial factor in causing her damage; and (f) that caused her damage.

130. The intentional misrepresentations and omissions by Respondents consist of at least the following:

- a) Lambda's statements, prominently displayed on its website, that its job placement rate was over 80%. Respondents knew these statements were false; according to multiple internal documents, Lambda and Mr. Allred believed the true job placement rate to be around 50%.
- b) Respondents' statement, prominently displayed on Lambda's website, that: "We don't get paid until you do, so we're in this together, from your first [sic] of classes to your first day on the job." Respondents knew this statement was false because Lambda sold ISAs to investors long before students were placed in jobs.

- c) Respondents' representations, both implied and explicit, that Lambda was approved to operate, advertise, enroll, and teach students prior to August 2020. Respondents knew these representations were false because the BPPE had ordered Lambda to cease all operations (including all advertising and instructional activities) and submit a school closure plan. Respondents also knew that they were concealing from students that Lambda was barred from advertising and from enrolling and teaching students.

131. Respondents intended that Ms. Guzman rely on these misrepresentations and omissions, as evidenced by Lambda prominently featuring them on its website and on other widely disseminated platforms, by Mr. Allred's many tweets promoting the misrepresentations, as well as by Lambda and Mr. Allred's efforts to avoid disclosing the truth.

132. Ms. Guzman reasonably relied on these widely disseminated representations. Had she known the truth, she would not have enrolled at Lambda.

133. Mr. Allred and members of his executive leadership team acted willfully and knowingly to disseminate these representations to the public with knowledge that they were false and misleading.

134. Ms. Guzman has been substantially harmed by Respondents' misconduct, which caused her to attend Lambda and take out an ISA that indebted her for up to \$30,000 in tuition.

FIFTH CAUSE OF ACTION
Negligent Misrepresentation
(against all Respondents)

135. Ms. Guzman hereby reincorporates the allegations in the foregoing paragraphs as though fully set forth herein.

136. Respondents have also engaged in acts or practices that constitute negligent misrepresentation. *See supra* ¶ 117.

137. Respondents prominently displayed these representations on its website, through Mr. Allred's personal twitter account, and in advertisements and tweets that implicitly and explicitly encouraged members of the public to apply for enrollment. These representations are described *supra* ¶ 117.

138. Respondents had no reasonable grounds to believe that these representations were true. *See supra* ¶ 117.

139. Respondents intended to induce Ms. Guzman to rely on these misrepresentations and omissions, as evidenced by Respondents prominently featuring them on Lambda's website and on other widely disseminated platforms, as well as by its efforts to avoid disclosing the truth.

140. Ms. Guzman was justified in relying upon these widely disseminated representations. Had she known the truth, she would not have enrolled at Lambda.

141. Ms. Guzman has been substantially harmed by Respondents' misconduct, which caused her to attend Lambda and take out an ISA that indebted her for up to \$30,000 in tuition.

PRAYER FOR RELIEF

WHEREFORE, Ms. Guzman requests that the Arbitrator:

1. Declare that her ISA is unlawful and unenforceable pursuant to Cal. Educ. Code §§ 94902(b), 94886, and 94943.
2. Declare that Respondents conducted business as a private postsecondary educational institution in California without obtaining approval to operate, in violation of Cal. Educ. Code § 94886 and the UCL.
3. Declare that Respondents knowingly operated a private postsecondary institution without approval to operate, in violation of Cal. Educ. Code § 94943 and the UCL.
4. Declare that Ms. Guzman never lawfully enrolled with Lambda because Lambda did not comply with Cal. Educ. Code § 94902(a).
5. Declare that Respondents' job placement rate representations at the time Ms. Guzman enrolled were fraudulent and misleading, in violation of the UCL, FAL, and CLRA, and were intentional and/or negligent misrepresentations.
6. Declare that Respondents' representation that Lambda only gets paid after students get paid was fraudulent and misleading, in violation of the UCL, FAL, and CLRA, and was an intentional and/or negligent misrepresentation.
7. Order Respondents to cancel Ms. Guzman's ISA and refund her for all payments she has made, or, if Lambda is not the current owner of Ms. Guzman's ISA, order the current owner to cancel her ISA and refund her for all payments she has made.

8. Enjoin Respondents from ever collecting on Ms. Guzman's ISA or, if Lambda is not the current owner of her ISA, enjoin the current owner from ever collecting on Ms. Guzman's ISA.

9. Order Respondents to pay reasonable attorneys' fees and costs.

10. Award damages to Ms. Guzman in an amount to be determined, including punitive damages pursuant to Cal. Civ. Code § 3294(a).

11. Award such further relief as the Arbitrator deems just and proper.

Dated: October 6, 2022

Respectfully submitted,

/s/ Emily Goldman

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