

In re Luckin Coffee Inc. Securities Litigation

COURT: United States District Court for the Southern District of New York
CASE NUMBER: 1:20-cv-01293-LJL
CLASS PERIOD: 05/17/2019 - 07/15/2020
CASE LEADERS: Salvatore J. Graziano, John Rizio-Hamilton, Scott R. Foglietta
CASE TEAM: Jai K. Chandrasekhar, Kate Aufses

This is a securities class action on behalf of all persons or entities who purchased or otherwise acquired American Depository Shares (“ADSs”) of Luckin Coffee Inc. (“Luckin” or the “Company”) during the period from May 17, 2019 through July 15, 2020, inclusive (the “Class Period”), including Luckin ADSs purchased in or traceable to the Company’s initial public offering of ADSs conducted on May 17, 2019 (the “IPO”) or Luckin Coffee ADSs purchased in or traceable to the Company’s secondary public offering of ADSs conducted on January 10, 2020 (the “SPO,” and with the IPO, the “Offerings”).

Lead Plaintiffs Have Reached a Proposed Settlement of the Action for \$175 Million

The Court-appointed Lead Plaintiffs, Sjunde AP-Fonden and Louisiana Sheriffs’ Pension & Relief Fund (“Lead Plaintiffs”), on behalf of themselves and the Class, have reached a proposed settlement of the Action with Luckin for \$175,000,000 in cash that, if approved, will resolve all claims in the Action (the “Settlement”). A hearing to consider final approval of the Settlement has been scheduled for July 22, 2022.

If you are a member of the Class, your rights will be affected and you may be eligible for a payment from the Settlement. The Class consists of:

All persons and entities (and their beneficiaries) that purchased or otherwise acquired Luckin ADSs between May 17, 2019 through July 15, 2020, inclusive.

Certain persons and entities are excluded from the Class by definition (see paragraph 25 of the Settlement Notice) or if they validly requested exclusion from the Class following the procedures set forth in the previously mailed Class Notice (see Appendix 1 of the Stipulation).

Please read the **Settlement Notice** to fully understand your rights and options. Copies of the **Settlement Notice** and **Claim Form** can be found in the list on the right of this page. You may also visit the case website, **LuckinCoffeeSecuritiesLitigation.com**, for more information about the Settlement.

To be eligible to receive a payment under the proposed Settlement, you must submit a Claim Form postmarked, if mailed, or submitted online no later than **March 15, 2022**.

Payments to eligible claimants will be made only if the Court approves the Settlement and a plan of allocation, and only after any appeals are resolved, and after the completion of all claims processing. Please be patient, as this process will take some time to complete.

IMPORTANT DATES AND DEADLINES

March 15, 2022 **Claim Filing Deadline.** Claim Forms must be *postmarked, if mailed, or submitted online no later than March 15, 2022*.

June 24, 2022 **Objection Deadline.** Any objections to the proposed Settlement, the proposed Plan of Allocation, or the motion for attorneys' fees and expenses, must be filed *no later than June 24, 2022*, in accordance with the instructions in the **Settlement Notice**.

July 22, 2022 **Settlement Hearing.** The Settlement Hearing will be held July 22, 2022 at 11:00 a.m. Eastern Time at 11:00 a.m. Eastern Time, before the Honorable John P. Cronan either in person at the United States District Court for the Southern District of New York, Daniel Patrick Moynihan United States Courthouse, 500 Pearl St., New York, NY 10007-1312, Courtroom 12D, or by telephone or videoconference (in the discretion of the Court). The Settlement Hearing will be held by the Court to consider, among other things, whether the proposed Settlement is fair, reasonable and adequate and should be approved; whether the proposed Plan of Allocation is fair and reasonable and should be approved; and whether Lead Counsel's motion for attorneys' fees and expenses should be approved.

The Litigation

Beginning in February 2020, investors filed several related actions against Luckin, certain of its directors and officers, and underwriters of the Company's IPO and SPO, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Sections 11, 12(a)(2), and 15 of the Securities Act of 1933. On May 15, 2020, District Judge Lewis J. Liman of the U.S. District Court for the Southern District of New York consolidated the related actions. On June 12, 2020, Judge Liman appointed Louisiana Sheriffs' Pension & Relief Fund as co-Lead Plaintiff and Bernstein Litowitz Berger & Grossmann LLP as co-Lead Counsel for the class.

On September 24, 2020, Plaintiffs filed the amended complaint. On November 23, 2020, Defendants filed their motions to dismiss the amended complaint.

On March 5, 2021, the Court provisionally a certified a class of investors for the purpose of effectuating a potential settlement with Luckin in this Action.

On March 30, 2021, the claims against Luckin were stayed pursuant to Judge Martin Glenn's order recognizing the ongoing Cayman proceeding as foreign main proceeding in bankruptcy court for the Southern District of New York. The stay was modified to permit Lead Plaintiffs to continue to make filings in connection with the provisional class certification.

The Underwriter Defendants' filed their reply in support of their motion to dismiss on March 26, 2021.

On July 6, 2021, the Court entered an Order approving the dissemination of a **Notice of Pendency of Class Action** to potential members of the Class provisionally certified for purposes of settlement with Luckin.

While notice was being provided to the Class, Lead Plaintiffs and Luckin began discussing the possibility of resolving the Action through settlement. On September 20, 2021, the Settling Parties executed a term sheet setting forth their agreement in principle to settle the Action.

After additional negotiations regarding the specific terms of their agreement, the Settling Parties entered into the Stipulation and Agreement of Settlement on October 20, 2021. By Order dated October 26, 2021, the Court preliminarily approved the Settlement, authorized notice of the Settlement to be provided to potential Class Members, and scheduled the final Settlement Hearing for July 22, 2022 to consider whether to grant final approval to the Settlement.

Luckin's Alleged Fraud

Luckin is a coffee retailer founded in 2017 based in Xiamen, the People's Republic of China. Luckin Coffee owns and operates stores selling food and beverages, as well as a mobile application for food and beverage purchases. The Company conducted an IPO of its ADSs on May 17, 2019, and SPO with a concurrent Convertible Note Offering on January 10, 2020.

The action alleges that, throughout the Class Period, including in connection with the IPO and the SPO, Luckin promoted its technology-driven retail model using “big data analytics, [artificial intelligence], and proprietary technologies” to drive sales of coffee and other products and develop revenue and expense models that ensure accurate and transparent reporting. Luckin reported record-setting revenue growth and claimed that its stores were profitable.

In reality, Luckin's stores were operating at substantial losses, the Company's financial health was in jeopardy, and Luckin Coffee's store sales data were simply fabricated over multiple quarters. As a result of these misrepresentations, Luckin Coffee ADSs traded at artificially inflated prices throughout the Class Period.

The truth about Luckin was revealed in a series of disclosures. First, on January 31, 2020, Muddy Waters Research published a report stating that Luckin had fabricated portions of its financial statements beginning in the third quarter of 2019, citing “smoking gun evidence” such as thousands of hours of store video, customer receipts, and monitoring of the Company's mobile application data. On this news, the price of Luckin ADSs fell from \$36.40 per share on January 30, 2020, to \$32.49 per share on January 31, 2020. On February 3, 2020, Luckin issued a press release dismissing Muddy Waters's conclusions. The Company “categorically denie[d] all allegations in the [Muddy Waters] Report” and assured investors that the “methodology of the Report is flawed, the evidence is unsubstantiated, and the allegations are unsupported speculations and malicious interpretations of events.” Notwithstanding the aggressive defense of its operations, on April 2, 2020, Luckin disclosed that an internal investigation had found that over \$300 million in reported sales simply did not exist and that Luckin's Chief Operating Officer Jian Liu and several of his direct reports had fabricated these transactions beginning in the second quarter of 2019. On this news, the price of Luckin ADSs fell from \$26.20 per share on April 1, 2020 to \$6.40 per share on April 2, 2020—a decline of over 75%.

Finally, on April 6, 2020, Goldman Sachs & Co. LLC announced that an entity controlled by Luckin's Chairman Charles Zhengyao Lu had defaulted on a \$518 million margin loan secured by Luckin ADSs, which had been pledged as collateral by the Company's founders—Lu and Chief Executive Officer, Jenny Zhiya Qian—for these personal loans. On this news, the price of Luckin ADSs fell from \$5.38 per share on April 3, 2020 to \$4.39 per share on April 6,

2020, another 18% decline. Trading of Luckin ADSs was halted on April 6, 2020 by the NASDAQ and did not resume until May 20, 2020.

Case Documents

- Notice of (I) Proposed Settlement; (II) Settlement Hearing; and (III) Motion for Attorneys' Fees and Litigation Expenses ("Settlement Notice")
- Proof of Claim and Release Form ("Claim Form")
- October 26, 2021 - Order Preliminary Approving Settlement and Providing for Notice of the Settlement
- October 20, 2021 - Stipulation and Agreement of Settlement
- August 3, 2021 - Notice of Pendency of Class Action
- July 6, 2021 - Stipulation and Order Regarding Dissemination of Class Notice
- March 5, 2021 - Stipulation and Order Regarding Provisional Class Certification for Settlement Purposes
- September 28, 2020 - Consolidated Class Action Complaint Press Release
- September 24, 2020 - Consolidated Class Action Complaint
- June 12, 2020 - Opinion & Order