THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

The Knit With, *a Pennsylvania Partnership*, *Plaintiff*, **vs.** **Knitting Fever, Inc**., *a New York corporation*, **Designer Yarns, Ltd.**, *a corporation of England*, **Filatura Pettinata V.V.G. Di Stefano Vaccari & C. (S.A.S.)**, *a company of Italy*, *and* **Sion Elalouf** and **Diane Elalouf**, *of New York*, **Jeffrey J. Denecke, Jr.**, *of New York*, **Jay Opperman**, *of New Jersey*, **Debbie Bliss**, *of England*, *Defendants*.	**No. 08 - CV - _____** **COMPLAINT FOR FALSE ADVERTISING IN INTERSTATE COMMERCE, BUSINESS INJURY BY A RACKETEER INFLUENCED AND CORRUPT ORGANIZATION, RICO CONSPIRACY, BREACH OF EXPRESS AND IMPLIED WARRANTIES OF THE MERCHANTABILITY OF PRODUCTS, PERFIDIOUS DEALING (COMMON LAW UNFAIR COMPETITION)** **Jury Trial Demanded**

COMPLAINT

I. INTRODUCTION

1. Plaintiff seeks damages for the literally false advertising of handknitting yarns introduced and distributed in interstate commerce by Knitting Fever, Inc., a cause of action provided by the LANHAM ACT, *codified at* 11 U.S.C. § 1125(a) and related common law and state statutory claims arising from the same transactions and occurrences. The Knit With also alleges Sion Elalouf conducts Knitting Fever, Inc. as a racketeering enterprise in violation of the RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT, *codified at* 18 U.S.C. § 1962(c). Finally, in violation of 18U.S.C. §1962(d), the remaining Defendants are alleged to have conspired with, participated in or facilitated the scheme to introduce to and distribute in the commerce of the United States mis-labeled handknitting yarns or the scheme to cover-up that illegal activity, resulting in injury to Plaintiff's business.

2. The enactment of the UNIFORM COMMERCIAL CODE OF THE LAW OF SALES and Congress' trade

regulation legislation, such as the LANHAM ACT, are designed to eliminate '*caveat emptor*' in commercial transactions. No longer may practitioners of perfidious dealing, deceit and substitution achieve gilded, ostentatious lifestyles at the expense of good faith, fair dealing and ultimately the confusion and deception of the consumer.

II. THE PARTIES

A. Plaintiff

3. Plaintiff, **THE KNIT WITH**, is a commercial entity established as a proprietorship in 1971 and since 1999 operated as a partnership. Plaintiff, a small, family owned and operated business, engages in retail sales to consumers of specialty yarns and accessories from a location at 8226 Germantown Avenue, Philadelphia, PA. Plaintiff offers handknitting consumers almost 600 yarns – primarily spun of natural fibers, marketed under multiple brandnames based upon commercial relationships with dozens of vendors. *See*, Report of Business Entity of the Pennsylvania Secretary of State, attached as Exhibit " 1 "

B. Corporate Defendants

4. Corporate Defendant **KNITTING FEVER, INC.**, a corporation organized and/or existing since 1980 under the laws of the State of New York, is known in the trade as simply KFI (*hereinafter*, referred to as 'KFI'). KFI has its principal place of business at 315 Bayview Avenue, Amityville, NY, 11701-2801and a registered office at 35 Debevoise Avenue, Roosevelt, NY 11575. Sion Elalouf, KFI's chief executive officer, is believed to be the sole or dominant KFI shareholder. *See*, Report of the New York Secretary of State, attached as Exhibit "2 ".

5. Corporate Defendant **DESIGNER YARNS, LTD.** is a closely held corporation organized in 2001 under the laws of England with a principal place of business at Unit 8-10 Newbridge Industrial Estate, Pitt Street, Keighley, West Yorkshire, UNITED KINGDOM, BD21 4PQ. Designer Yarns, Ltd. is believed to hold a license for the international marketing of handknitting yarns bearing the Debbie Bliss brandname and has a distributorship agreement with KFI by which KFI is the exclusive US importer-distributor of yarns marketed by Designer Yarns, Ltd. At all times relevant to this Complaint, Designer

Yarns is a corporate creature believed to be effectively controlled by the individual defendant Sion Elalouf. *See*, Exhibit " 3 "

6. Corporate Defendant **FILATURA PETTINATA V.V.G. Di Stefano Vaccari & C. (S.A.S.)**, (*hereinafter*, referred to as 'Pettinata V.V.G.' or simply 'V.V.G.') is a closely held entity organized and/or existing under the laws of Italy with a principal place of business at 11 Via Gianasso, BENNA (BI) ITALIA 1387. Mr. Alberto Oliaro is the principal officer of V.V.G. A broker and fulfillment agent for privately labeled handknitting yarns, V.V.G. is believed to have brokered (identify and arrange for manufacture), but to not have manufactured itself, yarns for the KFI and Debbie Bliss brandnames – the three mis-labeled yarns at issue – although KFI represents V.V.G. to be the manufacturer. Despite ostensibly being an independent entity, Pettinata V.V.G. is believed to be, since 2006, dominated, if not as well controlled, by Sion Elalouf.

C. Individual Defendants

7. Defendant **Sion Elalouf**, a citizen of New York, is a natural person residing at 22 Longwood Road, Sands Point, NY 11050-1260. At all times material to this Complaint, and since 1980, Mr. Elalouf has been the sole or controlling shareholder and chief executive of KFI and responsible for setting KFI's trade policies and practices and operating KFI as his alter ego. Mr. Elalouf has actively participated in the tortious and wrongful conduct that is the subject of this Complaint – including but not limited to falsely advertising in interstate commerce goods distributed in interstate commerce, committing predicate acts of racketeering, managing and operating KFI as a racketeering enterprise, conspiring with other individual and corporate defendants to engage in acts to further the racketeering scheme, and causing harm to Plaintiff's business by the acts of that racketeering enterprise harming Plaintiff's business.

8. Defendant **Diane Elalouf**, is a citizen of New York and natural person residing at 22 Longwood Road, Sands Point, NY 11050-1260. At times material to this Complaint, Mrs. Elalouf is believed to be a KFI officer, director or shareholder, to have participated in and have been the beneficiary of KFI's corporate policies. Without being a 'Monday to Friday' KFI employee, Mrs. Elalouf is the sole person, other than her husband Sion, within KFI to have access to, and responsibility for scrutinizing, approving

and paying invoices received from KFI's foreign suppliers, thereby facilitating her husband's cashmere caper and, further, is believed to have participated in KFI's perfidious dealing.

9. Defendant **Jay Opperman**, is a citizen of New Jersey and natural person residing at 78 Clinton Avenue, Montclair, NJ, 07042-2116. At times material to this Complaint and as recently as 2002, Mr. Opperman has held himself out as an independent sales representative of KFI, and more recently as KFI sales manager responsible for managing a national sales force tasked with "pushing" sales of handknitting yarn products to retailers such as The Knit With. Since 2001, Mr. Opperman is a director of, and one of but two currently registered owners of, the shares of Designer Yarns, Ltd. *See*, Exhibit " 3 ". At all times relevant to this Complaint, Mr. Opperman actively participated in and facilitated the wrongful conduct that is the subject of this Complaint, including but not limited to making and breaching express warranties as to the qualities and characteristics of falsely advertised yarns, conspiring to facilitate the cover-up of the cashmere caper and thereby causing injury to Plaintiff's business and commercial interests.

10. Individual Defendant **Jeffrey J. Denecke, Jr.**, a citizen of New York, is a natural person residing at 3884 Beechwood Place, Seaford, NY 11783-2025. At times material to this Complaint, and certainly since 2006, if not before, Mr. Denecke has been employed by KFI as Operations Manager and has been a key participant in and has facilitated KFI's racketeering activities subsequent to June 12, 2006 – activities which have injured Plaintiff's business.

11. Defendant **Debbie Jane (Mrs. Barry W.) Bliss**, a subject of the United Kingdom residing at 9 Folkestone Road, Walthamstow, London, UNITED KINGDOM, E17 9SD, is an internationally acclaimed knitwear designer and author who, prior to November, 2001 operated a business engaged in the retail sale of handknitting yarns, at 365 St. John Road, Islington, London among other locations. In late 1999 or by June, 2000 Mrs. Bliss desired to create, under her own label and brandname, a range of value-priced yarns for sale in her business – for which purpose Mrs. Bliss became aware of Pettinata V.V.G., KFI and Sion Elalouf. Resulting from these relationships, in early 2001, Mrs. Bliss agreed to license her name to Designer Yarns, Ltd. for the development and marketing of a series or range of yarns branded under her name with Mrs. Bliss reserving responsibility to assure the quality of and to maintain standards for the

handknitting yarns branded with her name. Mrs. Bliss' designer status in the handknitting yarn trade began in the 1980's with the publication of a series of tradebooks which gained a wide and sustained appeal among handknitting consumers in the US. Since 2001, Mrs. Bliss has regularly traveled to the US for the express purpose of promoting commercial sales of yarns branded with her name; she has attended trade shows for the handknitting market and visited yarns shops for the purpose of spiking consumer demand for yarn products labeled with the Debbie Bliss brand name. At times relevant to this Complaint, and certainly since September, 2006, Mrs. Bliss has participated in and facilitated the racketeering scheme which has injured Plaintiff's business.

III. JURISDICTION AND VENUE

12. This Court has subject matter jurisdiction of this Complaint as follows:

a.) Federal question jurisdiction pursuant to 28 U.S.C. § 1331;

b.) Unfair competition claim joined with a substantial and related claim under the trademark laws pursuant to 28 U.S.C. § 1338;

c.) False advertising claim pursuant to 15 U.S.C. § 1121 (LANHAM ACT);

d.) Racketeering claims pursuant to 18 U.S.C. § 1964(a);

e.) Related state law claims pursuant to 28 U.S.C. § 1367 (supplemental jurisdiction).

13. The Court is empowered to exercise personal jurisdiction over the defendants pursuant to 18 U.S.C. § 1965 and pursuant to FEDERAL RULE OF CIVIL PROCEDURE 4 by application of 42 PA. CONS. STAT. ANNO. § 5301 (carrying on a continuous and systematic part of its business in Pennsylvania) and 42 PA. CONS. STAT. ANNO.§ 5322, because the defendants, either directly or by an agent have

a.) transacted business in Pennsylvania by:

i.) The doing by any person in this Commonwealth of a series of similar acts for the purpose of thereby realizing pecuniary benefit or otherwise accomplishing an object;

ii.) The doing of a single act in this Commonwealth for the purpose of thereby

realizing pecuniary benefit or otherwise accomplishing an object with the intention of initiating a series of such acts.

iii.) The shipping of merchandise directly or indirectly into Pennsylvania;

iv.) Engaging in any business with or without approval of this Commonwealth.

b.) contracting to supply things in this Commonwealth.

c.) causing harm or tortious injury by an act or omission in this Commonwealth.

d.) causing harm or tortious injury in this Commonwealth by an act or omission outside this Commonwealth.

e.) applying to any government unit for any certificate, registration or similar instrument or authorization or exercising any such instrument or authorization.

f.) violating, within the jurisdiction of this Commonwealth, any statute, home rule charter, local ordinance or resolution, or rule or regulation promulgated thereunder by any government unit or of any order of court or other government unit.

14. As Plaintiff's cause of action arose within the Eastern District of Pennsylvania and a substantial act in furtherance of the claims alleged occurred in this locale, this claim is properly venued in this Court.

15. Plaintiff's claim for damages exceeds $150,000, exclusive of interest and costs, and is therefore not subject to compulsory arbitration.

IV. FACTS IN SUPPORT OF PLAINTIFF'S CLAIMS

A. A Long-Standing Relationship Corrupted

16. Since the mid-1980's, and through late 2005, Plaintiff maintained a commercial relationship with Knitting Fever, Inc. – sourcing from KFI a number of handknitting products including yarns purported to be spun with a cashmere content and marketed by KFI under a variety of brandnames, including the 'designer' Debbie Bliss brandname and KFI's own 'house' brandname. *See*, Exhibit "4 "

17. Beginning in the mid-1990's – in large part because Jay Opperman joined KFI as sales rep – and through the course of Plaintiff's commercial relationship with KFI, and its sales division, Euro Yarns, Inc.,

the percentage of Plaintiff's inventory represented by KFI-sourced products steadily increased such that, for several years up to 2002, KFI was Plaintiff's leading vendor; beginning in late 2001, Plaintiff's checks in payment of invoices were negotiated by KFI through a variety of accounts for the benefit of a variety of entities, including:

a.) Knitting Fever, Inc. (HSBC Bank USA account # _____1358);

b.) KFI, Inc. (HSBC Bank USA account # _____1404);

c.) KFI, Inc. DBA Euro Yarns (HSBC Bank USA account # _____1404);

d.) Euro Yarns DBA Elizabeth Austen (HSBC Bank USA account # _____9244).

18. In Summer, 2002, Plaintiff voiced dissatisfaction with certain commercially unreasonable KFI trade practices, including :

a.) incomplete shipments;

b.) extensive backorders – even on product confirmed, prior to ordering, by KFI customer-service personnel to be available for immediate shipment;

c.) shipments arriving long after requested and expected delivery dates;

d.) orders being fulfilled through multiple small shipments – often occurring on the same day by consecutive invoices resulting in unnecessary additional expense to Plaintiff; and

e.) trade rumors that KFI would supply a mass-market retailer the same branded products which had been distributed only to specialty retailers such as Plaintiff – products which Plaintiff had devoted considerable time, effort and money in building consumer demand and which investments would be tarnished if not lost entirely were a mass-market seller – incapable of servicing such specialty products – to offer the same specialty products for resale to the consumer.

19. Mr. Opperman, KFI's representative, acknowledged the legitimacy of Plaintiff's concerns and identified KFI's antiquated Roosevelt, NY warehouse as the cause of most of the complaints – requesting patience until KFI identified and relocated to more efficient premises. As to the trade rumors that a mass market retailer would have access to specialty handknitting yarns as first run merchandise – previously

sold exclusively to specialty stores – Mr. Opperman said an experimental venture was being considered but no decisions were made – all the while knowing that the mass market retailer had already completed its 'test market' and was 'rolling out' the KFI-sourced first run merchandise to new mass market locations.

20. Two years later, in mid-Summer, 2004, Plaintiff renewed most of the concerns itemized in ¶ 18 and objected, as commercially unreasonable, to KFI's inability to provide statements of account status and credit balances; these objections were promised to be rectified when KFI moved to its new warehouse and installed new computer systems.

21. On October 26, 2004, KFI executed agreements to purchase its current Amityville location – title to which was placed in a newly-formed and related company, SE Properties, LLC – to which location KFI moved its operations in early 2005. *See*, Report of Suffolk County Clerk, Records Office dated November 26, 2004 attached as Exhibit " 5 ".

22. In late Summer, 2005, Plaintiff again voiced to KFI concerns about the continuity of previously identified commercially unreasonable KFI trade practices, supposedly to have been corrected by relocation to Amityville, and raised new concerns about other practices which were commercially unreasonable to Plaintiff, including:

a.) duplicate invoicing for single shipments;

b.) shipments arriving after seasonal changes in merchandise offerings [*e.g.*, cotton yarns, ordered in January for March delivery for Plaintiffs resale during the 'summer cotton season ' being shipped in November – well after close of the 'summer cotton season'];

c.) shipping pre-paid orders 'C.O.D.'.

23. Plaintiff's objections to KFI's commercially unreasonable trade practices paralleled Plaintiff's retrenchment in sourcing inventory from KFI and its affiliated entities, Euro Yarns, Inc. and Elizabeth Austen. By way of illustration, in the year ending June 2005, Plaintiff's combined purchases from the Knitting Fever entities totaled $ 2, 891.79 substantially down from $ 15, 948. 28 for the like period in the previous year and a mere fraction of Plaintiff's buy in calendar year 2001 which totaled $ 20, 060. 48.

24. After ensuing discussions during the next several weeks, KFI answered Plaintiff's concerns by

having its warehouseman telephone Plaintiff to communicate Mr. Elalouf's decision to terminate KFI's commercial relationship with Plaintiff.

B. Knitting Fever's Place in the Specialty Yarn Trade

25. Knitting Fever, Inc. is a major participant in the US wholesale market for hand knitting yarns; in 2005 KFI claimed to be the leading wholesale supplier to specialty retailers such as Plaintiff.

26. Beginning in the 1980's, importer-wholesalers in the US handknitting yarn trade began offering yarns branded under 'designer' names. KFI, albeit not the originator of this trend, was among the first to promote 'designer' yarns developed by and manufactured for the designer with control of pricing and distribution of 'designer' products resting with the designer. To importer-distributors like KFI, developing a market for and promoting demand for designer products wholly controlled by the creative designer is especially fraught with risk in the presumptively low-margin handknitting yarn trade; recovery of the costs expended to create, promote and fulfill consumer acceptance of designer products and profit from that activity constantly remain hostage to the independent designer's ability to switch distributors, for reasons better understood only by the designer – with the succeeding distributor profiting from the former distributor's invested effort, time and money.

1. The Plan for Designer Yarns

27. After 1995, a KFI competitor in the importation and wholesale distribution of yarns experienced success with a 'designer' line wholly controlled by the importer-wholesaler. This line of yarns, primarily spun of natural fibers and capable of being sold as premium products, was branded with a designer's name and achieved success in the trade within a short few years following introduction. In the late 1990's, KFI is believed to have begun investigating acquiring a 'designer' labeled product solely controlled by the importer – and not the designer – and which would include premium natural fibers.

28. Coincidentally, in 1999, Debbie Bliss – then primarily engaged in retailing yarns in London – sought to create a line of 'value' yarns branded under her own name for sale to consumers in her London retail business.

29. By processes currently unknown to Plaintiff, and uniquely known only to the Defendants, Debbie Bliss became aware of Filatura Pettinata V.V.G., Knitting Fever, Inc. and Sion Elalouf.

30. Between late 1999 and April 12, 2001 and certainly by June 9, 2001, Plaintiff believes and avers Mr. Elalouf entered into an agreement with Debbie Bliss whereby Mrs. Bliss :

a.) would become the 'Martha Stewart' of the US yarn trade;

b.) hold herself out as the creative source of the Debbie Bliss brand of yarns;

c.) be available to promote the sale of products branded as Debbie Bliss yarns;

d.) forego the travails and financial uncertainty of operating her retail yarn business;

e.) devote herself to the creative processes of designing and writing handknitting patterns;

f.) benefit economically from the branding of yarn products produced at the direction of Mr. Elalouf and offered for resale to US yarn shops and for ultimate resale to handknitting consumers; and whereby Mr. Elalouf could simultaneously;

g.) capitalize on Mrs. Bliss' design creativity by exclusively importing and wholesaling the Debbie Bliss line of yarns; and

h.) protect his invested efforts and resources promoting the Debbie Bliss designer products against the possibility (distinct based upon his experience) of the designer ceasing to do business with Mr. Elalouf personally or through Knitting Fever, Inc. after KFI developed a market for the Debbie Bliss yarns.

31. To implement the plan for a fully controlled 'designer' product, Sion Elalouf and Jay Opperman, with other persons not susceptible as defendants, created a company to hold the brandnames and distribution rights to 'designer yarns' – yarns to be branded with the names of recognized designers in the international handknitting yarn trade. On April 12, 2001, in England, a certificate of incorporation, as Company No. 4187433, was issued to Designer Yarns, Ltd. *See*, Exhibit "3". Thereafter, Designer Yarns is believed to have entered into agreements whereby:

a.) KFI is the sole US importer-wholesaler of products manufactured for Designer Yarns; and

b.) Debbie Bliss would license her name to brand yarns marketed as Debbie Bliss yarns.

32. Apparently to avoid if not evade US Customs scrutiny of import transactions between related parties, Mr. Elalouf is not disclosed as a shareholder, director or participant in Designer Yarns, Ltd. Mr. Elalouf maintains access to Designer Yarns by way of Mr. Oppermans' equity and directorship roles – as apparently agreed to by Mr. Opperman, KFI's national sales manager. *See*, Exhibit "3" at pg. 2.

2. Factors Further Enabling the Ensuing Cashmerino Caper

33. Upon information and belief, notwithstanding the absence of Mr. Elalouf's formal involvement in the corporate affairs of Designer Yarns, Ltd., he is intimately involved with and entirely controls Designer Yarns and the merchandising of its products – initially, the Debbie Bliss line but more recently products branded under license from other designers; most importantly, Mr. Elalouf ultimately determines:

a.) the specific products marketed internationally as manufactured for Designer Yarns;

b.) the fiber content of Designer Yarns' products;

c.) the pricing of such products; and

d.) the promotion and advertising of such products.

34. Pursuant to the plan described in ¶¶ 27-33, between July 5, 2000 and certainly by June 9, 2001, Mr. Elalouf is believed to have discovered indistinguishable versions of a yarn called Cashmerino; the versions, one spun with a quantity of cashmere and the other with no cashmere at all, could constitute, to a merchant of a certain character, a remarkable find – especially so because:

a.) with Mr. Elalouf's extensive experience in the yarn trade, even he could not readily distinguish between the versions;

b.) as Mr. Elalouf has since stated, without expert fiber analysis, it is virtually impossible to confirm the presence of cashmere in a spun yarn; and

c.) based upon Mr. Elalouf's 20 years of experience in commercial transactions with retail yarn shops, Mr. Elalouf knew the overwhelming majority of US retailers lack both access to and the resources to retain the professional expertise to determine the fiber content of finished yarns – or other professionals to seek redress in the event a yarn is discovered to be mis-labeled.

35. By processes more specifically unknown at present to Plaintiff and uniquely available only to the Defendants but certainly no later than October, 2001 and enduring through October, 2005, among the many persons working at or for KFI, only Sion and Diane Elalouf had access to documents concerning yarns imported and wholesaled by KFI; indeed, Diane Elalouf – without being a 'Monday to Friday' KFI employee – had sole responsibility to scrutinize, approve and pay manufacturers' and suppliers' invoices with sole access to attendant fiber content disclosures made by such manufacturers, whereby Mrs. Elalouf:

a.) could prevent regular KFI employees from learning the invoiced purchase values of goods imported by and resold to yarn shops by KFI;

b.) could prevent regular KFI employees from learning the true source of products imported by and resold to yarn shops by KFI; and

c.) could prevent regular KFI employees learning, as disclosed by the manufacturer, the actual fiber content of goods imported and resold by KFI.

C. The Cashmerino Caper

36. Consequent to the allegations of ¶ 34, Plaintiff believes and avers that certainly before June 9, 2001 and on a date more specifically known only to Defendants, Mr. Elalouf and Designer Yarns entered into an agreement to substitute the 0% cashmere version for the Cashmerino spun of 12% cashmere. Thereafter,

a.) Alberto Oliaro, Pettinata V.V.G.'s principal officer was directed to manufacture the 0% cashmere yarn – through a spinner, more specifically known only to the Defendants – but label the finished product as spun of 12% cashmere;

b.) by processes and at a time more specifically uniquely within the Defendants' purview, but certainly by June 9, 2001, the zero-cashmere version of the Cashmerino was included in the new line of Debbie Bliss yarns to be launched by Designer Yarns;

c.). the zero cashmere version of the Cashmerinos was subsequently imported to the US for wholesale distribution by KFI under the Debbie Bliss brand from Designer Yarns and the

K.F.I. brand – when Mr. Elalouf knew, or should have known, the Cashmerino version actually manufactured was spun of a 0% [zero percent] cashmere.

1. The Cashmerino Caper Develops Successfully

37. Even before formal release of the Cashmerino yarns at the June 9-11, 2001 US trade show for the yarn trade, Jay Opperman – as an independent sales representative for KFI – introduced Plaintiff to a new product, K.F.I. Cashmerenos DK, described as and purported to be a premium, handknitting yarn created exclusively for KFI and represented to be spun of 55% merino wool, 33% microfiber and 12% cashmere. Upon the representations made, Plaintiff purchased the Cashmerenos DK for resale and in the course of time added 45.5 kilos of the product to its inventory. *See*, Exhibit "4"; *see also*, Exhibit " 6 ".

38. At the June 9-11, 2001 trade show held in Columbus, OH, the new Debbie Bliss line – including Cashmerino Aran, also purported to be spun of 55% merino wool, 33% microfiber and 12% cashmere – was debuted by KFI and sensationally received by the trade. The perceived consumer desire for 'designer' yarn products, natural fibers and the known commercial success of Mrs. Bliss' knitting designs – charming garments with a unique and inimitable style – led Plaintiff to commit to purchase the Debbie Bliss line including Cashmerino Aran also for Autumn, 2001 delivery. In the course of time Cashmerino Aran was received from KFI and added to Plaintiff's inventory. *See*, Exhibit " 6 ".

39. Between August, 2001 and continuing through Autumn, 2005, at least two times each year, KFI used the United States Mail to issue Plaintiff – along with as many as 2,000 other specialty yarn retailers – price/product lists identifying the KFI and Debbie Bliss Cashmerino products as spun of a fibre content consisting of 55% merino wool, 33% microfibre and 12% cashmere. *See*, Knitting Fever, Inc. Product and Price List, dated April 15, 2002 attached as Exhibit "7 ".

40. In 2003, Plaintiff committed to buy a line extension of the Debbie Bliss Cashmerino range, Cashmerino Baby, also purported to be spun of the same proportionate fibre content and composition. In the course of time, Cashmerino Baby was received from KFI and added to Plaintiff's inventory. *See*, Exhibit " 6 ".

41. Between August, 2001 and continuing through Autumn, 2005, when KFI dictated its refusal to

further deal (*see*, ¶ 24), Plaintiff purchased from KFI, for resale to handknitting consumers, an equivalent total of 1,210 balls (121 market packs or 60.5 kilos) of the Debbie Bliss Cashmerino yarns; in this same period, Plaintiff sourced an equivalent 910 balls (91 market packs or 45.5 kilos) of K.F.I. Cashmerenos DK. *See*, Exhibit " 6 ".

42. Delivery of the product represented by each of the invoices identified in Exhibit " 6 " was made by KFI's use of a commercial interstate carrier, specifically United Parcel Service.

2. In the Course of Time, The Cashmere Caper Unravels, Unexpectedly

43. Upon information and belief, for five years after having first foiled Mr. Elalouf's experienced eye, Cashmerino so successfully echoed its ability to pose as and pass for being spun of cashmere – and to wholesale at prices consistent with yarns spun of cashmere, initially $ 70 per kilo and by 2005, $ 90 per kilo – that, by 2004, Cashmerino became the single best selling specialty type of yarn. Such commercial success was not without its problems, the most notable being the inability of KFI's supplier to meet consumer demand for the product.

44. Upon Plaintiff's information, to 'assist' in meeting the consumer demand, a competitor sought to 'knock off' the Cashmerino product and found, through reverse-engineering, that Cashmerino Aran was not spun with any cashmere at all; later testing by the Cashmere and Camel Hair Manufacturer's Institute (*hereinafter*, Cashmere Institute), showed Cashmerino Chunky too was spun of 0% [zero] cashmere.

45. Upon Plaintiff's information obtained from multiple sources, the subject of the cashmere content of the Debbie Bliss Cashmerinos was widely (but not universally) discussed in the yarn trade during the June 10-12, 2006 trade show held in Indianapolis, IN. On July 6,2006, during a purchasing meeting, a rumor arrived at Plaintiff's place business that expert fiber analysis of a handknitting yarn, identified only as spun of 55% merino wool, 33% microfiber and 12% cashmere, was without any cashmere content.

46. Upon hearing the fiber content of the otherwise unidentified cashmere blend yarn, Plaintiff's staff recognized the purported fiber content to be the exact fiber content of the Debbie Bliss Cashmerino Aran and Cashmerino Baby yarns inventoried by Plaintiff – notwithstanding that, in 2006, the Debbie Bliss Cashmerino range of five Cashmerino yarns included four Cashmerinos spun of the exact fiber content as

the rumored yarn, specifically:

a.) Debbie Bliss Cashmerino Aran;

b.) Debbie Bliss Cashmerino Baby;

c.) Debbie Bliss Cashmerino Chunky; and

d.) Debbie Bliss Cashmerino DK – introduced at the June, 2006 Indianapolis trade show.

47. As presented to Plaintiff, the rumor was supported by a letter dated May 26, 2006 addressed to Karl Spilhaus, president of the Cashmere Institute, reporting results of a qualitative fiber analysis conducted by K. D. Langley Fiber Services on a handknitting yarn, not specifically identified except by a purported fiber composition, concluding "no cashmere fibers" were detected in the yarn sampled. *See*, Exhibit 10, at 5.

3. Plaintiff's Due Diligence Concerning the Rumored Cashmere Caper

48. Within hours of hearing the rumored zero cashmere content in a Cashmerino yarn, upon advice of legal counsel, The Knit With staff removed from sale the two Debbie Bliss Cashmerino yarns suspected of being mis-labeled: Cashmerino Aran and Cashmerino Baby; despite KFI, seven months before, having dictated termination of Plaintiff's ability to re-order any Cashmerino yarns, substantial quantities of both products remained in Plaintiff's inventory and were available for sale to consumers on the shop's shelves and displays.

49. Also within hours of first hearing this rumor, one of Plaintiff's principals made inquiries of the Cashmere Institute to substantiate the rumor and determine the authenticity of the letter exhibited in support of the rumor; in ensuing discussions with the Institute's president, Mr. Spilhaus :

a.) confirmed the May 26 report was commissioned by the Cashmere Institute;

b.) confirmed the analysis was performed by a recognized and expert fiber analyst;

c.) generally described the method of fiber analysis used to achieve the results reported;

d.) confirmed the testing method disclosed as utilized by the fiber analyst conformed to generally accepted testing procedures;

e.) for confidentiality reasons, would not identify the specific yarn tested;

f.) confirmed the testing was initiated by Cascade Yarns, Inc., a KFI competitor; and finally,

g.) opined that all yarns labeled with that exact proportionate fiber content are suspect.

4. The Explosion of the Cashmere Caper Exponentially Expands

50. Following the Spilhaus discussion, Plaintiff initially identified seven inventoried yarns labeled as spun of cashmere – with five sourced from KFI; after checking the labeling of each, Plaintiff removed from sale a considerable stock of Cashmerenos DK, specifically 194 balls, because this yarn was also labeled as spun of the exact composition as the Debbie Bliss Cashmerinos. *See*, Exhibit " 4 ".

51. Before the close of business on July 6, Plaintiff removed from sale another two yarns and later a third yarn supplied by KFI spun with a cashmere content – which products are not presently at issue.

52. The next business day, Plaintiff estimated the retail value of the five KFI-sourced yarns removed from sale as approaching $ 20, 000. 00 and decided these five yarns would remain off-sale until the fiber content of each could be verified or vouched for.

53. Also on July 7, Plaintiff contacted Cascade Yarns, which initiated the Cashmere Institute's testing, to ascertain specifically which Debbie Bliss Cashmerino was analyzed by the Cashmere Institute – which days later, Plaintiff learned was Debbie Bliss Cashmerino Chunky, a yarn not inventoried by Plaintiff.

54. On July 9, 2006, Plaintiff requested KFI and all vendors of wool products to furnish a Guaranty of Compliance that wool yarns sourced from each vendor did in fact comply with the labeling laws – a request which KFI alone neither acknowledged nor fulfilled. *See*, Plaintiffs' Request for Guaranty of Compliance dated 9 July, 2006 attached as Exhibit " 8 ".

55. On July 12, Plaintiff submitted five "suspect" yarns – all sourced from KFI – to Mr. Langley for analysis of fiber content : the three Cashmerinos with the identical proportionate fiber content as the Debbie Bliss Cashmerino Chunky and two other yarns not subject of this complaint.

56. On Tuesday, July 18, 2006, Plaintiff learned the results of Mr. Langley's qualitative testing of the three Cashmerino yarns: in each, "no cashmere fibers were observed " – indeed, each was spun of no more than a zero percentage of cashmere. Further testing revealed Cashmerino Aran is spun with a fiber content of 57% wool and 43% acrylic. *See*, Reports of K. D. Langley Fiber Services attached as Exhibit

" 9 ".

57. Also on July 18, 2006, Cascade Yarns electronically released a general letter to its customers concerning testing of the cashmere content of the Debbie Bliss Cashmerinos, supported by the Cashmere Institute's correspondence and ensuing correspondence from Cascade to KFI. *See*, Correspondence of Rob Dunbabin dated July 18, 2006 and attachments thereto attached as Exhibit "10 ".

58. On July 19, 2006, Cascade fulfilled Plaintiff's request that Cascade provide copies of all correspondence on the Cashmerino labeling issue between Cascade and KFI. In that correspondence, KFI's lawyer attempted to reframe the issue as 'a dispute ' between competitors concerning labeling of the Cashmerino yarns and alternatively the difficulty in ascertaining cashmere in spun yarn – rather than the absence of 12% cashmere in the affected yarns. *See*, Correspondences of Roy Klein and Robert Guite, Esq. dated between June 27 and July 11, 2006 and attachments thereto collected under Exhibit " 11 ".

D. The Conspiracy for the Cashmere Caper Naturally Expands to a Cover-Up

59. After the May 26, 2006 release of the Cashmere Institute's fiber analysis reporting 0% cashmere content in the Debbie Bliss Cashmerino Chunky, and certainly by June 27, 2006, Mr. Elalouf was aware:

a.) the cashmere caper alleged in ¶ 36 was in danger of becoming widely known in the trade;

b.) public knowledge of a zero cashmere content in the Cashmerinos would be detrimental to the continued commercial success of the Cashmerino products

c.) the unraveling of the cashmere caper could have legal consequences for KFI corporately and Mr. Elalouf personally; and

d.) public knowledge of the zero cashmere content in the Debbie Bliss Cashmerino would be detrimental to Designer Yarns corporately by application of the UK TRADE REGULATION ACT of 1968 for which liability extends to the officers, employees and shareholders individually and detrimental to Debbie Bliss as a tradename licensor *See*, Exhibit " 11" pg.1, ¶ 1 (Klein, 2007: 06-27).

60. Upon information and belief – to effect 'damage control' and to continue 'pulling the wool over'

the trade concerning the cashmere content of the Cashmerinos – Mr. Elalouf and Designer Yarns agreed, after May 26, 2006 and certainly before June 20, to claim the Cashmerinos, since 2001, *always* contained the requisite quantity of cashmere (or, conversely, to cover-up the absence of any cashmere content in the Debbie Bliss Cashmerino since 2001).

61. To effect this plan, on July 11, 2006, KFI provided Cascade Yarns with copies of reports of four fiber analyses claimed to have been performed on Cashmerino Aran and suggesting the competitors "put this unfortunate episode" to rest "for the good of the industry" – a proffer passed down as evidenced by Cascade's July 18 e-mail to yarn shops. *See*, ¶ 57. *See also*, Exhibit " 11 ", pgs. 6 - 9.

1. Pettinata V.V.G. Joins the Cashmere Conspiracy

62. Mr. Elalouf and Designer Yarns obtained Pettinata V.V.G.'s participation in the scheme alleged in ¶¶ 36 and 60 whereby V.V.G. : [1]

a.) certainly by June 20, 2006, caused to be produced in Italy – specifically for testing purposes and spun with cashmere – three small wraps of a semi-finished yarn which V.V.G. sent to Designer Yarns in Keighley, England – knowing the small wraps would be subjected to fiber analysis and the resulting report of which would be disseminated by Mr. Elalouf and Designer Yarns for reliance by others to support the Elalouf-Designer claim the Cashmerinos have *always* been spun of cashmere;

b.) caused to be produced, in Italy – specifically for testing purposes – and certainly by July 7, 2006, small quantities of a fully finished yarn of an indeterminate cashmere content which V.V.G. sent to Designer Yarns at its place of business in Keighley, England –

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[1] Plaintiff specifically alleges that only V.V.G.'s post May 26, 2006 participation in the cashmere caper renders V.V.G. liable for Plaintiff's injury despite V.V.G. knowing since 2001 that the Cashmerinos were not spun with the requisite quantity of cashmere. Upon information and belief, in 2001 V.V.G. fulfilled its duty, owed to Designer Yarns and Mr. Elalouf alone, to inform them of the actual cashmere content of the Cashmerino. After May 26, 2006 V.V.G. joined the Elalouf-Designer cashmere scheme to cover up of the absence of cashmere and facilitated the Elalouf-Designer claim the Cashmerinos *always contained* the requisite quantity of cashmere.

knowing that such small quantities would be subjected to expert fiber analysis and knowing the report of which would be disseminated by Mr. Elalouf and Designer Yarns for reliance by others to support the Elalouf-Designer claim the Cashmerinos are and have always been are spun of the requisite quantity of cashmere;

c.) provided Mr. Elalouf – at or after the international yarn trade show in Florence, Italy July 5 -7, 2006 – copies of two fiber analysis reports which Mr. Elalouf on July 11 published to others for their reliance as supporting the claimed cashmere content of the Cashmerinos. *See*, *id*., at pgs. 6 - 7. One such report, issued by Laboratoria Accreditato 0331, would later be repudiated as the work-product of the testing company holding accreditation No. 0331. *Compare*, Exhibit " 11 ", pg. 7 with Exhibit " 12 ". [2]

63. After Designer Yarns received from V.V.G. the three small wraps of yarn, and on June 20, 2006, Designer Yarns enlisted Wharfedale Fibres, Ltd., a Keighley rag merchant, to secure expert opinion about the cashmere content of the three wraps; Perry Poucher, Wharfedale's principal:

a.) shortly after noon on June 20, personally presented the wraps to David Lee, a principal of Cashmere Fibres, International, located in Bradford, England;

b.) Lee observed Poucher withdraw from his pocket three small reelings for Lee's inspection;

c.) Lee suggested the reelings or wraps be subjected to microscopic fiber analysis;

d.) Lee recommended Poucher consult Julie Smith, who operates Quality Control Laboratory, a private fiber testing service in the same mill building housing Cashmere Fibres;

e.) whereupon Lee introduced Poucher to Julie Smith.

64. In ensuing conversations between Mr. Poucher and Julie Smith, Miss Smith learned:

a.) determination of the wraps' cashmere content was needed in the United States where a question had recently arisen about the cashmere content in handknitting yarns;

b.) the U.S. interested parties sought expert opinion in England because microscopic analysis

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[2] For reasons currently unknown to Plaintiff, on August 23, 2006, Alberto Oliario of V.V.G. again transmitted the Rapporta di Prova of Laboratorio Accreditato No. 0331 to KFI via e-mail.

by Ken Langley resulted in a finding of 'no cashmere' in the tested sample; and perhaps more importantly,

c.) finished balls of yarn were not available in England for Miss Smith's testing.

65. Under these exceedingly unusual circumstances, and as a favor to a friend of a friend, Miss Smith performed an informal, private analysis of the three small wraps. The next day she faxed her findings to Wharfedale Fibres which re-faxed the Smith report to Designer Yarns; on June 26, Designer Yarns sent Mr. Elalouf a version of Miss Smith's June 20 report – which report Designer Yarns knew, or should have known, Mr. Elalouf would publish to others for their reliance as supporting claims of cashmere in the Cashmerinos. *Compare*, Exhibit " 11 " pg. 9 with Exhibit " 13 ". [3]

66. More than two weeks later, Designer Yarns furnished sample balls of the Bliss Cashmerino Aran to TFT, obtaining on July 7, 2006, TFT's report of a qualitative fiber analysis indicating the presence of but "a quantity of cashmere" in that yarn; that same day, Designer Yarns faxed the TFT report to Mr. Elalouf. *See*, Exhibit " 11 " at pg. 8.

2. Elalouf Entices Denecke to Join The Cashmere Conspiracy

67. On July 20, Jeffrey Denecke Jr. joined the conspiracy alleged in ¶¶ 36 and 60 by:

a.) corresponding, via US Mail to hundreds if not as many as 2,000 specialty yarn stores, providing "KFI's official response to the Cascade mailing" of July 18;

b.) causing his letter and the attachments thereto to be disseminated by wire to retail yarn shops for which KFI possessed e-mail addresses**;**

c.) causing his letter and the Elalouf attachment to be electronically published by ***Knitter's Review*** in a public forum for the benefit of handknitting consumers.

See, Correspondence of Jeffrey J. Denecke, Jr. dated July 20, 2006 covering letter of Sion Elalouf and

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[3] It is noted that on June 26, 2006, Miss Smith also faxed to Designer Yarns a revision of her June 21 report adding Miss Smith's home address and deleting Wharfedale Fibres from the fax trail. In his correspondence to counsel for Cascade, dated June 27, KFI's lawyer did not specifically reference either version of the Smith Report.

attachments thereto issued by US Mail and ***Knitter's Review*** post attached as Exhibit " 14 ".

68. Attached to the Denecke correspondence disseminated to yarn shops by mail and wire were five documents: a possibly prolix and positively polemic letter authored by Sion Elalouf studied to squelch shops abandoning the Debbie Bliss cashmerinos and the four fiber analyses identified in ¶ 61. *See also*, Exhibit " 11 " at pgs. 6 -9.

69. The Elalouf letter disseminated by Denecke :

a.) offered KFI's and Mr. Elalouf's assurances "that Debbie Bliss's Cashmerino yarn contains cashmere", (*see*, Exhibit " 14 "at pg. 2);

b.) questioned the reliability of fiber analyses performed by Ken Langley, (*see*, *id*., at pg. 2);

c.) questioned the cashmere content of as many as 25 cashmere yarns distributed by KFI's competitors, (*see*, *id*., at pg. 4: "we are sure that, while random tests of these blends may not always identify the cashmere content, our competitors' products in fact contain the requisite amounts of cashmere.");

d.) stated KFI was "anxious to furnish" retailers "whatever information you need to put your mind at ease", (*see*, *id*., at pg. 4); Plaintiff again requested KFI provide a Wool Products Guaranty of Compliance and KFI demurred – offering instead to furnish a general letter at some uncertain, future, point.

70. Solely because KFI contended Mr. Langley is unreliable and possibly unqualified to perform fiber analyses, Plaintiff undertook secondary testing – by another independent fiber analyst and using generally accepted testing procedures – of the three cashmerino products; a duplicate sample of the same three yarns drawn from identical dyelots as used by Mr. Langley was provided to Specialized Technology Resources, Inc. which, on August 31, reported substantially identical results to those achieved by Mr. Langley. *See*, Report of STR dated August 31, 2006, attached as Exhibit "15 ".

3. The Cashmere Conspirators Risk a Trade Debacle

71. The clear implication of Mr. Elalouf's statement that fiber analysis – of any of the 25 yarns specified by importer or manufacturer, brandname and/or product name and labeled fiber content – "may

not always identify the cashmere content" (*see*, Exhibit " 14 "at pg. 4,¶ 1.) is that some of these yarns do not contain the labeled amount of cashmere. Under advice of counsel, Plaintiff removed from sale two previously 'non-suspect' yarns precisely matching yarns implicated by Mr. Elalouf as not being spun of cashmere and submitted samples of the same for fiber analysis.

4. Elalouf Ensnares Debbie Bliss and Jay Opperman in The Conspiracy

72. To solidify the Elalouf-Designer claim the Cashmerinos *always* contained the requisite quantity of cashmere, on or about September 26, KFI caused to be distributed by the United States Mail to specialty yarn retailers an open letter ostensibly authored by Debbie Bliss expressing:

a.) her sadness and distress from rumors the Cashmerinos are spun with no cashmere; and

b.) her 'complete confidence' the yarns are spun with the labeled cashmere content.

See, Correspondence of Debbie Bliss dated Fall, 2006 attached as Exhibit " 16 ".

73. Upon Plaintiff's information, in October, 2006, on a date more specifically known to Defendant alone, Jay Opperman traveled to retailers in New York with the message there is cashmere in the Cashmerinos as indicated by the KFI- issued test reports; remarkably Mr. Opperman claimed the presence of cashmere in the yarns was substantiated by the absence of any lawsuits being filed against KFI.

E. Plaintiff Recalls the Defective / Mis-Labeled Cashmerinos

74. Despite KFI's attempted confusion of the yarn trade concerning the cashmere content of the three Cashmerino yarns sourced from KFI, both duplicate and varying tests – independently performed by multiple labs on samples drawn from retail inventories – concluded on almost identical terms the yarns were not spun with cashmere. *Compare*: Exhibits:

- " 9 " – Langley Fiber Service *qualitative* analysis of Debbie Bliss Cashmerino Aran, Cashmerino Baby and KFI Cashmerenos DK: " No cashmere fibers observed";
- " 15 " – Specialized Technology Resources *qualitative* analysis Debbie Bliss Cashmerino Aran, Cashmerino Baby and KFI Cashmerenos DK: " No cashmere "
- " 10 " at pg. 5 – Langley Fiber Service *qualitative* analysis of Debbie Bliss Cashmerino Chunky: " No cashmere fibers observed";

- " 9 " – Langley Fiber Service *quantitative* analysis of Debbie Bliss Cashmerino Aran "contains 57.2% wool and 42.8% acrylic" (no cashmere);
- " 11 ", pg. 11 – Biella Qualitat Totale *quantitative* analysis of Debbie Bliss Cashmerino Aran: analyzed composition of 57.1% protein and 42.9% synthetic" (no cashmere).

75. On October 16, Plaintiff publicly announced the recall of the three Cashmerino yarns at issue, and the recall of another three improperly labeled cashmere content yarns – all sourced from KFI. *See*, Plaintiff's Customer Letter dated October 16, 2006 attached as Exhibit " 17 ".

76. On October 19, 2006, Mr. Denecke electronically published an open letter to ***Knitter's Review*** in which he branded the recall both a publicity stunt and a "smear campaign targeting KFI's products." *See*, Denecke Post to ***Knitter's Review*** dated October 19, 2006 attached as Exhibit " 18 ".

F. The *Modus Operandi* of Sion Elalouf as Chief Executive of Knitting Fever, Inc.

77. In 2002, KFI roiled the US yarn trade by supplying to a mass market retailer yarns sourced from Coats Holdings, Ltd. (the international colossus in the yarn market), specifically the 'designer' Gedifra, Regia and Schachenmayer yarns (*hereinafter*, the 'GR&S yarns'). Previously, US distribution of the GR&S yarns was primarily directed to more up-market specialty shops. *See*, ¶¶ 18,19 *supra*.

78. Plaintiff is informed that Coats Holdings, Ltd., in early 2005, gave notice to KFI of Coats' intent to cease supplying the 'GR&S yarns' to KFI.

79. In June, 2005, KFI retaliated by initiating litigation against Coats Holdings, Ltd., and its related parties (which suit was subsequently removed to the Federal District Court for the Eastern District of New York) challenging Coats' termination of KFI's supply relationship. *See*, PR Web News Release Newswire for June 22, 2005, attached as Exhibit " 19 ".

80. During the KFI-initiated *Coats* litigation, Coats discovered:

a.) even before Coats had decided to terminate KFI as the exclusive importer-distributor of the GR&S yarns, in 2004, Sion and Diane Elalouf met in Europe with a high-level Coats employee;

b.) the Autumn, 2004 meeting resulted in KFI surreptitiously gaining access to internal Coats documents about KFI's continued status as exclusive US importer-distributor of the GR&S yarns;

c.) KFI received the internal Coats' documents by mail and e-mail;

d.) which illicit activity continued after KFI initiated suit against Coats; and

e.) which documents included copies of written communications from Coats' attorneys handling the KFI suit.

81. After KFI's surreptitious and illicit acts were found out, KFI adamantly refused to comply with court orders compelling KFI's production of the documents obtained from the disloyal Coats' employee. The Magistrate Judge supervising discovery was repeatedly required to hold hearings concerning this conduct which eventually resulted in the court ordering Sion Elalouf and KFI's lawyer to both personally appear with their personal computers, PDAs, and cell phones for a supervised forensic inspection of electronic documents (coincidentally both Mr. Elalouf and his lawyer had, after issuance of the inspection order and just days before the inspection, replaced their personal computers.). *See*, Exhibit " 20 "; *see also*, *Knitting Fever, Inc. v. Coats Holdings, Ltd.*., (E.D. NY 05-CV-01065) documents 65 and 66.

G. Plaintiff's Injury

82. As a consequence of the false labeling of the three Cashmerinos yarns at issue, Plaintiff's business and its commercial interests have been harmed for which seeks redress in the form of common law and statutory claims providing damages in an amount, excluding interest and costs, in excess of $150,000. 00.

V. CAUSES OF ACTION

COUNT ONE:

Breach of Express Warranty of the Merchantability of Goods for Resale to Consumers
(The Knit With vs. Knitting Fever, Inc., Sion Elalouf and Jay Opperman)

83. Plaintiff incorporates hereby ¶¶ 1 through 4, ¶¶ 7, 9 and 12 through 82 as if the same were set forth fully and at length below.

84. Pursuant to 13 PA. CONS STAT. ANNO. § 2313, a seller's statements when made in connection with the sale of goods constitute express warranties of any qualities and characteristics described.

85. Defendants Opperman, in his individual capacity, and Sion Elalouf, at various times since 2001 – when offering for sale the handknitting yarns at issue – represented each to be spun with a quantity of cashmere consistent with the labeling affixed to those products.

86. By written statements in price lists, specification sheets, product labeling, product catalogues and promotional support and by general communications to the handknitting trade, at various times since 2001 and through at least July, 2006 KFI repeated and thereby adopted the representations initially made to Plaintiff by Defendants Opperman and Elalouf.

87. Fiber analyses conducted on the three Cashmerino yarns at issue indicate each is not spun or manufactured with the cashmere content as expressly warranted by Defendants Opperman, Elalouf and Knitting Fever, Inc; indeed, the three products are spun without any cashmere content at all (0% [zero] cashmere content) as opposed to the warranted 12% cashmere content.

88. At time of contract, Plaintiff purchased and sought delivery of handknitting yarns spun with 12% cashmere – products which Plaintiff did not receive from Defendants.

89. Products which do not conform to labeled representations of the product's characteristics and qualities are non-merchantable.

90. Products which are not capable of honest resale by a merchant are non-merchantable.

91. Plaintiff has suffered damages as a consequence of Defendants' breach of their express warranty of the merchantability of the three Cashmerino products at issue; more specifically, Plaintiff's damages attributable to Defendants' breach include but are not limited to:

a.) incidental damages;

b.) consequential damages in the form of various extraordinary expenses incurred, which, but for Defendants' breach, would not have been expended in the ordinary course of business, including but not limited to expenses to :

i. determine whether the Cashmerino yarns at issue are spun with the labeled

constituent fibers (primary and secondary testing);

ii. determine whether the Cashmerino yarns at issue are otherwise properly labeled;

iii. determine whether other products, similar to those implicated by KFI as being 'suspect' yarns, are properly labeled;

iv. determine Plaintiff's own responsibilities and potential liability for having – however inadvertently and in justifiable reliance upon Defendants' various express warranties – sold improperly labeled products to consumers;

v. dedicate numerous staff hours to removing from sale and inventorying the yarns at issue, determining replacement product and re-stocking Plaintiff's shelves resulting from the removal from sale of large quantities of the three products;

vi. engage the skills and expertise of various professionals (legal, marketing, public relations) to research and develop appropriate corrective responses to preserve Plaintiff's goodwill and good tradename among consumers of handknitting yarns;

vii. expend staff hours to plan a consumer recall of the non-merchantable yarns;

viii. incur costs to print forms, brochures and explanatory documents for the recall;

ix. devote numerous staff hours to implement a consumer recall of the yarns at issue;

x. refund at a premium consumers' purchase price of the yarns at issue;

xi. store the non-merchantable product in a manner to prevent any inadvertent sale of the same until conclusion of the necessary corrective measures;

xii. loss of customer trade since implementation of the consumer recall.

c.) cost paid of the mis-warranted product;

d.) loss of interest on the payments made for mis-warranted product and payments made to correct consumer sales of the mis-warranted products;

e.) lost primary profits from a legal inability to sell the mis-labeled and mis-warranted yarns;

f.) liability for governmental fines;

g.) loans and/or cash contributions to sustain Plaintiff's liquidity – a cash crisis caused by

Defendants' breach of their express warranties.

WHEREFORE, Plaintiff requests this honorable court to award the full measure of damages which may be proved at trial, jointly and severally, against Defendants Jay Opperman, Sion Elalouf and Knitting Fever, Inc. attributable to Defendants' breach of the express warranties of the three Cashmerino products at issue.

COUNT TWO:

Breach of Implied Warranty of the Merchantability of Goods for Resale to Consumers
(The Knit With vs. Knitting Fever, Inc. Filatura Pettinata V.V.G., Sion Elalouf and Jay Opperman)

92. Plaintiff incorporates hereby ¶¶ 1 through 4, ¶¶ 6, 7, 9 and ¶¶ 12 through 82 as if the same were set forth fully and at length below.

93. Pennsylvania law, at 13 PA. CONS. STAT. ANNO. § 2314, imposes upon every transaction in the sale of goods the manufacturer's and seller's warranty that the goods are merchantable.

94. Products which do not conform to the product content, as labeled by the manufacturer, are unmerchantable.

95. Products which are not capable of honest resale by a retailer to a consumer are not merchantable.

96. Fiber analyses conducted on the three Cashmerino yarns at issue have determined that each is not spun with the labeled cashmere content as impliedly warranted by Defendants; the three products are spun without any cashmere content at all (0% [zero] cashmere content and not the labeled 12% cashmere content).

97. At time of contract, Plaintiff purchased and sought delivery of handknitting yarns with a specified 12% cashmere content – products which Plaintiff did not receive from Defendants.

98. Plaintiff has suffered damages as a consequence of Defendants' breach of their implied warranty of the merchantability of the three handknitting products at issue as fully stated in ¶ 91 which Plaintiff by reference incorporates herein as if fully set forth and at length below.

WHEREFORE, Plaintiff requests this honorable court to award the full measure of damages which may be proved at trial, jointly and severally against Defendants Jay Opperman, Sion Elalouf, Knitting Fever, Inc. and Filatura Pettinata V.V.G. attributable to Defendants' breach of their implied warranty of the

merchantability of the three Cashmerino products at issue

Count Three:

Explicitly False Advertising Claim Pursuant to the LANHAM ACT
(The Knit With vs. Knitting Fever, Inc.)

99. Plaintiff incorporates ¶¶ 1 through 4 and 12 through 82 as if the same were set forth fully below.

100. The false advertising in interstate commerce of goods distributed in interstate commerce causing injury to another's commercial interests is actionable at law pursuant to the LANHAM ACT, specifically 15 U.S.C. § 1125(a)(1)(B).

101. Defendant has falsely advertised the fiber content of the three Cashmerino yarns at issue – its own products supplied, at wholesale, to Plaintiff, a commercial entity, for resale to consumers in the ordinary course of Plaintiff's business by:

a.) oral representations:

(1.) at Plaintiff's place of business in both 2001 and 2002;

(2.) at the 2001 national trade show held in Columbus, OH June 9-11;

b.) by written representations disseminated interstate by the Postal Service and commercial carrier specifically:

(1.) on Defendant's labels attached to the product when delivered; *see*, Exhibit " 4 ";

(2.) in Defendant's catalogues and price lists; *see*, Exhibit " 7 ";

c.) by representations made on Defendant Knitting Fever's website.

102. Defendant's advertisements of the qualities and characteristics of the handknitting yarns at issue, specifically that each yarn is spun of 12% cashmere, are literally false because expert fiber analyses performed for Plaintiff from July 12 to August 31, 2006 demonstrates the Cashmerino products are not manufactured with any cashmere at all.

103. Defendant's false advertising of the three Cashmerino products at issue has resulted in the actual confusion and deception of both retailers and consumers concerning the qualities and characteristics of Defendant's products.

104. The false statement of the cashmere content of the three Cashmerino yarns at issue is material to the qualities and characteristics of each product and to the wholesale and retail pricing of the same and has influenced both commercial and consumer purchasing decisions.

105. Defendant caused the three falsely advertised handknitting products at issue to be shipped in interstate commerce from Defendant's New York warehouse to Plaintiff's retail store in Philadelphia, PA.

106. Plaintiff's commercial interests have been injured by Defendant having supplied the three falsely advertised handknitting products, including but not limited to :

a.) not receiving a product made of the specific qualities and characteristics advertised;

b.) being forced to incur various extraordinary expenses, which otherwise, in the ordinary course of Plaintiff's business, would not have been expended, to:

I. determine a retailer's responsibilities and potential liabilities for having, however inadvertently, sold consumers improperly labeled wool products;

ii. determine the availability and reliability of resources for analyzing fiber content in handknitting yarns;

iii determine whether the three products at issue are spun of the labeled constituent fibers (primary and secondary testing);

iv. because of the circumstances of this case, to obtain a fiber analysis of another six cashmere content yarns inventoried by Plaintiff;

v. because of the circumstances of this case, to obtain a fiber analysis of another cashmere content yarn identified by Plaintiff as a suitable replacement product;

vi. expend time, energy and money in developing Guaranties of Compliance to be completed by all suppliers of wool products;

vii. being forced to devote considerable time and resources to respond to trade and consumer inquiries concerning the cashmere content of yarns falsely advertised by defendant;

ix. research and develop an appropriate corrective response to Defendant having

supplied Plaintiff – since 2001 – with falsely advertised yarns so as to preserve Plaintiff's goodwill among consumers of handknitting yarns, employing services of legal, marketing and public relations professionals;

x. implementing a recall of the non-merchantable products;

xi. storing the non-merchantable products off-site – to prevent any inadvertent sale of the falsely labeled product to consumers until resolution of this matter;

xii. loss of interest on the payments made for the mis-warranted product and payments made to correct the sale of the mis-warranted products;

c.) cost paid for the literally falsely advertised products;

d.) loss of primary profits expected from the resale of products as advertised by defendant;

e.) loss of consumer trade since implementation of the recall of literally falsely advertised products;

f.) rendering The Knit With subject to enforcement actions by the Pennsylvania Attorney General and the Federal Trade Commission for sale of improperly labeled wool products – for which no cognizable defense is available;

g.) exposing The Knit With to consumer lawsuits – for which no defense is available;

h.) tarnishing The Knit With's goodwill among handknitting consumers developed during 35 years of honest and fair dealing in wool products;

I.) tarnishing The Knit With's tradename and reputation among consumers of handknitting yarns by ascribing a false and deceptive motivation to Plaintiff's good faith actions to correct the problem foisted upon Plaintiff by Defendants;

j.) emotional distress suffered by the equitable owner of The Knit With caused by the specter of the loss of her business caused by Defendants having supplied improperly labeled and falsely advertised wool products;

k.) requiring Plaintiff to secure loans and/or cash contributions to assure Plaintiff's liquidity;

l.) such other damages as may be adduced at trial.

107. The harms resulting to Plaintiff from Defendant having falsely advertised goods in interstate commerce entitles Plaintiff to the full measure of statutory damages including but not limited to recovery of actual damages and litigation costs; since Defendant's conduct – especially that since July, 2006 – is so egregious, an award of enhanced damages up to the statutory maximum of trebled actual damages is appropriate. *See*, 15 U.S.C. §1117.

108. Defendant's deliberate and explicit false advertising of the Cashmerino yarns at issue, especially in the context of Defendant's repeated avowals the products have *always* been spun with cashmere and the absence of any corroborative testing results prior to July, 2006 and Defendant's other deceptive acts since July, 2006 qualifies this matter as exceptional entitling Plaintiff to attorney's fees incurred in litigation.

WHEREFORE, Plaintiff demands judgment against Defendant, Knitting Fever, Inc. and the award of the full measure of damages available pursuant to 15 U.S.C. § 1117 which measure of damages exceeds the compulsory arbitration limit, for having falsely advertised in interstate commerce, and literally so, goods distributed in interstate commerce much to the detriment of Plaintiff's commercial interests.

COUNT FOUR:

Injury to Business and Property Pursuant to RACKETEER INFLUENCED AND CORRUPT ORGANIZATION ACT

(The Knit With vs. Sion Elalouf individually)

109. Plaintiff incorporates hereby ¶¶ 1 through 3, ¶ 7 and ¶¶ 12 through 82 as if the same were set forth fully and at length below.

110. Pursuant to § 1964(c) of the RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT, which authorizes a civil action by any person, as that term is defined in 18 U.S.C. § 1961, whose business or property has been injured by reason of a violation of 18 U.S.C. § 1962, Plaintiff brings Count IV against Defendant Sion Elalouf.

111. Any person employed by or associated with an enterprise who conducts or participates, directly or indirectly, in the conduct of an enterprise's affairs through a pattern of racketeering activity violates 18 U.S.C. § 1962(c).

112. Plaintiff believes and avers that Knitting Fever, Inc., a legal entity, is an enterprise the activities of which affect interstate or foreign commerce, and that Sion Elalouf is a person, employed by or associated with and who conducts the affairs of KFI as the terms 'enterprise' and 'person' are defined in 18 U.S.C. § 1961. *See*, Exhibit " 2 ".

113. After 1998, Mr. Elalouf has conducted KFI's affairs through a pattern of racketeering activities as specified by 18 U.S.C. § 1961; this pattern of racketeering activity consists of at least two racketeering acts, specifically:

a.) **Mail Fraud**:

1.) The 'cashmere caper' alleged in ¶ 36 and its attempted cover-up alleged in ¶ 60 is incorporated herein as if fully set forth at length and in detail below.

2.) Mr. Elalouf participated in this scheme knowing, or in reckless disregard of, the true fiber content of the Cashmerino yarns distributed by KFI to Plaintiff from 2001 and through 2005;

4.) In furtherance of this scheme, at different and various times in the duration of this scheme, Mr. Elalouf caused to be placed with, for delivery by, the US Mail or commercial interstate carrier various documents wherein the fiber content of the three cashmerino yarns at issue was materially misstated, specifically:

(A.) **The Debbie Bliss Yarn Collection Catalogue of Shadecards**

I On a date and under circumstances both more particularly known to Mr. Elalouf but after June, 2001, Mr. Elalouf caused UPS, an commercial interstate carrier to deliver to Plaintiff a shadecard for the yarn known as Cashmerino Aran;

ii. The shadecard for the Cashmerino Aran, delivered as alleged, represents the fiber content of that yarn to be "55% Merino wool, 33% Microfibre and 12% Cashmere";

iii. The purported fiber content of the Cashmerino Aran, as disclosed

on the shadecard delivered as alleged, is a material statement of the qualities and characteristics of that yarn;

iv. Two rounds of expert fiber analyses conducted from July through August, 2006 indicate the purported fiber content of the yarn in question is materially misstated in that the yarn is spun without any cashmere at all (0% cashmere).

(B.) **The Knitting Fever Price / Product List Effective April 15, 2002**

I On a date and under circumstances more particularly known to Mr. Elalouf but before April 15, 2002, Mr. Elalouf caused the United States Mail to deliver to Plaintiff a Price List for yarn products available from KFI, *see*, Exhibit " 7 ";

ii. At page 5 of the April 15, 2002 Price List, delivered as alleged, the fiber content of the three yarns at issue is stated as spun of of "55% Merino wool, 33% Microfibre and 12% Cashmere";

iii. The fiber content of the three yarns at issue, as stated in the Price List delivered as alleged is a material statement of the qualities and characteristics of the three yarns in question;

iv. Two rounds of expert fiber analyses conducted from July through September, 2006 indicate the purported fiber content of the three yarns at issue, as stated in the Price List dated April 15, 2002 and delivered as alleged, is materially misstated – each yarn is spun without any cashmere (0% cashmere), *see*, Exhibits " 9", " 10 ", " 11 ", and " 15 ".

(C.) **The July 20, 2006 Letter to the Trade of Sion Elalouf**

I. On July 20, 2006, under circumstances more particularly known to Mr. Elalouf, he caused the United States Mail to deliver to as

many as 2,000 specialty yarn shops, including Plaintiff, a general letter, ostensibly supported by four reports of fiber analyses in an attempt to squelch a rumor circulating within the trade that the Debbie Bliss Cashmerino yarns are not spun with cashmere; *see*, Exhibit " 14 ";

ii. The July 20 letter, delivered as alleged, contains numerous material misleading statements as well as misstatements of fact, including the statements that:

(a.) a disgruntled competitor 'maliciously publish[ed] false and defamatory statements that ... Cashmerino ... does not contain cashmere' – when the report based upon independent, objective and generally accepted testing methods determined the cashmere content of the Debbie Bliss Cashmerino yarn tested to be 0%;

(b.) the "Debbie Bliss's Cashmerino yarn contains cashmere" – materially false in two ways: tested samples drawn from retail inventories uniformly indicate 0% cashmere and KFI has yet to produce any test reporting contrary findings based on samples drawn from stocks in any retail store as of June 10, 2006;

(c.) "TFT Limited ... confirmed all six ...Cashmerino samples ... contain cashmere" – when TFT's test report could state no more than "a quantity of cashmere" was found and TFT did not say the quantity was the labeled 12%;

(d.) "it is difficult to test accurately for cashmere content" – materially false because, while fiber content analysis is

a specialized scientific endeavor, the fiber analysis field has developed generally accepted procedures to assure the accuracy and uniformity of testing results;

(e.) "when one uses a projection microscope to examine ... cashmere ...blended with extrafine merino wool – both of which have the same micron of approximately 18/19 – there will be some fibers ... identified as wool, some as cashmere and others that are indeterminate" – materially false as expert fiber analysis distinguishes fiber types by scale patterns (analogous to fingerprints) and not micron count which measures only fiber diameter and because micron count is non-determinative of the fiber's species of origin.

(f.) " Stated simply, it is virtually impossible to differentiate between Iranian cashmere and extrafine merino wool [as] the two fibers have virtually the same characteristics" – materially and recklessly false because the fiber analysis field functions for the very purpose of identifying the animal species which produced the fiber;

(g.) "We are sure that, while random tests of [25 named]... blends may not always identify the cashmere content, our competitors' products in fact contain the requisite amount of cashmere" – recklessly misleading in two ways:

(1.) it questions the fiber content of competitors' yarns without any fact to support the charge, and

(2.) it equates presence of 'the requisite amount of

cashmere' in competitors' products with presence of 'the requisite cashmere' in the KFI-distributed cashmerino yarns.

(h.) and finally, that "we are anxious to furnish . . . whatever information you need to put your mind at ease about this matter" – materially and recklessly misleading because when Plaintiff requested a Guaranty of Compliance, Mr. Elalouf did not do so and has yet to so do.

(D.) **The September 26, 2006 Debbie Bliss Letter to the Trade**

I On September 26, 2006, and under circumstances known more particularly to Mr. Elalouf, he caused the United States Mail to deliver to as many as 2,000 specialty yarn stores including Plaintiff a general letter – ostensibly authored by Debbie Bliss – wherein Mrs. Bliss expresses her sadness and distress that the fiber content of yarns labeled with her name would be called in question, *see*, Exhibit " 16 ";

ii. the letter defines Mrs. Bliss' role in producing yarns labeled with her name as "a huge responsibility to maintain the very highest standards and ensure the quality of the products"– a material and reckless misstatement as it implies Mrs. Bliss acts to fulfill this duty;

iii. The same letter claims Designer Yarns "have initiated the most stringent state of the art tests, including DNA, every one of which confirms the presence of cashmere in the yarn" – a materially and recklessly misleading statement in two respects:

(1.) DNA testing, presently, can only determine the genus of

animal which produced the fiber spun into yarn (*e.g.*, goat as opposed to sheep) and can not distinguish the specific species producing the fiber (*e.g.*, angora goat as opposed to cashmere goat) – a fact known, or which should be known, to Mrs. Bliss and Mr. Elalouf;

(2.) the results of testing 'initiated' by Designer Yarns on samples not drawn from retailers' shelves is irrelevant to the fiber content of yarns already sold to retailers for resale to consumers, a fact known, or which should be known, to Mrs. Bliss and Mr. Elalouf.

5.) Any non-specified particular facts, if legally relevant, are uniquely known only to Mr. Elalouf and require Plaintiff's development through discovery.

6.) The conduct described in ¶ 113(a)(1 through 4) violates 18 U.S.C. § 1341.

7.) A violation of 18 U.S.C. § 1341 is a specified racketeering act pursuant to 18 U.S.C. § 1961.

b.) **Wire Fraud**:

1.) **The July 20 Letter of Sion Elalouf to the Yarn Trade**

(A.) On July 20, 2006, to further the scheme alleged in ¶ 36 and its attempted cover-up alleged in ¶ 60, Mr. Elalouf caused the use of interstate wires to transmit his three page letter, discussed in ¶ 113(a.)(4)(c) above, to yarn retailers for which KFI possessed e-mail addresses, including Plaintiff;

(B.) By reference to the specific allegations of the false and/or recklessly misleading statements contained in that letter, more specifically set forth in ¶ 113(a.)(4)(c) and subparagraphs thereto, Plaintiff incorporates the same as if set forth fully and at length below.

2.) **The July 20 *Knitter's Review* Post of Jeffrey J. Denecke, Jr.**

(A.) On July 20, 2006, to further the scheme alleged in ¶ 36, Mr. Elalouf directed and caused Mr. Denecke to use interstate wires to publish the three page Elalouf letter, discussed in ¶ 113(a.)(4)(c) above, to untold thousands of consumers who are readers of the ***Knitters' Review*** Forum;

(B.) By reference to the specific allegations of the false and/or misleading statements of that letter, more specifically set forth in ¶ 113(a.)(4)(c) and subparagraphs thereto, Plaintiff incorporates herein the same as if set forth fully and at length below.

3.) **The October 19 *Knitters Review* Post 'Recall Without Recollection'**

(A.) On October 19, 2006 – in response to consumer 'chatter' about Plaintiff's recall of the three cashmerino yarns at issue – Mr. Elalouf directed and caused Mr. Denecke to use interstate wires to transmit and publish in the ***Knittter's Review*** Forum, to untold thousands of knitting consumers, an open letter (under Mr. Denecke's name although apparently written by Mr. Elalouf) addressing Plaintiff's consumer recall. *See*, Exhibit " 18 ";

(B.) The Denecke letter, transmitted as alleged, makes multiple material misstatements of fact including:

I. "[T]here was never any reason for The Knit With to recall these products in the first place" – materially false because, as known to KFI in advance of the recall, fiber analyses of Cashmerino samples drawn from Plaintiff's inventory show the products supplied to Plaintiff contain a zero cashmere content rendering such Cashmerino stocks unsalable as labeled;

ii. Recent "**[t]ests . . . performed for KFI . . . confirm what KFI has been saying all along – the products contain cashmere**" (*emphasis in original*) – a materially false statement for two

reasons:

(1.) none of the tests 'performed for KFI' were performed on samples drawn from Plaintiff's inventory or from stocks of ***any*** KFI-supplied retailer;

(2.) tests performed on product samples available only after the absence of cashmere content was detected can hardly confirm the presence of cashmere in stocks supplied to retailers by KFI before July, 2006 and as early as Fall, 2001.

iii. "So KFI continues to stand behind the products, even issuing . . . guarantees (*sic*) in the form prescribed by the FTC" – materially false statement *vis-a-vis* Plaintiff because KFI refused to provide Plaintiff a twice-requested Guaranty of Compliance;

iv. Plaintiff's recall is a purposeful "smear campaign targeting KFI's products" – materially false as KFI had notice the recalled yarns in question were found, at great expense to Plaintiff, to not be spun with the labeled quantity of cashmere and therefore should never have been sold to consumers as labeled.

(C.) The October 19 ***Knitters Review*** post, transmitted as alleged, makes numerous material misleading statements, in reckless disregard of the truth, including the following statements:

I. Since 2002, KFI supplied Plaintiff for resale to consumers "a grand total of 94 bags of products containing cashmere" – which statement is materially misleading, in reckless disregard of the truth, for two reasons:

(1.) the statement wholly ignore the 93 'bags of products

[supposedly] containing cashmere' supplied by KFI to Plaintiff in 2001 when KFI introduced Cashmerino – a fact certainly known to KFI;

(2.) the statement attempts to portray Plaintiff as being but inconsequentially interested whether the Cashmerino products are, or were ever, spun with a cashmere content – despite Plaintiff having purchased for resale 185 bags of the products at issue.

ii. Plaintiff's recall was purposed in "getting a lot of free publicity" – a materially misleading statement in that it ignores the several substantial reasons to recall the Cashmerino products, reasons known to KFI in advance of the recall being publicly announced and the recall was hardly free or without expense to Plaintiff.

iii. The recall is revenge for "KFI ... [having stopped] doing business with The Knit With altogether" – materially misleading because it does not provide the relevant facts and circumstances culminating in the dictat of KFI's owner. *See*, ¶¶ 18-24.

4.) Any non-specified particular facts, if legally relevant, material to this allegation are uniquely known only to Mr. Elalouf and require development in discovery.

5.) The conduct described in ¶ 113(b)(1 through 3) violates 18 U.S.C. § 1343.

6.) A violation of 18 U.S.C. § 1343 is legislatively specified as a racketeering act; *see*, 18 U.S.C. § 1961.

c.) **Witness Tampering**:

1.) In an official proceeding of the Eastern District of New York known as *Knitting Fever, Inc. v. Coats Holdings, Ltd.*, Mr. Elalouf corruptly, for evil and depraved purposes, first failed to produce in discovery documents illicitly obtained by bribe

and threat of Coats' employee and following discovery of his corrupt conduct, Mr. Elalouf tried to conceal, withhold and keep unavailable the same documents in that proceeding with intent to impair the availability of the same documents so as to influence or impede that official proceeding resulting in judicial conferences conducted on October 3, 25 and 31, 2005. *See*, *Knitting Fever, Inc. v. Coats Holdings, Ltd.*., (E.D. NY 05-CV-01065) documents 65 and 66. [4]

2.) Mr. Elalouf's conduct resulting in the judicial conferences held on October 3, 25 and 31, 2005 was intended to, and indeed attempted to, obstruct, influence, or impede that official proceeding.

3.) Mr. Elalouf's conduct in tampering with the availability of documents resulting in the judicial conferences conducted October 3, 25 and 31, 2005 did impede, if not successfully influence, that judicial proceeding.

4.) The conduct described in ¶ 113(c)(1 through 3) violates 18 U.S.C. § 1512(c).

5.) A violation of 18 U.S.C. § 1512(c) is specified as racketeering activity by 18 U.S.C. § 1961.

d.) **Obstruction of Justice**:

1.) In the proceeding known as *Knitting Fever, Inc. v. Coats Holdings, Ltd.* – begun by Mr. Elalouf – on October 3, 25 and 31, 2005 proceedings were held about Mr. Elalouf's conduct, which conduct was, within metes and bounds, an endeavor with the foreseeable, natural and probable effect to interfere with the due administration of justice in that matter. *See*, *Knitting Fever, Inc. v. Coats Holdings, Ltd.*., (E.D. NY 05-CV-01065), documents 65 and 66.

2.) Plaintiff believes and avers Mr. Elalouf's conduct resulting in the proceedings

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[4] Despite the *Coats Holdings* matter being litigated under stipulation of confidentiality, documents 65 and 66 are publicly available as, apparently, counsel for Knitting Fever, Inc. failed to designate the sealing of the transcripts of the court's October 25 and 31 hearings.

held on October 3, 25 and 31, 2005 had a nexus with a pending federal judicial proceeding, specifically the *Coats* matter, that Mr. Elalouf had notice of that proceeding and he attempted to act corruptly, with an evil or depraved motive and intending to obstruct or interfere with the due administration of justice.

3.) Plaintiff believes and therefore avers Mr. Elalouf's conduct in the *Coats* litigation as alleged in ¶ 113(d)(1-2) contravenes 18 U.S.C. 1503(a).

4.) A violation of 18 U.S.C. 1503(a) is, at 18 U.S.C. § 1961, a specified racketeering act.

e.) **Hobbs Act**

1.) Beginning in 2004, Mr. Elalouf exerted influence to cause Coats' employee to part with property, specifically documents in the possession of Coats' employee, valuable to Mr. Elalouf in effecting the continuation of KFI as the exclusive importer-distributor of certain Coats' brands (the GR&S yarns).

2.) In hearings conducted in the *Coats Holdings* matter, the Magistrate Judge heard evidence that Mr. Elalouf procured these documents:

(A.) in an attempt to exercise extra-contractual control over Coats' decision to continue the commercial relationship with Mr. Elalouf's company;

(B.) by the later wrongful inducement of fear within Coats' employee for the loss of his job within the Coats organization;

3.) The extortion and/or the attempted extortion of the Coats' employee affects interstate commerce in that :

(A.) KFI's continuation as the exclusive importer of certain Coats' brands is a factor in the availability of such branded products for distribution to US yarn retailers;

(B.) Mr. Elalouf personally traveled interstate to effect his extortion; and

(C.) the extortion attempted to interfere with Coats' freedom to associate with

other importers engaged in interstate commerce. *See*, *Knitting Fever, Inc. v. Coats Holdings, Ltd.*.,(E.D. NY 05-CV-01065), docs. 65 and 66.

4.) The conduct of Mr. Elalouf, as alleged in the foregoing paragraph, ¶ 113(e)(1-3), constitutes a violation of 18 U.S.C. § 1951.

5.) A violation of 18 U.S.C. §1951 is, at 18 U.S.C. § 1961, legislatively specified as a racketeering act.

f.) **Money Laundering**:

1.) **Monetary Transactions in Criminally Derived Property**

(A.) Mr. Elalouf's monetary transactions (deposits, transfers and withdrawals) in the accounts identified in ¶ 17 – if not opened to launder money have nonetheless been used for that purpose – constitute monetary transactions in criminally derived property affecting interstate commerce.

(B.) Monies deposited in the accounts identified in ¶ 17 represent criminally derived property as that term is defined in 18 U.S.C. § 1957.

(C.) Monies deposited in the accounts identified in ¶ 17 are criminally derived property resulting from the proceeds of an unlawful activity as specified in 18 U.S.C. § 1956 – specifically, the importation of goods contrary to law (*see*, WOOL PRODUCTS LABELING ACT of 1939 *codified at* 15 U.S.C. § 68 *et seq*. proscribing 'introduction' in US commerce of mis-labeled wool products.).

(D.) Since at least 2001, Mr. Elalouf's monetary transactions in the banking accounts identified in ¶ 17 are in violation of 18 U.S.C. § 1957.

(E.) At 18 U.S.C. 1961, a violation of 18 U.S.C. § 1957 is specified as racketeering activity.

2.) **Transactions at Financial Institutions in Proceeds From Unlawful Activity**

(A.) The financial transactions in the accounts identified in ¶ 17, specifically

the deposits made to those accounts, constitute proceeds from a form of unlawful activity, as the term 'unlawful activity' is specified in 18 U.S.C. § 1956 – specifically, the sale of goods imported contrary to law (*see*, WOOL PRODUCTS LABELING ACT of 1939 *codified at* 15 U.S.C.§ 68 *et seq*. proscribing 'introduction' in US commerce of mis-labeled wool products.).

(B.) The transactions in the accounts identified in ¶ 17 were knowingly made with an intent to promote the carrying on a specified unlawful activity.

(C.) Conducting transactions in the proceeds of unlawful activity is a violation of 18 U.S.C. § 1956.

(D.) Mr. Elalouf's transactions in the accounts identified in ¶ 17 constitutes a violation of 18 U.S.C. § 1956.

(E.) The violation of 18 U.S.C. § 1956 is, by 18 U.S.C. § 1961, a specified racketeering activity.

g.) **Interstate Travel and Use of Interstate Facilities for Racketeering Purposes**

1.) **Domestic Interstate Travel in Aid of Carrying-On Racketeering Activity**

(A.) Plaintiff believes and therefore avers Mr. Elalouf, in June, 2001 traveled from his residence, then in Jericho, NY to Columbus, OH with intent to promote, establish, manage or otherwise carry-on an unlawful activity and thereafter, to further promote, establish, manage or carry-on that unlawful activity, Mr. Elalouf used facilities of interstate commerce specifically the United States Mails, to issue to Plaintiff Invoice No. 058185 dated October 25, 2001. *See*, Exhibit " 6 ".

(B.) Plaintiff believes and avers Mr. Elalouf's conduct as alleged in the foregoing paragraph, ¶ 113(g)(1)(A), constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering act.

2.) **Foreign Travel in Aid of Establishing Racketeering Activity**

(A.) Plaintiff believes that in or around July, 2000, Mr. Elalouf traveled to Florence, Italy from his Jericho, NY residence with the intent to promote, establish, carry-on or facilitate an unlawful activity and thereafter he used interstate commerce facilities to promote, carry-on or facilitate that unlawful activity, specifically the United States Mail to issue Plaintiff Invoice No. 058185 dated October 25, 2001. *See*, Exhibit "6 ".

(B.) By information and belief, the conduct alleged in the foregoing paragraph, ¶ 113(g)(2)(A), constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. § 1952 is, at 18 U.S.C. § 1961, specified as a racketeering activity.

3.) **Foreign Travel in Aid of Carrying-On Racketeering Activity**

(A.) Plaintiff believes and avers that in July, 2006 – after a rumor began to circulate in the US yarn trade concerning the zero cashmere content of the Debbie Bliss Cashmerino yarns – Mr. Elalouf traveled to Florence, Italy from his residence now in Sands Point, NY, with intent to promote, manage, carry-on or facilitate unlawful activity (specifically, to devise, contrive and implement 'damage control' to ensure the continued marketability of the Cashmerino products and the vitality of the Debbie Bliss brand) and thereafter, he used facilities of interstate commerce to promote, manage or carry-on or facilitate the promotion, management or carrying-on of an unlawful activity, specifically both the United States Mail and the telephone network to issue to the US yarn trade and the purchasing public a general letter dated July 20, 2006 contrived to quell

qualms about the cashmere content of the cashmerino yarns exclusively imported and distributed by Mr. Elalouf.

(B.) By information and belief, the conduct as alleged in the foregoing paragraph, ¶ 113(g)(3)(A) constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. § 1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

4.) **Foreign Travel for Purpose of Extortion**

(A.) By information and belief, Mr. Elalouf in September, 2004 traveled from his Sands Point, NY residence to Belgium, to establish and facilitate the extortion/black-mail of a Coats' employee and thereafter used facilities of interstate commerce, specifically the US Mails and telephone network to carry-on that activity. *See*, *Knitting Fever,Inc. v. Coats Holdings, Ltd.*., (E.D. NY 05-CV-01065), docs. 65 and 66.

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(4)(A) violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. § 1952 is, by 18 U.S.C. § 1961, a specified racketeering activity.

5.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) Plaintiff believes and therefore avers that Mr. Elalouf, in 2001 used the facilities of interstate commerce, specifically the United States Mail, with intent to manage or carry-on an unlawful activity when he caused Invoices No. 0550347 dated September 17, 2001, No. 055616 dated September 26, 2001 and No. 060706 dated November 19, 2001 be sent to Plaintiff and thereafter used facilities in interstate commerce in cashing Plaintiff's checks in payment of the same invoices to manage and carry-on an unlawful activity. *See*, Exhibit " 6 ".

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(5)(A), violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

6.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) In October, 2001, Mr. Elalouf with intent to promote, manage, or carry-on an unlawful activity used facilities of interstate commerce, specifically the United States Mail, to issue Plaintiff Invoice No. 058185 dated October 25, 2001 and thereafter he used interstate commerce facilities to negotiate the check issued in payment of that invoice to further promote, manage or carry-on an unlawful activity. *See*, Exhibit " 6 ".

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(6)(A), violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering act.

7.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) Before April 15, 2002, Mr. Elalouf, with intent to promote, manage or carry-on an unlawful activity used the United States Mail, a facility of interstate commerce, to send to as many as 2,000 specialty yarn retailers like Plaintiff a Price List and thereafter he used facilities of interstate commerce, specifically the US Mail, to promote, manage and carry-on an unlawful activity to send Plaintiff Invoice Nos. 186593 dated July 6, 2004 and 190113 dated July 29, 2004. *See*, Exhibit " 6 ".

(B.) The conduct as alleged in the foregoing paragraph, ¶ 113(g)(7)(A), constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a

racketeering activity.

8.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) On multiple dates between September 17, 2001 through July 29, 2004, with intent to promote, manage and carry-on an unlawful activity, Mr. Elalouf used facilities of interstate commerce, specifically a commercial interstate carrier, to ship Plaintiff mis-labeled yarn products and thereafter to manage and carry-on that unlawful activity, he used the United States Mail, another facility of interstate commerce, to send Plaintiff invoices for those same shipments. *See*, Exhibit " 6 ".

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(8)(A), violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

9.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) On multiple dates beginning September 17, 2001 through July 29, 2004, with intent to promote, manage and carry-on an unlawful activity, Mr. Elalouf used the United States Mail, a facility of interstate commerce, to issue Plaintiff invoices for mis-labeled Cashmerino products and thereafter to manage and carry-on that unlawful activity, he negotiated Plaintiff's checks in payment of those invoices through accounts held at HSBC Bank USA also a facility of interstate commerce. *See*, Exhibit " 6 "; *see also*, ¶ 17.

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(9)(A), violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, a specified racketeering act.

10.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) With intent to manage or carry-on an unlawful activity, on July 7, 2006 Mr. Elalouf used the telephone system, a facility of interstate commerce, to receive faxed fiber analyses of the Debbie Bliss Cashmerino Aran and thereafter, to manage and carry-on an unlawful activity used a facility of interstate commerce, specifically the United States Mail to send a three page letter and copies of those same fiber analyses to yarn retailers. *See*, Exhibit " 14 ".

(B.) The conduct alleged in ¶ 113(g)(10)(A) violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

11.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) On July 20, 2006 Mr. Elalouf, with intent to promote, manage or carry-on an unlawful activity caused use of a facility of interstate commerce, the US Mail, to send a three page letter and four fiber analyses arguing the Cashmerino product has always, since 2001, contained cashmere and thereafter, to manage and carry-on an unlawful activity used the telephone system, also a facility of interstate commerce to publish the same letter to consumers via the ***Knitter's Review*** Forum. *See*, Exhibit " 14 ".

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(11)(A), constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

12.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) In September, 2006, Mr. Elalouf, with intent to promote, manage and carry-on an unlawful activity, used facilities of interstate commerce,

specifically the telephone system, to receive from Mrs. Bliss a draft of a letter defending the claimed presence of cashmere in Cashmerino Aran and thereafter, to promote, manage and carry-on an unlawful activity, Mr. Elalouf used the US Mail to issue Mrs. Bliss' letter to specialty retailers of handknitting yarns. *See*, Exhibit " 16 ".

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(12)(A), constitutes a violation of 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is, by 18 U.S.C. § 1961, specified as a racketeering activity.

13.) **Use of Interstate Facilities in Aid of Racketeering Activity**

(A.) In April, 2007, Mr. Elalouf, with intent to promote, manage and carry-on an unlawful activity, used facilities of interstate commerce, specifically the US Mail, to send retail yarn shops a Price List representing the fiber content of the product Elsebeth Lavold Silky Wool to be 65% wool and 45% silk and thereafter, to manage and carry-on that unlawful activity, he caused to be used the US Mail to issue a letter dated May 30, 2008 admitting the Silky Wool product, as distributed since April, 2007, is mislabeled.

(B.) The conduct alleged in the foregoing paragraph, ¶ 113(g)(13)(A), violates 18 U.S.C. § 1952.

(C.) A violation of 18 U.S.C. §1952 is a specified racketeering act.

114. The numerous racketeering activities particularized in ¶ 113, all of which occurred after Congress' enactment of the RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT, constitute a pattern of racketeering activity beginning in at least 2000 and certainly by June, 2001and persisting through May, 2008 – which pattern is continuous and open and portends future acts of racketeering by Mr. Elalouf.

115. The relatedness of the racketeering activities particularized in ¶ 113 is apparent by:

a.) the distinguishing feature, that, in multiple circumstances of daily business, Mr. Elalouf chooses illicit conduct rather than comport himself within the confines of legal behavior;

b.) such furtive and flagitious activities manifests a kingpin's flagrant flouting of generally accepted norms of good faith and fair dealing;

c.) the obstreperous acts were purposeful – to enrich Mr. Elalouf at the actual or likely expense of others;

d.) the particularized acts demonstrate Mr. Elalouf's goal to assert and exploit exclusive personal control over both foreign sellers and domestic commercial buyers in transactions involving handknitting yarns;

e.) such acts not personally performed by Mr. Elalouf were nonetheless committed pursuant to his direction as the key person within a racketeering enterprise and in furtherance of the enterprise's affairs; and

f.) the repeated commission of § 1961 violations in furtherance of an enterprise constitutes to persons of ordinary intelligence a pattern of racketeering.

116. The activities particularized in ¶ 113 illustrate Mr. Elalouf's regular way of conducting the affairs of Knitting Fever, Inc. is, indeed, by continuously engaging in racketeering acts; KFI's business, the importation and wholesale distribution of handknitting products, involves business activities ordinarily distinct from racketeering acts.

117. The pattern of continuous racketeering activity particularized in ¶ 113 indicates Mr. Elalouf conducts, operates or manages KFI as a racketeering enterprise in violation of 18 U.S.C. § 1962(c).

118. Plaintiff believes and therefore avers that KFI's business affects interstate and foreign commerce.

119. Plaintiff's business has been injured *by reason of* Mr. Elalouf's violation of § 1962(c) as alleged in ¶¶ 110 through 118; more specifically, Plaintiff's injury includes:

a.) being supplied multiple mis-labeled Cashmerino products;

b.) being supplied products which are not susceptible of honest resale;

b.) being supplied a product at a wholesale price grossly inflated from its actual value when

compared to market rates for yarn products spun of 57% wool and 43% acrylic;

c.) by reference to ¶ 106, Plaintiff incorporates herein the specific forms of damage listed in ¶ 106 as if the same were fully set forth below ;

d.) such other damages as may be adduced at trial.

120. The harms resulting to Plaintiff by reason of Defendant conducting or participating in the conduct of KFI as a racketeering enterprise entitle Plaintiff, pursuant to 18 U.S.C. § 1964(c), to recover the full measure of statutory damages: threefold enhancement of damages, litigation costs and attorney's fees.

WHEREFORE, Plaintiff demands judgment and the award of damages against Defendant Sion Elalouf for having managed or operated Knitting Fever, Inc. as a racketeering enterprise which has injured Plaintiff's business and such other remedies as the Court may deem appropriate and just including but not limited to prohibiting the Defendant from future participation in the importation, promotion, wholesale distribution and sale of handknitting yarns.

COUNT FIVE :

Conspiracy to Cause Injury to Business and Property Pursuant to RACKETEER INFLUENCED AND CORRUPT ORGANIZATION ACT

(The Knit With vs. all Defendants except Knitting Fever, Inc.)

121. Plaintiff incorporates herein ¶¶ 1 through 3, and 5 through 82 as if the same were fully set forth at length below.

122. The RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT, at 18 U.S.C.§ 1962(d), renders any conspiracy to violate the remaining provisions of § 1962 unlawful.

123. At § 1964(c), RICO provides a cause of action for injury to business or property resulting from a a person having, *inter alia*, conducted an enterprise affecting interstate commerce through a pattern of racketeering activity in violation of 18 U.S.C. § 1962(c).

124. Plaintiff believes and avers the allegations made at ¶¶ 109 through 120 establish:

a.) Knitting Fever, Inc. is an enterprise the activities of which affect interstate commerce;

b.) Mr. Elalouf conducts KFI as a racketeering enterprise in violation of 18U.S.C. § 1962(c),

c.). Plaintiff's business has been injured by the activities of that racketeering enterprise.

The Conspiracy to Cover-Up the Cashmerino Caper

125. Beginning May 26, 2006 and on a date more specifically known to Defendants but certainly by Saturday June 10, when the cashmere caper alleged in ¶ 36 began to unravel and the true Cashmerino fiber content began to become known in the US yarn trade, Sion Elalouf and Designer Yarns agreed:

a.) upon an elaborate although unsophisticated cover-up scheme, as alleged in ¶ 60;

b.) to maintain the Cashmerinos were *always spun* of the requisite quantity of cashmere – despite the decision made prior to June 9, 2001, as alleged in ¶ 36, to label the 0% version of the Cashmerino product as spun of 12% cashmere;

c.) for the purpose and goal to enable the Defendants to insist that 'all along' since the 2001 introduction of the Cashmerinos, the yarns at issue have been spun of the requisite content of cashmere – as Mr. Elalouf has since steadfastly insisted.

126. Designer Yarns, Ltd., between May 26, 2006 and certainly by June 20, 2006 and continuing for months thereafter, in reckless disregard of the truth, conspired with Mr. Elalouf and participated in the scheme described in ¶ 60. *See*, ¶¶ 61 - 66.

127. Filatura Pettinata V.V.G.,on or before June 20, 2006, in reckless disregard of the truth, knowingly joined the conspiracy as alleged in ¶ 60 to facilitate the cover-up of the Elalouf-Designer decision to palm off the 0% cashmere version for the Cashmerino spun of 12% cashmere, as alleged in ¶ 36, by:

a.) prior to but certainly by June 20, 2006, providing Designer Yarns three small wraps of yarn for fiber analysis subsequently performed by Julie Smith;

b.) shipping more than two weeks later and prior to July 7, 2006, sample balls of Cashmerino Aran which Designer Yarns presented for expert fiber analysis performed by Mary Lunn;

c.) more than five weeks after Miss Smith made known her requirement that she randomly select finished yarns for definitive fiber analysis purposes, shipping to Designer Yarns quantities of finished yarn spun with cashmere for Miss Smith's sampling on July 27;

d.) on or about July 7 and certainly by July 11, providing Mr. Elalouf :

(A.) a report of fiber analysis dated January 09, 2006 performed by Primo Brachi for an entity known as Marcopolo, SRL in Genoa, Italy on yarn composed of 55% cashmere and 45% wool represented to be a fiber analysis of Cashmerino Aran, which report certainly is not an analysis of Cashmerino Aran (purportedly spun of 55% wool, 33% microfiber and 12% cashmere) – knowing Mr. Elalouf would present the Brachi report to other interested parties for their reliance as to the cashmere content of the Cashmerino Aran product, *see*, Exhibit " 11" at pg. 8;

(B.) an undated report of fiber analysis, titled Rapporto di Prova No. 050583 patently performed by Laboratorio Accreditato No. 0331 on intermediate spun fiber (not fully and finally manufactured as yarn) composed of 18.6 micron wool and 15.5 micron cashmere – representing the fiber analysis to be, and knowing Mr. Elalouf would in turn represent to others for their reliance, an analysis of the fiber content of the Cashmerinos when, as stated by Mr. Elalouf, the Cashmerino yarns are spun with Iranian cashmere of a more inferior quality of 18-19 microns, *id.*, at pg. 9;

e.) on August 23, 2006, providing a second time the undated Rapporto di Prova No. 050583 represented as having been issued by Laboratorio Accreditato No. 0331 – when Pettinata V.V.G. knew, or should have known Laboratorio Accreditato No. 0331 identifies G.R. Biochenilab SaS si Albano Rosa & C. which was first accredited as lab No. 0331 on May 15, 2001 before the manufacture of the Cashmerino products and which lab repudiates the Rapporto di Prova No. 050583 as its work product. *Compare*, Exhibit " 11" at pg. 6 with Exhibit " 12 ".

128. Certainly by July 20, 2006, defendant Jeffrey J. Denecke, Jr., in reckless disregard of the truth, agreed to join the conspiracy alleged in ¶ 60 by:

a.) on July 20, 2006, causing to be placed in the US Mail correspondence of Sion Elalouf and attached reports of four fiber analyses crafted to squelch questioning of the fiber

content of the Debbie Bliss Cashmerinos; *see*, Exhibit " 14 ";

b.) also on July 20, 2006 using interstate wires to transmit the same correspondence to retail yarn shops and to publish the same at ***Knitter's Review***, *see*, *id.*;

c.) preparing a form letter dated September 7, 2006 and thereafter transmitted to retail yarn shops representing, *inter alia*, " it is not possible for the spinning mill to forget to put the cashmere in the blend', "it is impossible to forget to include a specific fiber" and "the Debbie Bliss Cashmerino is everything it is meant to be. It is the same product our customers have enjoyed for the past five or six years." *See*, Exhibit " 21 ";

d.) on October 19, 2006, using interstate wires to publish at ***Knitter's Review*** a general letter – ostensibly refuting the necessity of Plaintiff's consumer recall and claiming the recall to be a publicity stunt exacting revenge against KFI and its products. *See*, Exhibit " 18 " .

129. On or before September 26, 2006, Mrs. Bliss, in reckless disregard of the truth, agreed to join the conspiracy alleged in ¶ 60 by preparing a letter:

a.) stating her satisfaction that testing performed on the Cashmerino products since June 20, 2006 "confirms the presence of cashmere in the yarn" – while Mrs. Bliss knew or should have known that reports of fiber analysis on yarns produced after May 26, 2006 hardly support the presence of cashmere in yarns produced prior to the dyelot (batch) actually analyzed, *see*, Exhibit " 16 ";

b.) offering her sadness and distress that her own integrity in meeting her responsibility to "maintain the very highest standards and ensure the quality of the products" branded with her name would be questioned – while Mrs. Bliss knew or should have known her acts since 1999 to maintain standards and assure the quality were insufficient or irrelevant to specifying the fiber content and the labeling of those same yarn products. *Id*.

130. Beginning in July, 2006 and extending for months thereafter, at dates and times more particularly known to Defendant alone, Jay Opperman agreed to join the scheme alleged in ¶¶ 36 and 60 by :

a.) as a director of Designer Yarns, authorizing or acquiescing in the issuance of the fiber

analyses identified in ¶¶ 65-66 – which actions Mr. Opperman knew or should have known were contrary to the UK TRADE REGULATION ACT of 1968,

b.) as a KFI sales representative, causing to be distributed, for the recipient's reliance, copies of the reports identified in ¶¶ 65-66 to multiple individual retail yarn shops, including shops located in Rochester and Valley Stream, NY;

c.) representing to yarn shops located in Rochester and Valley Stream, NY that Plaintiff's recall of the Cashmerino products was wholly unsubstantiated as indicated by the absence of any lawsuit filed against KFI.

131. Certainly through November, 2005, Diane Elalouf, as the sole person working at KFI (other than her husband Sion) with access to the manufacturer's stated fiber content of the Cashmerino yarns subject to the scheme alleged in ¶¶ 36 and 60, participated in and facilitated the success enjoyed by that scheme in keeping secret and preventing regular KFI employees from detecting the Cashmerino products at issue were spun of a 0% [zero percentage] of cashmere as disclosed to KFI by the manufacturer or seller of such yarns.

132. Plaintiff believes and avers the corporate defendants Designer Yarns, Ltd. and Filatura Pettinata V.V.G. and the individual defendants Diane Elalouf, Debbie Bliss, Jay Opperman and Jeffrey J. Denecke, Jr. conspired with Mr. Elalouf in the scheme alleged in ¶ 36 and the attempted cover-up, as alleged in ¶ 60 of the absence of cashmere in the Cashmerino yarns.

133. Plaintiff believes and avers the corporate defendants Designer Yarns, Ltd. and Filatura Pettinata V.V.G. and the individual defendants Diane Elalouf, Debbie Bliss, Jay Opperman and Jeffrey J. Denecke, Jr. participated in the attempt to cover-up, as alleged in ¶ 60, of the absence of cashmere in the Cashmerino yarns.

134. Plaintiff believes and avers the corporate defendants Designer Yarns, Ltd. and Filatura Pettinata V.V.G. and the individual defendants Diane Elalouf, Debbie Bliss, Jay Opperman and Jeffrey J. Denecke, Jr. benefitted from the conspiracy alleged in ¶ 36 and its continuation as alleged in ¶ 60.

135. By reference to ¶ 106 which is incorporated herein as if fully set forth and at length below,

Plaintiff has been harmed in its business or property by reason of the participation or facilitation of Defendants Designer Yarns, Ltd. and Filatura Pettinata V.V.G. and the individual defendants Diane Elalouf, Debbie Bliss, Jay Opperman and Jeffrey J. Denecke, Jr. in a conspiracy with Mr. Elalouf to conduct Knitting Fever, Inc. as a racketeering enterprise and whereby Mr. Elalouf effected the scheme described in ¶ 36 and its cover-up as alleged in ¶ 60.

WHEREFORE, Plaintiff demands judgment against and the award of damages jointly and severally against corporate Defendants Designer Yarns, Ltd. and Filatura Pettinata V.V.G. and the individual Defendants Diane Elalouf, Debbie Bliss, Jay Opperman and Jeffrey J. Denecke, Jr. pursuant to 18 U.S.C. § 1964, including recovery, in threefold, of the damages sustained and costs of suit including attorney's fees resulting from these Defendants having conspired with Defendant Sion Elalouf and having participated in or facilitated Mr. Elalouf in his operation or management of Knitting Fever, Inc. as a racketeering enterprise much to Plaintiff's detriment and further prays the Court, in its discretion, decree such other remedies as may be deemed appropriate and just including but not limited to prohibiting the Defendants jointly and severally from future participation in the importation, promotion, wholesale distribution and sale of handknitting yarns.

COUNT SIX :

Perfidious Trade Practices (Deceit) Under the Common Law of Unfair Competition

(The Knit With vs. Knitting Fever, Inc. and Sion and Diane Elalouf)

136. Plaintiff incorporates herein ¶¶ 1 through 4, 7, 8, 12 through 82 as if the same were set forth fully and at length below.

137. The wholesale sale of mislabeled products, purchased by a commercial buyer for resale to consumers, is the type of perfidious dealing which the law of deceit, a form of action for unfair competition, is intended to correct.

138. As a matter of law, the sale of mis-labeled wool products is a deceptive and unfair trade practice. *See*, *United States v. Woody Fashions, Inc.*, 190 F. Supp. 709 (S.D. NY, 1961).

139. Mislabeling handknitting wool products or yarn, intended for resale to consumers is a deceptive and unfair trade practice as established by Congress and so declared by the WOOL PRODUCTS LABELING

ACT of 1939, *codified at* 15 U.S.C. § 68a.

140. Moreover, the TRADEMARK ACT, at § 45, defines the false advertising of goods, actionable pursuant to 15 U.S.C. § 43(a)(1)(B), to be a deceptive practice and a form of unfair competition.

141. By reference to ¶ 106 which is incorporated herein as if fully set forth and at length below, the Defendants' deceitful acts have resulted in harms to and the injury of Plaintiff's business for which the common law action of perfidious dealing provides a remedy.

142. Defendants introduction into the commerce of the United States of at least three, if not more, falsely advertised and mis-labeled wool products as prohibited by the trade regulation laws of the United States is an especially insidious form of perfidious dealing which demonstrates such wanton, reckless or willful disregard of the rights of others, including Plaintiff, as to entitle Plaintiff to the award of punitive damages.

WHEREFORE, Plaintiff demands judgment against Defendants Sion and Diane Elalouf, jointly and severally and the award of compensatory and punitive damages for Defendants having engaged in perfidious dealing much to the detriment of Plaintiff and resulting in injury to Plaintiff's commercial interests.

COUNT SEVEN :

Motion to Pierce the Corporate Veil of the Elalouf Controlled Entities
(The Knit With vs. Knitting Fever, Inc. and Sion and Diane Elalouf)

143. Plaintiff incorporates herein ¶¶ 1-4,¶¶ 7, 8, and ¶¶ 12-142 as if the same were set forth fully and at length below.

144. Piercing the veil between a corporation and its underlying shareholder(s) is an equitable tool appropriately utilized to prevent fraud, illegality or injustice, or when recognition of the corporate entity would defeat public policy or shield a bad actor from liability.

145. Sion and Diane Elalouf are the sole or controlling shareholders of a number of corporate entities, including but not limited, to:

a.) Knitting Fever, Inc.;

b.) K.F.I. International;

c.) KFI, Inc.;

d.) Euro Yarns, Inc.;

e.) SE Properties, LLC;

f.) Lease Property Corp.

146. Upon information and or belief, the various corporations identified in ¶ 145 and possibly other corporate entities, are close corporations by which Sion Elalouf publicly conducts business by means of both legitimate and illegitimate practices including but not limited to racketeering, perfidious dealing and the explicitly falsely advertising goods sold in interstate commerce.

147. Upon information and or belief, the various corporations identified in ¶ 145 and possibly other corporate entities, were formed for the apparent, if not express, purpose of sequestering profits illicitly gained by Knitting Fever, Inc. for its sole or controlling shareholders Sion and Diane Elalouf through both legitimate and illegitimate practices including but not limited to racketeering, perfidious dealing and the explicitly false advertising of goods sold in interstate commerce.

148. Upon information and or belief, the various corporations identified in ¶ 145 and possibly other corporate entities, hold title to considerable assets realized from profits illicitly gained by Knitting Fever, Inc. having engaged in racketeering, perfidious dealing and the explicitly false advertising of goods sold in interstate commerce.

149. Upon information and or belief, the various corporations identified in ¶ 145 and possibly other corporate entities, are wholly owned by Sion Elalouf alone or Sion and Diane Elalouf together or are under his domination and control and are but mere alter egos of the same Sion Elalouf and are consequently believed to be sham corporations.

150. Upon information and belief, the various corporations identified in ¶ 145 and possibly other corporate entities, exist to insulate profits gained by Sion Elalouf should his perfidious dealing, deceptive trade practices, racketeering acts and his explicitly false advertising of goods sold in interstate commerce became publicly known and acted upon.

WHEREFORE, Plaintiff requests this honorable court to pierce the corporate veil separating Knitting Fever,

Inc., K.F.I. International, Euro Yarns, Inc., SE Properties, LLC and Lease Property Corp., and possibly other corporate entities, from its sole or controlling shareholder Sion Elalouf, and/or the same be held jointly and severally liable for all damages suffered by Plaintiff and which may be awarded in a judgment in Plaintiff's favor.

Jury Demand

151. Plaintiff respectfully demands a jury trial on all issues triable to a jury.

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