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**FILED DISTRICT COURT**  
Third Judicial District  
**MAR 31 2005**  
SALT LAKE COUNTY  
By \_\_\_\_\_  
Deputy Clerk

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IN THE THIRD JUDICIAL DISTRICT COURT  
SALT LAKE COUNTY, STATE OF UTAH

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THE STATE OF UTAH,	:	
	:	<b>COMPLAINT FOR</b>
Plaintiff,	:	<b>INJUNCTIVE RELIEF</b>
	:	
vs.	:	Civil No. 050905940
	:	
CASCADE YARNS, INC.	:	Filed: 3/31/05
	:	
Defendant.	:	JUDGE: <u>Medley</u>

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The State of Utah, acting through the Attorney General, brings this civil antitrust action for equitable relief against Cascade Yarns, Inc. ("Defendant"). The State seeks to prevent and enjoin Defendant from continuing to violate the antitrust laws by conspiring with two of its Salt Lake City distributors, Wool Cabin and the Black Sheep Wool Company, to prevent the discounting of yarn prices in retail sales and to terminate another Salt Lake City distributor, Sherri's Lace Place.

As a result of this conduct, competition for the sale of Cascade yarn in the Salt Lake City area has been reduced and prices have been kept artificially high.

Plaintiff complains and alleges as follows:

### **I. JURISDICTION AND VENUE**

1. This action is filed by the State of Utah under the Utah Antitrust Act, §76-10-918, Utah Code Ann. to prevent and restrain violations of the Act by Defendant.

2. The unlawful acts and practices alleged in this Complaint occurred in Salt Lake County and elsewhere. Venue is proper in this district under §76-10-924 Utah Code Ann. as Defendant Cascade conducts business in this county, selling yarn to multiple retail stores in the Salt Lake City area. The Court has jurisdiction over this action and over the parties pursuant to §§76-10-916 and 76-10-918, Utah Code Ann.

### **II. DEFENDANT**

3. Cascade Yarn, Inc. is a Washington corporation with its principal place of business in Tukwila, Washington. It is in the business of selling yarn and accessories used for knitting and crocheting.

### **III. BACKGROUND**

4. Cascade manufactures and imports yarn which is sold to consumers through independent retail stores. In the Salt Lake City area, Cascade yarns have been sold by the Wool Cabin, Black Sheep Wool Company, and Sherri's Lace Place.

5. Sherri's has been a seller of Cascade yarn for five years. The Black Sheep has

been retail a dealer for four and a half years and the Wool Cabin has been a dealer for a longer period of time.

6. Traditional yarn retailers, such as Black Sheep and Wool Cabin sell yarn at 100% markup from the wholesale price. Seasonal sales and closeouts may result in discounts of 10-45%. Students taking classes at the retailer may be offered a discount of 10%.

7. In June, 2004, the owner of Wool Cabin visited Sherri's Lace Place and discovered that Sherri's carried Cascade yarn. The Wool Cabin owner found it was being sold with, what the Wool Cabin owner believed were, discount yarns. The owner of the Wool Cabin contacted Cascade to complain. Cascade's representative told the Wool Cabin that if the Wool Cabin were to place a sufficiently large order for Cascade yarn, Cascade would terminate Sherri's as a retail outlet. Wool Cabin did not, at that time, place a sufficiently large order to cause the termination of Sherri's.

8. Sometime in the Summer of 2004 Alison Barlow of the Wool Cabin contacted the president of Black Sheep, Vonnie Wildfoerster, complaining that Sherri's was selling Cascade yarn in close proximity to the Wool Cabin. At the time of this call, Wool Cabin and Black Sheep Wool Company were horizontal competitors for the sale of yarn and accessories.

9. In September 2004, Sherri's placed an advertisement in the newspaper offering a 20% discount on all purchases at Sherri's, including yarn.

10. Wool Cabin's Barlow sent a copy of Sherri's advertisement to the sales department at Cascade. She then called the Jean Dunbabin, owner of Cascade, to complain that

Sherri's was pricing yarn at less than Wool Cabin and also was distributing coupons for additional discounts off the retail price.

11. On September 16, 2004, Black Sheep's Wildfoerster complained to Cascade's sales representative for Utah, Clifton Langin, about Sherri's sales practices. Wildfoerster told Langin she would cancel an order she had placed for Cascade yarn unless Cascade quit supplying yarn to Sherri's.

12. The next day, Langin went to Sherri's retail store and told Sherri's that Cascade no longer would supply the store with yarn. Langin explained that the termination was the result of competitors complaining about the low retail prices being charged by Sherri's. He explained further that the complaining competitors purchase significantly more yarn than Sherri's.

13. The following week, Cascade's sales office called Wildfoerster to report that Cascade would quit supplying yarn to Sherri's.

14. In October, Sherri's attempted to order a supply of yarn from Cascade and was refused.

15. When Cascade originally made Sherri's a retail outlet, it knew Sherri's was a craft store and did not focus on yarn sales. During the entire time Sherri's was a retail seller of Cascade yarn, Cascade knew the variety of Cascade yarn colors being sold by Sherri's, the volume of yarn stocked and sold, and the location of Sherri's retail store in relation to Black Sheep and the Wool Cabin.

16. Cascade has never notified its retail outlets in Salt Lake that discounting was

prohibited, coupons were not permitted, or what retail price retail stores were expected to charge for the yarn.

#### **IV. VIOLATION ALLEGED**

(Conspiracy in Restraint of Trade in Violation of §76-10-914(1))

17. Sherri's Lace Place, Black Sheep, and the Wool Cabin all were authorized retailers of Cascade yarn. They were competitors of each other for the sale of yarn to retail customers.

18. Cascade agreed with Black Sheep and Wool Cabin to terminate Sherri's as a retail outlet for Cascade and to cease supplying Sherri's with Cascade yarn, based on coordinated pressure from retailers that were horizontal competitors to Sherri's.

19. Pursuant to those agreements, Cascade and the co-conspirators agreed to prevent Sherri's from competing with Black Sheep and Wool Cabin for the sale of Cascade brand yarn and also to prevent any sales of yarn at a price less than a 100% markup over the wholesale price.

20. These agreements between Cascade and the co-conspirators had the following anticompetitive effects:

- a. The number of retail stores carrying Cascade yarn in the Salt Lake City area was reduced;
- b. A low-price seller of Cascade yarn was eliminated in this market, resulting in higher retail prices for consumers and enabling Wool Cabin and Black

Sheep to continue charging higher retail prices for yarn;

- c. Cascade terminated a retail dealer for conduct that was not prohibited for its dealers (selling yarn at a discount and operating at a location near competing stores) based on complaints by horizontal competitors of that dealer;
- d. Black Sheep and the Wool Cabin, despite being horizontal competitors in the retail sale of yarn, discussed and agreed between them on strategies for eliminating Sherri's as a horizontal competitor;
- e. Competition between Black Sheep and the Wool Cabin has been restrained; and
- f. Pricing and sales information that would enable consumers to make informed price comparisons among the Cascade yarn dealers in the Salt Lake City area has been suppressed.

21. These agreements to restrain trade are a per se violation of the Utah Antitrust Act §76-10-914(1), Utah Code Ann.

#### **V. REQUESTED RELIEF**

Plaintiff requests:

1. That all agreements between or among Cascade, Black Sheep, and Wool Cabin to a) terminate Sherri's Lace Place as a distributor and b) create a boycott against Sherri's and any attempts between them and actions by any of them to reduce competition through the elimination

of Sherri's as a seller of yarn be adjudged and decreed to be per se unlawful and in violation of §76-10-914(1), Utah Code Ann.

2. That Defendant be permanently enjoined from any agreements, contracts, or conspiracies in restraint of trade or commerce. In particular, that Defendant be permanently enjoined from, in any manner, directly or indirectly, continuing, maintaining, or renewing these agreements, or from engaging in any other combination, conspiracy, agreement, understanding, plan, program, or arrangement having the same effect as the alleged violations, including:

- a. Any agreements or understandings with any retail dealers of yarn in Utah regarding termination of any other retail dealer in Utah;
- b. Declining to sell any products to any existing retail dealer as a result of any understanding or agreement with competing retail dealers;
- c. Any agreements or understandings with any retail dealers of yarn in Utah regarding the retail price to be charged by the dealer;
- d. Making any decisions regarding termination of existing retail dealers in Utah when the decisions are a result of pressure from, or agreements with, competitors of the dealer being terminated, rather than the unilateral decisions of Cascade.
- e. Participating in any meetings, telephone calls, or other discussions with retail dealers of Cascade yarn relating to matters which are the subject of competition between the retail dealers. Prohibited conduct includes any discussions of territories, prices to be offered, what products will be carried, and whether the

dealers are permitted to advertise, offer discounts, and use coupons to solicit customers;

3. That Plaintiff recover fines in amounts the Court deems proper, not to exceed \$500,000 from Defendant;
4. That Plaintiff recover the costs of this action; and
5. That Plaintiff have such other and further relief as the case requires and the Court deems proper.

DATED This 31<sup>st</sup> day of March, 2005.

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By:   
R. Wayne Klein

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THE STATE OF UTAH