

THE GREEN RUSH

THE BUSINESS OF CANNABIS

Brought to you by:



Amy Oppedisano
Co-Founder
Terra Tech Corp.



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blüm



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The fast-growing cannabis industry has been heating up. The landscape of managing such businesses has rapidly evolved as well- with laws, regulatory protocols, best practices, consumer and business needs and industry trends seemingly changing by the day.

To take a closer look at how the cannabis industry is shaping up in 2019, we asked some of the subject's top experts in the region to share their thoughts with us. Across the next several pages, you'll find the inside story and relevant insights on topics within the rapidly evolving sector.

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Keeping Cannabis Clean Blüm's Efforts to Weed out the Bad Seeds

My name is Amy and I sell weed for a living. I never thought the highlight of my resume would be "Legal Drug Dealer" but, here I am. Ten years ago I made a career shift from successful independent interior designer to co-founder of the first publicly traded cannabis company in the United States, Blüm.

If you bumped into me and my blonde ponytail at a charity event, I would be the last person you'd think would use marijuana, let alone be the leader of one of Orange County's top retailers and one its first female founders. When I first entered the medical marijuana industry, I jumped headfirst into learning as much as I could about cannabis.

My team and I are constantly trying to innovate the "new normal" of our business as it changes, having just launched Blüm Delivery, offering free delivery within 20 miles of our Santa Ana location. As we have navigated through the State and County's regulations so that we can remain a safe, viable and trustworthy company providing value to our shareholders, we've across some pretty dirty secrets.

Legalized cannabis brings forth a positive cultural shift – one I believe in so wholeheartedly, that I walked away from a good career, risking everything to propel the movement forward. Legal cannabis produces increased tax revenues, reduces incarceration rates, creates countless new jobs, while providing a quality product in a safe environment. When recreational weed became legal, State legislators implemented stringent laws to protect the consumer and I applaud them for the required testing parameters. Unfortunately, what didn't make it into the plan was shutting down the black market. Legal cannabis has provided a tremendous opportunity for investors, entrepreneurs and consumers, but that black market is still thriving; unregulated cannabis is everywhere and posing serious public health implications, not to mention that being a part of a shady business can lead to fines and jail time.

Whether you're a new consumer, interested in investing, or a longtime cannabis aficionado, you probably go online to find a shop near you. Sites that specialize in listing dispensaries are not regulated the same way that licensed cannabis businesses are. And why would they turn away large amounts of cash to propel their business? The operators of these websites don't seem to be concerned about the health and well-being of people or the industry, as long as their profits are healthy.

Legal shops are left to do their own work to educate the consumer. While cannabis is transitioning into a fun luxury retail item, Blüm's history is deeply rooted in the medical aspect, where people with serious conditions, such as cancer and HIV/AIDS have long found relief in cannabis products without the side effects of pharmaceuticals. Introducing unrelated contaminants from black market weed into the lungs and digestive system is risky for everyone, but most especially for the elderly, sick and immune compromised.

Thankfully, every legal cannabis product in California sold by licensed retailers, like Blüm Delivery, is required to be batch-tested to ensure consumer safety, as



You can trust your legal cannabis more than your food

Photo credit: David Jakle

well as transparency on potency and dosing. I recently toured Cannasafe, an accredited cannabis testing lab in Los Angeles, to get a full understanding of the regulations. Every cannabis product must be checked for microbial impurities, including e.Coli, Salmonella and Aspergillus. Turns out the Devil's Lettuce can be just as affected by bacterial contaminants as her cousin Romaine! Vaporizing hardware is often manufactured overseas and are the biggest offenders of containing heavy metal contaminants, like Mercury, Arsenic, Lead, and Cadmium. Our labs also ensure our compliant products are checked for residues of 66 agricultural pesticides and fungicides as well as residual solvents such as Butane, Propane, and Methane. These can be found in unregulated products, and it's safe to say you don't want to be inhaling or ingesting any of these things.

What stuck with me most from my day at Cannasafe was when they told me that if our fruits and vegetables were held to the same testing standards as cannabis, we would hardly have any produce on the shelves. That was the inspiration for my favorite mantra, "You can trust your legal cannabis more than your food." There is one word in that sentence that carries more weight than my delivery drivers: LEGAL. When in doubt, you can always check your cannabis provider's license numbers on the California Bureau of Cannabis Control's website. All licensed cannabis shops are required to post their license numbers in plain view. And always remember, if it costs you your health, it's too expensive!

More information on why you should ALWAYS buy legal, compliant cannabis can be found at

<https://www.letsblum.com/blum-freely/why-buy-legal> or email ca-info@letsblum.com.

For more information, visit www.letsblum.com. Blüm broke ground this year on a 45,000-square-foot flagship store in Santa Ana, with additional locations in the Bay Area and Nevada.

About Amy Oppedisano

Co-founder of Terra Tech Corp., the first publicly traded cannabis company in the U.S., Amy Oppedisano serves as marketing manager of its subsidiary, Blüm. She's been on the ground floor of the legal cannabis revolution, focusing on education, brand development, retail identity and establishing a strong corporate ethos. She served on the Board of Directors of Terra Tech Corp from 2012 to 2017 and is one of the first female founders of a publicly traded cannabis company. Amy's focus is on promoting an ethically transparent product, responsible cannabis use, and a respectful representation of the cannabis consumer. In 2018, Amy began focusing on encouraging social responsibility and giving back to the community, having organized activations that supported a number of philanthropic endeavors in the communities where Blüm stores are located. Amy is also a fundraiser and volunteer for Mission Green, a nonprofit organization dedicated to providing

legal aid for those incarcerated for non-violent cannabis convictions. Prior to joining the cannabis industry, Amy made her career in interior design and construction management. She's flipped over \$8 million in residential real estate, having made a name for herself for breathing life into homes that were otherwise unsellable.



Photo credit: David Jakle

Oppedisano

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The Cannabis Business in Orange County – Challenges and Solutions

By Jeffrey M. Verdon, Managing Partner, Jeffrey M. Verdon Law Group, LLP



Jeffrey M. Verdon
ATTORNEY AT LAW

The legal use of recreational cannabis in California commenced in Q4 2018. There was quite a bit of hoopla before and right after the law went into effect, but not much news about the industry these days. How much do we really know about the state of this industry today particularly since it has permeated so much of the Orange County business landscape?

Our firm decided to host a Cannabis Forum and cultivated a strong list of those who work in this space at the highest levels. There was great interest in participating at the event. We had to cap this initial meeting at 22 but plan to have a larger venue for our next one. The attendees included executives, investors, industry leaders as well as several accountants, attorneys, bankers and money lenders. We discussed the business implications impacting legal cannabis.

Our newly elected Orange County District Attorney attended to listen and learn from attendees about the state of the industry so their office could better serve the public. Its primary direction is shutting down the Black-Market dealers, growers and sellers. Not only does this rogue element exist and interfere in legal commerce, but questions of safety of the consumers loom large in illegal marijuana trafficking.

Recreational cannabis sales officially began in California during the last two months of 2018. The number of

granted licenses jumped from 4,085 as of October 31, 2018 to 10,940 licenses on December 31st.*

Marijuana, while legal in many states, remains a Schedule 1 drug preventing federally insured and state-chartered banks from accepting deposits and engaging in banking transactions for businesses touching the plant. It's hard to imagine an industry of this size has been challenged finding banking solutions. In April of this year, the California Senate finally approved legislation to create state-chartered cannabis banks to help the industry get access to banking services. This legislation is now under review in the State Assembly and with the Governor's office.

Cannabis is a \$13 billion growth market with only a portion of that currently being taxed. Internal Revenue Code Section 280E prevents the cannabis business owner from deducting their business-related costs and expenses causing a substantial competitive disadvantage over those who continue to sell and distribute the products illegally. This has caused surprisingly razor thin profits for legitimate owner operators.

Succession planning, cross border buy outs and liability insurance are also frustrating owners and investors in cannabis. And some businesses desire to expand but raising capital has its share of obstacles. Some of the capital related business operations, such as M&A activity for the industry, has all but moved to Canada where the laws are more friendly.

As with any growing industry, there are product liability issues and other possible legal liability risks from an overly litigious public. Leaders in the industry have become increasingly aware of the importance of protecting their personal and business legacies and assets from possible attacks. Most litigation settles fairly quickly when the chances of collectability dwindle. Asset protection is becoming an important concern for those in the industry.

More updates will follow as we continue to offer these Cannabis Forums to the industry. If you have a business interest in this area and wish to be added to our list for a future Forum, please contact Agnes@jmvlaw.com.

* According to the publication, the National Cannabis Business Association



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Brand and Expand

How White Labeling Can Serve Cannabis Entrepreneurs

By Joshua Schneiderman and Helen Goldstein

Certain cannabis brands are on their way to becoming household names, despite marijuana's current status as a federally illegal drug. Along with this popularity, cannabis entrepreneurs who own these successful brands are looking to launch in new markets, scale distribution, or, having turned a profit, exit the day-to-day management of a marijuana business.

The word "licensing" in the cannabis sector usually refers to the license that an entity must secure from a state regulator. However, a different type of licensing is gaining significance in this emerging market.

A "white label" licensing agreement is an agreement whereby the owner of a brand allows another entity to distribute products bearing its brand name, usually in return for a portion of the proceeds, otherwise known as a royalty.

Imagine the owner of a (fictitious) popular brand in Oregon, "Marijuana123," is eager to sell her brand in California. She could heavily invest to secure her own state licenses and build out associated operations. Alternatively, she could white label her product to distributors who are already legally operating in California. The California distributor would produce the product, either inhouse or through a contract with a California licensed manufacturer. The California distributor would then distribute products carrying the "Marijuana123" label. Both parties would reap benefits of the arrangement: The California distributor from brand recognition and higher sales and the Oregon brand owner from royalty profits.

For general commercial goods, white label licensing can speed up the time to market, allow a brand owner to leverage existing expertise, and avoid the need to reinvent the wheel in a new market. There is, however, another advantage for cannabis brand owners. With marijuana legalization comes heavy regulation. Those regulations exist on a state level and local municipal level and there is little uniformity. Through white labeling, a non-California brand owner may be able to avoid the bulk of these complex regulations by teaming up with a California entity who has already done the hard work to secure the appropriate

state licenses and city permits.

In California, despite early concern that the wording of certain regulations would prevent white labeling, the Bureau of Cannabis Control (BCC) released guidance stating:

"[Entities with a BCC license] may enter into intellectual property licensing agreements with unlicensed entities. However, the intellectual property holder cannot exert control over the licensee's commercial cannabis operations. If the intellectual property holder is exerting control over the licensee's commercial cannabis operation, then the intellectual property holder must be disclosed as an owner on the license."

This guidance is not a free pass; in California, white labeling agreements may trigger additional reporting. If a cannabis brand owner gets a royalty linked to the profits of the brand, the brand owner will need to be disclosed as a financial interest holder. Also, as stated in the guidance, a brand owner cannot exert "control" over the operation or else the brand owner will need to be disclosed as an owner of the entity that has the BCC license. Currently, there is no case law or examples demonstrating what levels or types of "control" would trigger the requirement to disclose as an owner. Lastly, while we have focused on the regulatory implications of white labeling, licensing agreements, whether for Cannabis or any other product, will be subject to intellectual property law considerations.

Despite this general uncertainty, inherent in every emerging market, white labeling may still be a good alternative for a cannabis entrepreneur who wants to expand her brand while keeping her operations simple and her legal exposure at a minimum. To achieve these objectives, advice from experienced counsel, both from an intellectual property perspective and from a cannabis law perspective, is essential.



Schneiderman

Josh Schneiderman is a partner in Snell & Wilmer's Los Angeles office who advises clients in the cannabis industry. He is familiar with the unique needs of industry clients in light of the present conflict between federal and state laws and local regulations in the space, and he and others in the firm help clients navigate the challenges that arise in that context whether their needs relate to licensing and registration, general corporate matters (including financings, joint ventures and mergers

and acquisitions), branding, tax, banking and finance, real estate and employment. Schneiderman is also a member of the firm's corporate and securities group. For information on Schneiderman's practice, visit https://www.swlaw.com/people/joshua_schneiderman.



Goldstein

Helen Goldstein is an attorney in Snell & Wilmer's Phoenix office who focuses her practice in corporate and securities law. Her experience includes helping clients form LLC and corporations and manage ongoing corporate governance. In addition, Helen has assisted with executive compensation plans, retirement plan administration and other employee benefit matters. Goldstein also works with clients in the cannabis industry. For

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There's More to Cannabis Cultivation than Just Lighting

RAMTEK Mission Critical Systems, headquartered in Tustin, has been the premier provider of mission critical systems for over 20 years with offices in California, Arizona, and Nevada.

If you were to walk into a cannabis grow facility, a quick glance at the ceiling would reveal a jungle of suspended extension cords running from fixture to fixture. More than likely these same cords are also being used to carry electricity to ceiling fans or dehumidifiers. This power distribution design is not just unsightly, but it does not provide for operational flexibility. Furthermore, conventional electrical systems rely heavily on panelboards and wiring devices for distribution. To deploy additional circuits, secondary panel boards often need to be positioned in the middle of the grow floor, wasting valuable grow space to power equipment.

Many industry professionals have yet to tap into the innovation happening upstream of the light fixture itself. There are power distribution solutions on the market today that are driving down overall costs and introducing flexibility into the cultivation environment.

Overhead power systems called "busways" are designed to promote reliable and flexible distribution of power across grow environments, eliminating the need for panelboards and unsightly extension cords. Similar to track lighting systems, busways can be used to form a grid in which electricity is distributed to both lights - such as HPS, ballasts, and UV- and also to other electrical loads.

That means grow lights, fans, dehumidifiers, system controllers and security cameras can be powered from the same system - all in one single housing unit.

This is possible due to an open access channel in the busway, which allows equipment to be added and relocated at any location along the system. This level of flexibility is ideal for businesses that are looking to redesign their grow layout; or would simply like to have the option to expand in the future.



These benefits are not restricted to overhead access only. Surface-mounted systems called "raceways" are intended to supply power to extraction labs that need the ability to expand or relocate their access to power with ease. Raceways also allow operators to arrange their electrical outlets based on where they need their equipment to most efficiently run their operation.

More and more grow businesses are looking to reduce the massive amount of construction and design costs by adapting existing buildings and warehouses into grow facilities. Busways and raceways can be quickly installed, which allows the conversion of these facilities to happen with minimal labor costs while also providing flexibility for the future.

The dedicated expertise of the Ramtek PGS group in precision power distribution for indoor agriculture translates to extensive experience in a wide variety of demanding environments. Our engineering support provides a clear path for optimum grow operations by working alongside engineers, contractors, and cultivators.

For more information or to schedule a facility review, please contact Ramtek's office at (949) 266-1400 or email StarlinePGS@ram-tek.com. To see all of our product offerings, visit www.ram-tek.com.



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The growth of your operation should never be stagnated by lack of power in the places you need it. With Starline Plug-In Raceway, your access to power can be easily expanded or relocated to meet the changing demands of your lab. Our pre-assembled modules simply snap into place along the backplane of the raceway wherever a connection to power is required. And not only does Plug-In Raceway install quickly, there is also no need to call in an electrician to expand power, which will lower future maintenance costs as your business grows.

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Maximizing Crop Yield in your Grow Room with Precision Environmental Control

STULZ has spent over 50 years designing and manufacturing HVAC equipment for customers that require tight control of both temperature and humidity, 24/7/365. This experience made our presence in the cannabis grow industry a success over the last five years and we have deployed units in over 50 legal grow facilities in North America.

Ramtek Mission Critical Systems, headquartered in Tustin, has been the premier provider of mission critical systems for over 20 years in California, Arizona, and Nevada.

The dedicated expertise of Ramtek in precision climate control for clean rooms, data centers, laboratories, and indoor agriculture translates to extensive experience in a wide variety of demanding environments. Our in-house design and engineering support provides a clear path for optimum grow operations by working alongside engineers, contractors, and cultivators.

We, Ramtek and STULZ, offer a wide variety of solutions, in both single-circuit and dual-circuit precision indoor systems, ranging in capacity from 5 to 30 tons.

There are two main features, specific to STULZ grow room units, designed to rapidly reduce the moisture content within the grow facility. The first is the design of the coil. Our units utilize a much deeper coil than most designs. This allows the air to remain in the vicinity of the cold copper tubes and aluminum fins for a longer period of time, which more effectively removes moisture from the air stream.

The second feature is a complex algorithm within our E² Mi-



STULZ Air Conditioners in Denver, CO (photo courtesy of Medicine Man Technologies)

croprocessor that controls the temperature of the coil. Enhanced dehumidification control maintains the coil at a temperature just above freezing, while calculating the lowest airflow rate as well. This algorithm has been developed to strip moisture quickly from the space.

STULZ grow units have CO₂ monitoring and alarm systems built into the E² Microprocessor. The controller is constantly fed data from CO₂ monitors located within the grow space.

The grow room units also utilize a powerful UV-C light designed to kill tiny pests, such as thrips or spider mites, when they are drawn into the HVAC system.

Our biggest concern during the grow stage is too much moisture in the air. After harvesting the plants the concern becomes both too much and too little moisture in the air. STULZ offers ultrasonic humidifiers in capacities from 4 – 40

lbs/hr. These units provide precise control of the moisture content of the air, offer additional cooling, and use very little power. They are used in clone rooms and curing rooms, as well as in the dispensary environment, where precise humidity control is required for stable product storage conditions.

The demands of the grow space are dynamic. An engineered solution from STULZ is the best way to address the level of control that successful grow operations require.

For more information or to schedule a facility review, please contact your local STULZ expert, Ramtek at socalmech@ramtek.com or via phone at (949) 266-1400. To see our full product offering, visit <https://info.stulz-usa.com/grow-room>.



STULZ: Precision Temperature & Humidity Control Solutions



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 Advanced precision environmental control units maintain tight control of temperature and humidity over the plant life cycle
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- Prevent the formation of white mold and mildew:**
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- Pest control:**
 UV-C lighting eliminates micro pests



<https://info.stulz-usa.com/grow-room>



Countering the Myths of Cannabis Banking

Myth 1: It is illegal for Banks to serve Cannabis-related businesses because marijuana is illegal under Federal law

The Controlled Substances Act ("CSA") makes it illegal under federal law to manufacture, distribute, or dispense marijuana. However, 10 states plus Washington D.C. have fully legalized marijuana and 33 states have legalized it for medical uses.

In 2014, the U.S. Treasury acknowledged banking relationships between financial institutions and legal cannabis-related businesses (CRBs) through its release of FinCen guidance (<https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>). The guidance stated that serving CRBs was a risk-based decision, and expressed that thorough customer due diligence is a critical aspect of making an assessment, and whether a CRB implicates the Cole Memo priorities or violates state law.

A financial institution can legally transact with a CRB if the institution establishes and maintains an effective compliance program that adheres to the FinCen guidance.

Myth 2: CRBs can qualify for traditional business banking and payment processing services if they hide their marijuana-related activity with a shell company and limit their cash deposits.

Some CRBs have access to banking through federal and state-chartered banks and credit card processing by not disclosing they are a cannabis-related business. However, banks and payment processing companies will eventually figure out they are a cannabis-related business and close the bank account and request their funds be withdrawn.

Myth 3: Transparent cannabis banking is expensive

Compared to traditional business banking, this is true. Banks that follow FinCEN guidance to serve cannabis-related businesses must invest in extensive due diligence and regulatory compliance technology and processes, and human capital which gets passed on to their banking clients.

Banks and credit unions which advertise a low fee for servicing cannabis-related businesses a) may not be fully following FinCEN guidance or b) charge excessive transactional fees in addition to a monthly fee or c) may limit the banking services available to their CRB customers.

Compared to 5% - 8% average credit card transaction fee for high-risk merchants, Dama Clients feel a 2% fee on deposits into a Dama-managed FDIC-insured business bank account is reasonable to keep their cash safe, access convenient online banking and receive support from a dedicated Relationship Manager. Dama Clients can also invest their excess funds in a secondary 1% interest-earning account.

Myth 4: Operating my cannabis business with only cash is lower cost than banking or accepting electronic payments

Often overlooked is the cumulative cost of operating a cash-intensive business, which has been estimated to be 5 - 15% of receipts. Not only are these businesses targets for criminal activity, roughly 90% of financial loss in the marijuana industry can be chalked up to employee theft.

Dama Financial's armored cash courier partners carry adequate insurance that covers cash picked until it is deposited into their account. Dama's bank partners provide up to \$250,000 FDIC-insurance on each account. Keeping low amounts of cash on hand reduces vulnerabilities to burglaries and violence against their employees, customers and their community.

For more information about Cannabis Banking and Payment Processing, visit DamaFinancial.com or call (877) 401-3262.



Eric Kaufman, Chief Revenue Officer

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