



HEMP OIL HUSTLERS

A Project CBD Special Report on
Medical Marijuana Inc., HempMeds & Kannaway

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Forward by Project CBD

A half year ago, Project CBD assigned a writer to investigate and report on Medical Marijuana Inc., a penny stock umbrella company that markets “hemp oil” products infused with cannabidiol (CBD), a medicinal component of the cannabis plant. Originally we had hoped to shed light on the complex financial machinations of Medical Marijuana Inc., a subject that had been addressed by a few stock market analysts but not by journalists in general interest publications.

Project CBD was poised to publish Aaron Miguel Cantú’s research when we heard complaints from several sources that people were getting sick, in some cases “violently ill,” when they ingested “Real Scientific Hemp Oil,” Medical Marijuana Inc.’s flagship product. We decided to delay the release of our report until we had a chance to look into whether there was any truth to these allegations.

Our investigation proceeded in an unanticipated direction, involving analytical lab tests, hemp oil production tours, and a crash course in scientific data regarding toxic solvents, heavy metals, and other contaminants. We have presented our findings in this report.

These findings should not be construed as justification to attack the medical marijuana community or impose ever-more capricious restrictions on patients and providers. Nor do we wish to cast aspersions on companies that are working with industrial hemp to create CBD-rich products. We believe that industrial hemp is not an optimal source of CBD, but it can be a viable source of CBD if certain hemp cultivars are grown organically in good soil and safe extraction and refinement methods are employed.

2014 marked the first year that industrial hemp was grown legally (albeit for research purposes) in the United States in a long time. There’s no doubt that the surge of national interest in CBD has been a key factor in catalyzing the rebirth of industrial hemp in the United States. Project CBD maintains that federal law should be changed to facilitate CBD production from the most prolific natural source of cannabidiol available—CBD-rich cannabis with little THC. This would entail legalizing the whole plant, not just a single compound or a single strain.

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Somewhere in San Diego on a Friday night in February 2014, six fidgeting men in identical white t-shirts sat clustered together on adjacent sofas, facing a computer webcam.¹ ASPIRE HIGHER, their shirts behooved viewers.

“Can you feel it?” asked the group’s bespectacled leader, Christopher Hussey. A solemn hush fell over the room. “It’s the calm before the storm.”

“The Kanna-storm,” added one of the other men, prompting light chuckles from his compatriots.

The group was on Google Hangout with men and women from across the country, all of whom had come together that night to celebrate their progress in building what they called “the Kannaway Nation.” Like a band of partisans, these men discussed how many people they’d roped into their ranks in the last few months, marveling at their success and confidently forecasting even cheerier prospects for the future.

Yet despite abundant use of words like “revolution,” “nation,” and “movement,” these men were not calculating how to build the ranks of a nascent political vanguard. They were trying to recruit more people into a multi-level marketing company called Kannaway, which relies on a loose network of independent distributors to sell products.² Kannaway has little infrastructure beyond a website, PDF promotional materials, and various “hemp oil” products infused with cannabidiol (CBD), a versatile, non-psychoactive cannabis component with exciting medical prospects.

Around the same time that the Kannaway soldiers were “aspiring higher” in their Google Hangout, a young mother named Brittany Warrior desperately clutched her 21-month old daughter’s tiny body, watching as her baby Jaqie writhed in pain.³ For days Jaqie’s diarrhea and vomiting would not go away, despite a steady regimen of electrolyte-charged victuals and Pedialyte. At her wits end and scared for her daughter’s life, Warrior finally checked Jaqie into the emergency room of a Denver hospital.

The culprit for her daughter’s illness, according to Warrior, was something called Real Scientific Hemp Oil (RSHO) Gold, a product sold by a company called HempMedsPX.⁴ Warrior’s daughter is epileptic, and according to Warrior, representatives of HempMedsPX reached out to her online and gave her free samples of RSHO Gold, a CBD-infused product, to try on her daughter. CBD-rich oil, a remedy of last resort for children with catastrophic seizure disorders, has proven effective in some cases of treatment-resistant epilepsy, and HempMedsPx (since renamed HempMeds) sought to profit from CBD’s growing reputation as a miracle compound.

What, if anything, do six guys hustling hemp oil products on Google Hangout have to do with a sick child in Denver?

Kannaway enlists independent vendors to peddle products supplied by HempMeds.⁵ Warrior alleges that Real Scientific Hemp Oil, the flagship product of HempMeds, sickened her girl. Warrior isn't the only person making such claims. Several people, adults as well as children, say they became ill after ingesting Real Scientific Hemp Oil. Others maintain they've gotten positive results with RSHO. And some assert that the hemp oil derivative didn't do much for them one way or another.

The ties between Kannaway and HempMeds run deep. Both companies are controlled by the same circle of businessmen, and both are subsidiaries of a shadowy umbrella corporation known as Medical Marijuana Inc., which has numerous subsidiaries and affiliates.

The Kannaway Kraze

Launched in January 2014, Kannaway looped in an army of newly-minted CBD zealots with little prior experience in the field of cannabis therapeutics.⁶ A YouTube search of "Kannaway" yields hundreds of videos of independent distributors frantically pitching their cause to the world. Distributors also pummel Craigslist with invitations to potential recruits, and then barrage any responders with rapid-fire hyperbolic emails. "Time To Join. The Movement," rhapsodized one Kannaway representative in an email message.⁷ Another distributor implores recipients to secure a spot within "an industry that is expected to be larger than the steel industry within 5 years."⁸

Kannaway claims that its products are legal in all 50 states because oil extracted from industrial hemp contains little to no tetrahydrocannabinol (THC, aka The High Causer).⁹ However, it is against the law for the company to make therapeutic claims about its products, or advertise them as medicine, and Kannaway treads this line haphazardly. Wary of attracting scrutiny from the FDA or DEA, the company informs distributors that they cannot incorporate Kannaway's name in the distributor's personal branding.¹⁰

Here's how it works: When you sign up to be an "independent business owner" for Kannaway, you must purchase a product from HempMeds, which can include a "hemp-based, cannabidiol-rich" salve, a vape pen, or CBD-rich food chew squares.¹¹

Kannaway appears to be a pyramid scheme. The company is structured in such a way that its distributors are more incentivized to recruit other distributors than to actually sell anything. An official company information packet says that once you sign up as a Kannaway distributor, you make a commission from anybody you can convince to become a distributor, and your commissions compound as your recruits also recruit others. The more recruits, the higher a distributor ascends the eleven ranks of commission earners until they reach the coveted status of a "Royal Diamond" distributor. All distributors also have to pay a \$15 monthly fee or risk losing commissions from previous months, according to a Kannaway Compensation Plan obtained by Project CBD.¹²

The Federal Trade Commission warns that if a multilevel marketing company "sells more products to distributors than they do to the public," then it is likely a pyramid scheme, a business arrangement that is inherently unsustainable because it is built on an ever-increasing number of distributors.¹³

Pyramid schemes inevitably go bust, but while they're around, those at their helm stand to make a lot of money. Sitting at the apex of Kannaway is Stuart Titus, the owner of General Hemp,

Kannaway's parent company.¹⁴ Titus previously helped raise capital to launch Medical Marijuana Inc.,¹⁵ and he also financed the creation of another company, CannaVest, which for over a year supplied the hemp oil used in Medical Marijuana Inc.'s CBD product line.¹⁶

To untangle this complicated network of business entities, let's start from the beginning when Medical Marijuana Inc. was whipped up into existence by two men hustling on the fringes of a different industry. The company's original purpose had less to do with healing the sick than cashing in on uniquely placed historical opportunities.

Rotten Roots

Two former marijuana smugglers, Bruce Perlowin and Don Steinberg, founded Medical Marijuana Inc. in 2009.¹⁷ The company actually started as something called the Berkshire Collection, identified by the Security Exchange Commission (SEC) as one of 59 shell companies operating under the umbrella of a fraudulent telecom enterprise called Blackout Media.¹⁸ The mastermind of Blackout Media, Sandy Winick, went to prison for the rest of his life after a court found him guilty of swindling investors out of \$140 million.¹⁹

In 2005, Perlowin and Steinberg issued a 1,000:1 "reverse split" on shares of Berkshire.²⁰ That means the number of all Berkshire shares was suddenly reduced by a ratio of 1,000, and the value of each share correspondingly increased 1,000 per cent. Those who held the most shares—Perlowin and Steinberg—were sitting pretty, while those who had fewer than 1,000 shares were trumped out of the market. A reverse split is a desperate—and rarely used—option of last resort for legitimate firms hoping to shore up the value of their stock, but it can also be a trick to con small-time investors out of their money.

After the reverse split, Berkshire became "My Newpedia," which subsequently merged with a company called Club Vivanet. Another reverse stock split—this time 20:1—took place shortly after the merger.²¹ Club Vivanet, Inc. was a multilevel marketing arrangement that sold prepaid phone cards.²² Its biggest shareholders were Steinberg, his wife, and a company owned by a woman with intimate ties to supposed nobility in the Dominion of Melchizedek, a fake island used to facilitate international banking fraud.^{23 *}

Club Vivanet, Inc. was around for less than a year before CNBC asked Perlowin, an ex-con, to appear on a documentary about his marijuana smuggling days.²⁴ It would be the shot of publicity he

** The company was called New Compendium Corporation, owned by Sadia Barrameda, who holds the majority of [New shares](#). Barrameda has a child with David Korem, former "vice president" of the Dominion of Melchizedek. She defended him in an affidavit at one of his arraignments. (See [Fantasy Island: The Strange Tale of Alleged Fraudster Pearlasia Gamboa](#) by Peter Jamison.)

and Steinberg needed to reorganize their business yet again. After a forward stock split[†] of 1:10, they renamed the company Medical Marijuana Inc.²⁵

In early 2009, Perlowin and Steinberg issued themselves millions of shares to become the CEO and President, respectively, of Medical Marijuana Inc.²⁶ Former employees say the two men began rounding up boat captains from their smuggling days and idealistic cannabis do-gooders who were taken in by Perlowin's stratospheric ambitions for the company.

Medical Marijuana Inc. churned out press releases, and Perlowin gave frothy proclamations to business publications. He told Bloomberg Newswire that he intended his company to be “the McDonald's of marijuana.”²⁷ The CEO's enthusiasm had a rousing effect on employees. At his encouragement, they sold thousands of “MJNA” shares to relatives and friends.

“When Perlowin came to me and said, ‘We have access to billions, we're going to blow up the business and legitimize it,’ I thought ‘holy cow this is what I was hoping for,’” said Rob Griffin, founder of *420 Magazine*, who was recruited to be Medical Marijuana Inc.'s chief operating officer.²⁸

For the first few months, Griffin and others roamed the state to attend seminars and expos and help get the company's name out. Advertisers and investors began flooding the MJNA phone lines, looking for ways to attach themselves to Medical Marijuana Inc.

There was just one problem: Few seemed to know what Medical Marijuana Inc. was really selling. Officially, the company said it offered “education programs” and “turnkey solutions” to government clients and the medical marijuana industry.²⁹

Initially, Medical Marijuana Inc. (listed as MJNA) was little more than a blip presence on the OTC [Over-The-Counter] stock market—the risky, unregulated arena where investors can buy ultra-cheap shares from new, lightly capitalized companies. Since “Pink Sheet” rules require minimal transparency, it was difficult for folks outside the Perlowin-Steinberg inner circle to assess the company's cash flow. After a while, some grew suspicious, especially when complaints started coming in.

“People were calling and wanted answers but I had nothing to tell them,” said Julie Black, who acted as Perlowin's financial and legal secretary.³⁰ Black had convinced several friends to buy MJNA shares. “At six months to a year the stock was supposed to grow,” she said, but it never did. She wound up losing friendships—and money—as a result.

[†] According to the [Financial Industry Regulatory Authority](#), a forward split is “the division of outstanding shares of a corporation into a larger number of shares,” while a reverse split is “the division of outstanding shares into a smaller number of shares.”

Griffin also lost faith in Medical Marijuana Inc. “[It] took me six months to figure out [that the] press releases” were the most important thing the company produced, he recounted. “I came up with half the ideas for these guys, and they’d write the press releases from my ideas.” It was all smoke and mirrors, according to Griffin, who said that MJNA lacked a coherent business plan and staff meetings went nowhere.

A year into the business, Griffin and Black had already left Medical Marijuana Inc. By that time the staff was mostly composed of former pot smugglers and boat captains with little experience navigating the bureaucracy of drug law and federalism.³¹ Nevertheless, they began hawking \$100,000 “franchise licenses” to buyers who wanted to vend federally prohibited medicinal pot under the company’s name.³² In return, the company promised to bestow its turnkey wisdom on weed start-ups.

“We have a feeding frenzy for people wanting to open up centers. We have a feeding frenzy for people who want this information and knowledge,” enthused Perlowin to *Salon* in March 2010, in his typically stirring pitch.³³ Around this time, the company also launched a proto-Kannaway multilevel marketing effort called “The Hemp Network.” As with Kannaway, The Hemp Network encouraged independent distributors to pay an initial fee to lock in an early place in a multilevel marketing scheme selling hemp products, but it appears that it never reached the distribution stage. As of October 2014, the Hemp Network’s website was still urging viewers to “pre-enroll” and it featured no purchasable products.³⁴

It’s unclear what prompted Perlowin and Steinberg to sell the majority of their MJNA shares in March 2011. Around that time, Perlowin began giving public presentations about his plans to “creat[e] 1,000 millionaire women through quantum economics.”³⁵ Nevertheless, even after they sold Medical Marijuana Inc., Steinberg still held 8.59% of the company’s shares and Perlowin 5.06%.³⁶ Perlowin never returned Project CBD’s request for a comment.

The Handoff

In 2011, Michael Llamas purchased majority ownership in Medical Marijuana Inc. through another firm he controlled, the Hemp Deposit and Distribution Corporation.³⁷ Stock market analysts would soon raise questions about Medical Marijuana Inc.’s new, young owner, who had a shoddy financial history involving complex mortgage fraud, according to federal investigators.

When 26-year-old Michael Llamas became interim president and CEO of Medical Marijuana Inc. in 2011, he was also serving as CEO of North American Companies, a holding company founded by his father.³⁸ One of North American’s subsidiaries, Colbalt One LLC, was implicated in a massive, multi-state ponzi scheme for which Llamas was indicted along with five other defendants in September 2012.³⁹

Court documents describe how Llamas approached new home and condominium builders through Colbalt LLC and offered to buy distressed homes at a 30%-50% discount from their public listing price. After purchasing the properties, he sold them at full price to a group of investors whose retirement funds were ensnared in another co-defendant’s scheme. Investors were never told that the properties were originally purchased at a steep discount. The federal plaintiff alleged that Llamas

and his co-defendants split the difference and got rich off the dirty deals. Llamas would plead not guilty to the federal charges.⁴⁰

Soon after Llamas was indicted for mortgage fraud, Medical Marijuana Inc. announced that he had resigned as interim president and CEO.⁴¹ But he continued to be a major shareholder in the company. With Llamas calling the shots from behind the scenes, Medical Marijuana Inc. would morph into a high-profile umbrella corporation with significant holdings in at least seven different subsidiaries, each at varying levels of capitalization.⁴²

By emphasizing non-psychoactive CBD in its product line, MJNA was able to stake out a position at the forefront of a rapidly evolving business terrain. Simply the name “Medical Marijuana” was enough to seduce investors who hoped to profit from the much anticipated pot.com boom. But the public support it seemed to enjoy at the outset may have had less to do with the company itself and more with the movement it symbolized.

An umbrella corporation like Medical Marijuana Inc., with a complicated network of portfolio companies, can impress outsiders the same way a frill-necked lizard wards off predators: by making itself seem bigger (and thus more credible) than it actually is. MJNA stitched together a network of subsidiaries and affiliates, which grew to include HempMedsPX, Red Dice Holdings, Dixie Botanicals, PhytoSphere Systems, Kannaway, CanChew BioTechnologies, Canpia Holdings, Ace Hydro, KannaLife Sciences, and Wellness Managed Services.

Medical Marijuana Inc. often cited these entities as sources of revenue, but some of them appear to be illusory. For example, MJNA asserted in a press release that its collection of health and wellness facilities operated by Wellness Managed Services experienced “an accumulative 3941% revenue increase”⁴³ throughout 2011, but it’s hard to figure out exactly how that happened.⁴⁴ The website for Wellness Managed Services contains distorted stock photos and typos on the “About” page, and appears not to have been updated in two years. Phone calls to Wellness Managed Services by Project CBD were routed back to Medical Marijuana Inc.’s line, which never returned our messages.[‡]

Pump and Dump?

As suspicions grew about MJNA’s machinations, frequenters of Internet investor forums began to warn of potential “pump-and-dump” financial fraud carried out by the company’s management.⁴⁵

Pump-and-dump schemes, like the one that drives the plot in *The Wolf of Wall Street*, are mass deceptions that begin when high-level representatives of weak companies buy the majority of their own shares. These shares are inherently worthless because they represent equity in a company that hardly exists—or may not even exist at all. But their value is “pumped up” by a constant stream of

‡ As of October 8, 2014, the most recent update to the Wellness Managed Service website was a press release posted on June 19, 2012.

enthusiastic press releases that embellish (or outright lie about) the current and future prospects of the firm. As excitement builds and novice traders buy more shares, their price rises, buttressed by a mirage of contrived optimism. When the company's representatives bait enough traders to drive the value up as much as possible, they sell the shares at an inflated price, "dumping" them onto ignorant investors. And when the supply of these shares rapidly increases, demand falls, causing their value to plummet. Everybody outside the company's inner circle is then left with rubbish shares they can't sell.

According to the Financial Industry Regulatory Authority, pump and dump schemes rely on scammers who puff up a questionable company via online investing message boards, emails, texts, and a plethora of press releases portending great things about its future. These are the kind of press releases that Medical Marijuana Inc. was spitting out several times a month after Llamas got involved.⁴⁶

Of course, every MJNA press release includes a "Forward-Looking Disclaimer," a legal protectant that shields the company from ramifications if "the actual results, performance, or achievements of Medical Marijuana Inc. [are] materially different" from predictions made in its press releases. Such disclaimers are typical in press releases issued by publicly traded companies.

MJNA's financials didn't seem to jive with the promises touted in the company's press releases. During the first half of 2011, for example, Medical Marijuana Inc. announced that it was going to transfer shares to Hemp Deposit and Distribution Corporation in exchange for a facility that would "generate in excess of \$40 million in revenue annually."⁴⁷ Over a year later, however, an audited financial statement for Medical Marijuana Inc. revealed that the company only had \$16 million in assets, and of that, less than \$15,000 was derived from facilities and real estate.⁴⁸

Was Medical Marijuana Inc. dissembling about the transfer in order to pump up enthusiasm for its stock?

The complex enmeshing of "shell companies"—companies that act as vehicles for business transactions without actually having any assets or operations themselves—is another hallmark of pump and dump schemes, says Seattle-based Canna Law attorney Robert McVay.

"Novice investors will see the complicated structures and holding companies that have a bunch of shell companies attached to them, and [then] people put trust in these companies because they seem large and professional," McVay told Project CBD.⁴⁹

Corporate start-ups can also bolster their legitimacy—or shroud their stock market schemes—by entering into strategic relationships with affiliate firms whose public image is mutually enhanced by the partnership. Companies reference each other in their press releases, McVay explained, "and they're able to pump each other up in terms of how they're doing. You see it a lot when a company is involved in fraudulent action."

CannaVest and PhytoSphere

Medical Marijuana Inc. went into damage control mode in September 2012 when its interim CEO Michael Llamas was indicted for mortgage fraud. A MJNA press release quickly announced that he

was stepping “down from his position in order to focus his attention on personal business matters that are entirely unrelated to MJNA.”⁵⁰

A few months later, Michael Mona Jr. left his post as Management Committee Chairman of Red Dice Holdings, a MJNA subsidiary, to launch a new company called CannaVest.⁵¹ A corporate brochure published by CannaVest states that “Mr. Mona worked as a consultant to Medical Marijuana Inc. until early 2013 when he was named President and CEO of CannaVest Corp.”⁵²

From January 2013 onward, CannaVest and Medical Marijuana Inc. not only pumped each other up in their press releases, they also formed a production and distribution line for CBD-infused “hemp oil” imports that bound the two together like the intestinal tract of conjoined twins. And they regularly exchanged shares with each other, lending an appearance of growth and productivity to outsiders.

The corporate headquarters of CannaVest is located on Rainbow Avenue in Las Vegas, Nevada, in the same Sin City suite that was also home base for a company called Roen Ventures. Co-founded by Mona and Llamas, Roen Ventures was hit with a \$17.77 million legal judgment in 2012 for facilitating fraudulent land transactions in California.⁵³

Before January 2013, CannaVest was known as Foreclosure Solutions, where Mona served as President and CEO.⁵⁴ In order for Foreclosure to transition into CannaVest, some of Mona’s associates in other industries began buying CannaVest shares. Mona also funneled a \$3 million loan through Roen Ventures to CannaVest, a maneuver that rankled Far West Industries, the creditor that had won the \$17.77 million settlement against Roen Ventures. Far West Industries said that loan “was intended to prejudice creditors like Far West by concealing and wasting assets that would otherwise be available to satisfy the [\$17.7 million] judgment.”⁵⁵

But no matter. It was a new year, and Mona and his partner Llamas, the disgraced majority shareholder of Medical Marijuana Inc., had positioned themselves at the top of a nascent industry where investors were clamoring to get a piece of the action. Voters in Colorado and Washington had recently cast their ballots for legal recreational cannabis and the value of any stock even tenuously connected to ganja went soaring.

In a glowing press release dated March 1, 2013, Medical Marijuana Inc. announced that it was selling its subsidiary PhytoSphere (which processed the hemp paste from abroad) to CannaVest for \$35 million in “CANV” shares.⁵⁶ It sounded impressive on paper, but CannaVest scarcely had an operation to justify any meaningful valuation of its shares.⁵⁷ SEC filings show that CannaVest only had a total of \$431 in assets at the time the transaction was announced.⁵⁸

“The terms of the transaction were the result of arms-length negotiations between the parties, unaffected by any prior relationships,” explained Michael J. Mona, III, VP of Operations for CannaVest (the CEO’s son).⁵⁹

Throughout 2013, Medical Marijuana Inc. reported that it was handing off incremental parts of its portfolio company PhytoSphere to CannaVest for piecemeal infusions of \$35 million in CannaVest

shares.⁶⁰ Each new pronouncement gave a momentary jolt to the price of Medical Marijuana Inc. shares, their value inflated by overblown press releases and a cannabis-crazy zeitgeist.

“Medical Marijuana Inc. has never sold a single share of CannaVest, so it’s done no good for the company,” said Alan Brochstein, founder of *420 Investor*, in a phone conversation with Project CBD. Brochstein is cautious about labeling the MJNA-CANV collaboration a “fraud,” but he acknowledges that the whole thing is suspect.

“They put an arbitrary price of \$35 million, and said it was all going to be paid in [CannaVest] stock and not cash. But [CannaVest] was a shell company that had no operation, so the whole thing *looks* fraudulent,” he said. “How did they come to \$35 million?”⁶¹

Brochstein isn’t the only investment analyst who has challenged the financials of weed start-ups like Medical Marijuana Inc. “Most of these over-the-counter weed penny stocks are just vehicles for their insiders to sell shares to retail investors caught up in the hype of the legalized marijuana revolution,” wrote Cody Willard in the *Wall Street Journal* Market Watch blog.⁶²

Insiders at CannaVest and Medical Marijuana Inc. held much of each other’s shares, and some would later sell them to credulous traders at a significant markup.

For example, Stuart Titus, the owner of Kannaway’s parent company, General Hemp, and a key financier for Medical Marijuana Inc., sold over \$4 million worth of CANV shares in early 2014 as their value reached an astronomical \$166.17 each.⁶³ The rise and fall of CANV’s price trajectory looks like the Burj Khalifa skyscraper shooting up from the streets of Dubai.⁶⁴

One reason why CANV shares spiked so high is that Medical Marijuana Inc. sold PhytoSphere “assets” to CannaVest for \$35 million (almost exclusively) in CANV shares, a transaction that bolstered both companies’ profiles at little actual cost. CannaVest also issued 900,000 of its shares to PhytoSphere as part of that deal.⁶⁵ The whole transaction was somewhat like the episode of *Beavis and Butthead* in which the two teenagers sell all their chocolate bars to each other for the same pair of dollars.

The mega-valuation of CANV shares may have temporarily boosted MJNA’s valuation because of “a weird feedback loop” created by Medical Marijuana Inc., writes a representative of Rolling O Research on the investor website *Seeking Alpha*. “[Medical Marijuana Inc.] mentions . . . CannaVest in their PR. Some readers then think that CannaVest sold much more product than it likely did, which increases the price of CANV shares. That increases the value of MJNA’s CannaVest holdings on the balance sheet, providing support to a higher [MJNA] stock price.”⁶⁶

MJNA stock peaked at about 50 cents, but since then its price has hovered below 20 cents per share.⁶⁷ By October 2014, CANV shares had dropped precipitously to \$3.00, a change facilitated by a barrage of bad press. An article in *Forbes*, “Inside the Pot Stock Bubble” (March 26, 2014), disclosed that CEO Mona was attempting to sell 10 million CANV shares for \$1.50 each. These restricted shares couldn’t be traded publicly for another six months. When queried about this deal, Michael Mona III of CannaVest told Project CBD that this offering had been terminated on April 23.⁶⁸

On May 9, purchasers of CANV stock filed a class action lawsuit against CannaVest. The lawsuit followed a disclosure by CannaVest to the SEC that it had “misreported” its financial position throughout 2013.⁶⁹

“We believe the claims are without merit and intend to vigorously defend the company and management,” CannaVest VP Michael Mona, III, stated in an email to Project CBD.⁷⁰

The Hemp Oil Pipeline

PhytoSphere, the centerpiece of the questionable MJNA-CannaVest deal, processed imported hemp paste for Medical Marijuana Inc.’s CBD-infused products. Imported from where? That’s a secret. Canada? Germany? Eastern Europe? Yunnan, China? All of the above? Rumors abound.

Medical Marijuana Inc. reportedly opened an office in Bucharest in 2012, but the company hasn’t disclosed whether Romania is the source (or one of the source countries) of the industrial hemp that it uses to make its paste. Because the industrial hemp paste is relatively high in CBD and low in psychoactive THC, it’s legal to buy, sell, and possess products made from this paste in all fifty U.S. states, according to Medical Marijuana Inc.

Denver-based Dixie Botanicals, a Medical Marijuana Inc. affiliate, was the first company to mass market CBD as a “wellness” product on a nationwide scale. For a year or so, Dixie was MJNA’s showpiece—a real business ostensibly manufacturing and selling real products. Medical Marijuana Inc. supplied the CBD-infused hemp oil for Dixie’s tinctures, capsules, and a topical “pain relief salve.”

Dixie also sells THC-dominant offerings to Colorado residents. But quality control has not been Dixie’s strong suit. Independent lab analyses found that the amount of cannabidiol contained in Dixie’s “X Dew Drops” CBD tincture was significantly lower than what the label indicated, as *O’Shanghnessy’s* disclosed in Spring 2013.⁷¹ More than a year later, the *Denver Post* and other news media would report mislabeling problems that overstated the THC content in Dixie’s edibles.⁷²

Medical Marijuana Inc. and Dixie consummated their relationship in the spring of 2012 with the creation of a co-owned company called Red Dice Holdings. Medical Marijuana Inc. agreed to give Dixie hundreds of thousands of MJNA shares in exchange for intellectual claim and licensing rights to Dixie’s brand and its cannabinoid-infused tinctures, drops, candies, soda, etc. Dixie owner and managing director Vincent (“Tripp”) Keber became president and CEO of Red Dice Holdings and a board member of Medical Marijuana Inc. “I make companies to sell companies,” Keber boasted to *The Daily Beast*. “Make me an offer, and I’ll ride off into the sunlight with saddlebags of gold.”⁷³

Less than a year after forming Red Dice, Medical Marijuana Inc. and Dixie had a falling out. Dixie took Medical Marijuana Inc. to court for allegedly never handing over all the MJNA shares and for breach of contract after Medical Marijuana Inc. allegedly engaged “in a pattern of behavior intended to mislead and defraud investors, affiliates, subsidiaries, and business partners.”⁷⁴ They would eventually make amends, agreeing on an amicable split,⁷⁵ but not before Tamar Wise, formerly Dixie’s chief scientist, blew the whistle on both companies. After she left Dixie, Wise posted this message on Facebook (since removed):

“I’m tired of so called CBD companies claiming that what they provide is medicine. Anyone using a CBD from hemp product please be aware of what you’re actually getting b/c it is not what you think. These formulations start with a crude and dirty hemp paste contaminated with microbial life! I have seen this and these organisms decompose the paste. The paste perhaps even contains residual solvent and other toxins as the extraction [is] made in a process that actually renders it unfit for human consumption. What these companies are doing is criminal and dangerous I cannot keep quiet any more. And since I formulated most of these products as head of Dixie science, I feel responsible for spreading the truth. I left Dixie for ethical reasons but it is not enough to just walk away. These frauds need to be exposed for what they are Let’s keep this industry pure and safe.”^{76§}

Alarmed by what she saw in Medical Marijuana Inc.’s hemp paste, Wise shared her concerns in a phone conversation with Dr. Jeffrey Raber of the Los Angeles-based Werc Shop, which tests medical marijuana products for cannabinoid content, mold, and pesticide residue. Wise suspected that Medical Marijuana Inc. was extracting its CBD paste from retted hemp—industrial hemp that had been specially treated with micro-organisms and moisture to dissolve cellular tissue, thereby expediting the removal of the slippery raw fiber, which is used for producing textiles and other goods.

Chris Boucher, director of U.S. Hemp Oil, the CannaVest subsidiary that supplies CBD-infused “hemp oil” to Medical Marijuana Inc., adamantly denies all of Wise’s claims. “She’s insane,” Boucher told Project CBD. “That’s what happens in this business. People shoot arrows at people’s back for no reason.”⁷⁷

A true believer in the plant’s economic and medicinal potential, hemp industry veteran Boucher served as lead project coordinator for an experimental hemp grow at the U.S. Department of Agriculture’s research center in California’s Imperial Valley in the early 1990s. Boucher is currently VP of business development for CannaVest, which tasked him to run U.S. Hemp Oil when it launched in June 2013. Initially, U.S. Hemp Oil was “a joint venture between MJNA and CannaVest,” Boucher told the *Marijuana Business Daily*.⁷⁸ Now CannaVest owns U.S. Hemp Oil outright.

CannaVest supplied the hemp oil that Medical Marijuana Inc. turned into something called “Real Scientific Hemp Oil,” a CBD-infused concentrate. (There are two grades of Real Scientific Hemp Oil: “Blue,” said to be around 17 percent CBD, and “Gold” at around 25 percent CBD, though these percentages may vary somewhat from batch to batch.) CannaVest also manufactured and

§ Dixie responded to Wise in a strongly worded defense of their products and manufacturing practices, claiming “Ms. Wise and members of her science team resigned after a dispute with the company” over intellectual property rights, and were motivated to make false allegations by their desire to embark on a new endeavor “that will compete directly with Dixie Botanicals.”

packaged an array of other CBD-infused hemp oil products—chewing gum, tinctures, vape pen cartridges, topical creams—that were sold through Medical Marijuana Inc.’s marketing subsidiary HempMeds.

Real Scientific Hemp Oil (RSHO) is much more expensive than hempseed oil, a widely available nutritional supplement. An 8-ounce bottle of Nutiva Hempseed Oil retails on Amazon for \$9.02, while a 2-ounce bottle of MJNA’s Cibdex Hemp Oil tincture—sold by HempMeds—fetches \$160. Real Scientific Hemp Oil with 2,200 mgs of CBD (assuming the label is accurate) sells online for \$549.

“We have no control over the price,” Boucher maintains. CannaVest says it sells its hemp oil wholesale to “qualified individuals” and businesses for around ten cents per milligram. “And they in turn mark it up,” according to Boucher.⁷⁹

What’s in RSHO that commands such a high retail price? HempMeds promotional literature states that RSHO is derived from “hemp seed and stalk.” But CBD is not produced or pressed from hemp seeds. Cannabidiol can only be extracted from the flower, leaves, and, to a very minor extent, the stalk of the hemp plant.

CBD-rich “hemp oil” is not the same as protein-rich hempseed oil. The obfuscation of nomenclature is problematic to Eric Steenstra, president of Vote Hemp and a founding member of the Hemp Industry Association. “Our biggest concern, from an industry standpoint, is the conflation of hemp oil with cannabidiol,” explained Steenstra. “The reality is that the best source of CBD is high resin strains of cannabis—the drug kind.”^{**}

Legal in All 50 States?

MJNA’s promotional strategy for its RSHO product line has relied heavily on social media, press release hyperbole, and a relentless email barrage from “The CBD Guy,” whose messages are often comically alarmist: *“Right now, know it or not, you are likely CBD deficient.... If you know what is good for you, you will add some. **Any amount is better than none.**”⁸⁰*

^{**} On June 26, 2014, the Hemp Industries Association (HIA) issued a press release stating its position on CBD Extracts Misbranded and Marketed as “Hemp Oil.” The press release asserted: “It is important for America farmers and processors of hemp to understand that most CBD in products mislabeled as ‘hemp oil’ is a co-product of large-scale hemp stalk and fiber processing facilities in Europe where the fiber is the primary material produced at a large scale. CBD is not a product or component of hemp seeds, and labeling to that effect is misleading and motivated by the desire to take advantage of the legal grey area under federal law. Hemp seed oil does not contain any significant quantity of CBD.” In order not to mislead consumers, the HIA maintains that “CBD products in the market should not be termed ‘Hemp Oil’ and we are working with vendors of such products to rebrand CBD extracts to remove the market confusion this causes.”

Repeated missives from The CBD Guy hyped various MJNA products, including CanChew, a chewing gum infused with cannabidiol. Several websites sell a CBD-infused chewing gum product—*not to be confused with CanChew marketed by HempMeds*—that also contains Kratom, an opiate receptor activator that is banned in several Asian countries.^{81††}

Another announcement from The CBD Guy trumpets: “Stronger CBD Vape Oils [are] on the Way!”

Apparently vaping hemp oil and whatever else was in there didn’t pack much of a therapeutic punch, but The CBD Guy promised better times ahead: “I am working with a few vape oil manufacturer (sic) seeing if I can get a special ‘batch’ of vape oil that may indeed have enough CBD per ‘puff’ to make it a practical way of adding CBD to your daily diet.”⁸²

And, of course, every email blast featured MJNA’s marketing mantra: “Legal in all 50 states.”

Not so fast, says the Food and Drug Administration. When queried in July 2013 regarding the legal status of cannabidiol, Lisa Kubaska, who works for the FDA’s Center for Drug Evaluation, told Fred Gardner of *O’Shaughnessy’s*: “CBD meets the definition of schedule I under the Controlled Substance Act. The DEA is the regulatory agency.”⁸³

Thus far, the DEA has not moved against Medical Marijuana Inc. or any of its subsidiaries. Does this mean that CBD products are legal to possess or distribute throughout the United States? Medical marijuana dispensaries are illegal under federal law, but these facilities operate openly in several states.

Although it is nontoxic, non-addictive, and non-psychoactive, cannabidiol is still illegal, according to the Drug Enforcement Administration. The DEA categorizes CBD and all other plant cannabinoids under “tetrahydrocannabinols,” which are Schedule I substances.

On July 28, 2014, a bipartisan group of Congressmen introduced a bill in the House of Representatives to exclude industrial hemp and CBD from the definition of marijuana under the Controlled Substances Act. Such a bill would not be necessary if CBD extracted from foreign-grown industrial hemp was already legal throughout the USA, as Medical Marijuana Inc. blithely asserts. Meanwhile, draconian legal restrictions make it nearly impossible for American scientists to access plant-derived CBD to conduct medical research.

†† Robert Esty, CEO of Mastica Medica, which manufactures CanChew for Medical Marijuana Inc., asserts that CanChew does not contain Kratom. “We lab test all of the hemp oil we receive from any company for CBD %, micro, metal, pesticide and solvents as required by GMP regulations,” Esty noted in an email to Project CBD. “So far, all of the hemp oil has passed testing (including all of the Cannavest oil) before being used in production.”

Those who insist that federal policy allows the importation and distribution of hemp-derived CBD rest their case on a 2004 federal appeals court ruling, which protected the domestic sale of hemp-containing foods, *not hemp-derived drug compounds*. Although U.S. farmers were still not permitted to grow it, industrial hemp remained legal for import and sale in the United States as long as (1) the hemp product is derived from the seed or stalk of the plant, *not from the leaves and flowers*; and (2) the THC content measures below 0.3 percent.⁸⁴

But cannabidiol was never mentioned in the appeals court ruling. Nor was CBD mentioned in an October 9, 2001, DEA interpretive memo pertaining to retted fiber hemp products and essential fatty acid-rich (not CBD-rich) hempseed oil. Neither of these rulings explicitly addressed the legality of CBD as a drug compound extracted from industrial hemp.

It may be a moot point, anyway, given that several lab reports showed THC levels higher than 0.3% in samples of Medical Marijuana Inc.'s Real Scientific Hemp Oil. A tube of RSHO analyzed by CannLabs in Denver weighed in at 1.01 percent THC.⁸⁵ The Werc Shop in Los Angeles found THC levels at 1.14 percent when it tested RSHO.⁸⁶ PhytaLab in Seattle got a 2.56 percent THC reading for RSHO Gold.⁸⁷ HempMeds promotional literature even included a certificate of analysis of hemp oil paste with THC measuring .79 percent by dry weight, more than double the apparent legal limit (see Appendix A).

Many other lab tests of RSHO samples, it should be noted, found less than 0.3 percent THC in accordance with DEA policy.

Overall, these inconsistent results undermine Medical Marijuana Inc.'s tortured argument that its products are legal in all 50 states. In terms of federal law, anything above 0.3 percent THC, or anything extracted from the leaves and flowers of hemp, would not be legal in any state. It shouldn't be this way—the laws banning hemp are absurd—but it is.

Patented CBD

Troubles were mounting for Medical Marijuana Inc., which reported a paltry \$45,000 in total revenue from its CBD-rich hemp oil products for the first quarter of 2014.⁸⁸ Poor sales, the pending class action suit against its hemp oil supplier CannaVest, and the erratic THC levels found in its hemp oil products were among a series of problems that called into question the company's long term prospects.

In the spring of 2014, during the countdown to the much-ballyhooed Kannaway “buzz launch,” a controversy erupted at another MJNA portfolio company, KannaLife Sciences. Linked to Medical Marijuana Inc. in numerous ways, KannaLife featured a familiar cast of characters on its board of directors, including Stuart Titus, owner of Kannaway's parent company, General Hemp. KannaLife is also wed to Kannaway in a five year sales and distribution contract that allows KannaLife to certify products sold through the Kannaway Network.⁸⁹

KannaLife Sciences, a recipient of \$1.5 million in financing from Medical Marijuana Inc. and CannaVest, was purportedly engaged in the research and development of cannabinoid-based medicinal agents.⁹⁰ But KannaLife's executive director Dean Petkanas did not have a background in

cannabis science. Instead, he got his professional start in the early 1990's as the chief financial officer of Stratton Oakmont, the corrupt penny-stock company featured in *The Wolf of Wall Street*.⁹¹ Petkanas left Stratton Oakmont before the FBI and SEC popped the firm for pump-and-dump fraud.⁹²

Petkanas subsequently was hired by Xechem International, a publicly traded company, to commercialize a “phyto-pharmaceutical” compound for treating Sickle Cell Disease. But Xechem, which had acquired rights to an indigenous African plant compound, declared bankruptcy and folded after its Nigerian subsidiary was targeted by multiple lawsuits from creditors, consultants, former officers, and third parties.⁹³

Petkanas was also executive director of a publicly traded energy drink company called Full Motion Beverage (FMBV). That company has not filed with the SEC since 2009, and had zero sources of revenue flow in 2012, yet the website Penny Stock Research discovered that third party companies were paid to heavily promote FMBV shares that were virtually worthless.⁹⁴

It's somewhat of a head-scratcher how Petkanas was able to convince the U.S. government to award KannaLife Sciences a patenting license to commercialize CBD. In 2003, the U.S Department of Health and Human Services had secured a patent titled “Cannabinoids as Antioxidants and Neuroprotectants” based on preclinical research involving CBD and THC. Nine years later, the National Institute of Health (NIH) “granted an exclusive license to the patent to KannaLife to develop drugs . . . for the treatment of hepatic encephalopathy [brain damage caused by a diseased liver],” Renate Myles of NIH confirmed in an email to Project CBD.⁹⁵

Myles noted that other companies and investigators could still apply for licenses for the same patent to develop a CBD-based pharmaceutical for treating neurological diseases that are not liver-related. Thus far, however, no other company has done so during the patent's eleven-year existence.^{##}

Thanks to the U.S. government, Petkanas and his Medical Marijuana Inc. cohorts had another tool to hustle their stocks and products while donning the cloak of official credence. A “Kannaway Executive Summary” lists the NIH patent among several bulleted highlights for potential salesmen and women who are seeking “a ground-floor opportunity with an explosive-growth and breakthrough nutraceutical network marketing company.” In addition to dubiously claiming that “MJNA controls the seed supply of CBD rich hemp” and “CBD-rich hemp oil products are already

^{##} In 2003, the U.S Department of Health and Human Services secured a patent titled “Cannabinoids as Antioxidants and Neuroprotectants” based on preclinical research, which revealed that cannabinoids, specifically CBD and THC, “have antioxidant properties [and] are found to have particular application as neuroprotectants, for example in limiting neurological damage following ischemic insults, such as stroke and trauma, or in the treatment of neurodegenerative diseases, such as Alzheimer's disease, Parkinson's disease and HIV dementia.”

legal in all 50 states,” the Kannaway Executive Summary hypes the “exclusive rights to NIH patent #6630507 on therapeutic use of cannabinoids.”

Myles from the NIH told Project CBD that Kannaway’s “use of the patent for marketing purposes does not fall within the scope of [the NIH’s] patent.” However, a U.S. Patent Office representative conceded that Kannaway’s use of the patent for marketing is technically not a violation of the law.⁹⁶

But KannaLife Sciences may have overstepped when it entered into a five-year sales and distribution contract with Kannaway. Partnering with what appeared to be a tawdry pyramid-scheme seemed opportunistic and in poor taste to some. It sparked a mutiny among members of KannaLife’s scientific advisory board. Two science advisors, Dr. Michelle Sexton and Jason Cranford, quit in protest.

“We had a big scientific advisory board, but we never had one advisory meeting,” said Cranford, who also served on KannaLife’s corporate board. “We never had a board of directors meeting. When KannaLife started merging with Kannaway, I demanded a board meeting to bring it to a vote, but they refused. So I resigned.”⁹⁷

Hard to Stomach

Jason Cranford, a horticulturist, CBD-rich strain breeder, and proprietor of a medical marijuana dispensary in Colorado, would become a major thorn in the side of Medical Marijuana Inc. In addition to growing cannabis for patients and giving away CBD-rich clones to needy families, Cranford ran a non-profit charity, the Flowering Hope Foundation. He gained notoriety in 2013 when he developed a strain of CBD-rich cannabis called Haleigh’s Hope, which later became the name of a bill (Haleigh’s Hope Act) that sought to legalize CBD-dominant marijuana in Georgia.⁹⁸

The KannaLife fiasco prompted Cranford to take a closer look at the machinations of Medical Marijuana Inc. Concerned about the quality of its aggressively marketed products, he put out feelers on Facebook, asking whether anyone had problems with Real Scientific Hemp Oil. The first person to respond to Cranford’s inquiry was Brittany Warrior, whose epileptic daughter Jaqie suffered severe gastro-intestinal distress and was hospitalized in Denver after she ingested RSHO.

After conferring with Cranford, Warrior contacted the FDA and filed a complaint against HempMeds. She sent the FDA the hemp oil that allegedly made her daughter sick. This prompted the FDA to open an investigation into Medical Marijuana Inc.

⁹⁸ The bill was defeated; instead Georgia Gov. Nathan Deal signed an agreement with Georgia Regents University and GW Pharmaceuticals to apply to the FDA for a statewide expanded access program that will enable pediatric neurologists to give their patients Epidiolex (a CBD-rich pharmaceutical that has been granted “orphan drug” status by the FDA) along with other epileptic medications.

Warrior also sent Cranford some of the RSHO she'd given Jaqie. He had it tested at CannLab in Denver. The results indicated a THC level higher than 0.3 percent, but that wasn't the only thing Cranford suspected was wrong with the hemp oil. After hearing serious complaints about RSHO from more than a dozen families, he decided to have a RSHO sample tested for heavy metals and other toxins.

Most cannabis testing labs do not test for heavy metals, so Cranford submitted the RSHO sample to Stewart Environmental Consultants in Fort Collins. The initial results appeared to confirm what Cranford and Warrior had suspected: The RSHO contained high levels of several heavy metals, including nickel, selenium, molybdenum, arsenic, and silver.

A few days later, Stewart Environmental Consultants issued a second report that contradicted its earlier findings: Five numbers, all pertaining to heavy metal toxins, were changed from unsafe to safe levels (see Appendix B).

Stewart maintained that its lab technician had erred in his haste to get results for Cranford. But Stewart did not comply with Project CBD's request for a copy of the corrective action report that a lab is supposed to generate for internal quality control when test results are modified. A corrective action report would explain why the RSHO sample was retested and what accounts for the discrepancies between the first results and the second set of findings.

Nor did Stewart explain why the same lab technician who supposedly botched the first test also conducted the second test when there were two other lab technicians who could have retested the RSHO sample. Several more red flags suggested lab-testing improprieties, which Project CBD noted in a detailed memo to Stewart (see Appendix B). Stewart did not respond to our questions.

Be that as it may, Medical Marijuana Inc. proceeded to post the second set of innocuous test results online along with an upbeat press release claiming that a "top laboratory" gave the company's flagship product a clean bill of health.⁹⁸

Subsequent testing by other analytical labs, including a DEA and FDA registered facility, would not give Real Scientific Hemp Oil a clean bill of health.

Brave Mykayla

In the fall of 2013, Brandon Krenzler was contacted via email by Charles Vest, vice president of HempMeds, then the marketing arm of both Medical Marijuana Inc. and CannaVest. He offered to send samples of Real Scientific Hemp Oil to Krenzler to give to his 8-year-old daughter, Brave Mykayla, who was undergoing chemotherapy for leukemia.

Krenzler was already administering cannabis oil to help his daughter. He told Vest that Brave Mykayla responded better to high-THC oil than high-CBD concentrates. But Vest persisted, even offering to travel to Oregon to meet Krenzler and his family at their home. Krenzler finally relented—what did he have to lose?

Before long, Vest and a man who identified himself as Michael Mona of CannaVest were sitting in Krenzler's living room, speaking with him and his wife about their hemp oil products. It turns out it

wasn't Michael Mona; it was Michael Llamas, former CEO of Medical Marijuana Inc., pretending to be Mona for reasons unclear.⁹⁹

Vest explained to the Krenzlers that HempMeds would loan them a certain amount of RSHO if they agreed to spread the word and sell it to their friends. There was little talk of medicine or helping sick children—the meat of the conversation was about marketing and making money, according to Krenzler.

Then Vest said something that stunned Krenzler. Vest wanted to know if the family was interested in branding RSHO “Brave Mykayla Oil.” “I wasn't comfortable with that,” Krenzler told Project CBD. “[CBD oil] wasn't the oil that worked for Mykayla, so why would they even consider asking that?”¹⁰⁰

Despite harboring some doubts, Krenzler agreed to share a few samples of RSHO with others in Oregon's medical marijuana community. Vest and “Mona” encouraged him to tell his friends that RSHO was safe for use.

Krenzler gave some RSHO to Mykayla. Almost immediately, she complained of severe stomach cramps. When he tried it himself, Krenzler's guts started cramping soon after ingestion. Other people he'd sent samples reported similar gut-wrenching reactions.

Krenzler complained to HempMeds, but Vest denied there was a problem. Interviewed by Project CBD, Krenzler recounted what he told Vest over the phone: “I said, ‘Please Charles, as a human being, stop selling this oil. Please stop.... I don't care if you give it to adults. I don't care if it's marketed as a supplement. Stop specifically giving it to children. You're going to poison them.’”¹⁰¹

Krenzler subsequently provided two samples of RSHO oil—one Gold, the other Blue—to Project CBD. Dr. Noel Palmer of PhytaTech, an analytical lab in Denver, Colorado, was enlisted to scrutinize this material. Project CBD also sent PhytaTech a RSHO Gold sample from a Crohn's patient who said that she and a friend both became “violently ill” after they ingested the oil. In addition, PhytaTech analyzed two other random samples of RSHO Blue that Project CBD submitted.

The three RSHO Blue samples tested clean. But Dr. Noel Palmer found significant levels of hexane, a highly toxic industrial solvent, in both RSHO Gold vials.¹⁰² Symptoms of hexane poisoning include nausea, vomiting, headaches, dizziness, and mental confusion. Concentrations of hexane in excess of 50 grams can be fatal.¹⁰³

Chromatographs of the RSHO Gold samples also showed a second major peak, presumably another chlorinated solvent, which PhytaTech was unable to identify due to equipment limitations (see Appendix C).

In an effort to verify PhytaTech's findings and identify the mystery peak, Project CBD contacted Flora Research Laboratories, a DEA and FDA registered facility in Grants Pass, Oregon, which agreed to examine the two RSHO Gold samples strictly because of public health and safety concerns, not for commercial purposes.

James Neal-Kababick, director of Flora Research Laboratories, confirmed the presence of significant levels of hexane and other solvent residues in the RSHO Gold sample from Krenzler (see Appendix D).¹⁰⁴ A smorgasbord of contaminants were found in this item, including variants of pentane, butane, and ethyl acetate (as in nail polish remover).

These are all “potentially dangerous toxic solvents, particularly for vulnerable children,” explained Dr. Jahan Marcu, a Project CBD science consultant.¹⁰⁵

In his lab analysis, Neal-Kababick noted that the first sample he tested ended up clogging his equipment: “Major residue left on needle and found on vented caps of used vials. . . . Ran multiple vials of water to clean system of carryover. . . . Carryover dissolved after triplicate runs of water vials.” Neal-Kababick had never encountered such a problem before: “Carryover issues not observed in historical samples of other matrices tested.”¹⁰⁶

These carryover issues may have been a factor as Neal-Kababick was unable to conduct a satisfactory analysis of the second RSHO Gold sample from the Crohn’s patient. That sample showed no peaks at all, underscoring the need for another battery of tests, which are pending.

Buying Legitimacy

On April 1, 2014, a Medical Marijuana Inc. press release announced the launch of new PR campaign aimed specifically at families with disabled children.¹⁰⁷ The “Don’t Move” campaign, as it was called, urged families not to move to states with legal medical marijuana to access CBD-rich cannabis strains, some of which are known to work wonders for children suffering from catastrophic seizure disorders. “We are launching the new 'DON'T MOVE' advertising campaign to further increase awareness of the CBD-rich hemp oil products we represent,” Vest stated in the press release. “Rather than move to another state, consumers need only to move to the nearest computer or smart phone to order online.”

In an effort to burnish its public image and increase its market opportunities, Medical Marijuana Inc. has spread lots of cash around. A “featured member” of the National Cannabis Industry Association (NCIA), it has foot the bill for some of the association’s meetings. “As the sponsor of the NCIA’s Educational Series conference during the historic ‘420 week,’ HempMeds is showing support for all cannabis businesses in this rapidly growing and changing industry,” HempMeds VP Charles Vest crowed in another press release.¹⁰⁸

The show of support for all cannabis businesses included a HempMeds web banner ad, which implored (without a hint of irony): “Invest in medical marijuana penny stocks and weed out scams.”¹⁰⁹

On Memorial Day weekend 2014, AutismOne, an organization that promotes alternative therapies for autistic children, held a conference at the Intercontinental Hotel near the O’Hare Airport in Chicago. The “exclusive gold sponsor” for this event was HempMedsPX, which occupied a spacious lounge area where well-meaning parents purchased Real Scientific Hemp Oil and other Medical Marijuana Inc. products for their ailing offspring.

Medical Marijuana Inc. has also sponsored events hosted by the American Herbal Products Association, Americans for Safe Access, and other groups allied with Project CBD.^{***} But some cannabis advocacy organizations were less receptive to MJNA's blandishments. When a Kannaway rep tried to set up a vending booth at the Patients Out of Time conference in Portland, Oregon, in May 2014, he was promptly told to leave. Apparently the Kannaway salesman had signed up for a booth under a different company name.

HempMeds also approached Project CBD about "forming a strategic alliance." An email dated June 3, 2014, from Jennifer Yarbrough, an independent account manager working with HempMeds, indicated that "we may be interested in an investment" in Project CBD.¹¹⁰ Project CBD did not respond to this overture.

"HempMeds is trying to buy legitimacy within the medical marijuana community and beyond," says Project CBD director Martin A. Lee. "But legitimacy can only be earned by offering high quality products at reasonable prices. It appears that Medical Marijuana Inc. falls short in this regard."

Lee is concerned that the activities of Medical Marijuana Inc. could discredit the entire grassroots cannabis community and the industry it has spawned—from mom-and-pop organic growers and cannabis oil artisans to well-heeled start-ups. Drug war defenders doubtless will revel in any fact or rumor suggesting that an ethically challenged cabal has been swindling stockholders and peddling poisonous, THC-laden products in all 50 states. This will be grist for the mill of diehard prohibitionists who are looking for any excuse to roll back the gains made by medical marijuana and industrial hemp advocates.

But the problem, in this case, is not cannabis or CBD or THC. The problem is greed and commercialization. "The questionable nature of Medical Marijuana Inc.'s business dealings and its overpriced products suggest that they are trying to make a fast buck by preying upon people who are desperate for miracles," says Lee.

Site Visit

In July 2014, a Project CBD delegation visited the laboratory facilities of CannaVest in San Diego, where the imported hemp paste is refined into oil. We were greeted by lab director Joshua Hartsel and CannaVest executives Chris Boucher and Michael Mona III.

Hartsel, the lead scientist at CannaVest, specializes in medicinal organic chemistry. He earned a PhD at Virginia Tech and completed a postdoctoral fellowship at the University of California. He

^{***} HempMeds provided funds for the national conference of Americans for Safe Access in April 2014. This conference included a panel discussion on CBD with critics and representatives of Medical Marijuana Inc. The American Herbal Products Association has hosted several meetings involving critics of Medical Marijuana Inc. in an effort to sort out proper nomenclature for marketing hemp products.

subsequently founded Delta-9 Technologies, an analytical testing lab that serviced California's medical marijuana industry. Hartsel's clients included CannaVest, which sent the first of several batches of its CBD-infused extract to Delta-9 Technologies for evaluation in March 2013.

A half year later, Hartsel was hired by CannaVest to establish an in-house laboratory and oversee research and development for the company. Hartsel got the job after being interviewed by CannaVest CEO Michael Mona Jr. and Michael Llamas, the former CEO of Medical Marijuana Inc.¹¹¹

Prior to September 2013, CannaVest did not have a science department, according to Hartsel.¹¹² But CannaVest, through its subsidiary PhytoSphere, had been providing CBD-infused hemp oil to Medical Marijuana Inc. for several months before Hartsel came on board.

The exact role of PhytoSphere in the hemp oil pipeline remains somewhat of an enigma. Originally a wholly owned subsidiary of Medical Marijuana Inc., PhytoSphere was supposedly sold to CannaVest in exchange for \$35 million in CANV shares. But CannaVest insiders told Project CBD that Medical Marijuana Inc. never fully dissolved its portion of PhytoSphere.¹¹³ “At one point, we had a PhytoSphere and they had a PhytoSphere,” said Michael Mona III.¹¹⁴

To allay confusion as to the status of Phytosphere—and perhaps also to distance itself from any problems that may have arisen prior to forming an in-house science team—CannaVest changed the name of Phytosphere to CannaVest Laboratories, LLC.

Project CBD was invited to tour the lab by the CannaVest management team, which sought to make a good impression by showing their “full portfolio of scientific instrumentation.” The lab was equipped with gas chromatography, liquid chromatography, and mass spectrometry machines. We saw a binder filled with chromatographs and charts indicating CBD content and other data, but we did not have a chance to examine these reports.

The CannaVest lab was also equipped with distillation tools for processing crude hemp paste and refining it into a CBD-rich oil concentrate. We saw dozens of 25-kilogram drums filled with thick, black, tarry paste that lacked the compelling aroma of cannabis. We were told that the raw CBD paste was extracted from hemp strains certified by the European Union. “It's a mix between Italian and Czech cultivars,” said Boucher. “We use super-critical CO2 technology to extract the oil.”¹¹⁵

The initial extraction is done in Europe and the paste is shipped to the United States. “Our oil is cleared through Customs, Homeland Security, and the FDA on a regular basis,” according to Boucher.¹¹⁶

After it arrives at the lab, the paste is heated and decarboxylated in large stainless steel pans. The hemp paste is further refined through what seemed to be a two-stage vacuum distillation process, resulting in a CBD oil concentrate.

Hartsel utilizes additional separation equipment to brew “CBD Simple,” a super-refined oil, which reportedly measures close to 100 percent pure cannabidiol. This oil has won awards for highest CBD concentrate at several High Times cannabis cup competitions that were sponsored by

HempMeds, Medical Marijuana Inc.'s marketing arm. Each High Times award was followed by self-congratulatory PR from HempMeds, incorrectly implying that the prize-winning CBD concentrate is the same as the RSHO products sold over the Internet.^{†††}

When Project CBD visited CannaVest, the lab did not have equipment to test for heavy metals or fungi-derived mycotoxins. But after allegations surfaced that RSHO was making people sick, CannaVest began sending oil samples for heavy metal analysis on a regular basis to Chemical Solutions, a firm in Philadelphia. Moreover, Hartsel indicated that they would soon be installing state of the art, rapid screening technology to identify the DNA of pathogens. “We’re trying to do this the right way,” he assured us.¹¹⁷

Project CBD does not doubt Hartsel’s sincerity, but somewhere along the line it appears that a bad mistake was made, resulting in a poisonous batch of RSHO. Project CBD does not maintain that this batch is typical of all the oil marketed by HempMeds. We do not know the extent of the problem. Nor do we purport to know who is ultimately responsible for the tainted RSHO Gold, when it was made or what may have happened to the oil after CannaVest supplied it to HempMeds.

A Phyto-Remedial Plant

Irrespective of what the lab tests show, there are inherent problems with extracting cannabidiol from industrial hemp stalk, which contains meager amounts of CBD and a trace of THC.^{‡‡}

The notion that CannaVest only extracts CBD from hemp stalk strains credulity. But theoretically it might be possible. Let’s assume for the sake of argument that CannaVest is actually abiding by federal regulations and forgoing the leaves and flowers. Given how little CBD can be drawn from hemp stalk, a huge amount of plant material would be required for sufficient oil extraction.

Moreover, hemp is a bioaccumulator—it sucks up contaminants from the soil. Once in the soil, heavy metal pollutants are very difficult to remove. Fungi-derived mycotoxins that resist decomposition are another concern. “The more plant material you have to concentrate, the greater the chance of dragging contaminants into it,” explained Dr. John McPartland, coauthor of *Hemp Diseases and Pests*.¹¹⁸

††† “Our High CBD awards are given to whatever flower, concentrate, and edible score the highest in CBD content based on the results we get from the labs who test our entries,” says High Times senior editor Bobby Black. “Unlike the majority of our awards, these are given out based solely on the lab results without any subjective input from judges.”

‡‡ Hemp stalk is dotted with tiny sessile trichomes, which are shaped like inverted commas, unlike the mushroom-shaped trichomes on cannabis buds and leaves that are densely packed with cannabinoids and other medicinal compounds. Chris Boucher acknowledges that CannaVest would prefer to extract cannabidiol from CBD-rich cannabis rather than industrial hemp and they hope to do so when the legal environment improves.

CannaVest says it processes 700,000 tons of industrial hemp annually and turns it into 150,000 kilos of concentrated CBD-rich oil.¹¹⁹ Hemp's phyto-remedial properties increase the probability that heavy metals, mycotoxins or other poisons will be extracted and concentrated along with the CBD. This problem will vex any business purporting to extract CBD from industrial hemp stalk.

When Project CBD visited CannaVest, we heard complaints about the Kannaway campaign and Michael Llamas's mercurial, behind-the-scenes management style. "We're separate, but everyone thinks we're one," CannaVest CEO Michael Mona Jr. insisted. "HempMeds is not CannaVest, and CannaVest is not HempMeds."¹²⁰

But even as it tried to distance itself from Medical Marijuana Inc., CannaVest was burdened by its own corporate history. In June 2014, CannaVest, a MJNA offshoot, announced that it had disposed of several million shares of KannaLife Sciences, a MJNA subsidiary, in exchange for a half million shares of CANV, which had previously been issued to Phytosphere.¹²¹ Shades of Beavis and Butthead again.

Divesting from KannaLife Sciences foreshadowed the split with Medical Marijuana Inc. that CannaVest disclosed in its Second Quarter 10-Q report on August 18, 2014. The text of the 10-Q filing indicates that CannaVest terminated its agreement with HempMeds, its main distributor, because the latter allegedly reneged on several commitments: "[CannaVest] had previously notified HempMeds that it was in breach of various provisions of the HempMeds Agreement including provisions regarding HempMeds distribution of competing products, the requirement that HempMeds obtain prior approval of marketing and promotional materials, [CannaVest's] ability to access HempMeds sales data, and HempMeds payment of amounts due under the HempMeds Agreement, amongst others."¹²²

In September 2014, CannaVest filed a lawsuit against Kannaway, General Hemp, and the Hemp Deposit and Distribution Corporation, alleging trademark infringement and fraud.¹²³ This falling-out could mean that Medical Marijuana Inc. will need to find a different source of cannabidiol to remain a viable enterprise, while CannaVest repositions itself to sell cheap, bulk CBD oil directly to nutraceutical producers and third-party distributors.

Medical Marijuana Inc. ultimately is an artifact of prohibition, an opportunistic creature rooted in the cracks and contradictions of a government policy built on lies. Give these hemp oil hustlers their due for realizing early on that there was a large, untapped market for non-psychoactive cannabis concentrates. They shamelessly played the CBD card and pushed the envelope willy-nilly into grey areas of the law.

Several independent hemp oil entrepreneurs are poised to rush through the "CBD-only" door that Medical Marijuana Inc. has opened. All are banking on the presumption that the U.S. government

won't risk a public relations fiasco by targeting a CBD-related enterprise.^{§§§} And those who say they're extracting CBD only from the stalk of industrial hemp are almost certainly being disingenuous. Either they are bluffing to make it appear as though they are operating legally—or they are extracting the oil in a way that makes a dangerous product more likely. Extracting cannabidiol from hemp stalk ups the risk of concentrated, bio-accumulated contaminants because so much plant matter has to be processed to get any CBD.

At the very least, the sketchy saga of Medical Marijuana Inc. underscores the importance of implementing sensible regulations for therapeutic cannabis—let's ditch the hemp pretense—in accordance with standards that apply to other medicinal herbs. All cannabis oil products should be lab tested for contaminants and labeled accurately for content. If tainted products are discovered, they should be recalled without delay. And should it come to pass that regulations are implemented to protect against corporate abuse while encouraging grassroots innovators who make high quality CBD-rich products, then perhaps something positive might emerge from this sordid affair.

^{§§§} On July 7, 2014, the FDA issued this tepid statement in an email to Project CBD: “FDA is aware that there are products that are sold on the Internet, marketed as available in all 50 states, and labeled as ‘hemp oil’ and as containing cannabidiol (CBD). The Agency is also aware that there is a growing public interest in CBD oils to treat childhood epilepsy, among other diseases. It is important, however, for patients and their caregivers to understand that these products have not been approved by the FDA, and those who choose to purchase these cannabidiol products cannot be assured by the FDA that they are safe or effective. We encourage patients and their caregivers interested in experimental treatments [to] gain access to these drugs through a clinical trial or through an expanded access IND that has been submitted to FDA and has been allowed to proceed.”

Revisions

Page	Original Text	Revised text
14	“CanChew also contains Kratom, an opiate receptor agonist (activator) that is banned in several Asian countries.”	“Several websites sell a CBD-infused chewing gum product— <i>not to be confused with CanChew marketed by HempMeds</i> —that also contains Kratom, an opiate receptor activator that is banned in several Asian countries.”
14		Endnote 81: “See for example: http://cbdgum.networkofhemp.com/order-cbd/cbd-kratom-capsules , http://www.cbdstore.co/cbd-kratom , http://buycbdonline.co/product-category/kratom/ and http://botanicsolutions.com/products/cbd-kratom-capsules . Accessed on October 11, 2014.”
14		Footnote: “Robert Esty, CEO of Mastica Medica, which manufactures CanChew for Medical Marijuana Inc., asserts that CanChew does not contain Kratom. ‘We lab test all of the hemp oil we receive from any company for CBD %, micro, metal, pesticide and solvents as required by GMP regulations,’ Esty noted in an email to Project CBD. ‘So far, all of the hemp oil has passed testing (including all of the Cannavest oil) before being used in production.’”
17	“He gained notoriety in 2013 when he developed a strain of CBD-rich cannabis called Haleigh’s Hope, which later became the name of a bill (Haleigh’s Hope Act) that legalized CBD-dominant marijuana for research purposes in Georgia, one of several states that have passed so-called “CBD-only” bills this year.”	“He gained notoriety in 2013 when he developed a strain of CBD-rich cannabis called Haleigh’s Hope, which later became the name of a bill (Haleigh’s Hope Act) that sought to legalize CBD-dominant marijuana in Georgia.”
17		Footnote: “The bill was defeated; instead Georgia Gov. Nathan Deal signed an agreement with Georgia Regents University and GW Pharmaceuticals to apply to the FDA for a statewide expanded access program that will enable pediatric neurologists to give their patients Epidiolex (a CBD-rich pharmaceutical that has been granted “orphan drug” status by the FDA) along with other epileptic medications.”
19	“‘These are all class one solvents, the most dangerous and toxic class of solvents,’ explained Dr. Jahan Marcu, a Project CBD science consultant.”	“‘These are all ‘potentially dangerous toxic solvents, particularly for vulnerable children,’ explained Dr. Jahan Marcu, a Project CBD science consultant.”

23 “When Project CBD visited CannaVest, the lab did not have equipment to test for heavy metals or fungi-derived mycotoxins. But Hartsel said they would soon be installing state of the art, rapid screening technology to identify the DNA of pathogens.”

“When Project CBD visited CannaVest, the lab did not have equipment to test for heavy metals or fungi-derived mycotoxins. But after allegations surfaced that RSHO was making people sick, CannaVest began sending oil samples for heavy metal analysis on a regular basis to Chemical Solutions, a firm in Philadelphia. Moreover, Hartsel indicated that they would soon be installing state of the art, rapid screening technology to identify the DNA of pathogens.”

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