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David W. Slayton,
Executive Officer/Clerk of Court,
By A. Miranda, Deputy Clerk

8 Attorneys for Plaintiff
9 562 DISCOUNT MED, INC.

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 FOR THE COUNTY OF LOS ANGELES

12 562 DISCOUNT MED, INC.,

13 Plaintiff,

14 vs.

15 GLASS HOUSE BRANDS INC.; and DOES 1-
16 150, inclusive,

17 Defendants.

CASE NO. 23LBCV01025

COMPLAINT FOR VIOLATION OF
BUSINESS AND PROFESSIONS CODE
§§17200 *ET. SEQ.*

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24 Plaintiff 562 DISCOUNT MED, INC. dba “Catalyst” (“Plaintiff” or “Catalyst”), by and through
25 its attorneys, hereby complains, alleges, and avers as follows against Defendants GLASS HOUSE
26 BRANDS INC. (“GHB”) and Does 1-150 (collectively “Defendants”):
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1 **INTRODUCTION**

2 1. The basis for this action is simple and straightforward. Defendant Glass House Brands
3 Inc. (“GHB”) has become one of the largest, if not the largest, black marketers of cannabis in the State
4 of California, if not the country, and it has purposefully structured its business so as to massively profit
5 from the illegal sale of cannabis to the substantial financial detriment of legal operators such as Plaintiff
6 562 Discount Med, Inc., which does business as “Catalyst” (“Catalyst” or “Plaintiff”).

7 2. Simply put, while at the same time it markets itself to the public as the “face” of legal
8 cannabis compliance, GHB in fact is one of the primary drivers and financial beneficiaries of the illicit
9 cannabis black market in California, and it currently is looking to further expand its illicit operations by
10 adding significant new cultivation capacity at a time when the legal cannabis market is actually shrinking.
11 Enough is enough. Via this action, Catalyst seeks to put an end to GHB’s illegal, fraudulent and unfair
12 business practices, and hopefully help bring about what actually was envisioned when California first
13 legalized cannabis – a regulated market where black marketeers do not reign supreme at the expense and
14 detriment of legal market operators like Catalyst.

15 **PARTIES AND VENUE**

16 3. Plaintiff is and at all relevant times was a corporation formed and operating under the laws
17 of the State of California. Plaintiff operates a State and locally licensed dispensary at 5227 2nd Street in
18 Long Beach, California. Plaintiff is licensed by both the State and the City of Long Beach (the “City”)
19 to operate a cannabis dispensary at the above location.

20 4. Plaintiff is informed and believes that at all relevant times, GHB was and is a Canadian
21 company registered to do business in, and doing business in, the State of California. It is further informed
22 and believes that its principal place of business is located in the City of Long Beach, California.

23 5. Plaintiff is ignorant of the true names and capacities of the Defendants sued herein as
24 DOES 1 through 150, inclusive, and therefore sues such Defendants by fictitious names. Plaintiff will
25 amend its claims to allege the true names and capacities of DOES 1-150 when they have been ascertained.
26 Plaintiff is informed and believes and on that basis alleges each of the fictitiously named Defendants is
27 responsible in some manner for the acts, omissions, events and occurrences herein alleged.
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1 6. Plaintiff further is informed and believes and on that basis alleges that, at all times herein
2 mentioned, each of the Defendants was the agent, employee, employer, alter ego, joint venturer, partner,
3 co-tortfeasor, co-conspirator and/or legal representative of the other Defendants, including the DOE
4 Defendants, and, in doing the things herein alleged, was acting within the course and scope of such
5 relationships in connection with the events and allegations set forth herein and, thus, each can and should
6 be held jointly and severally responsible for the damages and the other relief requested herein.

7 7. Jurisdiction and venue are proper in this Court. Catalyst’s dispensary is licensed by, and
8 operates in, the city of Long Beach, California, and the adverse impact of GHB’s actions and omissions
9 as alleged herein has negatively impacted and continues to negatively impact Catalyst’s business in Long
10 Beach, California. Also, according to the Secretary of State’s website, GHB’s principal business location
11 is also located in Long Beach, California.

12 **FACTS RELEVANT TO ALL CAUSES OF ACTION**

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14 8. GHB presently is one of the largest cultivators of cannabis in the State of California, and
15 bills itself as “one of the fastest-growing, vertically integrated cannabis companies in the U.S.” See GHB
16 News Release May 15, 2023. Despite admitting over the past year or so that cultivation capacity in the
17 state has dropped approximately 21%, cannabis flower prices have dropped over 20%, and there are now
18 1,200 fewer active cultivation licenses -- reflecting a general and substantial decline in the legal cannabis
19 market in the State – GHB is significantly *expanding its operations* and boldly projects a *62% increase*
20 in “biomass” (i.e., cannabis) production in 2023 versus 2022, with its revenues increasing accordingly to
21 upwards of \$160 million. See “Glass House Brands: At a Turning Point in the Company’s History (April
22 11, 2023) (projecting production over 500,000 pounds of cannabis in 2024). As part of its expansion, in
23 2022 GHB opened a 5.5 million square foot cultivation facility, which it claims to be the “largest cannabis
24 facility in the world.” See “Glass House Brands Opens Massive New Cannabis Cultivation Facility,
25 Forbes March 22, 2022. It did so at a time of considerable tumult in the California cannabis market.

26 9. The conventional wisdom within the California cannabis market is that in excess of 60%,
27 and potentially upwards of 80%, of all cannabis sales are illicit black market sales. This is due in large
28 part to the ineffectual efforts of the State Department of Cannabis Control (“DCC”) to *actually control*

1 *cannabis sales* per its mandate – an issue which itself is the subject of a separate lawsuit filed against the
2 DCC (and which currently is on appeal). Without any effective legal or regulatory oversight or controls,
3 the black market in California has flourished, with many smaller cultivators selling to the black market
4 just to make ends meet at a time when the price of cannabis has declined precipitously. Catalyst contends
5 herein that the accelerated growth of the black market in California can be attributed to a great extent to
6 GHB and its business model, which relies heavily on the black market to generate its cannabis sales and
7 revenues. *See* “California’s legal weed industry can’t compete with illicit market,” Politico October 23,
8 2021 (at that time estimating the illicit market at “\$8 billion annually, twice the volume of legal sales,”
9 and noting that, at the time of the article, there were 823 licensed dispensaries “but close to 3,000”
10 unlicensed dispensaries and delivery services).

11 10. On information and belief, Catalyst contends GHB has specifically and intentionally
12 structured its business operations to capitalize on the black market, and to separate its legal operations
13 from its illegal operations. For instance, for legal sales, GHB primarily has utilized its own distribution
14 arm as well as a third party distributor known as Herbl. Catalyst is informed and believes that GHB’s
15 distribution arm and Herbl handles the distribution service for most if not all of the GHB cannabis
16 entering the legal market in California. While it may also sporadically utilize Herbl and certain other
17 legal distributors to deliver cannabis to other companies which use GHB’s cannabis to create “white
18 label” products, Catalyst believes that the number of such distributors, and the total amount of cannabis
19 sold for white label purposes, is relatively small compared to GHB’s total sales. But the structure ensures
20 certain distributors, such as GHB itself and Herbl, handle only legal cannabis transactions, while GHB
21 *does not use their distribution services* for black market sales.

22 11. Separate and apart from its legal distribution channels, GHB maintains a network of
23 distributors specifically to handle the illicit black market sales of its cannabis. GHB believes a significant
24 number of these distributors are what are referred to as “burner distribution” companies (or “Burner
25 Distros”). Burner Distros are generally licensed with the State, but evade the payment of state taxation,
26 as well as various safety and other regulations and controls, by selling to the black market and taking
27 advantage of the State’s inability to detect or meaningfully curtail their operations. By structuring its
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1 business between legal and illegal distribution channels, GHB knowingly is engaging certain distributors
2 for the specific purpose of selling its cannabis on the black market – not just in California, but also in
3 many other states (in violation of both state and federal law). The specific identities of the black market
4 distributors and retailers engaged in this illicit business enterprise are presently unknown to Catalyst, but
5 once determined they will be added as DOE Defendants to this action (which is why Catalyst has sued
6 150 fictitiously named defendants herein).

7 12. Demonstrating the improper structure and operation of GHB’s operation and the amount
8 of illegal/unregulated sales of GHB’s cannabis will be subject to discovery, but Catalyst believes the
9 state’s METRC data, GHB’s own internal documentation, and its publicly disclosed financials will
10 demonstrate the unlawful, fraudulent and unfair nature of its business practices, but also the extent to
11 which those business practices have caused or been the catalyst (no pun intended) for the exponential
12 growth of the illicit black market in California. But currently known and publicly available facts and
13 information give Catalyst ample probable cause for its allegations herein.

14 13. An illustration is as follows. According to state records for 4th quarter 2022, total legal
15 sales of cannabis statewide totaled \$1.3 billion. Conservatively estimated, 40% of those statewide sales
16 would have consisted of “flower” – or approximately \$520 million of total legal sales in Q4 2022. During
17 that same period, GHB reported selling 66,000 pounds of cannabis. Assuming (again, super
18 conservatively) that those sales consisted of 40% trim, 40% big flower and 20% small bud flower, and
19 further that the average sales price was \$22 for big flower and \$12 for small bud flower, that would have
20 amounted to total flower sales by GHB of \$94.575 million, if sold to the legal market. It also would have
21 amounted to over 18% of total legal-market sales in Q4 2022. Again, assuming approximately 4.5% of
22 sales went to its own brand and/or to others to create “white label” products, that would mean less than
23 25% of GHB’s total sales in Q4 2022 were into the legal market. Stated differently, based upon the
24 State’s numbers, GHB’s own publicly disclosed data, and a few super conservative assumptions based
25 on Catalyst’s industry knowledge, it appears upwards of 75% of GHB’s Q4 2022 sales were outside the
26 legal market.

1 14. Further, Catalyst has received information indicating that in many (if not most or all
2 cases), GHB employees themselves seek out and make sales deals directly with black marketers, both in
3 California and in other states (including as far away as New York and New Jersey), and then use Burner
4 Distros as “brokers” or middle-men to transport the cannabis to the illicit purchasers/users. Because
5 GHB knows the Burner Distro will never collect or pay the mandated state taxes on the illicit cannabis
6 sale, and because the ultimate end user (the customer) will not be charged such taxes by the unlicensed
7 dispensaries and/or foreign persons/entities selling the cannabis, GHB is able to sell its cannabis in the
8 illicit market either at or above the “fair market value” price in the legal market. Indeed, Catalyst
9 presently believes GHB may actually receive a black market “premium price” for illicit cannabis sales.

10 15. The facts set forth above fatally undermine any anticipated claim by GHB that it merely
11 sells to licensed distributors, is not aware they are Burner Distros, is not aware of where its cannabis is
12 actually going, or that they are complying with all state and federal laws and what happens after they sell
13 the cannabis is not its responsibility. In reality, GHB knowingly is entering into illicit sales – both inside
14 and outside California – and then specifically selecting Burner Distros and others to “move the product”
15 knowing the mandated state taxes will not be paid and that the cannabis ultimately is going to the black
16 market. GHB’s illegal/unfair business structure and practices have allowed it to “unload,” at high
17 margins, massive quantities of cannabis that otherwise would have gone unsold in the legal market, or
18 alternatively, if offered in the legal market would have significantly driven down the market price of all
19 of GHB’s cannabis. The dual channels approach permitted it to substantially benefit from illegal sales
20 while also ensuring prices in the legal market did not collapse entirely. State differently, the dual channel
21 structure it has employed is a huge “win-win” for GHB, but a huge loss for Catalyst and other legal
22 operators who lose sales to illegal dispensaries and are required to actually *pay* the mandated taxes that
23 are not paid in black market transactions.

FIRST CAUSE OF ACTION
VIOLATIONS OF BUSINESS & PROFESSIONS CODE §§17200 ET SEQ.
(AGAINST ALL DEFENDANTS)

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4 16. Catalyst incorporates as though set forth herein in full the allegations contained in
5 Paragraphs 1-15 above.

6 17. California Business and Professions Code Sections 17200 et seq. prohibit “any unlawful,
7 unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising[.]”
8 Cal. Bus. & Prof. Code §17200. Section 17203 states in pertinent part: “Any person who engages, has
9 engaged, or proposes to engage in unfair competition may be enjoined in any court of competent
10 jurisdiction. The court may make such orders or judgments . . . as may be necessary to prevent the use
11 of employment by any person or any practice which constitutes unfair competition, as defined in this
12 chapter[.]” *Id.* at §17203. It also provides a private right of action where the plaintiff meets the
13 standing requirements of Section 17204, which requires that the plaintiff must have suffered “injury in
14 fact” and lost money or property as a result of the unfair competition. *Id.* at §§17203, 17204. The
15 statute of limitations for unfair competition is four years. *Id.* at §17208.

16 18. In the present case, GHB has engaged in illegal, fraudulent and unfair acts and business
17 practices, all of which should, and indeed must, be preliminarily and permanently enjoined. First,
18 through the manner in which GHB has structured its business operations, and more specifically its use
19 of the DOE Defendants to facilitate its illegal black market sales, GHB is breaking the law and evading
20 the ultimate payment of state-mandated taxes and regulations. Specifically, it is selling cannabis to
21 distributors and to retailers, including the DOE Defendants, that it knows either (1) do not have a state
22 and/or local cannabis license; and/or (2) will distribute or sell its cannabis in the black market and
23 thereby evade all taxation and regulations imposed on the legal regulated market. In so doing, GHB is
24 making huge illicit profits and, due to the sheer volume, is fueling a huge growth of the black market.
25 Further, through informal investigation, Catalyst has learned that GHB makes deals directly with black
26 market buyers both here and in other states, then uses the DOE Defendants to “move the product” to
27 the black market purchaser (including by placing cannabis on planes bound for other states in violation
28 of state and federal law). The myriad of laws GHB and the DOE Defendants violated include, but is

1 not limited to, federal laws prohibiting the sale of marijuana and the interstate transport of marijuana as
2 well as Business & Professions Code Sections 26037.5, 26038, 26039.6, 26080, 26090, 26160, and
3 26161; Health and Safety Code Sections 11357, 11359 and 11360; and Penal Code Sections 182,
4 186.2(a)(17), 186.10, and 428.

5 19. Catalyst anticipates that in response, GHB will argue that once it sells its cannabis to a
6 licensed distributor, it is not responsible for what that distributor does with the cannabis – even if it
7 knows or suspects the cannabis will be diverted to the illicit market. As an initial matter, Catalyst
8 believes at least some of the distribution channels used by GHB are not properly licensed. With respect
9 to licensed distributors, Catalyst believes and alleges GHB chooses to use “Burner Distros” (including
10 the DOE Defendants) specifically because they operate in the black market and do not properly report
11 or pay the required taxes and fees. For example, Herbl, along with GHB’s own internal distribution
12 arm, have handled most if not all of GHB’s distribution into the legal market. So why would GHB
13 need to use other distributors? Because the “legal” distributors do not engage in black market
14 operations. So GHB seeks out Burner Distros (and other unlicensed operations) such as DOE
15 Defendants for its black market sales channels, and as a business practices works with them specifically
16 for black market sales, and makes deals with those distributors specifically for the black market.

17 20. Second, GHB has engaged in fraudulent business practices. Specifically, it does not
18 disclose the existence or true extent of its illicit black market sales in either its public financial
19 disclosures or in its reporting to the DCC or California Department of Tax and Fee Administration
20 (“CDTFA”). For purposes of establishing a fraudulent business practice, Catalyst is not required to
21 plead or prove it was defrauded by GHB’s fraudulent, inaccurate and/or misleading disclosures.
22 Rather, it must only show that “the public is likely to be deceived.” *Bank of the West v. Superior Court*
23 (1992) 2 Cal. 4th 1264, 1266-1267. Here, the public is likely to be deceived into believing GHB’s
24 operations (and its resulting revenues and profits) are entirely legal and legitimate, when a significant
25 portion of its business, revenue and profits in fact are generated from illegal and undisclosed black
26 market sales in violation of the law. Indeed, in public relations materials and in interviews, GHB
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1 projects itself to the public as the face of legal compliance in the California cannabis market –
2 something it knows is palpably false.

3 21. Third, GHB has engaged in unfair business practices and competition. While it
4 proclaims it is flourishing -- while the industry in general withers -- because it somehow is smarter and
5 essentially has “built a better mouse trap” than *all other competitors*, in fact it has obtained and
6 nurtured an inherently unfair competitive advantage by resting a substantial amount of its operations on
7 illegal black market sales. By specifically choosing to deal with Burner Distros and others to channel
8 its cannabis to the black market, GHB is supporting a flourishing black market that pays no taxes – a
9 market that permits GHB to sell “excess capacity” that it could not otherwise sell in the legal market
10 without substantially affecting the legal price of cannabis – and by doing so has been able to sell a
11 veritable mountain of illegal cannabis at high margins. This in turn has allowed them to “cook the
12 books,” to make its operations look better than they actually are, to obtain substantial investment and/or
13 financing, and to *grow in competitive strength and market power* – something legal cultivators are
14 unable to do. That in turn permits unlicensed dispensaries to sell GHB’s cannabis at prices that legal
15 dispensaries such as Catalyst cannot match, leading to lower sales and profits.

16 22. Ironically, the more successful GHB gets in illicit sales, the more legal cultivators are
17 being driven out of business – which in turns feeds a cycle GHB itself takes advantage of in the form of
18 higher cannabis prices in both the legal and black market. Stated differently, GHB’s unfair business
19 practices intentionally exacerbate and exploit the adverse market conditions in the legal cannabis
20 market to make more profits, and to drive legal competitors from the industry, which in turn causes
21 cannabis prices to increase (due to a lack of supply) thereby increasing its own legal *and* illegal profits.

22 23. The business practices described above have directly and proximately caused injury in
23 fact to Catalyst in the form of lost sales, revenues and profits, which in turn has reduced the value of its
24 business. *See Kwikset Corp. v. Superior Court* (2011) 51 Cal. 4th 310, 331 (UCL is “intended to
25 preserve fair competition and protect consumers from market distortions”); *id.* at 324-325 (injury in
26 fact is not a substantial or insurmountable hurdle; all that is required is for plaintiff to allege some
27 specific, identifiable trifle of injury”); *Law Offices of Matthew Higbee v. Expungement Assistance*

1 *Services* (2013) 214 Cal. App. 4th 544, 561 (purpose of UCL “is to protect both consumers and
2 competitors by promoting fair competition in commercial markets for goods and services”; UCL
3 “governs anti-competitive business practices as well as injuries to consumers, and has as a major
4 purpose the preservation of fair business competition”); *id.* (allegation that plaintiff lost business and
5 the value of his business practice diminished was sufficient to confer standing under the UCL). This
6 allegation is borne out by the numbers provided by GHB in public disclosures and by press accounts
7 discussing the increasing size of the black market and the adverse effects and financial pain it is
8 causing to operators in the legal cannabis market such as Catalyst. *See Robinson v. U-Haul Co. of Cal.*
9 (2016) 4 Cal. App. 5th 304, 318 (“if a plaintiff has suffered particularized harm as a result of the
10 defendant’s anticompetitive conduct, standing has been upheld”).

11 24. Pursuant to the UCL, Catalyst seeks a preliminary and permanent injunction *prohibiting*
12 Defendants from engaging in the unlawful, fraudulent and/or unfair business practices described in
13 more detail above. *See Clayworth v. Pfizer* (2010) 49 Cal. 4th 758, 790 (injunctive relief is the
14 “primary form or relief available under the UCL,” while restitution is an ancillary remedy).

15 **PRAYER FOR RELIEF**

16 WHEREFORE, based on the foregoing, Catalyst prays for the following relief:

17 **First Cause of Action**

- 18 1. For an injunction prohibiting Defendants from engaging in the business practices set
19 forth above;
- 20 2. For the recovery of costs and/or attorneys’ fees, to the extent permitted by law;
- 21 3. For such other or different relief as deemed necessary or appropriate by the Court.

22
23 DATED: June 6, 2023

LAW OFFICE OF JEFF AUGUSTINI

24 By: 
25 _____
26 JEFF AUGUSTINI
27 Attorneys for Plaintiff 562 Discount Med, Inc.
28

DEMAND FOR JURY TRIAL

Catalyst demands a jury trial on any and all claims and allegations properly triable to a jury.

DATED: June 6, 2023

LAW OFFICE OF JEFF AUGUSTINI

By: *Jeff Augustini*
JEFF AUGUSTINI

Attorneys for Plaintiff 562 Discount Med, Inc.

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