

CASE SYNOPSIS

Paradox Ventures, Inc
Montrose, CO

v.

United Cannabis Corporation
UC Colorado Corporation
Golden, CO

Background of Program:

The State of Colorado, Department of Agriculture, Farm Products program, is a regulatory program that protects farmers and those that produce farm products for market. The program regulates dealers that purchase farm and agricultural products to be processed, resold and stored for others. The program does this through a system of licensing and bonding, auditing and inspecting licensed dealers for financial soundness, and through the investigation of complaints.

Investigation:

On 4/14/20 Leif Jacobsen, Program Administrator for the Farm Products program received an email from Brian Koontz, Program Administrator for the Industrial Hemp program about a complaint of non-payment for industrial hemp biomass. Jacobsen called the complainant, Don Coram, and was told that his business partner, David Coker, will make contact and would be able to give the details. On 4/15/20 Coker emailed a copy of the contract along with an email from United Cannabis asking for wire transfer confirmation. After reviewing the email, Jacobsen emailed an official complaint form to Coker.

A Statement of Claim and Complaint was received from Paradox Ventures, Inc of Montrose, CO on 04/21/2020. The claim is for \$54,812.80 for the non-payment of industrial hemp biomass. A notice letter sent to UC Colorado Corporation, a wholly owned subsidiary of United Cannabis Corporation, on 04/21/2020, notifying them of a complaint against them.

Paradox Ventures, Inc contracted to sell 5,000 pounds of industrial hemp biomass to UC Colorado Corporation on 10/15/2019 at the rate of \$2.00 per percentage point of CBD content for a total of \$54,812.80. On 10/16/2019, UC Colorado Corporation took possession and control of 4,894 pounds of industrial hemp biomass from Paradox Ventures Inc. Paragraph 8 of the signed contract states "Payment for the Product is due on the thirtieth day from the date the Seller and Buyer mutually agree upon the CBD composite percentage of the Product." Evidence provided, email dated 12/30/2019, reflect a conversation regarding the composites and payment agreement between the two parties. The agreement was a composite percent of 5.6, making the total per pound \$11.20 for a total of \$54,812.80.

The Department of Agriculture was informed on 04/24/2020, UC Colorado Corporation and United Cannabis Corporation have filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code dated 04/21/2020.

On 04/29/2019, the Colorado Department of Agriculture issued a Cease and Desist Order to UC Colorado Corporation and UC Cannabis Corporation. Neither entity had a farm products license or the requisite bond with the Colorado Department of Agriculture at the time of purchase. The violations of the Farm Product Act, sections 35-37-101 through 35-37-122, C.R.S., are as followed:

§ 35-37-104 Application for License

- (1) No person shall act as a dealer, small-volume dealer, or agent without having obtained a license as provided in article 37. Every person acting as a dealer, small-volume dealer, or agent shall file an application in writing with the commissioner for a license to transact the business of a dealer, small-volume dealer, or agent and the application shall be accompanied by the license fee provided for in section 35-37-105 for each specified class of business.

§ 35-37-118(1)(e) Unlawful Acts

- (1) It is unlawful and a violation of this article 37 for any person to:

....

(e) Act as a dealer, small-volume dealer, or agent without having obtained a license or act as a dealer without having filed a surety bond or an irrevocable letter of credit, as provided in this article 37. Violation of this subsection (1)(e) shall constitute a class 6 felony.

§35-37-118(1)(b) Unlawful Acts

- (1) It is unlawful and a violation of this article 37 for any person to:

....

(b) Willfully refuse or fail to render a true account of sales or storage or to make a settlement thereon or to pay for farm products received within the time and manner required by this article 37. Violation of this subsection (1)(b) shall constitute a class 6 felony.

§35-37-114 Daily Reports and Settlements

....

- (3) Every dealer shall pay for farm products delivered to him or her on the date and in the manner specified in the contract with the owner or, if no date is set by the contract or on

the date of the delivery, within thirty days after the date of the delivery or the taking possession of the farm products.

§35-37-119, C.R.S. Penalties

- (1) Any person who violates any of the provisions of section 35-37-118 (1)(a), (1)(b), (1)(c), (1)(d), or (1)(e) commits a class 6 felony and shall be punished as provided in §18-1.3-501, C.R.S. ...

SUMMARY

There are two theories for criminal liability: (1) United Cannabis Corporation and UC Colorado Corporation unlawfully purchased farm products without the requisite licensure and bond, a violation of §§ 35-37-118(1)(e), 35-37-104(1), and 35-37-119, C.R.S. and (2) United Cannabis Corporation and UC Colorado Corporation failed to render payment under the contract, a violation of §§ 35-37-118(1)(b), §35-37-114(3), and 35-37-119, C.R.S.

Please do not hesitate to contact me if you have any questions or need additional information.



**THE COMMISSIONER OF AGRICULTURE
STATE OF COLORADO**

CEASE AND DESIST ORDER

To: United Cannabis Corporation
UC Colorado Corporation
Hart & Hart, LLC
1624 Washington Street
Denver, Colorado 80203

April 29, 2020

The Commissioner of Agriculture, based on the facts described below, has determined that UC Colorado Corporation, a wholly owned subsidiary of United Cannabis Corporation, has violated the Farm Products Act, sections 35-37-101 through 35-37-122, C.R.S., by performing the acts of a farm products dealer, small-volume dealer or agent without the requisite farm products licensure.

Colorado Revised Statutes:

§ 35-37-104 Application for License.

- (1) No person shall act as a dealer, small-volume dealer, or agent without having obtained a license as provided in article 37. Every person acting as a dealer, small-volume dealer, or agent shall file an application in writing with the commissioner for a license to transact the business of a dealer, small-volume dealer, or agent and the application shall be accompanied by the license fee provided for in section 35-37-105 for each specified class of business.

§ 35-37-118(1)(e) Unlawful Acts

- (1) It is unlawful and a violation of this article 37 for any person to:

....

- (e) Act as a dealer, small-volume dealer, or agent without having obtained a license or act as a dealer without having filed a surety bond or an irrevocable letter of credit, as provided in this article 37. Violation of this subsection (1)(e) shall constitute a class 6 felony.

305 Interlocken Parkway, Broomfield, CO 80021 P 303.869.9000 F 303.466.2867
www.colorado.gov/ag/ics



The facts that constitute these violations are as follows:

- (a) On, or about, October 15, 2019, UC Colorado Corporation, a wholly owned subsidiary of United Cannabis Corporation, purchased approximately 5,000 pounds of industrial hemp from Paradox Ventures, Inc. for processing or resale.
- (b) Neither UC Colorado Corporation nor United Cannabis Corporation had a farm products license at the time of purchase.
- (c) Neither UC Colorado Corporation nor United Cannabis Corporation filed a surety bond or irrevocable letter of credit with the Colorado Department of Agriculture at the time of purchase.
- (d) Neither UC Colorado Corporation nor United Cannabis Corporation has ever had a farm products license in the state of Colorado.

On the basis of the above facts, the Commissioner has determined that UC Colorado Corporation and United Cannabis Corporation have violated section 35-37-104, C.R.S. and section 35-37-118(1)(e), C.R.S., and that immediate enforcement is necessary. Therefore, pursuant to section 35-37-109, C.R.S., UC Colorado Corporation and United Cannabis Corporation are **HEREBY ORDERED** to immediately **CEASE AND DESIST** operating as a farm products dealer, small-volume dealer or agent without the requisite licensure. All functions requiring a license must cease forthwith except those necessary to prevent spoilage.

YOU ARE NOTIFIED that you may request a hearing on the question of whether the above-described violations have occurred. If so requested, a prompt hearing pursuant to the provisions of article 4 of title 24, C.R.S., shall be held to determine whether or not such violation has occurred.

In the event of your failure to comply with this **CEASE AND DESIST ORDER** within 24 hours, the Commissioner may bring a civil suit for injunctive relief pursuant to section 35-80-116, C.R.S.

SO ORDERED THIS 29th DAY of April 2020


Leif Jacobsen
Farm Products Program Administrator

305 Interlocken Parkway, Broomfield, CO 80021 P 303.869.9000 F 303.466.2867
www.colorado.gov/ag/ics



Division of Inspection and Consumer Services
Colorado Department of Agriculture
305 Interlocken Parkway
Broomfield, CO 80021

This Cease and Desist Order was served by delivering a copy to Hart & Hart, registered agent for United Cannabis Corporation and UC Colorado Corporation, 1624 Washington Street, Denver Colorado 80203 this _____ day of May, 2020.

Signed: _____

305 Interlocken Parkway, Broomfield, CO 80021 P 303.869.9000 F 303.466.2867
www.colorado.gov/ag/ics

