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8 Counsel for Plaintiff

9 UNITED STATES DISTRICT COURT
10 CENTRAL DISTRICT OF CALIFORNIA

11 , INDIVIDUALLY AND ON BEHALF
12 OF ALL OTHERS SIMILARLY
13 SITUATED,

14 Plaintiff,

15 v.

16 MEDBOX, INC., BRUCE BEDRICK,
17 GUY MARSALA, THOMAS
18 IWANSKI, AND VINCENT
19 MEHDIZADEH,

20 Defendants.

CASE No.:

CLASS ACTION

**COMPLAINT FOR VIOLATION
OF THE FEDERAL SECURITIES
LAWS**

JURY TRIAL DEMANDED

21
22 Plaintiff (“Plaintiff”), individually and on behalf of all other persons
23 similarly situated, by his undersigned attorneys, for his complaint against
24 Defendants, alleges the following based upon personal knowledge as to himself
25 and his own acts, and information and belief as to all other matters, based upon,
26 *inter alia*, the investigation conducted by and through his attorneys, which
27
28

1 included, among other things, a review of the Defendants’ public documents,
2 United States Securities and Exchange Commission (“SEC”) filings, and
3 information readily obtainable on the Internet. Plaintiff believes that substantial
4 evidentiary support will exist for the allegations set forth herein after a reasonable
5 opportunity for discovery.
6

7
8 **NATURE OF THE ACTION**

9 1. This is a federal securities class action on behalf of a class consisting
10 of all persons and entities other than the defendants, who purchased the common
11 stock of Medbox, Inc. (“Medbox”) between November 20, 2013 and December
12 30, 2014, inclusive (the “Class Period”), seeking to recover damages caused by the
13 defendants’ violations of federal securities laws (the “Class”).
14

15
16 **JURISDICTION AND VENUE**

17 2. The claims asserted herein arise under and pursuant to Sections 10(b)
18 and 20(a) of the Exchange Act (15 U.S.C. § 78j(b) and 78t(a)) and Rule 10b-5
19 promulgated thereunder (17 C.F.R. § 240.10b-5).
20

21 3. This Court has jurisdiction over the subject matter of this action
22 pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. §
23 1331.
24

25 4. Venue is proper in this Judicial District pursuant to Section 27 of the
26 Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b) as a substantial part of
27 the conduct complained of herein occurred in this District.
28

1 served as the Company's Acting Chief Financial Officer from October 2013 until
2 Iwanski assumed the position in February 2014.

3
4 12. Bedrick, Marsala, Iwanski, and Mehdizadeh are collectively referred
5 to herein as the "Individual Defendants."

6 13. Each of the Individual Defendants:

7
8 (a) directly participated in the management of the Company;

9 (b) was directly involved in the day-to-day operations of the
10 Company at the highest levels;

11
12 (c) was privy to confidential proprietary information concerning
13 the Company and its business and operations;

14 (d) was involved in drafting, producing, reviewing and/or
15 disseminating the false and misleading statements and information alleged herein;

16
17 (e) was aware of or recklessly disregarded the fact that the false
18 and misleading statements were being issued concerning the Company; and

19
20 (f) approved or ratified these statements in violation of the federal
21 securities laws.

22
23 14. As officers, directors and controlling persons of a publicly-held
24 company whose common stock is and was registered with the SEC pursuant to the
25 Exchange Act, and was traded on the OTCQB and governed by the provisions of
26 the federal securities laws, the Individual Defendants each had a duty to
27 disseminate accurate and truthful information promptly with respect to the
28

1 Company's financial condition and to correct any previously-issued statements that
2 had become materially misleading or untrue to allow the market price of the
3 Company's publicly traded stock to reflect truthful and accurate information.
4

5 15. Medbox is liable for the acts of the Individual Defendants and its
6 employees under the doctrine of *respondeat superior* and common law principles
7 of agency as all of the wrongful acts complained of herein were carried out within
8 the scope of their employment with authorization.
9

10 16. The scienter of the Individual Defendants and other employees and
11 agents of the Company is similarly imputed to Medbox under *respondeat superior*
12 and agency principles.
13

14 **ALLEGATIONS OF FALSE STATEMENTS**

15 17. On November 20, 2013, Medbox announced its third quarter 2013
16 financials, boasting of “record revenues” in the press release. The Q3 2013
17 financials were posted on the Company’s website and on the Company’s landing
18 page on the OTC Markets website.
19
20

21 18. On the morning of February 18, 2014, Medbox issued a press release
22 on February 18, 2014 praising the Obama administration for the new rules that it
23 said would ease the concerns of banks wanting to deal with businesses that legally
24 sell marijuana. In this same press release, Medbox told investors that its CEO,
25 Defendant Bedrick, would be appearing on CNBC’S Closing Bell on February 18,
26 2014 and on Fox Business the following day on February 19, 2014.
27
28

1 19. On February 18, 2014, *Citron Research* (“*Citron*”) issued a report
2 entitled “Busting Medbox” stating that Medbox kept three sets of books and
3 discussion, among other things, that “systemic fraud” and stock promotion had
4 facilitated the Company’s \$1 billion market capitalization.
5

6 20. Following the release of the *Citron* report, the Company issued a press
7 release in the afternoon of February 18, 2014 entitled “Medbox Responds to Critics
8 and Issues Status Update to Company Shareholders.” The press release states in
9 relevant part:
10
11

12 WEST HOLLYWOOD, Calif., Feb. 18, 2014 /PRNewswire/ --
13 Medbox, Inc. (OTC Markets: MDBX) (www.medboxinc.com), a
14 leader in providing consulting services and patented systems to the
15 medical and retail industries, issued a status update to its shareholders
16 on past, present, and future projects. **Company executives also**
17 **commented on bloggers looking to discredit the company for**
financial gain and law firms looking to capitalize on
misinformation in order to solicit clients.

18 The following is a summary of key events occurring in recent weeks:

- 19
- 20 • Medbox filed its Form 10 with the SEC in January and **will be an**
21 **SEC filer, with all the burdens and benefits that result from that**
status, as of mid-March 2014.

22 ***

23 Company executives clarified their position on the restatement of
24 financials that accompanied the Form 10 registration statement filed
25 with the SEC as a maturation process in becoming an SEC filer.

26 "The company undertook a project to bring all accounting functions in
27 house and during that lengthy process we discovered some errors in
28 accounting which we have since corrected in the latest financials
included in the Form 10. **The point is getting it right and being fully**

1 **transparent with our shareholders at all times,"** stated Vincent
2 Mehdizadeh, Board Chairman at Medbox, Inc. **"The company has,**
3 **as part of those corrections, instituted better controls over**
4 **financial reporting to avoid further corrections.** In addition, it is
5 important to note that revenues for the nine months of 2013 had
6 increased over the comparative period of the prior year (as corrected)
7 and we are continuing to add skilled people to accelerate our growth
8 in 2014. Unfortunately, when you are the most visible company in the
9 space, with a large market capitalization, you become a target."

10 **Company executives caution company shareholders that while the**
11 **media has been extremely supportive of Medbox as one of the**
12 **only viable medical marijuana related public companies, with**
13 **success there will always be opponents that publish deceptive and**
14 **misleading articles about the company and its executives.**

15 In addition, company executives clarified that the company offers
16 support services to the medical marijuana sector on an arm's length
17 basis. Often times in a state where applications are being accepted for
18 marijuana dispensary licensing, some landlords would not lease to the
19 newly formed non-profit entities formed for the company's clients. As
20 a result, in some rare instances and simply as an absolute benefit to
21 their clients, it was agreed that Medbox would lease the properties and
22 assign all rights to the applicant, with the permission of the landlord.

23 "We go the extra mile for our clients and that is evident through our
24 glowing testimonials displayed on our websites," stated Dr. Bruce
25 Bedrick, CEO at Medbox, Inc. "Interestingly, with the recent banking
26 policy guidance by the federal government, we can now start to
27 develop an additional revenue stream of acquiring properties and
28 leasing to our dispensary operator clients. This is one of many revenue
streams that Medbox is actively developing given the current climate
and relaxed federal posture."

(emphasis added)

1 21. Following the news of the day, shares of Medbox decreased from an
2 opening price of \$33.42 per share to close at \$29.80 per share on February 18,
3 2014.
4

5 22. On March 31, 2014, Medbox filed a Form 10 with the SEC, which
6 included its audited financials for the year ended December 31, 2013. Medbox
7 posted revenues of \$5.2 million for 2013, representing a 101.7% increase from
8 2012.
9

10 23. On June 26, 2014, Medbox filed an amended Form 10-Q with the
11 SEC, which included financials for the quarter ended March 31, 2014. The Q1
12 2014 10-Q announced revenue of \$294,550 for the first quarter of 2014. This
13 Form 10-Q and the accompanying Sarbanes-Oxley Certification were signed by
14 Defendants Bedrick and Iwanski.
15
16

17 24. On August 14, 2014, Medbox filed a Form 10-Q with the SEC, which
18 included financials for the quarter ended June 30, 2014. The Q2 2014 10-Q
19 announced revenue of \$434,448 for the second quarter of 2014. This Form 10-Q
20 and the accompanying Sarbanes-Oxley Certification were signed by Defendants
21 Marsala and Iwanski.
22
23

24 25. The above public announcements and filings were materially false and
25 misleading when made because they misrepresented and failed to disclose that
26 Medbox was recognizing revenue in a manner that violated US Generally
27 Accepted Auditing Principles (“GAAP”).
28

1 26. On December 30, 2014, the Company announced that its Audit
2 Committee has discovered that:

3
4 [...] the consolidated financial statements for the year ended December
5 31, 2013 and for the third and fourth quarters of 2013 as well as for
6 the quarters ended March 31, 2014, June 30, 2014 and September 30,
7 2014, should no longer be relied upon and will be restated to correct
8 the errors. As part of the investigative process, Medbox will also
9 examine the financial statements for 2012 and for the first two
10 quarters of 2013 and, if necessary, correct those as well. The company
intends to correct the errors in its financial statements to bring them
into conformity with accounting principles generally accepted in the
United States of America (GAAP) and SEC regulations.

11 27. In the same announcement, the Company admitted that it had been
12 recognizing revenue too soon on some customer contracts.

13
14 28. As a result of this adverse disclosure, the value of Medbox stock fell
15 from \$5.98 to \$5.11, or 14.5%, when the market opened on December 30, 2014.

16
17 **LOSS CAUSATION/ECONOMIC LOSS**

18 29. During the Class Period, the Individual Defendants engaged in a
19 scheme to deceive the market and a course of conduct that artificially inflated
20 Medbox's stock price and operated as a fraud or deceit on purchasers of Medbox
21 stock by misrepresenting the Company's business. Once the Individual
22 Defendants' misrepresentations and fraudulent conduct were disclosed to the
23 market, Medbox's stock price reacted negatively as the artificial inflation was
24 removed from it. As a result of their purchases of Medbox stock during the Class
25 Period, Plaintiff and other members of the Class suffered economic loss.
26
27
28

1 30. The Individual Defendants’ false and misleading statements had the
2 intended effect and caused Medbox stock to trade at artificially inflated levels
3
4 throughout the Class Period.

5 31. As investors and the market became aware of Medbox’s prior
6 misstatements and omissions and that Medbox’s actual financial condition and
7
8 business prospects were, in fact, not as represented, Medbox’s stock price reacted
9
10 negatively, damaging investors.

11 **Applicability of Presumption of Reliance:**
12 **Fraud-on-the-Market Doctrine**

13 32. At all relevant times, the market for Medbox’s common stock was an
14 efficient market for the following reasons, among others:

15 (a) Medbox’s stock met the requirements for listing, and was listed
16 and actively traded on the OTCQB, a highly efficient and automated markets;

17 (b) During the class period, millions of shares of Medbox’s stock
18 were traded on a weekly basis on average, demonstrating a very strong
19
20 presumption of an efficient market;

21 (c) As a regulated issuer, Medbox filed with the SEC periodic
22 reports during the Class Period;

23 (d) Medbox regularly communicated with public investors via
24 established market communication mechanisms, including regular disseminations
25
26 of press releases on the national circuits of major newswire services and other
27
28

1 wide-ranging public disclosures, such as communications with the financial press
2 and other similar reporting services;

3
4 (e) Medbox was followed by securities analysts who wrote reports
5 that were distributed during the Class Period. Each of these reports was publicly
6 available and entered the public marketplace;

7
8 (f) Numerous FINRA member firms were active market-makers in
9 Medbox stock at all times during the Class Period; and

10
11 (g) Unexpected material news about Medbox was rapidly reflected
12 in and incorporated into the Company's stock price during the Class Period.

13 33. As a result of the foregoing, the market for Medbox's common stock
14 promptly digested current information regarding Medbox from all publicly
15 available sources and reflected such information in Medbox's stock price. Under
16 these circumstances, all purchasers of Medbox's common stock during the Class
17 Period suffered similar injury through their purchase of Medbox's common stock
18 at artificially inflated prices, and a presumption of reliance applies.
19
20

21 **PLAINTIFF'S CLASS ACTION ALLEGATIONS**

22 34. Plaintiff brings this action as a class action pursuant to Federal Rule of
23 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all persons who
24 purchased the common stock of Medbox during the Class Period and who were
25 damaged thereby. Excluded from the Class are the defendants, the current and
26 former officers and directors of the Company, members of their immediate
27
28

1 families and their legal representatives, heirs, successors or assigns and any entity
2 in which the defendants have or had a controlling interest.

3
4 35. The members of the Class are so numerous that joinder of all
5 members is impracticable. Throughout the Class Period, Medbox's common stock
6 was actively traded on the OTCQB. While the exact number of Class members is
7 unknown to Plaintiff at this time and can only be ascertained through appropriate
8 discovery. Plaintiff believes that there are at least hundreds of members in the
9 proposed Class. Members of the Class may be identified from records maintained
10 by Medbox or its transfer agent and may be notified of the pendency of this action
11 by mail, using a form of notice customarily used in securities class actions.
12
13

14
15 36. Plaintiff's claims are typical of the claims of the members of the
16 Class, as all members of the Class are similarly affected by the defendants'
17 wrongful conduct in violation of federal law that is complained of herein.
18

19 37. Plaintiff will fairly and adequately protect the interests of the
20 members of the Class and have retained counsel competent and experienced in
21 class and securities litigation.
22

23 38. Common questions of law and fact exist as to all members of the
24 Class and predominate over any questions solely affecting individual members of
25 the Class. Among the questions of law and fact common to the Class are:

26 (a) whether the federal securities laws were violated by the defendants'
27 acts as alleged herein;
28

1 (b) whether the misstatements and omissions alleged herein were made
2 with scienter;

3
4 (c) whether statements made by the Individual Defendants to the
5 investing public during the Class Period misrepresented and/or omitted material
6 facts about the business, prospects, and operations of Medbox; and

7
8 (d) to what extent the members of the Class have sustained damages and
9 the proper measure of damages.

10 39. A class action is superior to all other available methods for the fair
11 and efficient adjudication of this controversy since joinder of all members is
12 impracticable. Furthermore, as the damages suffered by individual Class members
13 may be relatively small, the expense and burden of individual litigation make it
14 impossible for members of the Class to redress individually the wrongs done to
15 them. There will be no difficulty in the management of this action as a class action.
16
17

18 **FIRST CLAIM**

19
20 **Violation of Section 10(b) of The Exchange Act and Rule 10b-5**
21 **Promulgated Thereunder Against All The Defendants**

22 40. Plaintiff repeats and realleges each and every allegation contained
23 above as if fully set forth herein.

24 41. This First Claim is asserted against Defendant Medbox, and the
25 Individual Defendants.

26
27 42. During the Class Period, the defendants carried out a plan, scheme
28 and course of conduct which was intended to, and throughout the Class Period, did:

1 (1) deceive the investing public, including Plaintiff and other Class members, as
2 alleged herein; and (2) cause Plaintiff and other members of the Class to purchase
3 and/or sell Medbox common stock at artificially inflated and distorted prices. In
4 furtherance of this unlawful scheme, plan and course of conduct, the defendants,
5 individually and as a group, took the actions set forth herein.
6

7
8 43. The defendants, individually and in concert, directly and indirectly, by
9 the use, means or instrumentalities of interstate commerce and/or of the mails,
10 engaged and participated in a continuous course of conduct to conceal adverse
11 material information about the business, operations and future prospects of
12 Medbox as specified herein.
13

14
15 44. The defendants employed devices, schemes and artifices to defraud,
16 while in possession of material, adverse non-public information and engaged in
17 acts, practices, and a course of conduct as alleged herein in an effort to assure
18 investors of Medbox's value and performance and continued substantial growth,
19 which included the making of, or the participation in the making of, untrue
20 statements of material facts and omitting to state material facts necessary in order
21 to make the statements made about Medbox and its business operations and future
22 prospects in light of the circumstances under which they were made, not
23 misleading, as set forth more particularly herein, and engaged in transactions,
24 practices and a course of business that operated as a fraud and deceit upon the
25 purchasers of Medbox's common stock during the Class Period.
26
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1 45. Each of the defendants' primary liability, and controlling person
2 liability, arises from the following facts: (1) the defendants were high-level
3 executives, directors, and/or agents at the Company during the Class Period and
4 members of the Company's management team or had control thereof; (2) each of
5 the defendants, by virtue of his responsibilities and activities as a senior officer
6 and/or director of the Company, was privy to and participated in the creation,
7 development and reporting of the Company's financial condition; (3) each of the
8 defendants enjoyed significant personal contact and familiarity with the other
9 defendants and was advised of and had access to other members of the Company's
10 management team, internal reports, and other data and information about the
11 Company's finances, operations, and sales at all relevant times; (4) each of the
12 defendants was aware of the Company's dissemination of information to the
13 investing public that they knew or recklessly disregarded was materially false and
14 misleading; and (5) each of the defendants culpably participated in the wrongful
15 conduct alleged herein.

16
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21 46. The defendants had actual knowledge of the misrepresentations and
22 omissions of material facts set forth herein, or acted with reckless disregard for the
23 truth in that they failed to ascertain and to disclose such facts, even though such
24 facts were available to them. Such defendants' material misrepresentations and/or
25 omissions were done knowingly or recklessly and for the purpose and effect of
26 concealing Medbox's financial condition and future business prospects from the
27
28

1 investing public and supporting the artificially inflated or distorted price of its
2 common stock. As demonstrated by the defendants' overstatements and
3 misstatements of the Company's financial condition and business prospects
4 throughout the Class Period, the defendants, if they did not have actual knowledge
5 of the misrepresentations and omissions alleged, were reckless in failing to obtain
6 such knowledge by deliberately refraining from taking those steps necessary to
7 discover whether those statements were false or misleading.
8
9

10 47. As a result of the dissemination of the materially false and misleading
11 information and failure to disclose material facts, as set forth above, the market
12 price for Medbox's common stock was artificially inflated during the Class Period.
13 In ignorance of the fact that market prices of Medbox's publicly-traded common
14 stock were artificially inflated or distorted, and relying directly or indirectly on the
15 false and misleading statements made by the defendants, or upon the integrity of
16 the market in which the Company's common stock trade, and/or on the absence of
17 material adverse information that was known to or recklessly disregarded by the
18 defendants but not disclosed in public statements by the defendants during the
19 Class Period, Plaintiff and the other members of the Class acquired and/or sold
20 Medbox common stock during the Class Period at artificially high prices and were
21 damaged thereby.
22
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24
25

26 48. At the time of said misrepresentations and omissions, Plaintiff and
27 other members of the Class were ignorant of their falsity, and believed them to be
28

1 true. Had Plaintiff and the other members of the Class and the marketplace known
2 the truth regarding Medbox's financial results, which were not disclosed by the
3 defendants, Plaintiff and other members of the Class would not have purchased or
4 otherwise acquired Medbox common stock, or, if they had acquired such common
5 stock during the Class Period, they would not have done so at the artificially
6 inflated prices or distorted prices at which they did.

9 49. By virtue of the foregoing, the defendants have violated Section 10(b)
10 of the Exchange Act, and Rule 10b-5 promulgated thereunder.

12 50. As a direct and proximate result of the defendants' wrongful conduct,
13 Plaintiff and the other members of the Class suffered damages in connection with
14 their respective purchases and sales of the Company's common stock during the
15 Class Period.

17 51. This action was filed within two years of discovery of the fraud and
18 within five years of Plaintiff's purchases of securities giving rise to the cause of
19 action.

21 **SECOND CLAIM**

22 **Violation Of Section 20(a) of The Exchange Act** 23 **Against the Individual Defendants**

24 52. Plaintiff repeats and realleges each and every allegation contained
25 above as if fully set forth herein.

27 53. This Second Claim is asserted against each of the Individual
28 Defendants.

1 54. The Individual Defendants acted as controlling persons of Medbox
2 within the meaning of Section 20(a) of the Exchange Act as alleged herein. By
3 virtue of their high-level positions, agency, and their ownership and contractual
4 rights, participation in and/or awareness of the Company's operations and/or
5 intimate knowledge of aspects of the Company's revenues and earnings and
6 dissemination of information to the investing public, the Individual Defendants had
7 the power to influence and control, and did influence and control, directly or
8 indirectly, the decision-making of the Company, including the content and
9 dissemination of the various statements that Plaintiff contends are false and
10 misleading. The Individual Defendants were provided with or had unlimited access
11 to copies of the Company's reports, press releases, public filings and other
12 statements alleged by Plaintiff to be misleading prior to and/or shortly after these
13 statements were issued, and had the ability to prevent the issuance of the
14 statements or to cause the statements to be corrected.

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20 55. In particular, each of these defendants had direct and supervisory
21 involvement in the day-to-day operations of the Company and, therefore, is
22 presumed to have had the power to control or influence the particular transactions
23 giving rise to the securities violations as alleged herein, and exercised the same.

24
25 56. As set forth above, Medbox violated Section 10(b) and Rule 10b-5.
26 By virtue of their positions as controlling persons, the Individual Defendants are
27 liable pursuant to Section 20(a) of the Exchange Act as they culpably participated
28

1 in the fraud alleged herein. As a direct and proximate result of the defendants'
2 wrongful conduct, Plaintiff and other members of the Class suffered damages in
3 connection with their purchases of the Company's common stock during the Class
4 Period.
5

6 57. This action was filed within two years of discovery of the fraud and
7 within five years of each plaintiff's purchases of securities giving rise to the cause
8 of action.
9

10 **WHEREFORE**, Plaintiff prays for relief and judgment, as follows:
11

12 (a) Determining that this action is a proper class action, designating
13 Plaintiff as class representative under Rule 23 of the Federal Rules of Civil
14 Procedure and Plaintiff's counsel as Class Counsel;
15

16 (b) Awarding compensatory damages in favor of Plaintiff and the
17 other Class members against all the defendants, jointly and severally, for all
18 damages sustained as a result of the defendants' wrongdoing, in an amount to be
19 proven at trial, including interest thereon;
20

21 (c) Awarding Plaintiff and the Class their reasonable costs and
22 expenses incurred in this action, including counsel fees and expert fees; and
23

24 (d) Such other and further relief as the Court may deem just and
25 proper.
26

27 **JURY TRIAL DEMANDED**

28 Plaintiff hereby demands a trial by jury.

1 Dated: January 28, 2015

Respectfully submitted,

2 **THE ROSEN LAW FIRM, P.A.**

3
4 /s Laurence Rosen

5 Laurence M. Rosen, Esq. (SBN 219683)

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