



February 18, 2014

Time to Go "Old School": **Citron Busts Medbox (OTCBB:MDBX) for** **MULTIPLE FRAUDS -- Stock Is Worthless**

Citron Research is in our 13th year of publishing investigative research into suspect publicly traded companies. During that span, **Citron has exposed more corporate fraud than any other source on Wall Street**. Our published work has focused on over 150 companies, some with very notable individual investors and firms publicly "on the other side".

Our writings have warned the public to steer clear of investments rigged to vaporize their cash. All of this writing is available for anyone to evaluate.

Much of our work, especially in our early years of publishing, focused on the sparsely regulated Over-the-Counter and Pink Sheets markets

When it comes to exposing fraud on the **Pink Sheets and the OTCBB**, Citron has **NEVER** been wrong. Yes, we know **NEVER** is a bold statement ... but it is what it is.

Introducing Medbox

In this report Citron is not going to rehash the numerous law enforcement red flags adorning the bios of the nefarious characters behind MedBox, and their many go-rounds with criminal and civil law enforcement entities. Citron believes these disturbing facts are extremely relevant to investors, but they have been previously detailed very thoroughly by the Southern Investigative Reporting Foundation as well as other media outlets. For those of you who do not know who is running the show, you can read it [here](http://sirf-online.org/tag/medbox/)

<http://sirf-online.org/tag/medbox/>

Instead, this report will focus on the systemic fraud throughout this company and the stock promotion behind the fraud that has brought this worthless company to a \$1 bil + market cap. Yes you read that correctly. There are currently 44,500,750 shares outstanding.



So What Exactly is Medbox Selling?

Good question. Medbox claims they are not in the marijuana business, but rather offering products and services to candidates for dispensaries. That means they offer legal services (even though they are not lawyers), and construction build-out consulting (even though they are not construction contractors) to a highly limited cohort of wannabe dispensary operators. They do offer to help clients fill out applications for dispensary licenses in the states where marijuana sales are legal, along with literally thousands of professional and non-professional consultants competing for the business.

And **if and only if** their client actually obtains a license for a dispensary, they are contractually obligated to buy a dispensing machine from Medbox.

Ironically, Medbox's founder and COO Vincent Mehdizadeh was formerly busted for dispensing legal advice without a law license (can be read in previously stated article).



Medbox is Spitting In The Face of the U.S. Government.

In January of 2014 FINRA issued a warning about investing in marijuana stocks and possibility of fraud. In the warning we read:



Marijuana Stock Scams

“Regardless of how you first hear about them, the offers almost always contain hallmarks of “pump and dump” ploys. Specifically, fraudsters lure investors with aggressive, optimistic — and potentially false and misleading — statements or information designed to create unwarranted demand for shares of a small, thinly traded company with little or no history of financial success (the pump).”

<http://www.finra.org/investors/protectyourself/investoralerts/fraudsandscams/p325352>

In response to the warning Medbox's founder had the audacity to issue a response, **posturing his reply to make it seem this warning did not apply to his company.**

In Medbox's official corporate response, we read:

"Some of the public companies in the marijuana sector are in the business of self-promotion ... Since day 1, our company has... **demonstrated profitability** while not deriving revenue from the cultivation or sale of the marijuana itself. As far as I know, we are the only company in the space to have accomplished those feats.

-- Vincent Mehdizadeh, Chief Operations Officer at Medbox, Inc
-- Corporate PR, January 13, 2014.

<http://www.prnewswire.com/news-releases/medbox-comments-on-finra-advisory-concerning-marijuana-stocks-239909031.html>

At the time of the above quote, their OTC/Pink Sheet Disclosure Statement for Q3 2013 indeed claimed profitability..albeit small and questionable

<http://www.otcmarts.com/financialReportViewer?symbol=MDBX&id=113733>

But wait a new filing on January 21, 2014, just over a week later, reports on **THE SAME quarter with a completely different set of financials that show the company is actually losing money.**

<http://www.sec.gov/Archives/edgar/data/1547996/000138730814000004/form1012g.htm>

Comparing the two sets of financials you will see that there is not just one line item that has changed but rather – **THE COMPANY LITERALLY HAS 2 Sets of Financials...or maybe 3.**

If shareholders want to be forgiving (which regulators most definitely **are not**) they can say: Oh c'mon, the company had one bad accounting quarter ... **NOT SO!** Medbox has systematically and repeatedly committed FRAUD on their financial statements, and **the public statements they make about their financials are laced with lies!**

A press release on April 2, 2013 reads:

"...making Q1 2013 revenue well in excess of \$2 million -- a company record"

<http://ih.advn.com/p.php?pid=nmona&article=56990343>

Two weeks later on April 15th, it reaffirms that lie in another PR:

"Medbox is proud to report that Q1 2013 was its highest revenue quarter in the company's history at more than \$2 million booked as revenue ..."

<http://ih.advfn.com/p.php?pid=nmona&article=57166100>

Bit just one month later on May 21, 2013 in an SEC filing for Q1 we read:

"Revenues \$ 1,749,554.93"

<https://www.otciq.com/otciq/ajax/showFinancialReportById.pdf?id=105065>

OK, c'mon Citron what's \$300,000 between friends? Don't nitpick over a small change!
....Right?

Not right. It gets worse...again. On January 29 2014, a new filing reports Q1 2013 yet again. This time, its:

"Revenues \$1,245,522"

So their Q1 2013 revenues are now 40% less that initially stated, during the time the company raised money.

<https://www.otciq.com/otciq/ajax/showFinancialReportById.pdf?id=115813>



More Fraud by Medbox

Just in case publishing ~~two~~ (oops!) three sets of financials published to the public was not enough, let us now illustrate the fraud at the core of the business.

Most recently the company solicited business in Massachusetts to entrepreneurs wanting to apply for dispensary licenses. In a small local newspaper in Massachusetts we read of the continued fraud by Medbox:

SouthCoastTODAY.com

"In various Phase 1 application filings with the Department of Public Health -- which is overseeing medical marijuana in Massaschusetts -- Mehdizadeh wrote in a form letter that he has "over \$62 million in available assets, and pledges \$1 million for setting up dispensaries.

<http://t.southcoasttoday.com/apps/pbcs.dll/article?AID=/20131015/NEWS/310150327&template=abletart>

In the same article we read:

"Two Plymouth County applicants, Dracut-based Meyesone and Plymouth-based Fogo's

listed Mehdizadeh's company Vincent Chase LLC as their financier, and both were rejected in their Phase 1 bid."

Wait, these multiple applications are in direct contrast to what Mr. Mehdizadeh has told both Wall Street and State Health Regulators

"I have no financial interest in any of these dispensaries other than making sure that the clients that we have been hired to represent obtain licensing."

-- Vincent Mehdizadeh

Founder and principal shareholder of Medbox



So How Did Medbox Do in Massachusetts?

Assuming you are the type of investor who can look past fraud, a non-scaleable business model, and an insane market cap, and want to be look at just corporate promises -- we point you to the disaster in Massachusetts.

Medbox put on quite the full-court marketing blitz in Massachusetts. With the whole dispensary licensing process going into full swing, the company left no stones unturned in its quest to sign up clients, putting on seminars and producing a lot of targeted videos:

(Massachusetts Medical Marijuana Dispensary & Rules Seminar Part1- Intro to Medbox and Kind Clinics – Bedrick)

<http://www.youtube.com/watch?v=41CO6c1Fwrg>

(How a Massachusetts Medical Cannabis Dispensary would operate with the Medbox-MDS technology)

<http://www.youtube.com/watch?v=XcJXUxT20oc>

In addition, there were the big media appearances and interviews:

<http://www.bostonmagazine.com/news/blog/2013/04/03/medbox-medical-marijuana-vending-machine/>

Medbox's self proclaimed greatness came from the fact that they had been able to procure a fair number of licenses for their clients in Arizona. This seems to have been because the licenses were awarded by blind lottery, without regard to the credentials of the applicants, or how many applications were submitted.

Well Citron is pleased to present all those who made it to Phase 2 in Massachusetts:

<http://www.mass.gov/eohhs/gov/departments/dph/programs/hcq/medical-marijuana/dispensary-application-materials.html>

And as far as Citron can tell, **only one of them is a Medbox client**- but it gets so much worse. In order to prove the accusations made in the local article, we see this from the one client from Medbox who made it to phase 2:

THEY HAD THEIR LEASE SIGNED OVER TO THEM FROM MEDBOX. This directly contradicts the company's disclosures to investors and their auditors. Here is the smoking gun:

ORIGINAL

ASSIGNMENT AND ASSUMPTION OF LEASE

This **Assignment and Assumption of Lease** (this "Agreement") has been executed this day of November 2013, effective as of the "Effective Date" defined below, between **MEDBOX, INC.** ("Assignor"), and **TOTAL HEALTH AND WELLNESS, INC.** ("Assignee").

RECITALS:

A. Reference is hereby made to that certain Commercial Building Lease dated November 2, 2013, by and between *Dr. Kenneth Sullivan-Bol*, as landlord ("Landlord"), and Assignor, as tenant (the "Lease"), demising those certain premises currently commonly known as 26 Roberts Avenue, North Adams, Massachusetts, all as more particularly described in the Lease (the "Premises"). Assignor is the current holder of the tenant's interest in the Lease.

B. Assignor and Assignee now desire to effectuate the assignment and assumption of the Lease between Assignor and Assignee on the terms and conditions hereinafter set forth.

PROVISIONS:

IN CONSIDERATION of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Assignor and Assignee hereby agree as follows:

1. Assignment and Assumption of Lease. Subject to and conditioned upon the terms and conditions set forth in this Agreement, Assignor hereby assigns, transfers and sets over unto Assignee, effective as of the Effective Date (defined below), all of Assignor's rights, title and interests in and to the Lease, TO HAVE AND TO HOLD the same unto Assignee, its successors and assigns forever, subject to the terms, covenants, conditions and provisions of the Lease. Assignee hereby accepts such assignment and hereby assumes, for the benefit of Assignor and Landlord, the full and timely payment and performance of all of the covenants, agreements, terms, provisions, conditions, limitations and other obligations accruing and to be paid or performed by tenant under the Lease on and after the Effective Date. This document may be executed simultaneously in any number of counterparts.

2. Condition to Assignment. This assignment is upon the express condition that the Department of Public Health of the Commonwealth of Massachusetts determines that Assignee qualifies for registration as a Registered Marijuana Dispensary, pursuant to 105 CMR 725.100, *et seq.* (the date upon which such determination is made by the Department of Health, the "Effective Date").

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as a sealed instrument on the date first specified above.

ASSIGNOR:	ASSIGNEE:
MEDBOX, INC.	TOTAL HEALTH AND WELLNESS, INC.
By: <u>Bruce Bednick DC</u>	By: _____
Name: <u>BRUCE BEDNICK DC</u>	Name: _____
Title: <u>CEO MEDBOX</u>	Title: _____
Duly authorized	Duly authorized

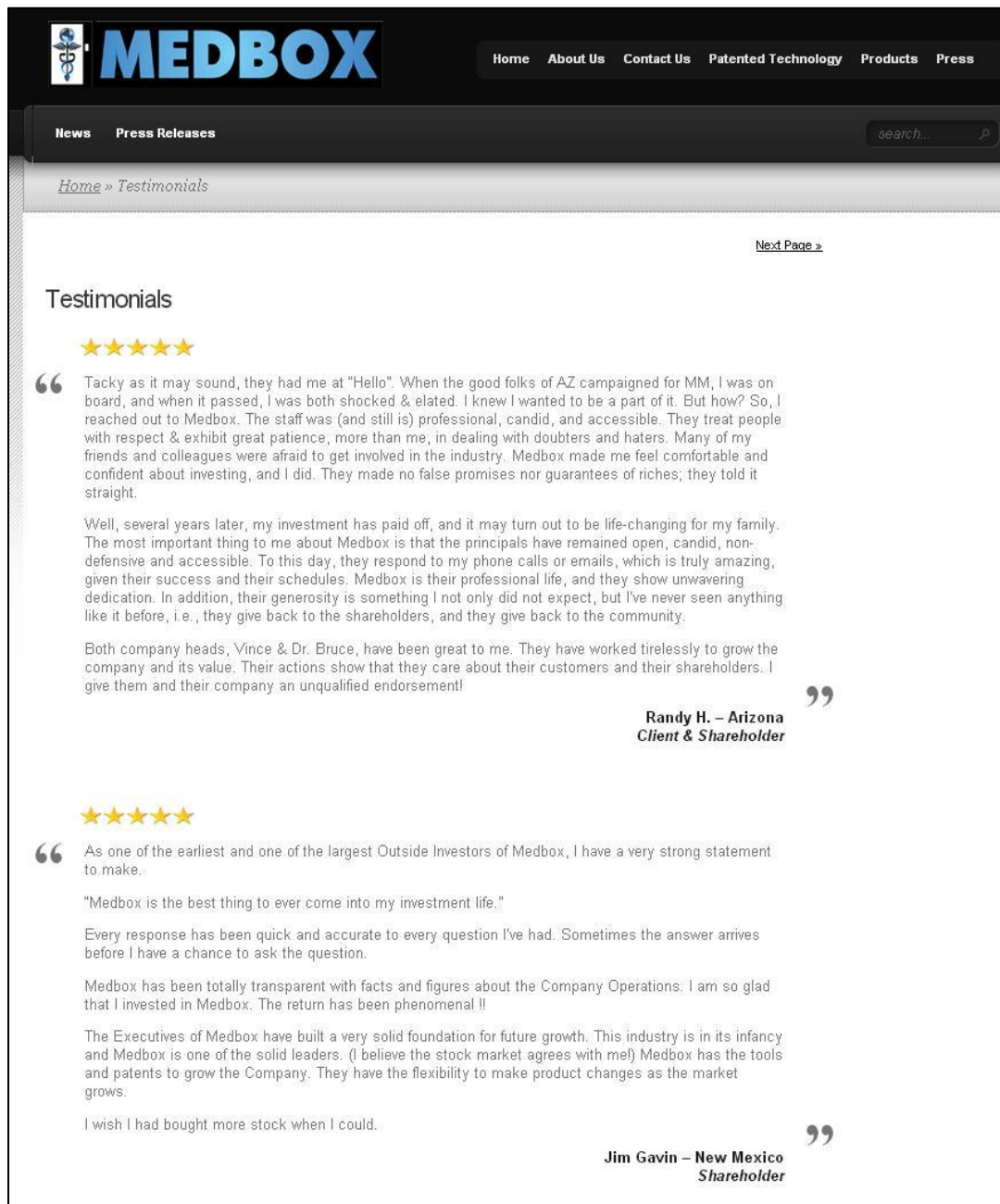
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<http://www.mass.gov/eohhs/docs/dph/quality/drugcontrol/medical-marijuana/applications/total-health-1of2-app.pdf> (pg 83)

Don't even bother asking where this contingent liability appears on Medbox's financial statements.

A Promotion to Make Madoff Proud

When discussing the word fraud over the past 6 years, we admit the word “Madoff” has become a completely overused cliché when invoked to compare to another financial scam. But then when we read the “testimonials” on the Medbox webpage, we can’t help but resurrect this comparison. All of these statements will one day be used as evidence in the eventual stock fraud case against Medbox and its executives.



The screenshot shows the Medbox website's testimonials page. The header features the Medbox logo and navigation links: Home, About Us, Contact Us, Patented Technology, Products, and Press. Below the header, there are tabs for News and Press Releases, and a search bar. The main content area is titled "Testimonials" and includes a "Next Page »" link. The first testimonial is from Randy H. – Arizona Client & Shareholder, who provides a five-star rating and a detailed endorsement of Medbox's professionalism and customer service. The second testimonial is from Jim Gavin – New Mexico Shareholder, also providing a five-star rating and praising Medbox's transparency and growth potential.

MEDBOX

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Testimonials

★★★★★

“Tacky as it may sound, they had me at “Hello”. When the good folks of AZ campaigned for MM, I was on board, and when it passed, I was both shocked & elated. I knew I wanted to be a part of it. But how? So, I reached out to Medbox. The staff was (and still is) professional, candid, and accessible. They treat people with respect & exhibit great patience, more than me, in dealing with doubters and haters. Many of my friends and colleagues were afraid to get involved in the industry. Medbox made me feel comfortable and confident about investing, and I did. They made no false promises nor guarantees of riches; they told it straight.

Well, several years later, my investment has paid off, and it may turn out to be life-changing for my family. The most important thing to me about Medbox is that the principals have remained open, candid, non-defensive and accessible. To this day, they respond to my phone calls or emails, which is truly amazing, given their success and their schedules. Medbox is their professional life, and they show unwavering dedication. In addition, their generosity is something I not only did not expect, but I've never seen anything like it before, i.e., they give back to the shareholders, and they give back to the community.

Both company heads, Vince & Dr. Bruce, have been great to me. They have worked tirelessly to grow the company and its value. Their actions show that they care about their customers and their shareholders. I give them and their company an unqualified endorsement!

**Randy H. – Arizona
Client & Shareholder**

★★★★★

“As one of the earliest and one of the largest Outside Investors of Medbox, I have a very strong statement to make.

“Medbox is the best thing to ever come into my investment life.”

Every response has been quick and accurate to every question I've had. Sometimes the answer arrives before I have a chance to ask the question.

Medbox has been totally transparent with facts and figures about the Company Operations. I am so glad that I invested in Medbox. The return has been phenomenal !!

The Executives of Medbox have built a very solid foundation for future growth. This industry is in its infancy and Medbox is one of the solid leaders. (I believe the stock market agrees with me!) Medbox has the tools and patents to grow the Company. They have the flexibility to make product changes as the market grows.

I wish I had bought more stock when I could.

**Jim Gavin – New Mexico
Shareholder**

<http://www.thedispensingsolution.com/cat/testimonials>

(NOTE: Citron has archived page prints of these pages of testimonials and will republish them with its own link if the company attempts to remove them from its website.)

Testimonials from clients? Shareholders? Both?

“Medbox made me feel comfortable and confident about investing, and I did. They made no false promises nor guarantees of riches; they told it straight....Well, several years later, my investment has paid off, and it may turn out to be life-changing for my family.”

“As one of the earliest and one of the largest Outside Investors of Medbox, I have a very strong statement to make. Medbox is the best thing to ever come into my investment life.”

“If I could turn back time I would have invested all my liquid resources in their business. Quite simply, Medbox has proven the single best investment for myself and my family. We are reaping the rewards of their intuition and ability to react properly as they break ground in an explosive market.

If you are looking for a real investment in an emerging market, look no further, the facts surrounding Medbox speak for themselves.”

“This is a letter of recommendation for Medbox and Vincent Mehdizadeh as it relates to my business interactions with him. I find Vince to be honest and forthright in every aspect of our business relationship in the past four years. I am currently involved with Vince in another business venture and I would not hesitate to enter into future business ventures with him. Vince is hard working and has fantastic communication skills with all of his clients. Never once has Vince left me in the dark regarding any issues and he always returned my inquiries in a timely manner.

Please feel free to have potential clients contact me if they have any questions regarding Vince and his character.”

And this one is our favorite. It demonstrates how management’s actions are so exaggeratedly promotional ... oblivious to the lines between investors and customers ... unaware that this admission **proves Medbox’s client relationships are riddled with related-party transactions.**

"I contacted what was then Vincent's private company, Medicine Dispensing Systems, back in 2011 so I could get started in the MMJ industry with a leader. Vincent has ushered me through every step of my desire to operate a new business and I credit him and Medbox with getting my small group of partners a dispensary license in Arizona. I couldn't have done it without him and his expert team. In fact, when the Arizona government challenged the dispensary program and licensing was halted for a year, **Vincent gave me a personal loan of \$7,000** in order to help me and my family out as we had invested most of our money into the new business and were not expecting the circumstances beyond everyone's control occurring at that moment. Vincent didn't have to do that but that's why Vincent is as successful as he is. He always tells me that in life people should pay it forward and not expect anything in return. Well, I can safely say that Vincent deserves all the success. He has worked hard for it!"

Business Model

We feel stupid even writing this, but putting a marijuana vending machines behind the counter is nothing short of stupid. They should put it next to the beer machine and the Xanax machine. It is so ridiculous that they cannot even sell the machines to people who also do not sign up for the "total program". Needless to say, anyone who thinks you will buy marijuana out of a machine without smelling it- has never bought marijuana.

Old School Stock Promotion Market Manipulation Maneuver

In what is probably the most ridiculous corporate action in the history of stock promotions, Medbox decided to declare something they called a "stock split" but in reality executed a stock dividend of a restricted share per each share outstanding, in December.

As justified by management:

" We wanted to reward existing shareholders and also increase the stocks marketability by making it attractive to a larger number of potential investors"

*-- Vincent Mehdizadeh,
COO and Founder of Medbox, Inc"*

What? Now you are getting high on your own supply. What other company has rewarded its shareholders by giving them a whole restricted share without splitting the stock -- **IT HAS NEVER BEEN DONE.** Also, how does it make it attractive after the split? If anything, one would be crazy to buy the stock anytime after the split -- you get half of what someone who bought it the day before got.

This was a clear attempt to manipulate the stock through either a short squeeze, a rogue broker operation, or a simple “something for nothing” scheme – all three are ridiculous. Management goes on to say:

"What sets us apart from most other companies in our space is our low issued and outstanding share count, attention to transparency, relationship with our shareholders, and overall work ethic...

--Dr. Bruce Bedrick
CEO of Medbox, Inc

<http://www.prnewswire.com/news-releases/medbox-declares-a-2-for-1-stock-split-in-the-form-of-a-special-stock-dividend-236547271.html>

No! What sets you apart from other companies is that you are a scam stock promotion - and you regard your potential shareholders as too naïve to understand that an investor who buys your shares today is going to receive half the ownership of someone who bought shares prior to December 18, 2013.

Just in Case you want more Fraud ... Here it is, served cold.



You Lied to Me at Hello!

It seems like Medbox management cannot help themselves – they cannot control their serial lying in promoting their stock. The first thing displayed to a visitor on their corporate home page is a video link (which we assume investors watch because they obviously don't read). It is for Medbox Lockbox Express, and the first shot in the video is:



**“MEDBOX IS THE LEADER IS SAFE AND SECURE
AUTOMATED PHARMACEUTICAL SYSTEMS.”**

– Medbox Home Page Video

<http://www.thedispensingsolution.com/>

The leader? Medbox has not sold even ONE Lockbox Express system! Not even one sale ... amidst a highly competitive industry. Worse, according to their filings, this product is not even available for sale -- just a dream so far.

Meanwhile, here is the link to an entire annual conference and trade show of dozens of credible and mature companies competing in this space, which draws over 500,000 visitors: http://www.rxinsider.com/pharmacy_trade_show.htm

Mainstream Media

Some of you might have bought this stock because of the company’s numerous appearances on mainstream media. It should be noted that the media is not very careful about vetting these companies – they want a marijuana story, so they get some intern to go call people ... and this is the result they get.

“What people don’t understand ... there is a tremendous opportunity for large organizations, large franchises like McDonalds, agricultural organizations like RJR or technology like IBM. Medbox has that ability to be all of those companies.

*– Dr. Bruce Bedrick, CEO of Medbox
CNBC Interview, January 6, 2014*

[\(Click to see Medbox CEO Bedrick’s CNBC appearance\)](#)



Anticipating Medbox's Predictable Response to Citron

A special note to founder Vincent Mehdizadeh from Andrew Left, editor of Citron Research:

Dear Vincent and Bruce,

Let's skip the bullshit and cut right to the chase. Your situation is hopeless. Your track record of corporate misdeeds at Medbox and misleading shareholders is beyond salvage. I know when you read this report, you'll feel a lot of righteous indignation and your first reaction will be to want to sue me. I hope you do!

If you would be so kind as to file a suit, my attorneys will use the power of discovery afforded by civil trial procedures right here in California to unravel this entire scam and lay it on the doorstep of Federal regulators. There is truly nothing you can say to defend yourself from the contents of this report except to contact your personal lawyers immediately and ask them what steps you should take so you can avoid going to jail. Nothing more to be said.

In the meantime, I sincerely hope you and your team have not sold **a single share of restricted stock away from the market** – because we will find it in discovery. Please sue me.

Editor, Citron Research



Conclusion: This is a Full On FRAUD, Folks

You Have to be Smoking Crack to Buy this Marijuana Stock

It is not as if Medbox is a company that has had a few reporting deficiencies amidst a small but growable business core. Rather, everything they do seems to have an underlying purpose of deception. There is a consistent pattern here, which runs the spectrum of nearly every corporate action, from the most significant:

- Management Backgrounds in Consumer Fraud
- Fraudulent Financial Statements
- Unidentified Related Party Transactions
- Market Manipulation of Securities

to as small but obvious as their own self-description:

"Our Company has a strong national and international presence"

-- Medbox Website

<http://www.thedispensingsolution.com/about-us>

... despite most of the listed offices being mere P.O. boxes that exist to create a deceptive impression for naive investors.

So What's it Worth?

0 ... Zero...Zilch...Goose Egg...Nada ...or in Pink Sheet terms .0001.

The company has nothing unique or proprietary. (We do not believe their patent will provide any realistic obstacle to competition, and is not broadly enforceable.) They own a ridiculous vending machine business, peddling a machine that they cannot seem to give away....they have to force it down their clients' throats, contractually speaking. The only thing in this operation that is more shaky than the business model is the management.

Run, don't walk!