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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

MATTHEW DONNINO, Individually
and on Behalf of All Others Similarly
Situated,

Plaintiff,

vs.

MEDBOX, INC., PEJMAN VINCENT
MEHDIZADEH, BRUCE BEDRICK,
THOMAS IWANSKI, GUY
MARSALA, and DOUGLAS
MITCHELL,

Defendants.

Case No.:

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

CLASS ACTION

DEMAND FOR JURY TRIAL

1 Plaintiff, Matthew Donnino (“Plaintiff”), individually and on behalf of all other
2 persons similarly situated, by his undersigned attorneys, for his complaint against
3 defendants, alleges the following based upon personal knowledge as to himself and his
4 own acts, and information and belief as to all other matters, based upon, inter alia, the
5 investigation conducted by and through his attorneys, which included, among other
6 things, a review of the defendants’ public documents, conference calls and
7 announcements made by defendants, United States Securities and Exchange Commission
8 (“SEC”) filings, wire and press releases published by and regarding Medbox, Inc.
9 (“Medbox” or the “Company”), analysts’ reports and advisories about the Company, and
10 information readily obtainable on the Internet. Plaintiff believes that substantial
11 evidentiary support will exist for the allegations set forth herein after a reasonable
12 opportunity for discovery.
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17 **INTRODUCTION AND NATURE OF THE ACTION**

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19 1. This is a securities class action on behalf of all purchasers of the common
20 stock of Medbox between November 20, 2013 and December 29, 2014, inclusive (the
21 “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934
22 (the “Exchange Act”).
23

24 2. Medbox, through its subsidiary Medicine Dispensing Systems, sells its
25 patented vending machines that dispense medical marijuana, software and consulting
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1 services to pharmacies, alternative medicine dispensaries and local governments in the
2 United States.

3 3. Medbox was founded in 2010 by Defendant Pejman Vincent Mehdizadeh
4 (“Mehdizadeh”), a mid-30s aged Iranian immigrant with a checkered history of business
5 failures and criminal conduct, including grand theft in 2013. At the start of the Class
6 Period on November 20, 2013, Defendant Mehdizadeh was Medbox’s controlling
7 shareholder, owning approximately 65% of its common stock, and served as the
8 Company’s Chief Operating Officer (“COO”) and Chairman of its Board of Directors
9 (“Board”).
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13 4. During the Class Period, Defendants issued materially false and misleading
14 statements regarding the Company’s financial results for the fiscal year ended December
15 31, 2013 (“FY 2013”) and each of the interim financial periods ended September 30,
16 2013 (“3Q 2013”), December 31, 2013 (“4Q 2013”), March 30, 2014 (“1Q 2014”), June
17 30, 2014 (“2Q 2014”) and September 30, 2014 (“3Q 2014”). Specifically, Defendants
18 overstated Medbox’s revenues by recognizing revenue on customer contracts before it
19 had been earned. As a result of these false statements, Medbox’s stock traded at
20 artificially inflated prices during the Class Period, reaching an intraday Class Period high
21 of \$93.50 on January 8, 2014.
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26 5. While Defendants kept the full extent of their fraud concealed throughout
27 the Class Period, the market learned bits of the truth through several partial disclosures.
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1 6. Initially, the price the Company's common stock declined partially in
2 January 2014 when the Financial Industry Regulatory Authority ("FINRA") issued an
3 advisory concerning risks related to investing in marijuana related stocks. To keep the
4 price of Medbox stock inflated, Defendants issued an immediate response reassuring the
5 market that Medbox's financial reporting was sound, quoting Defendant Mehdizadeh
6 emphasizing that: "Since day 1, our company has made its quarterly reports and
7 financials available to the public, kept shareholders diligently informed about the
8 company and its operating personnel at all times, offered ongoing support to its many
9 clients, completed an audit of its financials, ... and also demonstrated profitability while
10 not deriving revenue from the cultivation or sale of the marijuana itself."
11

12 7. Thereafter, on February 18, 2014, *Citron Research* issued a report accusing
13 Medbox of keeping three sets of books and stating, among other things, that "systemic
14 fraud" and stock promotion had facilitated the Company's \$1 billion market
15 capitalization. Again to keep the stock price inflated, the same morning *Citron Research*
16 issued its report, the Company issued a press release commending the Obama
17 administration for new rules it said would ease the concerns of banks wanting to deal
18 with businesses that legally sell marijuana. In its release, the Company noted that its
19 CEO would appear on CNBC's Closing Bell on Tuesday, February 18, and Fox Business
20 on Wednesday, February 19. Later in the day on February 18, 2014, following the
21 issuance of the damning *Citron Research* report, the Company issued a rebuke of the
22 *Citron Research* report quoting Defendant Mehdizadeh claiming that while it had
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1 discovered some past accounting “errors,” Medbox was now “getting it right and being
2 fully transparent with [its] shareholders at all times” and had “instituted better controls
3 over financial reporting to avoid further corrections.” Following the news of the day,
4 shares of Medbox decreased from an opening price of \$33.42 per share to close at \$29.80
5 per share on February 18, 2014, closing lower again on February 19, 2014 at \$27.25 per
6
7 share.

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9 8. On or about April 10, 2014, Defendant Mehdizadeh resigned as COO and
10 as a director of Medbox, but was appointed as “Senior Strategist and Founder” of
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12 Medbox.

13 9. Thereafter, the price of Medbox stock declined again, dropping from a
14 closing price of \$17.52 per share on May 16, 2014 to close down at \$16.11 per share on
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16 May 19, 2014, following the Friday, May 16, 2014 issuance of a report by the SEC
17 warning of “possible scams involving marijuana-related investments” and quoting Elisha
18 Frank, co-chair of the SEC Enforcement Division’s Microcap Fraud Task Force as
19 stating “[w]henver we see incomplete or misleading disclosures, we act quickly to
20
21 protect investors.”

22
23 10. However, with Medbox issuing press releases on July 1, 2014, claiming that
24 it had become a “Fully Reporting Public Company” and on July 24, 2014, announcing
25
26 that Defendant Guy Marsala (“Marsala”), who investors were assured had “a track
27
28 record of driving exceptional results in both public and private companies by
implementing Fortune 500 company best practices at early stage and middle market

1 companies,” had been named Chairman of Medbox’s Board and was appointed as
2 President and CEO of the Company, replacing Defendant Bruce Bedrick (“Bedrick”),¹
3 the price of Medbox stock remained artificially inflated, closing at \$14.70 per share on
4 July 24, 2014; the Company was also able to facilitate the sale of \$5.5 million in
5 convertible debentures in private placements during July and September 2014.
6

7
8 11. On or about October 17, 2014, the Company disclosed that Defendant
9 Mehdizadeh had resigned as an officer of Medbox but that he would continue to serve
10 the Company as a consultant with the title of Founder and Senior Advisor.
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12 12. Then, on or about October 21, 2014, the Company disclosed that Medbox’s
13 Chief Financial Officer (“CFO”) Thomas Iwanski (“Iwanski”) – who was just hired in
14 that capacity by the Company in February 2014 - was being replaced by Defendant
15 Douglas Mitchell (“Mitchell”), though Iwanski too would stay on as a consultant.
16

17 13. Thereafter, on October 31, 2014, the Company disclosed that it had
18 appointed a special board committee to investigate a letter from a former Company
19 employee to the SEC “alleging wrongdoing by a former officer of the Company who
20 [was] a consultant to the Company” and that “a federal grand jury document subpoena
21 [had been] served in August 2014 on the Company’s accountants by the U.S.
22 Department of Justice....”
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28 ¹ Following his resignation as CEO, in August 2014, Defendant Bedrick also resigned from Medbox’s Board. Following his resignation from the Board, the Company announced that Defendant Bedrick would continue to serve as a consultant.

1 14. On November 3, 2014, a press release was issued stating it was released by
2 Medbox entitled “Medbox Comments on Recent 8-K Filing” which claimed that the
3 former employee who sent the letter to the SEC had done so in retribution for Medbox’s
4 refusal to pay him a cash settlement, quoting Defendant Mehdizadeh, and further stating
5 that “[c]urrent management commented that the Company ha[d] not found any
6 indications that the subject matter contained in the [former employee’s] letter [was] true
7 concerning the conduct of prior officers of the company.”
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10 15. Meanwhile, shares of Medbox fell \$1.50 per share from their October 31,
11 2014 closing price of \$13.95 per share, or 10.8%, to close at \$12.45 on November 3,
12 2014. Shares fell another \$2.75 per share on November 5, 2014 as the financial media
13 reported on the ensuing SEC investigation and the market impacted the full import of the
14 disclosures.
15

16
17 16. Then, on November 7, 2014, Medbox filed a Current Report on Form 8-K
18 with the SEC stating the November 3, 2014 press release, which quoted Defendant
19 Mehdizadeh, had not been “authorized by Medbox.”
20

21 17. Finally, on the morning of December 30, 2014, before the opening of
22 trading, Medbox issued a press release disclosing that it would be forced to restate *the*
23 *past five quarters* of financial reports and potentially its “financial statements for 2012
24 and for the first two quarters of 2013...as well.” The Company further disclosed that the
25 earnings restatement had triggered a default on its debt covenants that had forced it to
26 seek a forbearance from lenders. The release stated that the “steps [being taken were]
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1 part of the continued initiative of [Medbox’s] new board of directors and new
2 management team to implement better controls and emphasize transparency.”

3
4 18. As a result of Defendants’ false statements, Medbox stock traded at fraud-
5 inflated levels during the Class Period. However, as the market learned the truth,
6 Medbox stock was hammered by massive sales, sending them down more than 95%
7 from their Class Period high to trade as low as \$4.50 per share in intraday trading on
8 December 30, 2014.
9

10 **JURISDICTION AND VENUE**
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12 19. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of
13 the Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §§78j(b) and 78t(a), and
14 Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder by the SEC.
15

16 20. This Court has jurisdiction over the subject matter of this action pursuant to
17 28 U.S.C. § 1331 and §27 of the Exchange Act, 15 U.S.C. §78aa.
18

19 21. Venue is proper in this district pursuant to §27 of the Exchange Act and 28
20 U.S.C. §1391(b), as the Company maintains its principal executive offices in this District
21 and the acts and transactions giving rise to the violations of law complained of herein
22 occurred in this District.
23

24 **PARTIES**
25

26 22. Plaintiff purchased Medbox common stock during the Class Period as
27 described in the Certification attached hereto and incorporated herein by reference and
28 suffered damages thereon.

1 23. Medbox is headquartered at 8439 West Sunset Boulevard, Suite 101, West
2 Hollywood, California 90069. During the Class Period, Medbox had more than 30.4
3 million shares of common stock outstanding, which shares traded in an efficient market
4 on the Over-the-Counter-Market under the ticker symbol “MDBX.” Medbox was
5 constantly in communication with the markets and investors in quarterly conference calls
6 and frequent presentations to investor and analyst conferences. Indeed, as Medbox itself
7 highlighted during the Class Period, its founder, Defendant Mehdizadeh, “appeared in
8 interviews with CNN, ABCNews, Reuters, Associated Press, NPR, and ha[d] been
9 featured in articles appearing in Newsweek, Los Angeles Times, and the Wall Street
10 Journal, as well as over 30 other news agencies around the world concerning [its]
11 cutting-edge products and services.” Medbox also filed periodic public reports with the
12 SEC, and regularly issued press releases to the financial press.
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17 24. Defendant Mehdizadeh founded Medbox in 2010 and served as a director
18 and as its COO until April 2014, as its “Senior Strategist and Founder” until October
19 2014, following which he continued to serve as a consultant to the Company with the
20 title of “Founder and Senior Advisor” through the remainder of the Class Period.
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23 25. Defendant Bedrick served as Medbox’s President and CEO from the start of
24 the Class Period until July 23, 2014, and as a director of Medbox until August 2014,
25 following which Bedrick continued to serve as a consultant to the Company.
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1 26. Defendant Iwanski served as Medbox’s CFO from February 2014 until his
2 resignation on or about October 16, 2014, following which Iwanski continued to serve as
3 a consultant to the Company.
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5 27. Defendant Marsala was named Chairman of the Board, President, and CEO
6 of Medbox on or about July 23, 2014. Marsala is currently President and CEO of the
7 Company. Marsala relinquished the Chairman of the Board position on December 17,
8 2014, but remains on the Board as a director.
9

10 28. Defendant Mitchell was named CFO of Medbox on or about October 21,
11 2014, replacing Defendant Iwanski, and currently holds that position.
12

13 29. Defendants Mehdizadeh, Bedrick, Iwanski, Marsala, and Mitchell are
14 sometimes referred to herein as the “Individual Defendants.” Collectively, with Medbox,
15 the Individual Defendants are sometimes referred to herein as “Defendants.”
16

17 30. During the Class Period, the Individual Defendants ran Medbox as “hands-
18 on” managers overseeing Medbox’s operations and finances and made the material false
19 and misleading statements described herein. The Individual Defendants were intimately
20 knowledgeable about all aspects of Medbox’s financial and business operations, as they
21 received daily reports and had access to computerized information regarding sales, costs
22 and expenses, product demand and inventory management. They were also intimately
23 involved in deciding which disclosures would be made by Medbox. Indeed the
24 Individual Defendants made various public statements for Medbox during the Class
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1 Period, signed various filings with the SEC and participated in Class Period investor
2 events.

3
4 **BACKGROUND TO THE CLASS PERIOD**

5 31. Medbox, through its subsidiaries, provides patented biometrically controlled
6 medicine storage and dispensing systems to the medical and retail industries. The
7 Company offers Medbox, a biometric medicine dispensing machine that dispenses herbal
8 and prescription medications to individuals based on biometric identification primarily
9 for pharmacies, assisted living facilities, prisons, hospitals, and doctors' offices. Its
10 products also include Safe Access Storage Lockers that are used by medium to large
11 mail-order chains; Medbox medicine storage machines; and Lockbox Rx, a
12 storage/retrieval system that is used for prescription medication, over-the-counter
13 medicines, and other pharmacy products. In addition, the Company provides Sample-
14 Safe, a wallmounted unit for use in doctors' offices; sells the point-of-sale system that
15 includes a monitor, keyboard, credit card reader, and computer with interface; and offers
16 Medbox OTC machines, a non-biometric machine for over-the-counter items, as well as
17 sells various vaporizer and accessory products, such as miVape, through online and
18 distribution partners.
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24 32. The Company, which Defendant Mehdizadeh founded as MindfulEye Inc.
25 in 2010 and changed its name to Medbox, Inc. in October 2011, was incorporated in
26 1977 and is headquartered in West Hollywood, California.
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1 33. Defendant Mehdizadeh has a checkered history of business failures and
2 criminal convictions, including grand theft in 2013. Specifically, in 2013, Defendant
3 Mehdizadeh pled no-contest to a 15-count criminal complaint that was filed against him
4 relating to a law firm Defendant Mehdizadeh managed as a non-lawyer. Defendant
5 Mehdizadeh received probation and agreed to pay \$450,000 as part of a plea agreement.
6 Defendant Mehdizadeh also declared bankruptcy in July 2010, which was discharged in
7 2011.
8

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10 34. During the Class Period, Defendant Mehdizadeh occupied various roles at
11 Medbox including serving as its COO, as an officer with the title “Senior Strategist and
12 Founder,” and as a “consultant” to Medbox with the title “Founder and Senior Advisor.”
13

14
15 35. At the start of the Class Period, Mehdizadeh owned approximately 65% of
16 Medbox’s common stock and is still “the beneficial owner of the majority of the voting
17 power of the Company[,]” owning or controlling approximately 58% of the Company’s
18 outstanding shares, according to the Schedule 14C Mehdizadeh filed, or caused to be
19 filed, with the SEC on or about January 9, 2015.
20

21 **MATERIALLY FALSE AND MISLEADING CLASS PERIOD STATEMENTS²**
22

23 36. The Class Period starts on November 20, 2013. On that morning, before the
24 opening of trading, Medbox issued a press release announcing the Company’s 3Q 2013
25 financial results for the period ended September 30, 2013, which stated in pertinent part
26 as follows:
27

28 _____
² All emphasis is added unless otherwise noted.

1 **Highlights of 3rd Quarter Financials include:**

- 2 • *Revenues surged to over \$5.046 million through three*
3 *quarters, making 2013 the company's best revenue*
4 *generating year in the company's history.*
- 5 • *Revenues reported of \$2.079 million for 3rd quarter of*
6 *2013, making it the highest grossing quarter in the*
7 *company's history.*

8 * * *

- 9 • *Gross profit margin for the quarter was a healthy \$833*
10 *thousand and EBITDA margin for the quarter was*
11 *approximately 21%.*
- 12 • *Income from operations through 3 quarters, before*
13 *taxes, was a healthy \$647 thousand.*

14 *“We have had another record breaking quarter, which*
15 *provides further validation that our business plan is solid and*
16 *our operating strategy is sound,”* stated Dr. Bruce Bedrick,
17 CEO of Medbox, Inc. *“As we move forward, we will continue*
18 *to seek out opportunities that provide growth for our company*
and added value for our shareholders.”

19 *The company also announced that they have brought*
20 *accounting functions in-house to help expedite preparation of*
21 *statements and reports.*

22 *“As we continue to mature and transition to being a fully*
23 *reporting company, we need to be able to provide timely*
24 *reports, status updates, and filings,”* Bedrick commented. *“We*
25 *have assembled an in-house team of accounting*
26 *professionals. This team can devote more time to work*
27 *seamlessly with our outside auditing firm so that we meet our*
deadlines and obligations, and provide the most accurate and
28 *timely information to the SEC and the general public.”*

1 37. On November 25, 2013, the Company issued a press release entitled
2 “Medbox Issues Status Update to Company Shareholders,” stating in pertinent part that
3 “*Medbox posted record revenue figures for YTD 2013, amassing more than \$5 million*
4 *in consulting and equipment sales revenue through 9 months.*”

5
6 38. In January 2014, FINRA issued an advisory concerning risks related to
7 investing in marijuana-related stocks. The FINRA advisory cautioned:

8
9 Like many investment scams, pitches to invest in potentially
10 fraudulent marijuana-related companies may arrive in a variety
11 of ways — faxes, email or text message invitations to webinars,
12 infomercials, tweets or blog posts. Regardless of how you first
13 hear about them, the offers almost always contain hallmarks of
14 “pump and dump” ploys. Specifically, fraudsters lure investors
15 with aggressive, optimistic — and potentially false and
16 misleading — statements or information designed to create
17 unwarranted demand for shares of a small, thinly traded
18 company with little or no history of financial success (the
19 pump). Once share prices and volumes reach a peak, the cons
20 behind the scam sell off their shares at a profit, leaving
21 investors with worthless stock (the dump).

22 39. On January 13, 2014, to blunt the effects of the FINRA advisory concerning
23 the risks related to investing in marijuana-related stocks, the Company issued a press
24 release entitled “Medbox Comments on FINRA Advisory Concerning Marijuana
25 Stocks,” which stated in pertinent part as follows:

26 ... Medbox ... commented on FINRA’s renewed advisory
27 concerning marijuana related stocks. The advisory, released
28 Friday, highlights what investors should be aware of when
investing in marijuana related stocks.

The [FINRA] advisory stated, in part:

1 “We are reissuing this alert to warn investors not only about the
2 potential for fraud in this arena, but also to reiterate the risks of
3 investing in thinly traded companies about which little is
4 known...One company, for example, promoted its move into
5 the medical cannabis space by issuing more than 30 press
6 releases during the first half of 2013. These releases publicized
7 rosy financial prospects and the growth potential of the medical
8 marijuana market. The company was also touted on the Internet
9 through the use of sponsored links, investment profiles and
10 spam email, including one promotional piece claiming the stock
11 “could double its price SOON” and another asserting the stock
12 was “poised to light up the charts!” Yet the company's balance
13 sheet showed only losses, and the company stated elsewhere
14 that it was only beginning to formulate a business plan.”

15 Other excerpts from the [FINRA] advisory stated, in part:

16 “For example, the CEO of one thinly traded, yet heavily touted,
17 company that purports to be in the medical marijuana business
18 spent nine years in prison for operating one of the largest drug
19 smuggling operations in U.S. history. The former CEO of a
20 similar company was recently indicted for his role in a multi-
21 million dollar mortgage-based Ponzi scheme.”

22 Medbox executives were pleased that a stern advisory was re-
23 issued about the sector's stocks by FINRA and had the
24 following comments:

25 “Some of the public companies in the marijuana sector are in
26 the business of selfpromotion with little or no substance or even
27 an executable business plan,” stated Vincent Mehdizadeh, Chief
28 Operations Officer at Medbox, Inc. ***“Since day 1, our company
has made its quarterly reports and financials available to the
public, kept shareholders diligently informed about the
company and its operating personnel at all times,*** offered
ongoing support to its many clients, ***completed an audit of its
financials,*** donated substantial amounts to industry advocacy
groups that support medical marijuana patient rights to safe
access of the medicine, ***and also 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

1 the space to have accomplished those feats. With that being said
2 we have stated in the past that investors should make informed
3 decisions when buying our stock as the volatility may not be
4 something the average retail investor can stomach.”

5 Company executives also pointed out that most, if not all, of the
6 other marijuana related public companies in the sector spend
7 the majority of their operating budgets promoting their stocks
8 through assorted public/investor relations firms and as a result
9 show operating losses quarter after quarter. Medbox does not
10 have an investor relations firm and according to company
11 executives its general preference has been not to operate with
12 one through this period in the company's development until a
13 reputable candidate is identified.

14 “Much of the investor interest in Medbox has occurred through
15 financial press, financial media, and general media coverage
16 chronicling advances in the medical marijuana industry, an
17 industry in which we feel we are the most reputable company,”
18 stated Dr. Bruce Bedrick, Chief Executive Officer at Medbox,
19 Inc. “Consequently, we spent much of last year trying to find a
20 reputable firm that would be a good fit to handle our investor
21 relations consistent with best industry practices, and now feel
22 we have found the right fit for our company. We expect to
23 announce more details some time after our Form 10 registration
24 statement is filed with the SEC this week, as that is our main
25 priority at present.”

26 40. On January 24, 2014, the Company issued a press release entitled
27 “Medbox, Inc. Launches Proactive Investor Relations Program.” The press release announced that
28 the Company had engaged Hayden IR and RedChipCompanies, Inc., “*two independent firms to handle ongoing corporate messaging and investor relations*” and “*to raise the visibility of Medbox with the investment community.*” The press release continued, quoting Defendant Bedrick stating that the Company retained these firms who he referred to as “proven IR counsel” to “*help [the Company] raise [its] visibility in the*

1 *investment community, communicate [its] investment thesis and broaden [its]*
2 *shareholder base.”*

3
4 41. On February 13, 2014, the Company issued a press release announcing that
5 Defendant Iwanski had been appointed CFO, stating in pertinent part that he had
6 “approximately 10 years of public accounting experience with the Big 4 firm of KPMG
7 LLP” and quoted Defendant Mehdizadeh stating that the Company had now “worked
8 with ... Tom for several months, and [that he] add[ed] *proven ... financial management*
9 *and public company oversight....”*
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11

12 42. On the morning of February 18, 2014, the Company issued a press release
13 entitled “Medbox, Inc. Commends Obama Administration for New Guidelines Enabling
14 Banks to Deal with Businesses that Legally Sell Marijuana,” in which the Company
15 lauded the Obama administration “for its forward-thinking action to ease the issues that
16 banks currently have in doing business with dispensary operators which Medbox directly
17 serves.” The press release referenced recent rules issued by the Treasury and Justice
18 Departments which the Company said would open the door for “lawful marijuana
19 businesses to have access to the American banking system.” The press release also
20 promoted upcoming appearances by Defendant Bedrick on CNBC's Closing Bell on
21 Tuesday, February 18 at 4:40 p.m. Eastern Standard Time, and Fox Business on
22 Wednesday, February 19 during the 4:00 p.m. hour, Eastern Standard Time.
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27 43. Later on February 18, 2014, *Citron Research* issued a scathing report
28 entitled “Busting Medbox,” accusing Medbox of keeping three sets of books and stating,

1 among other things, that “systemic fraud” and stock promotion had facilitated the
2 Company’s then \$1 billion market capitalization.

3
4 44. Later that day, following the publication of the *Citron Research* report, on
5 February 18, 2014, the Company issued a press release entitled “Medbox Responds to
6 Critics and Issues Status Update to Company Shareholders,” which stated in pertinent
7 part as follows:
8

9 Medbox ... issued a status update to its shareholders on past,
10 present, and future projects. *Company executives also*
11 *commented on bloggers looking to discredit the company for*
12 *financial gain and law firms looking to capitalize on*
misinformation in order to solicit clients.

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

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

18 * * *

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

23 “The company undertook a project to bring all accounting
24 functions in house and during that lengthy process we
25 discovered some errors in accounting which we have since
26 corrected in the latest financials included in the Form 10. *The*
27 *point is getting it right and being fully transparent with our*
28 *shareholders at all times,”* stated Vincent Mehdizadeh, Board
Chairman at Medbox, Inc. *“The company has, as part of those*
corrections, instituted better controls over financial reporting
to avoid further corrections. In addition, it is important to note

1 that revenues for the nine months of 2013 had increased over
2 the comparative period of the prior year (as corrected) and we
3 are continuing to add skilled people to accelerate our growth in
4 2014. Unfortunately, when you are the most visible company in
5 the space, with a large market capitalization, you become a
6 target.”

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

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

23 “We go the extra mile for our clients and that is evident through
24 our glowing testimonials displayed on our websites,” stated Dr.
25 Bruce Bedrick, CEO at Medbox, Inc. “Interestingly, with the
26 recent banking policy guidance by the federal government, we
27 can now start to develop an additional revenue stream of
28 acquiring properties and 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.”

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

1 46. On March 10, 2014, the Company issued a press release entitled “Medbox
2 Issues Shareholder Update – Board to Pursue Listing on Major National Exchange
3 During 2014.” The release stated in pertinent part as follows:
4

5 ... Medbox ... today announced an update on pending projects,
6 **SEC reporting status**, and other strategic items:

- 7 • The Company's Form 10 registration statement filed with
8 the SEC will be effective as of March 22, 2014. The
9 Company expects to respond to SEC comments and file
10 audited 2013 year-end financials on a Form 10-K by the
11 end of March.
- 12 • ***The board of directors is seeking to list Medbox with the
13 NASDAQ Capital Markets or another national
14 exchange by the end of 2014.***
- 15 • ***The Company added public company experience with
16 the additions of Thomas Iwanski at CFO, Matt Feinstein
17 at Vice President, and also Mitch Lowe as the Company's
18 first independent director.***

19 * * *

20 “The last 90 days have been highly productive, and Medbox
21 continues to lead this burgeoning new industry,” stated Vincent
22 Mehdizadeh, Board Chairman at Medbox, Inc. “We continue to
23 take the steps to set Medbox apart from others in the industry,
24 ***ensuring that we have the appropriate controls and resources
25 in place*** and adding seasoned talent to lead future growth.”

26 Dr. Bruce Bedrick, Medbox President and CEO, added, ***“With
27 the effectiveness of our Form 10 later this month, Medbox
28 will be a fully reporting company. Our pending status as a
future SEC filer, as well as key additions to our management
team, are important steps for strengthening the legitimacy of
Medbox and increasing our ability to reach new investors and
clients. We look forward to continuing to exceed expectations
in the coming months.”***

1 47. On March 26, 2014, the Company issued a press release entitled “Medbox
2 Completes SEC Filing Requirements – Company's amended Form 10 registration
3 statement and audited 2013 financials to be filed with SEC by March 31, 2014,” which
4 stated in pertinent part as follows:
5

6 ... Medbox ... today announced that it has ***completed the***
7 ***requisite steps to formally become a fully-reporting company***
8 as of March 24, 2014 and is now subject to the Securities and
Exchange Commission reporting requirements.

9
10 On March 25, 2014, Medbox filed its requisite Form 3’s. The
11 Company expects to file its amended Form 10 registration
12 statement, along with audited full-year 2013 financials, by
March 31, 2014.

13 “This is a key step in our goal of listing our shares on a national
14 exchange, and ***further evidence of our goal to maintain the***
15 ***highest standards for corporate governance and***
16 ***transparency,***” stated Vincent Mehdizadeh, Chairman and
17 COO of Medbox, Inc. “It is of special importance to me
18 personally that ***we are one of the only fully reporting public***
19 ***companies*** that has generated considerable revenues in the
20 marijuana ancillary services sector and demonstrated an
21 executable business plan. ***Our main subsidiary, Medicine***
Dispensing Systems, has turned a profit every year since
commencing operations in 2010. These key differences set us
apart from our competitors.”

22 48. On March 31, 2014, the Company filed a Form 10 with the SEC purporting
23 to report its fiscal 2013 financial results. The Form 10 stated in pertinent part that
24 “[r]evenue increased \$2,633,196, or 101.65%, to \$5,223,775 for the twelve months
25 ended December 31, 2013, from \$2,590,579 for the twelve months ended December 31,
26 2012, primarily as a result of the completion of contracts for [its] Arizona customers”
27
28

1 and that the “main reason for the increase in revenues was a change in volume, because
2 there were no changes in pricing policies.” The Form 10 was signed by Defendant
3 Bedrick.
4

5 49. On April 1, 2014, the Company issued a press release announcing its 4Q
6 and fiscal 2013 financial results for the period ended December 31, 2013 entitled
7 “Medbox Generates 102% Increase in Revenue for Fiscal 2013 – Company increases
8 inventory, expands sales and marketing infrastructure, to set the stage for additional
9 growth.” The release stated in pertinent part as follows:
10
11

12 ... Medbox ... today announced record full-year revenue.
13 Medbox included its audited numbers for the year ended
14 December 31, 2013 in its amended Form 10 filing with the
15 Securities and Exchange Commission.

16 **Recent Operational highlights:**

- 17 • On March 24, 2014, the Form 10 registering Medbox's
18 shares of common stock became effective with the
19 Securities and Exchange Commission and *Medbox is
now a fully-reporting public company.*
- 20 • *The Company added public company experience,
21 naming Thomas Iwanski as CFO, Matt Feinstein at Vice
22 President, and also Netflix co-founder and former
23 Redbox president Mitch Lowe as the Company's first
independent director.*

24 * * *

25
26 “This was a productive and exciting year for Medbox, and the
27 first 90 days of 2014 have been even more productive,”
28 commented Dr. Bruce Bedrick, Chief Executive Officer of
Medbox. “We have solidified our position as the industry
leader, and *in the last three months we have taken specific*

1 *steps to improve corporate governance, expand transparency*
2 *and deliver shareholder value.* During the rest of 2014 we will
3 grow organically, taking advantage of the tremendous
4 momentum in the industry. We will also leverage our
5 reputation, presence in the industry, and our relationships to
6 develop new revenue streams. *This will be an exciting year for*
7 *Medbox, its clients and its shareholders.”*

8 *Full-year revenues were \$5.2 million, a 101.7% increase*
9 *compared to \$2.6 million last year. The increase in revenues*
10 *was due to primarily the result of recognizing revenue*
11 *deferred from 2012 related to the completion of contracts for*
12 *Arizona customers which was delayed by court action that was*
13 *not resolved until 2013. Gross profit for 2013 was \$2.6*
14 *million, or 50.5% gross profit margin, compared to gross*
15 *profit of \$1.5 million, or 59.4% gross profit margin for 2012.*
16 The change in gross profit margin was due to increased costs
17 related to the build-out of locations for clients and delays in
18 implementing the Arizona program related to the litigation.

19 Total selling, general and administrative expenses were \$3.2
20 million, or 61.2% of total revenues, compared to total selling,
21 general and administrative expenses of \$1.9 million, or 72.5%
22 of total revenues last year. *The loss from operations for the*
23 *year was \$(560,000), compared to a loss from operations of*
24 *\$(340,000) last year. Net loss for the year was \$(557,000), or*
25 *\$(0.02) per basic and \$(0.01) per diluted share, compared to a*
26 *net loss last year of \$(344,000), or \$(0.01) per basic and*
27 *diluted share, last year.*

28 While *the Company's largest operating subsidiary, Medicine*
Dispensing Systems, remained profitable with a pretax profit
of \$948,443, the net loss for 2013 included \$1.2 million in
losses from the parent company's operations, related primarily
to accounting and SEC attorney legal fees (related to the filing
of, and subsequent withdrawing of, a Registration Statement on
Form S-1, and the filing of a Form 10 registration statement in
order to register the common stock of Medbox) and additional
legal fees (related to litigation on behalf of Arizona clients to
allow them to move forward with dispensary licenses the state
of Arizona had awarded). In addition, the Company's

1 Vaporfection subsidiary, acquired on April 1, 2013, recognized
2 a net loss of \$317,000 for nine months of operations.

3 ***“Our primary subsidiary, Medicine Dispensing Systems, has***
4 ***been profitable each year since commencing operations in***
5 ***2010, and remains profitable today,”*** added Vincent
6 Mehdizadeh, Chairman and Chief Operating Officer of
7 Medbox, Inc. “However, public company costs, expenses
8 related to financing efforts, and legal fees related to Arizona
9 litigation resulted in a net loss for the public company. We do
10 not expect these expenses to impact our 2014 results, however,
11 we are growing our infrastructure in anticipation of future
12 growth, and expect additional fees related to public company
13 costs as the Company pursues a listing on a national exchange.

14 **Fourth Quarter Financial Results**

15 ***Revenues for the fourth quarter ending December 31, 2013***
16 ***increased to \$423,000 compared to \$47,250 for the same***
17 ***period of 2012. The increase in revenues was due to an***
18 ***increased number of contracts signed and initial non-***
19 ***refundable consulting fees. Gross profit for the quarter was***
20 ***\$278,000, or 65.7% gross profit margin,*** compared to a
21 negative gross profit of \$(508,000), or (10.8%) negative gross
22 profit margin, in the fourth quarter of 2012. This was partially
23 due to deferral of some revenue for Arizona contracts from
24 2012 to 2013 because of Arizona licensing stoppages by their
25 authorities.

26 Total selling, general and administrative expenses significantly
27 increased by \$657,007 in the fourth quarter of 2013 compared
28 to the same period of 2012, this is due to the fact that the
Company incurred higher general and administrative expenses
related to raising capital and regulatory compliance as described
above.

Net loss for the fourth quarter of 2013 was \$(513,000) or
\$(0.02) per basic and \$(0.01) per diluted share, compared to a
net loss of \$(533,000) or \$(0.02) per basic and \$(0.01) per
diluted share for the fourth quarter of 2012.

1 50. On or about April 10, 2014, Defendant Mehdizadeh resigned as COO and
2 as a director of the Company, but was appointed as “Senior Strategist and Founder” of
3 Medbox.
4

5 51. On May 15, 2014, the Company issued a press release announcing its 1Q
6 2014 financial results for the period ended March 31, 2014. The release stated in
7 pertinent part as follows:
8

9 **Recent Operational Highlights:**

10 * * *

- 11
- 12 • On March 24, 2014, the Form 10 registering Medbox's
13 shares of common stock became effective with the
14 Securities and Exchange Commission and *Medbox is
now a fully-reporting public company.*

15 * * *

- 16
- 17 • Began providing company information via S&P Capital
18 IQ Corporation Records Listing Program *to increase
visibility to the institutional investment community.*

19 * * *

20

21 “We continued to establish the company as the leader in the
22 rapidly growing legitimate marijuana industry *while increasing
our transparency to the investment community and position in
23 the capital markets,*” commented Dr. Bruce Bedrick, Chief
24 Executive Officer of Medbox. “As this industry continues to
25 evolve and redefine itself, Medbox is strategically positioned as
26 the partner of choice with a growing array of solutions,
technologies and services.”

27 Dr. Bedrick continued, "Across the country, states and
28 municipalities evolve regulations regarding medical and
recreational marijuana, and often struggle with the best ways to

1 manage this change and address reasonable concerns. The
2 results we are reporting today are somewhat overshadowed by
3 accounting provisions necessitated by changes in the business
4 and legal environment in one of the markets in which we
5 operate. *Medbox stands at the forefront of this industry,*
6 *offering solutions that help dispensary operators and*
7 *cultivators maintain compliance and records that exceed*
8 *regulatory requirements.”*

7 **First Quarter Financial Results**

8 *First quarter gross revenues were \$1.3 million, a 3.9%*
9 *increase compared to \$1.2 million in the first quarter of 2013.*
10 Due to changes in a final adopted ordinance in the San Diego
11 market, the total number of licenses to be awarded by the city
12 was reduced by over 75% as well as the likelihood of securing
13 properly zoned locations. As a result of not being able to satisfy
14 the demand of the company's clients in that market, Medbox
15 recorded a provision for sales allowances of approximately
16 \$963,000, resulting in a reduction of revenues for the quarter.

17 * * *

18 *Net loss for the first quarter of 2014 was \$(1.3) million or*
19 *\$(0.04) per basic and \$(0.03) per diluted share, compared to a*
20 *net loss of \$(330,380) or \$(0.01) per basic and \$(0.01) per*
21 *diluted share for the first quarter of 2013.*

22 52. On May 15, 2014, the Company filed a quarterly financial report with the
23 SEC on Form 10-Q reporting financial results significantly similar to those reported in
24 the press release. The Form 10-Q was signed by Defendants Bedrick and Iwanski.

25 53. On Friday, May 16, 2014, the SEC issued a report warning of “possible
26 scams involving marijuana-related investments” and quoting Elisha Frank, co-chair of
27 the SEC Enforcement Division’s Microcap Fraud Task Force as stating “[w]henver we
28 see incomplete or misleading disclosures, we act quickly to protect investors.” Medbox

1 would close down at \$16.11 per share on Monday, May 19, 2014, from its previous close
2 of \$17.52 per share on May 16, 2014.

3 54. On July 1, 2014, Medbox issued a press release entitled “Medbox Becomes
4 a Fully Reporting Public Company – Company’s Form 10 deemed effective by SEC,”
5 which stated in pertinent part as follows:
6

7 ... Medbox ... today announced that the company's Form 10
8 filing has been deemed effective by the Securities and
9 Exchange Commission, with no outstanding comments left to
10 address.

11 Dr. Bruce Bedrick, CEO of Medbox, commented, “This step is
12 another milestone for our Company as we continue to build
13 market leadership in the cannabis industry. *We believe that*
14 *compliance and transparency are important ... for Medbox to*
15 *grow as a public company.*”

16 55. Later that month, on July 24, 2014, the Company announced that Defendant
17 Bedrick was stepping down as the Company’s President and CEO and that Defendant
18 Marsala, who investors were assured had “a track record of driving exceptional results in
19 both public and private companies by implementing Fortune 500 company best practices
20 at early stage and middle market companies,” would take his place. The Company also
21 announced that Defendant Marsala had been appointed to the Board and subsequently
22 elected to serve as its Chairman. Following his resignation as President and CEO of the
23 Company, in August 2014, Defendant Bedrick also stepped down from Medbox’s Board.
24 Defendant Bedrick, however, remained with the Company as a “consultant.”
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1 56. In July and September 2014, the Company was able to facilitate the sale of
2 \$5.5 million in convertible debentures in private placements.

3 57. On August 15, 2014, the Company issued a press release entitled “Medbox
4 Files 10-Q and Announces Quarterly Conference Call.” The Form 10-Q Medbox filed
5 with the SEC that day for the financial period ended June 30, 2014 was signed by
6 Defendants Marsala and Iwanski and reported that the Company had achieved revenues
7 of \$434,448 and a net loss of \$1.4 million in 2Q 2014. The Management Discussion and
8 Analysis (“MD&A”) section of the Form 10-Q stated in pertinent part that “[r]evenue
9 was down for the current period as delays in adoption of final regulations in certain
10 states and the ultimate timing of the application process in states with final regulations
11 reduced and delayed the opportunity to apply for new licenses and consequently delayed
12 the notice of the results of any license application made.” The MD&A section also stated
13 that “revenue was further reduced by additional sales allowances and refunds recorded
14 due to a legislative change in the San Diego market area which reduced the ability of
15 certain clients to obtain licenses and triggered certain contract refunds.”

16 58. On or about October 17, 2014, the Company disclosed that Defendant
17 Mehdizadeh had resigned as an officer of Medbox but that he would continue to serve
18 the Company as a consultant with the title of “Founder and Senior Advisor.”

19 59. On or about October 21, 2014, the Company disclosed that Medbox’s CFO,
20 Defendant Iwanski – who was just hired in that capacity by the Company in February
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1 2014 – was being replaced by Defendant Mitchell. Defendant Iwanski, like Defendants
2 Mehdizadeh and Bedrick before him, would stay on as a consultant.

3 60. Thereafter, on Friday, October 31, 2014, following market close, the
4 Company filed a Form 8-K with the SEC disclosing that on October 27, 2014, the Board
5 appointed a special board committee to investigate “(i) a letter from a former Company
6 employee to the Securities and Exchange Commission alleging wrongdoing by a former
7 officer of the Company who is currently a consultant to the Company, and (ii) a federal
8 grand jury document subpoena served in August 2014 on the Company’s accountants by
9 the U.S. Department of Justice, to ascertain what implications, if any, the subpoena or
10 the letter may have with respect to the Company.”
11
12
13

14 61. On Monday, November 3, 2014, before market open, the Company issued a
15 press release entitled “Medbox Comments on Recent 8-K Filing.” The press release
16 attempted to minimize the potential impact of the letter from the former employee to the
17 SEC, quoting Defendant Mehdizadeh who stated that “[t]he former employee vowed to
18 retaliate against the Company in any way he could after his illegal cash demands of the
19 company were ignored. It now appears that writing a letter to government agencies filled
20 with factual inaccuracies and blatant falsehoods was the most effective way to facilitate
21 that goal.” The press release continues noting that “[c]urrent management commented
22 that the Company ha[d] not found any indications that the subject matter contained in the
23 [former employee’s] letter [was] true concerning the conduct of prior officers of the
24 company.” With respect to the subpoena served in August 2014 on the Company’s
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1 accountants by the U.S. Department of Justice, the Company, in the press release
2 “clarified that no subpoenas have been served on the Company, it’s current or former
3 officers, or anyone affiliated to the Company.” The press release ends by quoting
4 Defendant Mehdizadeh, who reassures that he:

6 “painstakingly put together the best management team and
7 Board of Directors in our sector for a reason, and in their
8 judgment this voluntary disclosure is what good public
9 companies that have nothing to hide should do. The company
10 will continue to demonstrate to shareholders, the investment
11 community, and all other public company participants in the
12 cannabis sector, how a well-run and respectable public
company should operate. Medbox has and will continue to be
the gold-standard for accountability.”

13 62. Despite the pre-market press release on November 3, 2014, Medbox stock
14 still closed down at \$12.45 per share for its previous close of \$13.95 per share on
15 October 31, 2014. Shares continued to fall as the financial media reported on the ensuing
16 SEC investigation and the market impacted the full import of the disclosures, with the
17 price of Medbox stock closing at \$9.20 per share on November 5, 2014. However, the
18 price of Medbox stock remained artificially inflated.

19 63. On November 7, 2014, Medbox filed a Current Report on Form 8-K with
20 the SEC stating, “[t]he news release issued Monday, November 3, 2014 under the
21 headline “Medbox Comments on Recent 8-K Filing” *was not authorized by Medbox,*
22 *Inc.* (the “Company”) for distribution. The 8-K filed by the Company on Friday, October
23 31, 2014, should be used as a reference for information regarding this matter. The filing
24 is available on the website of the Securities and Exchange Commission.”
25
26
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1 64. On November 12, 2014, the Company filed a quarterly financial report on
2 Form 10-Q with the SEC reporting its financial results for its 3Q 2014 ended September
3 30, 2014. The Form 10-Q, was signed by Defendants Marsala and Mitchell and stated
4 that MedBox had achieved net revenues of \$107,429 and a net loss of \$3.2 million for
5 the quarter. The MD&A section of the Form 10-Q also stated in pertinent part as
6 follows:
7

8
9 Revenue was down for the current period partially due to delays
10 in adoption of final regulations in certain states and delays in
11 approving license applications. Additionally, the Company's
12 revenue model is significantly different in the third quarter of
13 2014 as compared to third quarter of 2013. This difference is
14 mainly due to the fact that the Company is moving away from
15 the business model of obtaining licenses for clients for a one-
16 time upfront fee. The Company is in the process of modifying its
17 business model to provide ongoing management and support
18 services for clients so that the consulting contract would
19 continue in perpetuity. During the transition period to a new
20 business model, expenses to secure new contracts and licenses
21 are incurred and revenue is deferred principally until new
22 licenses are obtained and new dispensaries and cultivation
23 centers begin operating.

24 65. The true facts, which were known by Defendants but concealed from the
25 investing public during the Class Period, were as follows:
26

- 27 a) Medbox was recognizing revenue before earned on certain customer
28 contracts;
- b) Medbox lacked effective internal controls;

1 c) Due to its false financial reporting, Medbox was not complying with
2 Generally Accepted Accounting Principles or SEC rules and regulations during the Class
3 Period and, as such, was not eligible for listing on a national stock exchange;
4

5 d) Due to its financial misstatements, Medbox was not in compliance
6 with its debt covenants; and
7

8 e) As a result, Medbox was not on track to achieve its financial targets
9 during the Class Period.
10

11 66. Before the opening of trading on December 30, 2014, the Company issued a
12 press release entitled “Medbox, Inc. to Amend and Restate Prior Period Financial
13 Statements.” The release disclosed in pertinent part as follows:
14

15 Medbox ... today announced it will amend and restate its
16 financial statements for the year ended December 31, 2013, the
17 third and fourth quarters of 2013 and the first three quarters of
18 2014.

19 In October, 2014, the Board of Directors of the Company
20 appointed a special board committee (the “Special Committee”)
21 to investigate a federal grand jury subpoena pertaining to the
22 Company which was served upon the Company’s accountants,
23 as well as certain alleged wrongdoing raised by a former
24 employee of the Company. Thereafter, the Company received
25 subpoenas from the federal grand jury and the Securities and
26 Exchange Commission. In connection with its investigation of
27 these matters, the Special Committee, in conjunction with the
28 Audit Committee, initiated an internal review by management
and by an outside professional advisor of certain prior period
financial reporting of the Company.

***Medbox’s audit committee, upon management’s
recommendations, has concluded that the consolidated
financial statements for the year ended December 31, 2013***

1 *and for the third and fourth quarters of 2013 as well as for the*
2 *quarters ended March 31, 2014, June 30, 2014 and September*
3 *30, 2014, should no longer be relied upon and will be restated*
4 *to correct the errors. As part of the investigative process,*
5 *Medbox will also examine the financial statements for 2012*
6 *and for the first two quarters of 2013 and, if necessary,*
7 *correct those as well.* The company intends to correct the errors
8 in its financial statements to bring them into conformity with
9 accounting principles generally accepted in the United States of
10 America (GAAP) and SEC regulations. Medbox plans to
11 engage an independent CPA firm to consult with and assist the
12 Company's staff with preparing restated financial statements as
13 soon as possible.

14 *Medbox stated that it appeared that revenue had been*
15 *recognized too soon on some customer contracts. The restated*
16 *financial statements will recognize revenue at a later time as*
17 *up-front payments are recognized over the longer of the*
18 *contract period or the customer relationship, revenue is*
19 *deferred until key contingencies are removed and it is clear*
20 *the revenue has been earned in accordance with GAAP and*
21 *SEC regulations.* Other adjustments to its financial statements
22 are also possible in connection with the Company's on going
23 review of its prior period financial statements.

24 The Company's announcement that prior period financial
25 statements can no longer be relied upon *permit the Company's*
26 *existing lenders to trigger default remedies*, however, *the*
27 *Company's lenders have agreed to forbearance on declaring a*
28 *default pending conclusion of on-going discussions to*
refinance the Company.

Guy Marsala, CEO of Medbox commented, "The steps we are
announcing today are part of the *continued initiative of our*
new board of directors and new management team to
implement better controls and emphasize transparency.
Improved processes and controls contributed to our ability to
uncover these errors and bring them to the attention of our
independent auditors and audit committee."

1 67. On this news, the price of Medbox stock declined precipitously, trading as
2 low as \$4.50 per share during intraday trading on December 30, 2014 and closing at
3 \$6.39 per share, *down \$89 per share* from its January 8, 2014 Class Period high of
4 \$93.50 per share – *representing a loss market capitalization loss of more than \$2.8*
5 *billion.*
6

7
8 **PLAINTIFF’S CLASS ACTION ALLEGATIONS**

9 68. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
10 Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or
11 otherwise acquired Medbox securities during the Class Period (the “Class”); and were
12 damaged upon the revelation of the alleged corrective disclosures. Excluded from the
13 Class are Defendants herein, the officers and directors of the Company, at all relevant
14 times, members of their immediate families and their legal representatives, heirs,
15 successors or assigns and any entity in which Defendants have or had a controlling
16 interest.
17
18
19

20 69. The members of the Class are so numerous that joinder of all members is
21 impracticable. Throughout the Medbox Class Period, securities of Medbox were
22 actively traded on an efficient market. While the exact number of Class members is
23 unknown to Plaintiff at this time and can only be ascertained through appropriate
24 discovery, Plaintiff believes that there are hundreds or thousands of members in the
25 proposed Class. Record owners and other members of the Class may be identified from
26 records maintained by Medbox or their transfer agents and may be notified of the
27
28

1 pendency of this action by mail, using the form of notice similar to that customarily used
2 in securities class actions.

3 70. Plaintiff's claims are typical of the claims of the members of the Class as all
4 members of the Class are similarly affected by Defendants' wrongful conduct in
5 violation of federal law complained of herein.
6

7 71. Plaintiff will fairly and adequately protect the interests of the members of
8 the Class and has retained counsel competent and experienced in class action and
9 securities litigation.
10

11 72. Common questions of law and fact exist as to all members of the Class and
12 predominate over any questions solely affecting individual members of the Class.
13

14 Among the questions of law and fact common to the Class are:
15

- 16 • whether the federal securities laws were violated by Defendants' acts
17 as alleged herein;
- 18 • whether statements made by Defendants to the investing public during
19 the Class Period misrepresented material facts about the business,
20 operations and management of Medbox;
- 21 • whether the Individual Defendants caused Medbox to issue false and
22 misleading financial statements during the Class Period;
- 23 • whether Defendants acted knowingly or recklessly in issuing false and
24 misleading financial statements;
- 25 • whether the prices of Medbox securities during the Class Period were
26 artificially inflated because of the Defendants' conduct complained of
27 herein; and,
- 28 • whether the members of the Class have sustained damages and, if so,
what is the proper measure of damages.

1 73. A class action is superior to all other available methods for the fair and
2 efficient adjudication of this controversy since joinder of all members is impracticable.
3 Furthermore, as the damages suffered by individual Class members may be relatively
4 small, the expense and burden of individual litigation make it impossible for members of
5 the Class to individually redress the wrongs done to them. There will be no difficulty in
6 the management of this action as a class action.
7

8
9 74. Plaintiff will rely, in part, upon the presumption of reliance established by
10 the fraud-on-the-market doctrine in that:
11

- 12 • Defendants made public misrepresentations or failed to disclose
13 material facts during the Class Period;
- 14 • the omissions and misrepresentations were material;
- 15 • Medbox securities are traded in efficient markets;
- 16 • the Company's shares were liquid and traded with moderate to heavy
17 volume during the Class Period;
- 18 • the Company traded an efficient market, and was covered by multiple
19 analysts;
- 20 • the misrepresentations and omissions alleged would tend to induce a
21 reasonable investor to misjudge the value of the Company's securities;
22 and
- 23 • Plaintiff and members of the Class purchased and/or sold Medbox
24 securities between the time the Defendants failed to disclose or
25 misrepresented material facts and the time the true facts were
26 disclosed, without knowledge of the omitted or misrepresented facts.

27 75. Based upon the foregoing, Plaintiff and the members of the Class are
28 entitled to a presumption of reliance upon the integrity of the market.

76. Alternatively, Plaintiff and the members of the Class are entitled to the
presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of*

1 *the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants
2 omitted material information in their Class Period statements in violation of a duty to
3 disclose such information, as detailed above.
4

5 **COUNT I**

6 **For Violation of Section 10(b) of the Exchange Act**
7 **and Rule 10b-5 Promulgated Thereunder Against All Defendants**

8 77. Plaintiff repeats and realleges each and every allegation contained above as
9 if fully set forth herein.
10

11 78. This Count is asserted against Defendants and is based upon Section 10(b)
12 of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the
13 SEC.
14

15 79. During the Class Period, Defendants engaged in a plan, scheme, conspiracy
16 and course of conduct, pursuant to which they knowingly or recklessly engaged in acts,
17 transactions, practices and courses of business which operated as a fraud and deceit upon
18 Plaintiff and the other members of the Class; made various untrue statements of material
19 facts and omitted to state material facts necessary in order to make the statements made,
20 in light of the circumstances under which they were made, not misleading; and employed
21 devices, schemes and artifices to defraud in connection with the purchase and sale of
22 securities. Such scheme was intended to, and, throughout the Class Period, did: (i)
23 deceive the investing public, including Plaintiff and other Class members, as alleged
24 herein; (ii) artificially inflate and maintain the market price of Medbox securities; and
25
26
27
28

1 (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire
2 Medbox securities and options at artificially inflated prices. In furtherance of this
3 unlawful scheme, plan and course of conduct, Defendants, and each of them, took the
4 actions set forth herein.
5

6 80. Pursuant to the above plan, scheme, conspiracy and course of conduct, each
7 of the Defendants participated directly or indirectly in the preparation and/or issuance of
8 the quarterly and annual reports, SEC filings, press releases and other statements and
9 documents described above, including statements made to securities analysts and the
10 media that were designed to influence the market for Medbox securities. Such reports,
11 filings, releases and statements were materially false and misleading in that they failed to
12 disclose material adverse information and misrepresented the truth about Medbox's
13 finances and business prospects.
14
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17 81. By virtue of their positions at Medbox, Defendants had actual knowledge of
18 the materially false and misleading statements and material omissions alleged herein and
19 intended thereby to deceive Plaintiff and the other members of the Class, or, in the
20 alternative, Defendants acted with reckless disregard for the truth in that they failed or
21 refused to ascertain and disclose such facts as would reveal the materially false and
22 misleading nature of the statements made, although such facts were readily available to
23 Defendants. Said acts and omissions of Defendants were committed willfully or with
24 reckless disregard for the truth. In addition, each defendant knew or recklessly
25 disregarded that material facts were being misrepresented or omitted as described above.
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1 82. Defendants were personally motivated to make false statements and omit
2 material information necessary to make the statements not misleading in order to
3 personally benefit from the sale of Medbox securities from their personal portfolios.
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5 83. Information showing that Defendants acted knowingly or with reckless
6 disregard for the truth is peculiarly within Defendants' knowledge and control. As the
7 senior managers and/or directors of Medbox, the Individual Defendants had knowledge
8 of the details of Medbox's internal affairs.
9

10 84. The Individual Defendants are liable both directly and indirectly for the
11 wrongs complained of herein. Because of their positions of control and authority, the
12 Individual Defendants were able to and did, directly or indirectly, control the content of
13 the statements of Medbox. As officers and/or directors of a publicly-held company, the
14 Individual Defendants had a duty to disseminate timely, accurate, and truthful
15 information with respect to Medbox's businesses, operations, future financial condition
16 and future prospects. As a result of the dissemination of the aforementioned false and
17 misleading reports, releases and public statements, the market price of Medbox securities
18 was artificially inflated throughout the Class Period. In ignorance of the adverse facts
19 concerning Medbox's business and financial condition which were concealed by
20 Defendants, Plaintiff and the other members of the Class purchased or otherwise
21 acquired Medbox securities at artificially inflated prices and relied upon the price of the
22 securities, the integrity of the market for the securities and/or upon statements
23 disseminated by Defendants, and were damaged thereby.
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1 85. During the Class Period, Medbox securities were traded on an active and
2 efficient market. Plaintiff and the other members of the Class, relying on the materially
3 false and misleading statements described herein, which the Defendants made, issued or
4 caused to be disseminated, or relying upon the integrity of the market, purchased or
5 otherwise acquired shares of Medbox securities at prices artificially inflated by
6 Defendants' wrongful conduct. Had Plaintiff and the other members of the Class known
7 the truth, they would not have purchased or otherwise acquired said securities, or would
8 not have purchased or otherwise acquired them at the inflated prices that were paid. At
9 the time of the purchases and/or acquisitions by Plaintiff and the Class, the true value of
10 Medbox securities was substantially lower than the prices paid by Plaintiff and the other
11 members of the Class. The market price of Medbox securities declined sharply upon
12 public disclosure of the facts alleged herein to the injury of Plaintiff and Class members.

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17 86. By reason of the conduct alleged herein, Defendants knowingly or
18 recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and
19 Rule 10b-5 promulgated thereunder.

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21 87. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff
22 and the other members of the Class suffered damages in connection with their respective
23 purchases, acquisitions and sales of the Company's securities during the Class Period,
24 upon the disclosure that the Company had been disseminating misrepresented financial
25 statements to the investing public.
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COUNT II

**For Violation of §20(a) of the Exchange Act
Against the Individual Defendants**

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4 88. Plaintiff repeats and realleges each and every allegation contained in the
5 foregoing paragraphs as if fully set forth herein.
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7 89. During the Class Period, the Individual Defendants participated in the
8 operation and management of Medbox, and conducted and participated, directly and
9 indirectly, in the conduct of Medbox's business affairs. Because of their senior
10 positions, they knew the adverse non-public information about Medbox's misstatement
11 of income and expenses and false financial statements.
12

13
14 90. As officers and/or directors of a publicly owned company, the Individual
15 Defendants had a duty to disseminate accurate and truthful information with respect to
16 Medbox's financial condition and results of operations, and to correct promptly any
17 public statements issued by Medbox which had become materially false or misleading.
18

19
20 91. Because of their positions of control and authority as senior officers, the
21 Individual Defendants were able to, and did, control the contents of the various reports,
22 press releases and public filings which Medbox disseminated in the marketplace during
23 the Class Period concerning Medbox's results of operations. Throughout the Class
24 Period, the Individual Defendants exercised their power and authority to cause Medbox
25 to engage in the wrongful acts complained of herein. The Individual Defendants
26 therefore, were "controlling persons" of Medbox within the meaning of Section 20(a) of
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1 the Exchange Act. In this capacity, they participated in the unlawful conduct alleged
2 which artificially inflated the market price of Medbox securities.

3
4 92. Each of the Individual Defendants, therefore, acted as a controlling person
5 of Medbox. By reason of their senior management positions and/or being directors of
6 Medbox, each of the Individual Defendants had the power to direct the actions of, and
7 exercised the same to cause, Medbox to engage in the unlawful acts and conduct
8 complained of herein. Each of the Individual Defendants exercised control over the
9 general operations of Medbox and possessed the power to control the specific activities
10 which comprise the primary violations about which Plaintiff and the other members of
11 the Class complain.
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15 93. By reason of the above conduct, the Individual Defendants are liable
16 pursuant to Section 20(a) of the Exchange Act for the violations committed by Medbox.
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19 94. The Individual Defendants had control over Medbox and made the material
20 false and misleading statements and omissions on behalf of Medbox within the meaning
21 of §20(a) of the Exchange Act as alleged herein. By virtue of their controlling
22 shareholder statuses, executive positions, board memberships, and stock ownerships, and
23 their culpable participation, as alleged above, the Individual Defendants had the power to
24 influence and control and did, directly or indirectly, influence and control the decision
25 making of the Company, including the content and dissemination of the various
26 statements which Plaintiff contends were false and misleading. The Individual
27 Defendants were provided with or had unlimited access to the Company's internal
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1 reports, press releases, public filings, and other statements alleged by Plaintiff to be
2 misleading prior to or shortly after these statements were issued, and had the ability to
3 prevent the issuance of the statements or cause them to be corrected.
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5 95. In particular, the Individual Defendants had direct involvement in and
6 responsibility over the day-to-day operations of the Company and, therefore, are
7 presumed to have had the power to control or influence the particular transactions giving
8 rise to the securities violations as alleged herein.
9

10 96. By reason of such wrongful conduct, the Individual Defendants are liable
11 pursuant to §20(a) of the Exchange Act. As a direct and proximate result of the
12 Individual Defendants' wrongful conduct, Plaintiff and the other members of the Class
13 suffered damages in connection with their purchases of the Company's common stock
14 during the Class Period.
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17 **PRAYER FOR RELIEF**
18

19 WHEREFORE, Plaintiff, on behalf of himself and the Class, prays for judgment
20 as follows:
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22 A. Determining that this action is a proper class action, designating Plaintiff as
23 Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the
24 Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;
25

26 B. Awarding compensatory damages in favor of Plaintiff and the other Class
27 members against all Defendants, jointly and severally, for all damages sustained as a
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1 result of Defendants' wrongdoing, in an amount to be proven at trial, including interest
2 thereon;

3 C. Awarding Plaintiff and the Class their reasonable costs and expenses
4 incurred in this action, including counsel fees and expert fees; and
5

6 D. Awarding such other and further relief as the Court may deem just and
7 proper.
8

9 **DEMAND FOR TRIAL BY JURY**

10 Plaintiff hereby demands a trial by jury.

11 Dated: January 29, 2015

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13
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Counsel for Plaintiff

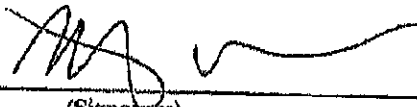
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**CERTIFICATION PURSUANT
TO FEDERAL SECURITIES LAWS**

1. I, Matt Donnis , make this declaration pursuant to Section 27(a)(2) of the Securities Act of 1933 ("Securities Act") and/or Section 21D(a)(2) of the Securities Exchange Act of 1934 ("Exchange Act") as amended by the Private Securities Litigation Reform Act of 1995.
2. I have reviewed a Complaint against Medbox, Inc. ("Medbox" or the "Company"), and authorize the filing of a comparable complaint on my behalf.
3. I did not purchase or acquire Medbox securities at the direction of plaintiffs counsel or in order to participate in any private action arising under the Securities Act or Exchange Act.
4. I am willing to serve as a representative party on behalf of a Class of investors who purchased or acquired Medbox securities during the class period, including providing testimony at deposition and trial, if necessary. I understand that the Court has the authority to select the most adequate lead plaintiff in this action.
5. To the best of my current knowledge, the attached sheet lists all of my transactions in Medbox securities during the Class Period as specified in the Complaint.
6. During the three-year period preceding the date on which this Certification is signed, I have not sought to serve as a representative party on behalf of a class under the federal securities laws.
7. I agree not to accept any payment for serving as a representative party on behalf of the class as set forth in the Complaint, beyond my pro rata share of any recovery, except such reasonable costs and expenses directly relating to the representation of the class as ordered or approved by the Court.

8. I declare under penalty of perjury that the foregoing is true and correct.

Executed 1/28/2015
(Date)


(Signature)

Matt Donnio
(Type or Print Name)

MEDBOX, INC (MDBX)

Donnino, Matthew

LIST OF PURCHASES AND SALES

DATE	PURCHASE OR SALE	NUMBER OF SHS/UTS	PRICE PER SH/UT
09/22/2014	PUR	27	\$8.6000