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

██████████ Individually and  
on Behalf of All Others Similarly  
Situating,

Plaintiff,

v.

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

Plaintiff, ██████████ (“Plaintiff”), individually and on behalf of all others  
similarly situated, by his undersigned attorneys, has alleged the following based  
upon the investigation of Plaintiff’s counsel, which included a review of United  
States Securities and Exchange Commission (“SEC”) filings by Medbox, Inc.  
 (“Medbox” or the “Company”), as well as media and financial analyst reports  
about the Company, conference call transcripts and certain court records.  
Plaintiff believes that substantial additional evidentiary support will exist for the  
allegations set forth herein after a reasonable opportunity for discovery.

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## INTRODUCTION AND NATURE OF THE ACTION

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

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

3. Medbox was founded in 2010 by Defendant Pejman Vincent Mehdizadeh (“Mehdizadeh”), a mid-30s aged Iranian immigrant with a checkered history of business failures and criminal conduct, including grand theft in 2013. At the start of the Class Period on November 20, 2013, Defendant Mehdizadeh was Medbox’s controlling shareholder, owning approximately 65% of its common stock, and served as the Company’s Chief Operating Officer (“COO”) and Chairman of its Board of Directors (“Board”).

4. During the Class Period, Defendants issued materially false and misleading statements regarding the Company’s financial results for the fiscal year ended December 31, 2013 (“FY 2013”) and each of the interim financial periods ended September 30, 2013 (“3Q 2013”), December 31, 2013 (“4Q 2013”), March 30, 2014 (“1Q 2014”), June 30, 2014 (“2Q 2014”) and September 30, 2014 (“3Q 2014”). Specifically, Defendants overstated Medbox’s revenues by recognizing revenue on customer contracts before it had been earned. As a result of these false statements, Medbox’s stock traded at artificially inflated prices during the Class Period, reaching an intraday Class Period high of \$93.50 on January 8, 2014.

1           5.     While Defendants kept the full extent of their fraud concealed  
2 throughout the Class Period, the market learned bits of the truth through several  
3 partial disclosures.

4           6.     Initially, the price the Company's common stock declined partially  
5 in January 2014 when the Financial Industry Regulatory Authority ("FINRA")  
6 issued an advisory concerning risks related to investing in marijuana related  
7 stocks. To keep the price of Medbox stock inflated, Defendants issued an  
8 immediate response reassuring the market that Medbox's financial reporting was  
9 sound, quoting Defendant Mehdizadeh emphasizing that: "Since day 1, our  
10 company has made its quarterly reports and financials available to the public,  
11 kept shareholders diligently informed about the company and its operating  
12 personnel at all times, offered ongoing support to its many clients, completed an  
13 audit of its financials, ... and also demonstrated profitability while not deriving  
14 revenue from the cultivation or sale of the marijuana itself."

15           7.     Thereafter, on February 18, 2014, *Citron Research* issued a report  
16 accusing Medbox of keeping three sets of books and stating, among other things,  
17 that "systemic fraud" and stock promotion had facilitated the Company's  
18 \$1 billion market capitalization. Again to keep the stock price inflated, the same  
19 morning *Citron Research* issued its report, the Company issued a press release  
20 commending the Obama administration for new rules it said would ease the  
21 concerns of banks wanting to deal with businesses that legally sell marijuana. In  
22 its release, the Company noted that its CEO would appear on CNBC's Closing  
23 Bell on Tuesday, February 18, and Fox Business on Wednesday, February 19.  
24 Later in the day on February 18, 2014, following the issuance of the damning  
25 *Citron Research* report, the Company issued a rebuke of the *Citron Research*  
26 report quoting Defendant Mehdizadeh claiming that while it had discovered  
27 some past accounting "errors," Medbox was now "getting it right and being fully  
28 transparent with [its] shareholders at all times" and had "instituted better

1 controls over financial reporting to avoid further corrections.” Following the  
2 news of the day, shares of Medbox decreased from an opening price of  
3 \$33.42 per share to close at \$29.80 per share on February 18, 2014, closing  
4 lower again on February 19, 2014 at \$27.25 per share.

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

8 9. Thereafter, the price of Medbox stock declined again, dropping  
9 from a closing price of \$17.52 per share on May 16, 2014 to close down at  
10 \$16.11 per share on May 19, 2014, following the Friday, May 16, 2014 issuance  
11 of a report by the SEC warning of “possible scams involving marijuana-related  
12 investments” and quoting Elisha Frank, co-chair of the SEC Enforcement  
13 Division’s Microcap Fraud Task Force as stating “[w]hen we see incomplete  
14 or misleading disclosures, we act quickly to protect investors.”

15 10. However, with Medbox issuing press releases on July 1, 2014,  
16 claiming that it had become a “Fully Reporting Public Company” and on July  
17 24, 2014, announcing that Defendant Guy Marsala (“Marsala”), who investors  
18 were assured had “a track record of driving exceptional results in both public  
19 and private companies by implementing Fortune 500 company best practices at  
20 early stage and middle market companies,” had been named Chairman of  
21 Medbox’s Board and was appointed as President and CEO of the Company,  
22 replacing Defendant Bruce Bedrick (“Bedrick”),<sup>1</sup> the price of Medbox stock  
23 remained artificially inflated, closing at \$14.70 per share on July 24, 2014; the  
24 Company was also able to facilitate the sale of \$5.5 million in convertible  
25 debentures in private placements during July and September 2014.

26 \_\_\_\_\_  
27 <sup>1</sup> Following his resignation as CEO, in August 2014, Defendant Bedrick also  
28 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           11. On or about October 17, 2014, the Company disclosed that  
2 Defendant Mehdizadeh had resigned as an officer of Medbox but that he would  
3 continue to serve the Company as a consultant with the title of Founder and  
4 Senior Advisor.

5           12. Then, on or about October 21, 2014, the Company disclosed that  
6 Medbox's Chief Financial Officer ("CFO") Thomas Iwanski ("Iwanski") – who  
7 was just hired in that capacity by the Company in February 2014 - was being  
8 replaced by Defendant Douglas Mitchell ("Mitchell"), though Iwanski too would  
9 stay on as a consultant.

10           13. Thereafter, on October 31, 2014, the Company disclosed that it had  
11 appointed a special board committee to investigate a letter from a former  
12 Company employee to the SEC "alleging wrongdoing by a former officer of the  
13 Company who [was] a consultant to the Company" and that "a federal grand jury  
14 document subpoena [had been] served in August 2014 on the Company's  
15 accountants by the U.S. Department of Justice..."

16           14. On November 3, 2014, a press release was issued stating it was  
17 released by Medbox entitled "Medbox Comments on Recent 8-K Filing" which  
18 claimed that the former employee who sent the letter to the SEC had done so in  
19 retribution for Medbox's refusal to pay him a cash settlement, quoting  
20 Defendant Mehdizadeh, and further stating that "[c]urrent management  
21 commented that the Company ha[d] not found any indications that the subject  
22 matter contained in the [former employee's] letter [was] true concerning the  
23 conduct of prior officers of the company."

24           15. Meanwhile, shares of Medbox fell \$1.50 per share from their  
25 October 31, 2014 closing price of \$13.95 per share, or 10.8%, to close at \$12.45  
26 on November 3, 2014. Shares fell another \$2.75 per share on November 5, 2014  
27 as the financial media reported on the ensuing SEC investigation and the market  
28 impacted the full import of the disclosures.



**PARTIES**

1  
2           22.           Plaintiff purchased Medbox common stock during the Class  
3 Period as described in the Certification attached hereto and incorporated herein  
4 by reference and suffered damages thereon.

5           23.           Medbox is headquartered at 8439 West Sunset Boulevard,  
6 Suite 101, West Hollywood, California 90069. During the Class Period,  
7 Medbox had more than 30.4 million shares of common stock outstanding, which  
8 shares traded in an efficient market on the Over-the-Counter-Market under the  
9 ticker symbol “MDBX.” Medbox was constantly in communication with the  
10 markets and investors in quarterly conference calls and frequent presentations to  
11 investor and analyst conferences. Indeed, as Medbox itself highlighted during  
12 the Class Period, its founder, Defendant Mehdizadeh, “appeared in interviews  
13 with CNN, ABCNews, Reuters, Associated Press, NPR, and ha[d] been featured  
14 in articles appearing in Newsweek, Los Angeles Times, and the Wall Street  
15 Journal, as well as over 30 other news agencies around the world concerning  
16 [its] cutting-edge products and services.” Medbox also filed periodic public  
17 reports with the SEC, and regularly issued press releases to the financial press.

18           24.           Defendant Mehdizadeh founded Medbox in 2010 and served as a  
19 director and as its COO until April 2014, as its “Senior Strategist and Founder”  
20 until October 2014, following which he continued to serve as a consultant to the  
21 Company with the title of “Founder and Senior Advisor” through the remainder  
22 of the Class Period.

23           25.           Defendant Bedrick served as Medbox’s President and CEO from the  
24 start of the Class Period until July 23, 2014, and as a director of Medbox until  
25 August 2014, following which Bedrick continued to serve as a consultant to the  
26 Company.



1 industries. The Company offers Medbox, a biometric medicine dispensing  
2 machine that dispenses herbal and prescription medications to individuals based  
3 on biometric identification primarily for pharmacies, assisted living facilities,  
4 prisons, hospitals, and doctors' offices. Its products also include Safe Access  
5 Storage Lockers that are used by medium to large mail-order chains; Medbox  
6 medicine storage machines; and Lockbox Rx, a storage/retrieval system that is  
7 used for prescription medication, over-the-counter medicines, and other  
8 pharmacy products. In addition, the Company provides Sample-Safe, a wall-  
9 mounted unit for use in doctors' offices; sells the point-of-sale system that  
10 includes a monitor, keyboard, credit card reader, and computer with interface;  
11 and offers Medbox OTC machines, a non-biometric machine for over-the-  
12 counter items, as well as sells various vaporizer and accessory products, such as  
13 miVape, through online and distribution partners.

14 32. The Company, which Defendant Mehdizadeh founded as  
15 MindfulEye Inc. in 2010 and changed its name to Medbox, Inc. in October 2011,  
16 was incorporated in 1977 and is headquartered in West Hollywood, California.

17 33. Defendant Mehdizadeh has a checkered history of business failures  
18 and criminal convictions, including grand theft in 2013. Specifically, in 2013,  
19 Defendant Mehdizadeh pled no-contest to a 15-count criminal complaint that  
20 was filed against him relating to a law firm Defendant Mehdizadeh managed as a  
21 non-lawyer. Defendant Mehdizadeh received probation and agreed to pay  
22 \$450,000 as part of a plea agreement. Defendant Mehdizadeh also declared  
23 bankruptcy in July 2010, which was discharged in 2011.

24 34. During the Class Period, Defendant Mehdizadeh occupied various  
25 roles at Medbox including serving as its COO, as an officer with the title "Senior  
26 Strategist and Founder," and as a "consultant" to Medbox with the title "Founder  
27 and Senior Advisor."  
28

1 35. At the start of the Class Period, Mehdizadeh owned approximately  
2 65% of Medbox’s common stock and is still “the beneficial owner of the  
3 majority of the voting power of the Company[,]” owning or controlling  
4 approximately 58% of the Company’s outstanding shares, according to the  
5 Schedule 14C Mehdizadeh filed, or caused to be filed, with the SEC on or about  
6 January 9, 2015.

7 **MATERIALLY FALSE AND MISLEADING CLASS PERIOD**  
8 **STATEMENTS<sup>2</sup>**

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

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

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

18 \* \* \*

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

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

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

28 <sup>2</sup> All emphasis is added unless otherwise noted.

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

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

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

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

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

32           ... Medbox ... commented on FINRA’s renewed advisory concerning  
33           marijuana related stocks. The advisory, released Friday, highlights  
34           what investors should be aware of when investing in marijuana related  
35           stocks.

36           The [FINRA] advisory stated, in part:

37           “We are reissuing this alert to warn investors not only about the  
38           potential for fraud in this arena, but also to reiterate the risks of

1 investing in thinly traded companies about which little is known...  
2 One company, for example, promoted its move into the medical  
3 cannabis space by issuing more than 30 press releases during the first  
4 half of 2013. These releases publicized rosy financial prospects and  
5 the growth potential of the medical marijuana market. The company  
6 was also touted on the Internet through the use of sponsored links,  
investment profiles and spam email, including one promotional piece  
claiming the stock "could double its price SOON" and another  
asserting the stock was "poised to light up the charts!" Yet the  
company's balance sheet showed only losses, and the company stated  
elsewhere that it was only beginning to formulate a business plan."

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

8 "For example, the CEO of one thinly traded, yet heavily touted,  
9 company that purports to be in the medical marijuana business spent  
10 nine years in prison for operating one of the largest drug smuggling  
11 operations in U.S. history. The former CEO of a similar company was  
12 recently indicted for his role in a multi-million dollar mortgage-based  
13 Ponzi scheme."

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

16 "Some of the public companies in the marijuana sector are in the  
17 business of selfpromotion with little or no substance or even an  
18 executable business plan," stated Vincent Mehdizadeh, Chief  
19 Operations Officer at Medbox, Inc. "***Since day 1, our company has  
20 made its quarterly reports and financials available to the public,  
21 kept shareholders diligently informed about the company and its  
22 operating personnel at all times, completed an audit of its financials,***  
23 ***donated substantial amounts to industry advocacy groups that support medical marijuana  
24 patient rights to safe access of the medicine, and also demonstrated  
25 profitability while not deriving revenue from the cultivation or sale  
26 of the marijuana itself.*** As far as I know, we are the only company in  
27 the space to have accomplished those feats. With that being said we  
28 have stated in the past that investors should make informed decisions  
when buying our stock as the volatility may not be something the  
average retail investor can stomach."

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

37 "Much of the investor interest in Medbox has occurred through  
38 financial press, financial media, and general media coverage  
chronicling advances in the medical marijuana industry, an industry in  
which we feel we are the most reputable company," stated Dr. Bruce  
Bedrick, Chief Executive Officer at Medbox, Inc. "Consequently, we

1 spent much of last year trying to find a reputable firm that would be a  
2 good fit to handle our investor relations consistent with best industry  
3 practices, and now feel we have found the right fit for our company.  
4 We expect to announce more details some time after our Form 10  
5 registration statement is filed with the SEC this week, as that is our  
6 main priority at present.”

7 40. On January 24, 2014, the Company issued a press release entitled  
8 “Medbox, Inc. Launches Proactive Investor Relations Program.” The press  
9 release announced that the Company had engaged Hayden IR and  
10 RedChipCompanies, Inc., “*two independent firms to handle ongoing corporate*  
11 *messaging and investor relations*” and “*to raise the visibility of Medbox with*  
12 *the investment community.*” The press release continued, quoting Defendant  
13 Bedrick stating that the Company retained these firms who he referred to as  
14 “proven IR counsel” to “*help [the Company] raise [its] visibility in the*  
15 *investment community, communicate [its] investment thesis and broaden [its]*  
16 *shareholder base.*”

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

24 42. On the morning of February 18, 2014, the Company issued a press  
25 release entitled “Medbox, Inc. Commends Obama Administration for New  
26 Guidelines Enabling Banks to Deal with Businesses that Legally Sell  
27 Marijuana,” in which the Company lauded the Obama administration “for its  
28 forward-thinking action to ease the issues that banks currently have in doing  
business with dispensary operators which Medbox directly serves.” The press  
release referenced recent rules issued by the Treasury and Justice Departments

1 which the Company said would open the door for “lawful marijuana businesses  
2 to have access to the American banking system.” The press release also  
3 promoted upcoming appearances by Defendant Bedrick on CNBC's Closing Bell  
4 on Tuesday, February 18 at 4:40 p.m. Eastern Standard Time, and Fox Business  
5 on Wednesday, February 19 during the 4:00 p.m. hour, Eastern Standard Time.

6 43. Later on February 18, 2014, *Citron Research* issued a scathing  
7 report entitled “Busting Medbox,” accusing Medbox of keeping three sets of  
8 books and stating, among other things, that “systemic fraud” and stock  
9 promotion had facilitated the Company’s then \$1 billion market capitalization.

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

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

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

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

20 \* \* \*

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

23 “The company undertook a project to bring all accounting functions in  
24 house and during that lengthy process we discovered some errors in  
25 accounting which we have since corrected in the latest financials  
26 included in the Form 10. ***The point is getting it right and being fully***  
***transparent with our shareholders at all times,***” stated Vincent  
27 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  
28 note that revenues for the nine months of 2013 had increased over the  
comparative period of the prior year (as corrected) and we are  
continuing to add skilled people to accelerate our growth in 2014.

1 Unfortunately, when you are the most visible company in the space,  
2 with a large market capitalization, you become a target.”

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

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

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

24 45. Following the news of the day, shares of Medbox decreased from  
25 an opening price of \$33.42 per share to close at \$29.80 per share on February 18,  
26 2014.

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

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

- The Company's Form 10 registration statement filed with the SEC will be effective as of March 22, 2014. The Company expects to respond to SEC comments and file audited 2013 year-end financials on a Form 10-K by the end of March.
- ***The board of directors is seeking to list Medbox with the NASDAQ Capital Markets or another national exchange by the end of 2014.***

- ***The Company added public company experience with the additions of Thomas Iwanski at CFO, Matt Feinstein at Vice President, and also Mitch Lowe as the Company's first independent director.***

\* \* \*

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

Dr. Bruce Bedrick, Medbox President and CEO, added, ***“With the effectiveness of our Form 10 later this month, Medbox 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.”***

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

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

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

“This is a key step in our goal of listing our shares on a national exchange, and ***further evidence of our goal to maintain the highest standards for corporate governance and transparency***,” stated Vincent Mehdizadeh, Chairman and COO of Medbox, Inc. “It is of special importance to me personally that ***we are one of the only fully reporting public companies*** that has generated considerable revenues in the marijuana ancillary services sector and demonstrated an 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.”

48. On March 31, 2014, the Company filed a Form 10 with the SEC purporting to report its fiscal 2013 financial results. The Form 10 stated in

1 pertinent part that “[r]evenue increased \$2,633,196, or 101.65%, to \$5,223,775  
 2 for the twelve months ended December 31, 2013, from \$2,590,579 for the  
 3 twelve months ended December 31, 2012, primarily as a result of the completion  
 4 of contracts for [its] Arizona customers” and that the “main reason for the  
 5 increase in revenues was a change in volume, because there were no changes in  
 6 pricing policies.” The Form 10 was signed by Defendant Bedrick.

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

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

15 **Recent Operational highlights:**

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

20 \* \* \*

21 “This was a productive and exciting year for Medbox, and the first 90  
 22 days of 2014 have been even more productive,” commented Dr. Bruce  
 Bedrick, Chief Executive Officer of Medbox. “We have solidified our  
 23 position as the industry leader, and ***in the last three months we have  
 taken specific steps to improve corporate governance, expand  
 24 transparency and deliver shareholder value.*** During the rest of 2014  
 we will grow organically, taking advantage of the tremendous  
 25 momentum in the industry. We will also leverage our reputation,  
 presence in the industry, and our relationships to develop new revenue  
 26 streams. ***This will be an exciting year for Medbox, its clients and its  
 shareholders.***”

27 ***Full-year revenues were \$5.2 million, a 101.7% increase compared  
 28 to \$2.6 million last year. The increase in revenues was due to***

1 *primarily the result of recognizing revenue deferred from 2012*  
2 *related to the completion of contracts for Arizona customers which*  
3 *was delayed by court action that was not resolved until 2013. Gross*  
4 *profit for 2013 was \$2.6 million, or 50.5% gross profit margin,*  
5 *compared to gross profit of \$1.5 million, or 59.4% gross profit*  
6 *margin for 2012. The change in gross profit margin was due to*  
7 *increased costs related to the build-out of locations for clients and*  
8 *delays in implementing the Arizona program related to the litigation.*

9 Total selling, general and administrative expenses were \$3.2 million,  
10 or 61.2% of total revenues, compared to total selling, general and  
11 administrative expenses of \$1.9 million, or 72.5% of total revenues  
12 last year. *The loss from operations for the year was \$(560,000),*  
13 *compared to a loss from operations of \$(340,000) last year. Net loss*  
14 *for the year was \$(557,000), or \$(0.02) per basic and \$(0.01) per*  
15 *diluted share, compared to a net loss last year of \$(344,000), or*  
16 *\$(0.01) per basic and diluted share, last year.*

17 While *the Company's largest operating subsidiary, Medicine*  
18 *Dispensing Systems, remained profitable with a pretax profit of*  
19 *\$948,443*, the net loss for 2013 included \$1.2 million in losses from  
20 the parent company's operations, related primarily to accounting and  
21 SEC attorney legal fees (related to the filing of, and subsequent  
22 withdrawing of, a Registration Statement on Form S-1, and the filing  
23 of a Form 10 registration statement in order to register the common  
24 stock of Medbox) and additional legal fees (related to litigation on  
25 behalf of Arizona clients to allow them to move forward with  
26 dispensary licenses the state of Arizona had awarded). In addition, the  
27 Company's Vaporfection subsidiary, acquired on April 1, 2013,  
28 recognized a net loss of \$317,000 for nine months of operations.

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

#### Fourth Quarter Financial Results

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

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

6 ***Net loss for the fourth quarter of 2013 was \$(513,000) or \$(0.02) per  
7 basic and \$(0.01) per diluted share, compared to a net loss of  
8 \$(533,000) or \$(0.02) per basic and \$(0.01) per diluted share for the  
9 fourth quarter of 2012.***

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

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

16 **Recent Operational Highlights:**

17 \* \* \*

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

22 \* \* \*

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

26 \* \* \*

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

Dr. Bedrick continued, "Across the country, states and municipalities  
evolve regulations regarding medical and recreational marijuana, and  
often struggle with the best ways to manage this change and address  
reasonable concerns. The results we are reporting today are somewhat  
overshadowed by accounting provisions necessitated by changes in  
the business and legal environment in one of the markets in which we

1 operate. *Medbox stands at the forefront of this industry, offering*  
 2 *solutions that help dispensary operators and cultivators maintain*  
 3 *compliance and records that exceed regulatory requirements.”*

### 4 **First Quarter Financial Results**

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

14 \* \* \*

15 *Net loss for the first quarter of 2014 was \$(1.3) million or \$(0.04)*  
 16 *per basic and \$(0.03) per diluted share, compared to a net loss of*  
 17 *\$(330,380) or \$(0.01) per basic and \$(0.01) per diluted share for the*  
 18 *first quarter of 2013.*

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

23 53. On Friday, May 16, 2014, the SEC issued a report warning of  
 24 “possible scams involving marijuana-related investments” and quoting Elisha  
 25 Frank, co-chair of the SEC Enforcement Division’s Microcap Fraud Task Force  
 26 as stating “[w]henver we see incomplete or misleading disclosures, we act  
 27 quickly to protect investors.” Medbox would close down at \$16.11 per share on  
 28 Monday, May 19, 2014, from its previous close of \$17.52 per share on May 16,  
 2014.

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

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

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

4 55. Later that month, on July 24, 2014, the Company announced that  
5 Defendant Bedrick was stepping down as the Company’s President and CEO  
6 and that Defendant Marsala, who investors were assured had “a track record of  
7 driving exceptional results in both public and private companies by  
8 implementing Fortune 500 company best practices at early stage and middle  
9 market companies,” would take his place. The Company also announced that  
10 Defendant Marsala had been appointed to the Board and subsequently elected to  
11 serve as its Chairman. Following his resignation as President and CEO of the  
12 Company, in August 2014, Defendant Bedrick also stepped down from  
13 Medbox’s Board. Defendant Bedrick, however, remained with the Company as  
14 a “consultant.”

15 56. In July and September 2014, the Company was able to facilitate the  
16 sale of \$5.5 million in convertible debentures in private placements.

17 57. On August 15, 2014, the Company issued a press release entitled  
18 “Medbox Files 10-Q and Announces Quarterly Conference Call.” The Form 10-  
19 Q Medbox filed with the SEC that day for the financial period ended June 30,  
20 2014 was signed by Defendants Marsala and Iwanski and reported that the  
21 Company had achieved revenues of \$434,448 and a net loss of \$1.4 million in  
22 2Q 2014. The Management Discussion and Analysis (“MD&A”) section of the  
23 Form 10-Q stated in pertinent part that “[r]evenue was down for the current  
24 period as delays in adoption of final regulations in certain states and the ultimate  
25 timing of the application process in states with final regulations reduced and  
26 delayed the opportunity to apply for new licenses and consequently delayed the  
27 notice of the results of any license application made.” The MD&A section also  
28 stated that “revenue was further reduced by additional sales allowances and

1 refunds recorded due to a legislative change in the San Diego market area which  
2 reduced the ability of certain clients to obtain licenses and triggered certain  
3 contract refunds.”

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

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

13 60. Thereafter, on Friday, October 31, 2014, following market close,  
14 the Company filed a Form 8-K with the SEC disclosing that on October 27,  
15 2014, the Board appointed a special board committee to investigate “(i) a letter  
16 from a former Company employee to the Securities and Exchange Commission  
17 alleging wrongdoing by a former officer of the Company who is currently a  
18 consultant to the Company, and (ii) a federal grand jury document subpoena  
19 served in August 2014 on the Company’s accountants by the U.S. Department of  
20 Justice, to ascertain what implications, if any, the subpoena or the letter may  
21 have with respect to the Company.”

22 61. On Monday, November 3, 2014, before market open, the Company  
23 issued a press release entitled “Medbox Comments on Recent 8-K Filing.” The  
24 press release attempted to minimize the potential impact of the letter from the  
25 former employee to the SEC, quoting Defendant Mehdizadeh who stated that  
26 “[t]he former employee vowed to retaliate against the Company in any way he  
27 could after his illegal cash demands of the company were ignored. It  
28 now appears that writing a letter to government agencies filled with factual

1 inaccuracies and blatant falsehoods was the most effective way to facilitate that  
2 goal.” The press release continues noting that “[c]urrent management  
3 commented that the Company ha[d] not found any indications that the subject  
4 matter contained in the [former employee’s] letter [was] true concerning the  
5 conduct of prior officers of the company.” With respect to the subpoena served  
6 in August 2014 on the Company’s accountants by the U.S. Department of  
7 Justice, the Company, in the press release “clarified that no subpoenas have been  
8 served on the Company, it’s current or former officers, or anyone affiliated to  
9 the Company.” The press release ends by quoting Defendant Mehdizadeh, who  
10 reassures that he:

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

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

23 63. On November 7, 2014, Medbox filed a Current Report on Form 8-K  
24 with the SEC stating, “[t]he news release issued Monday, November 3, 2014  
25 under the headline “Medbox Comments on Recent 8-K Filing” *was not*  
26 *authorized by Medbox, Inc.* (the “Company”) for distribution. The 8-K filed by  
27 the Company on Friday, October 31, 2014, should be used as a reference for  
28

1 information regarding this matter. The filing is available on the website of the  
2 Securities and Exchange Commission.”

3 64. On November 12, 2014, the Company filed a quarterly financial  
4 report on Form 10-Q with the SEC reporting its financial results for its 3Q 2014  
5 ended September 30, 2014. The Form 10-Q, was signed by Defendants Marsala  
6 and Mitchell and stated that MedBox had achieved net revenues of \$107,429 and  
7 a net loss of \$3.2 million for the quarter. The MD&A section of the Form 10-Q  
8 also stated in pertinent part as follows:

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

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

24 (a) Medbox was recognizing revenue before earned on certain  
25 customer contracts;

26 (b) Medbox lacked effective internal controls;

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

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

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

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

4           Medbox ... today announced it will amend and restate its financial  
5 statements for the year ended December 31, 2013, the third and fourth  
6 quarters of 2013 and the first three quarters of 2014.

7           In October, 2014, the Board of Directors of the Company appointed a  
8 special board committee (the “Special Committee”) to investigate a  
9 federal grand jury subpoena pertaining to the Company which was  
10 served upon the Company’s accountants, as well as certain alleged  
11 wrongdoing raised by a former employee of the Company. Thereafter,  
12 the Company received subpoenas from the federal grand jury and the  
13 Securities and Exchange Commission. In connection with its  
14 investigation of these matters, the Special Committee, in conjunction  
15 with the Audit Committee, initiated an internal review by  
16 management and by an outside professional advisor of certain prior  
17 period financial reporting of the Company.

18           ***Medbox’s audit committee, upon management’s recommendations,  
19 has concluded that the consolidated financial statements for the  
20 year ended December 31, 2013 and for the third and fourth quarters  
21 of 2013 as well as for the quarters ended March 31, 2014, June 30,  
22 2014 and September 30, 2014, should no longer be relied upon and  
23 will be restated to correct the errors. As part of the investigative  
24 process, Medbox will also examine the financial statements for 2012  
25 and for the first two quarters of 2013 and, if necessary, correct those  
26 as well.*** The company intends to correct the errors in its financial  
27 statements to bring them into conformity with accounting principles  
28 generally accepted in the United States of America (GAAP) and SEC  
regulations. Medbox plans to engage an independent CPA firm to  
consult with and assist the Company’s staff with preparing restated  
financial statements as soon as possible.

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

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

1 Guy Marsala, CEO of Medbox commented, “The steps we are  
2 announcing today are part of the *continued initiative of our new*  
3 *board of directors and new management team to implement better*  
4 *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.”

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

#### 10 NO SAFE HARBOR

11 68. Medbox’s “Safe Harbor” warnings accompanying its reportedly  
12 forward-looking statements (“FLS”) issued during the Class Period were  
13 ineffective to shield those statements from liability. Because most of the false  
14 and misleading statements related to existing facts or conditions, the Safe Harbor  
15 has no applicability. To the extent that known trends should have been included  
16 in the Company’s financial reports prepared in accordance with GAAP, they are  
17 excluded from the protection of the statutory Safe Harbor. 15 U.S.C. §78u-  
18 5(b)(2)(A).

19 69. Defendants are also liable for any false or misleading FLS pleaded  
20 because, at the time each FLS was made, the speaker knew the FLS was false or  
21 misleading and the FLS was authorized and/or approved by an executive officer  
22 and/or director of Medbox who knew that the FLS was false. In addition, the  
23 FLS were contradicted by existing, undisclosed material facts that were required  
24 to be disclosed so that the FLS would not be misleading. Finally most of the  
25 purported “Safe Harbor” warnings were themselves misleading because they  
26 warned of “risks” that had already materialized or failed to provide meaningful  
27 disclosures of the relevant risks.

1 **ADDITIONAL SCIENTER ALLEGATIONS**

2 70. As alleged herein, Defendants acted with scienter in that  
3 Defendants knew that the public documents and statements issued or  
4 disseminated in the name of the Company were materially false and misleading;  
5 knew that such statements or documents would be issued or disseminated to the  
6 investing public; and knowingly and substantially participated or acquiesced in  
7 the issuance or dissemination of such statements or documents as primary  
8 violations of the federal securities laws. As set forth elsewhere herein in detail,  
9 Defendants, by virtue of their receipt of information reflecting the true facts  
10 regarding Medbox, their control over, and/or receipt of modification of  
11 Medbox's allegedly materially misleading misstatements and/or their  
12 associations with the Company which made them privy to confidential  
13 proprietary information concerning Medbox, participated in the fraudulent  
14 scheme alleged herein.

15 **APPLICABILITY OF PRESUMPTION OF RELIANCE:**  
16 **FRAUD-ON-THE-MARKET DOCTRINE**

17 71. Plaintiff will rely upon the presumption of reliance established by  
18 the fraud-on-the-market doctrine in that, among other things:

- 19 (a) Defendants made public misrepresentations or failed to  
20 disclose material facts during the Class Period;
- 21 (b) The omissions and misrepresentations were material;
- 22 (c) The Company's stock traded in an efficient market;
- 23 (d) The misrepresentations alleged would tend to induce a  
24 reasonable investor to misjudge the value of the Company's securities; and
- 25 (e) Plaintiff and other members of the Class purchased Medbox  
26 common stock between the time Defendants misrepresented or failed to disclose  
27 material facts and the time the true facts were disclosed, without knowledge of  
28 the misrepresented or omitted facts.



1 market. Defendants knowingly misstated the Company's then-present business  
2 metrics in order to improve the market's perception of Medbox's worth.

3 75. By artificially inflating and manipulating Medbox's stock price,  
4 Defendants deceived Plaintiff and the Class and caused them losses when the  
5 truth was revealed. When Defendants' prior misrepresentations and fraudulent  
6 conduct became apparent to the market through partial disclosures throughout  
7 2014, Medbox's stock price declined precipitously as the prior artificial inflation  
8 came out of the stock price. As a result of their purchases of Medbox securities  
9 during the Class Period, Plaintiff and other members of the Class suffered  
10 economic loss, *i.e.*, damages, under the federal securities laws.

### 11 **CLASS ACTION ALLEGATIONS**

12 76. Plaintiff brings this action as a class action pursuant to Federal Rule  
13 of Civil Procedure 23(a) and (b)(3) on behalf of those who purchased or  
14 otherwise acquired Medbox common stock between November 20, 2013 and  
15 December 29, 2014, inclusive, and who were damaged thereby (the "Class").  
16 Excluded from the Class are Defendants and their families, the officers and  
17 directors of the Company, at all relevant times, members of their families and  
18 their legal representatives, heirs, successors, or assigns, and any entity in which  
19 Defendants have or had a controlling interest.

20 77. Class members are so numerous that joinder of them is  
21 impracticable. While the exact number of Class members is unknown to  
22 Plaintiff at this time and can only be ascertained through appropriate discovery,  
23 Plaintiff believes that there are hundreds or thousands of members in the  
24 proposed Class. Record owners and other members of the Class may be  
25 identified from records maintained by Medbox or its transfer agent and may be  
26 notified of the pendency of this action by mail, using the form of notice that is  
27 customarily used in securities class actions.

28

1           78. Common questions of law and fact exist as to all members of the  
2 Class and predominate over any questions solely affecting individual members  
3 of the Class. Among the questions of law and fact common to the Class include  
4 whether Defendants:

- 5           (a) violated the Exchange Act;  
6           (b) omitted and/or misrepresented material facts;  
7           (c) knew or recklessly disregarded that their statements were  
8 false;  
9           (d) artificially inflated the price of Medbox common stock; and  
10          (e) the extent of and appropriate measure of damages.

11          79. Plaintiff's claims are typical of the claims of the members of the  
12 Class as all members of the Class are similarly affected by Defendants' wrongful  
13 conduct in violation of federal law complained of herein.

14          80. Plaintiff will adequately protect the interests of the Class and has  
15 retained counsel competent and experienced in class action, shareholder, and  
16 securities litigation.

17          81. A class action is superior to all other available methods for the fair  
18 and efficient adjudication of this controversy since joinder of all members is  
19 impracticable. Further, prosecution of individual actions would create a risk of  
20 inconsistent adjudications. Additionally, since the damages suffered by the  
21 individual Class members may be relatively small, the expense and burden of  
22 individual litigation make it impossible for members of the Class to individually  
23 redress the wrongs done to them. There will be no difficulty in the management  
24 of this action as a class action.

1 **COUNT I**

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

4 82. Plaintiff repeats and realleges the above paragraphs as though fully  
5 set forth herein.

6 83. Throughout the Class Period, Defendants, in pursuit of their scheme  
7 and continuous course of conduct to inflate the market price of Medbox common  
8 stock, had the ultimate authority for making, and knowingly or recklessly made,  
9 materially false or misleading statements or failed to disclose material facts  
10 necessary to make the statements made, in light of the circumstances under  
11 which they were made, not misleading.

12 84. During the Class Period, Defendants, and each of them, carried out  
13 a plan, scheme, and course of conduct using the instrumentalities of interstate  
14 commerce and the mails, which was intended to and, throughout the Class  
15 Period did: (a) artificially inflate and maintain the market price of Medbox  
16 common stock; (b) deceive the investing public, including Plaintiff and other  
17 Class members, as alleged herein; (c) cause Plaintiff and other members of the  
18 Class to purchase Medbox common stock at inflated prices; and (d) cause them  
19 losses when the truth was revealed. In furtherance of this unlawful scheme, plan  
20 and course of conduct, Defendants, and each of them, took the actions set forth  
21 herein, in violation of §10(b) of the Exchange Act and Rule 10b-5, 17 C.F.R.  
22 §240.10b-5. All Defendants are sued either as primary participants in the  
23 wrongful and illegal conduct charged herein or as controlling persons as alleged  
24 below.

25 85. In addition to the duties of full disclosure imposed on Defendants as  
26 a result of their affirmative false and misleading statements to the investing  
27 public, these Defendants had a duty to promptly disseminate truthful information  
28 with respect to Medbox's operations and performance that would be material to

1 investors in compliance with the integrated disclosure provisions of the SEC,  
2 including with respect to the Company's revenue and earnings trends, so that the  
3 market price of the Company's securities would be based on truthful, complete  
4 and accurate information. SEC Regulations S-X (17 C.F.R. §210.01, *et seq.*)  
5 and S-K (17 C.F.R. §229.10, *et seq.*).

6 86. Medbox and the Individual Defendants had actual knowledge of the  
7 misrepresentations and omissions of material facts set forth herein or acted with  
8 reckless disregard for the truth in that they failed to ascertain and disclose such  
9 facts, even though such facts were either known or readily available to them.

10 87. As a result of the dissemination of the materially false and  
11 misleading information and failure to disclose material facts as set forth above,  
12 the market price of Medbox common stock was artificially inflated during the  
13 Class Period. In ignorance of the fact that the market price of Medbox common  
14 stock was artificially inflated, and relying directly or indirectly on the false and  
15 misleading statements made knowingly or with deliberate recklessness by  
16 Medbox and the Individual Defendants, or upon the integrity of the market in  
17 which the shares traded, Plaintiff and other members of the Class purchased  
18 Medbox stock during the Class Period at artificially high prices and, when the  
19 truth was revealed, were damaged thereby.

20 88. Had Plaintiff and the other members of the Class and the  
21 marketplace known of the true facts, which were knowingly or recklessly  
22 concealed by Medbox and the Individual Defendants, Plaintiff and the other  
23 members of the Class would not have purchased or otherwise acquired their  
24 Medbox shares during the Class Period, or if they had acquired such shares  
25 during the Class Period, they would not have done so at the artificially inflated  
26 prices which they paid.

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1 of the Class suffered damages in connection with their purchases of the  
2 Company's common stock during the Class Period.

3 **PRAYER FOR RELIEF**

4 WHEREFORE, Plaintiff, on behalf of himself and the Class, prays for  
5 judgment as follows:

6 A. Determining that this action is a proper class action, designating  
7 Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under  
8 Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead  
9 Counsel;

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

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

16 D. Awarding such other and further relief as the Court may deem just  
17 and proper.

18 **JURY DEMAND**

19 Plaintiff demands a trial by jury.

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21 Dated: January 21, 2015  
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