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CLERK-SUPERIOR DOURT SAN DIEGO COUNTY, CA

# SUPERIOR COURT FOR THE STATE OF CALIFORNIA COUNTY OF SAN DIEGO

OMARI BOBO, an Individual,

Plaintiff,

POINT LOMA PATIENTS **CONSUMER COOPERATIVE** CORPORATION, A California Corporation, ADAM KNOPF, an Individual, JUSTUS H. HENKES IV, an Individual, and DOES 1-50,

Defendants.

Case No: 37-2017-00037348-CU-PO-CTL

## **COMPLAINT FOR:**

- 1. BREACH OF FIDUCIARY DUTY
- 2. INTENTIONAL INFLICTION OF EMOTIONAL DISTRESS
- 3. BREACH OF THE IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING

JURY TRIAL DEMANDED

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Plaintiff Omari Bobo ("Plaintiff") alleges as to himself based on his own experience, and as to all other allegations, based on investigation of counsel, which included, *inter alia*, a review of defendant Point Loma Patients Consumer Cooperative Corporation's (the "PLPCCC") public records and membership documentation, public records related to defendants Adam Knopf ("Knopf") and Justus H. Henkes IV ("Henkes", collectively the "Individual Defendants"), as well as *non-party* entities wholly controlled by the Individual Defendants, including 419 Consulting Inc., Golden State Greens LLC, Far West Management, LLC, Far West Operating, LLC, and Far West Staffing, LLC (the "Shell Companies").

#### I. INTRODUCTION

- 1. The PLPCCC is the largest and most successful medical marijuana dispensary in San Diego county. Plaintiff estimates the cooperative has approximately one thousand patrons daily, and generates millions in monthly revenue through a single storefront (and delivery service) located in Point Loma.
- 2. Plaintiff is a member patron of the PLPCCC who became concerned with the sheer volume of marijuana business being transacted there. Aren't medical marijuana cooperatives required to be non-profit? If Plaintiff is a member of the "Patients' Consumer Cooperative Corporation" why hasn't he received any dividends? Where is all the money going? And would it be illegal to buy medical marijuana through a for-profit dispensary?
- 3. Plaintiff learned that the Individual Defendants personally own and control not only the PLPCCC, but five Shell Companies. These Shell Companies were created by the Individual Defendants within months after the PLPCCC was formed in December 2014, and as the PLPCCC's marijuana business expanded. The Shell Companies have no public or visible business presence, except at the

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PLPCCC's location and the mailing address listed at Defendant Henkes' accountancy office in La Jolla California.

- 4. Defendant Knopf is a director, and holds the executive offices at the PLPCCC and each of the Shell Companies. Defendant Henkes is an accountant. He serves as the PLPCCC's Chief Financial Officer and the Shell Companies' agent for service. Mr. Henkes appears to represent a single enterprise the PLPCCC and the Shell Companies since he does not visibly advertise his availability for hire.
- 5. It became clear based on these facts and others described in a related class action complaint against Defendants and the Shell Companies, *Beck v. Point Loma Patients' Consumer Cooperative Corporation, et al*, which Plaintiff incorporates by reference, that Defendants were and are operating an illegal for-profit medical marijuana business that violates California criminal law and puts Plaintiff in potential legal jeopardy.
- 6. Accordingly, Plaintiff seeks redress for his exposure to legal jeopardy and extreme emotional distress as a result of Defendants' secret operation of the PLPCCC as an illegal for-profit medical marijuana business in complete disregard for Plaintiff's legal wellbeing. Plaintiff brings claims against the Defendants for breach of fiduciary duty, intentional and reckless infliction of emotional distress, and breach of the implied covenant of good faith and fair dealing. Under these theories, Plaintiff seeks compensatory, exemplary, and punitive damages as well as injunctive, declaratory, and other or further relief as this Court may deem just and proper.

## II. <u>JURISDICTION AND VENUE</u>

7. This Court has jurisdiction over the subject matter of this action pursuant to Article 6, § 10 of the California Constitution, California Business and Professions Code § 17203, Civil Code § 1780(d) and Code of Civil Procedure §§ 88, 382 and 410.10.

Venue is proper in this Court pursuant to Code of Civil Procedure § 395 8. because Plaintiff transacted with the PLPCCC in San Diego County, and because Defendants businesses and residences are located in this County, and because many of the acts and transactions giving rise to the violations of law complained of herein occurred in this County.

#### **PARTIES** III.

#### PLAINTIFF'S EXPERIENCE WITH DEFENDANTS A.

- 9. Plaintiff Omari Bobo ("Bobo") is, and at all times relevant hereto was, a resident of San Diego County California. Plaintiff Bobo has been a patron of the PLPCCC since approximately January 2016, making purchases from the PLPCCC approximately 3-4 times per month.
- Plaintiff stopped purchasing products from the PLPCCC once he learned 10. of Defendants' illegal for-profit medical marijuana scheme as described herein.
- Plaintiff was charged with felony illegal possession of marijuana in 11. 2010. Thereafter, and at great effort, cost and expense, Plaintiff had the conviction expunged. As a result, Plaintiff is highly vigilant about using medical marijuana only in compliance with California law, to help alleviate Plaintiff's chronic hip and back pain.
- Plaintiff would not have become a patron of the PLPCCC, let alone a 12. frequent patron thereof, had he known about Defendants' unlawful conduct as complained of herein.
- Plaintiff has a very strong interest in ensuring he and other PLPCCC 13. members are not violating California's medical marijuana laws by engaging in transactions with an illegally operating dispensary.

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#### B. DEFENDANTS' INFORMATION

- 14. Defendant Point Loma Patients Consumer Cooperative Corporation ("PLPCCC") is a California corporation organized under the California Consumer Cooperative Corporation Law. The PLPCCC operates a medical marijuana storefront dispensary, as well as a medical marijuana delivery service out of 3452 Hancock Street, San Diego, CA 92110.
- 15. The PLPCCC was formed on or about April 24, 2014, and received a conditional use permit from the City of San Diego, for operation of a Medical Marijuana Consumer Cooperative on or about December 3, 2014. The PLPCCC began selling medical marijuana shortly thereafter. The PLPCCC received an amended conditional use permit on or about September 16, 2016 to double the size of its storefront dispensary to handle increased traffic.
- 16. Defendant Adam Knopf ("Knopf") is an individual residing within the County of San Diego. Knopf is the principal shareholder, Director, CEO, and corporate Secretary of the PLPCCC. Defendant Knopf is the CEO, CFO, Corporate Secretary, and sole Director of defendant 419 Consulting, Inc. Defendant Knopf is also the managing member of defendants Golden State Greens LLC, Far West Management, LLC, Far West Operating, LLC, and Far West Staffing, LLC.
- 17. Defendant Justus H. Henkes IV ("Henkes") is a certified public accountant, and CFO of the PLPCCC. However, Henkes is not an "independent accountant" pursuant to Corporations Code § 12218 because he is not independent of the PLPCCC or the Shell Companies. Henkes is the agent for service of process for each of the Shell Companies at his CPA office: 7734 Herschel Avenue, Suite L, La Jolla, CA 92037.
- 18. Non-party 419 Consulting Inc. ("419 Consulting"), is a California Corporation with its principal place of business at *La Jolla Mailbox Rentals*, 5666 La

Jolla Blvd, Suite (i.e., mailbox) 155, La Jolla, CA 92037. 419 Consulting was formed on or about August 18, 2015. 419 Consulting's Statement of Information filed with the Secretary of State describes its business as "consulting – marketing, m[a]n[a]gm[e]nt." 419 Consulting is wholly owned and operated by the Individual Defendants.

- 19. Non-Party Golden State Greens LLC ("GS Greens") is a California limited liability company with its principal place of business in the same office park as PLPCCC,446 Hancock Street, San Diego, CA 92110. GS Greens was formed on or about September 8, 2016, and is owned and operated by the Individual Defendants. GS Greens' Statement of Information filed with the California Secretary of State describes its business as "real estate development."
- 20. Non-parties Far West Management, LLC ("Far West Management"), Far West Operating, LLC ("Far West Operating"), and Far West Staffing, LLC ("Far West Staffing") each are California limited liability companies with their principal place of business at 7734 Herschel Avenue, Suite L, La Jolla CA, 92037 (Defendant Henkes' CPA office). Each of the "Far West" entities was formed on or about May 27, 2015. And each are owned and operated by the Individual Defendants. And each of their Statements of Information filed with the California Secretary of State describes their business as "business to business management services."
- 21. None of the Shell Companies has any discernable business presence, products or services for sale to the general public, any marketing materials or website, or business office other than at the PLPCCC's office and/or Defendant Henkes' CPA office.
- 22. Plaintiff does not know the true names of defendants DOES 1 through 50, and therefore sues them by those fictitious names. Plaintiff is informed and believes, and on the basis of that information and belief alleges, that each of those

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defendants was in some manner proximately responsible for the events and happenings alleged in this complaint and for Plaintiff's injuries, damages, restitution and equitable remedies prayed for herein.

## IV. SUBSTANTIVE ALLEGATIONS

### A. CALIFORNIA'S MEDICAL MARIJUANA LAWS

- 23. In 1996, voters passed Proposition 215, also known as the Compassionate Use Act (the "CUA"), making California the first state to legalize the use of medical marijuana for qualified patients. Subsequent legislation included the Medical Marijuana Program Act ("MMPA") in 2003, which created a framework for monitoring medical marijuana usage. The MMPA bars individuals and any collective, cooperative, or other group from transforming medical marijuana projects authorized under the MMPA into for-profit enterprises.<sup>1</sup>
- 24. In 2008, the California Attorney General and Department of Justice issued their *Guidelines for the Security and Non-Diversion of Marijuana Grown for Medical Use* (the "Guidelines"), which had the stated purpose of helping patients and law enforcement understand their rights and duties for the cultivation, sale and use of medical marijuana under California law.
- 25. California Health and Safety Code § 11362.765(a) provides that neither the CUA or MMPA "authorize any individual or group to cultivate or distribute cannabis for profit." According to the Guidelines, cooperative corporations are to be "democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons." Further, "[c]ooperatives must follow strict rules on ... distribution of earnings, and

On November 9, 2016, California passed Proposition 64, making it legal for adults over the age of 21 to possess marijuana for recreational use. However, the sale of marijuana for profit is not permitted until the California Bureau of Marijuana Control issues the necessary licenses, which will be issued no sooner than January 1, 2018

must report individual transactions from individual members each year." The Guidelines note that a medical marijuana cooperative may have earnings, but these "must be used for the general welfare of its members or equitably distributed to members in the form of cash, property, credits or services." Guidelines at p. 8.

- 26. The Guidelines provide that medical marijuana may be "[a]llocated based on fees that are reasonably calculated to cover overhead costs and operating expenses." In other words, "[a]ny monetary reimbursement that members provide to the ... cooperative should only be an amount necessary to cover overhead costs and operating expenses." Guidelines at p. 10. This includes payments to individuals for "reasonable compensation... for services provided as well as out-of-pocket expenses."
- 27. Under California case law, relevant considerations to determine whether a medical marijuana business is illegally operating for profit include, *inter alia*, a high volume of customers and transactions, the absence of participation by customers in the operation or governance of the cooperative, information reflected in financial records, and any processes or procedures by which the cooperative makes itself accountable to its member patrons.

#### B. DEFENDANTS' MEDICAL MARIJUANA BUSINESS

- 28. Individual Defendants Knopf and Henkes are the principals and executive officers of the PLPCCC. The PLPCCC received approval from the City of San Diego in December 2014 to operate a Medical Marijuana Consumer Cooperative at 3452 Hancock Street, San Diego, 92110. Shortly thereafter, the PLPCC opened its doors selling medical marijuana to the public.
- 29. Within six months after the PLPCCC opened for business, the Individual Defendants formed the Shell Companies as their officers, directors, and principal shareholders. None of the five (known) Shell Companies have any discernable

business presence, no websites, and no products or services on offer to the public. All five Shell Companies share addresses in the same office complex in La Jolla, California where Defendant Henkes works as a Certified Public Accountant, or in the same building as the PLPCCC.

- 30. The PLPCCC is the largest and most successful medical marijuana dispensary in San Diego County. The PLPCC averages over a thousand patrons daily, generating millions of dollars in monthly revenue through a single store-front and delivery service with approximately a dozen employees.
- 31. Despite its huge revenues relative to such a small operation, the PLPCCC has never made a "patronage distribution" to Plaintiff or any other member of the PLPCCC. Nor does the PLPCCC seek or allow participation by Plaintiff or any other member patron in the operation or governance of the cooperative.
- 32. Instead, based on the above and on information and belief, the Individual Defendants use the Shell Companies as entities contracted by the PLPCC to unlawfully divert funds out of the PLPCCC. This allows the Individual Defendants to hide substantial revenues from the (illegal for-profit) sale of medical marijuana in the Shell Companies, avoid showing a profit in the cooperative itself, and avoid paying out patronage distributions.
- 33. Based on the tremendous revenue generated by Defendants medical marijuana business, Plaintiff is informed and believes that funds distributed by the PLPCCC to the Shell Companies and Individual Defendants are far in excess of any reasonable compensation for services provided and out-of-pocket expenses.
- 34. The PLPCCC has absolved itself of any accountability whatsoever to Plaintiff. According to the PLPCCC bylaws,<sup>2</sup> there is one class of "member", and it

<sup>&</sup>lt;sup>2</sup> Plaintiff qualifies all allegations related to PLPCCC bylaws because he cannot verify that the PLPCCC bylaws received from Defendants' counsel was not drafted in response to Plaintiff Beck's July 25, 2017 demand letter. The meta-data on the file

is not Plaintiff or other member patrons. On information and belief, the only (or principal) "members" of the PLPCCC are the Individual Defendants themselves. These "members" are the only persons that have voting rights or a "proprietary interest" in the PLPCCC. Thus, instead of operating a "democratically" controlled cooperative, "for the benefit of members as patrons", the Individual Defendants operate the PLPCCC primarily for their own benefit as shareholders.

35. The Individual Defendants have caused the PLPCC to strip Plaintiff of his rights through the PLPCCC bylaws. The bylaws purport to divest Plaintiff of all voting rights and "proprietary interests" in the PLPCCC by labelling him as a mere "associate member." However, such bylaw covenants violate the requirements of California's medical marijuana laws as expressed in, *at least*, the Guidelines. As such, the bylaws are "in conflict with law," pursuant to Corporations Code § 12331(c), and are therefore void. In other words, California's medical marijuana laws control the interaction between Plaintiff and Defendants, not Defendants' bylaws drafted to avoid those laws.

#### C. CIVIL CONSPIRACY ALLEGATIONS

- 36. The Individual Defendants and the Shell Companies are responsible for the harm to Plaintiff because each of them agreed to conceal operation of a for-profit marijuana business.
- 37. The Individual Defendants, themselves, and as owners and operators of the Shell Companies were aware of the requirements of California's medical marijuana laws, and were in agreement with the PLPCCC and each other to divert

indicates that it was created on September 19, 2017. Plaintiff reserves the right to withdraw, change or amend allegations concerning the PLPCCC bylaws after a reasonable opportunity for discovery.

revenues from the PLPCC in a manner calculated to avoid detection of their for-profit enterprise.

- 38. The Individual Defendants, themselves, and as owners and operators of the Shell Companies materially assisted the PLPCCC in operating a for-profit medical marijuana business in violation of California law.
- 39. As a direct and proximate result of Defendants' conspiracy, Plaintiff has experienced loss, cost, damage and expense in an amount to be proved at trial.

### D. ALTER EGO / CORPORATE PIERCING ALLEGATIONS

- 40. The PLPCCC is merely a conduit for funneling revenue from the sale of medical marijuana to the Shell Companies and ultimately the Individual Defendants.
- 41. In fact, the PLPCCC, its particular corporate form, and its bylaws that prevent accountability to Plaintiff as a member, are all mere instrumentalities set up to avoid the non-profit requirements of California's medical marijuana statutes.
- 42. The Individual Defendants govern the PLPCCC, as well as the Shell Companies such that a unity of ownership exists between them. The Shell Companies and the PLPCCC use the same officers and/or employees in the operation of their medical marijuana business. Thus, the Shell Corporations and the PLPCCC are mere conduits for the affairs of each other.

#### FIRST CAUSE OF ACTION

#### Breach of Fiduciary Duty Against the Individual Defendants

- 43. Plaintiff hereby incorporates by reference the allegations contained in the preceding paragraphs of this Complaint.
- 44. As Directors and officers of a cooperative corporation, the Individual Defendants owe fiduciary duties of honesty and loyalty to cooperative members, and/or cooperative members as patrons, such as Plaintiff and other members of the PLPCCC.

- 45. There is a strong public interest that corporate officers and directors of a medical marijuana cooperative are faithful to their fiduciary roles to member patrons. Failure by the majority members and directors of a medical marijuana cooperative corporation to act in the best interests of member patrons, such as operating an illegal for-profit medical marijuana business, can have serious consequences for member patrons and even expose them to potential criminal liability.
- 46. As owners and operators of a medical marijuana cooperative, the Individual Defendants are in a relationship of trust and confidence with Plaintiff due to the unequal power between the Individual Defendants and Plaintiff in the details and operation of a medical marijuana dispensary, as well as the severe potential consequences to Plaintiff for making purchases through an illegally operating dispensary. Plaintiff is entitled to reasonably rely, and did reasonably rely on the Individual Defendants to only sell medical marijuana in compliance with California law.
- 47. As a member patron, Plaintiff is entitled to rely on the assumption that the Individual Defendants, as majority members, officers and directors of the PLPCCC will use their knowledge, skill and ability for the benefit of cooperative members.
- 48. The Individual Defendants breached their fiduciary duties to Plaintiff, individually, as a member patron by operating, and concealing from Plaintiff, a self-dealing for-profit medical marijuana enterprise, solely for the personal financial benefit of the Individual Defendants, that violates key components of California medical marijuana laws as described herein, and puts Plaintiff in legal jeopardy.
- 49. As a direct and proximate result of the Individual Defendants' breaches of their fiduciary duties, Plaintiff has suffered loss, cost, damage and expense in an amount to be proven at the trial of this matter. Plaintiff suffered nominal damages in

the amount of monies he paid to the PLPCCC for products purchased there, and is entitled to exemplary and punitive damages for Defendants' intentional, wanton, reckless, and extreme disregard for Plaintiff's legal rights as a person purchasing an otherwise highly illegal substance from the PLPCCC.

## **SECOND CAUSE OF ACTION**

#### Intentional Infliction of Emotional Distress Against All Defendants

- 50. Plaintiff hereby incorporates by reference the allegations contained in the preceding paragraphs of this Complaint.
- 51. The PLPCCC is a licensed and/or permitted medical marijuana dispensary. As such, Defendants had a duty to sell medical marijuana to Plaintiff ONLY in compliance with California law to ensure that Plaintiff and other patrons of the PLPCCC would not be engaging in illegal purchases of a prohibited substance.
- 52. In a scheme to illegally profit from the PLPCCC's medical marijuana business, Defendants knowingly engaged in extreme and outrageous conduct, solely for the personal financial benefit of the Individual Defendants, by violating key components of California medical marijuana laws as described herein. Because Defendants' conduct has the possibility to put Plaintiff in serious legal jeopardy, Defendants acted knowingly, with the intention of causing, or with extreme reckless disregard for indifference to the legal wellbeing of Plaintiff, and the probability of causing severe emotional distress to Plaintiff or any reasonable person doing business with a medical marijuana dispensary.
- 53. Given the considerable criminal risks from engaging in illegal drug sales, Defendants' complete disregard for the legal wellbeing of Plaintiff and other members of the PLPCCC is outrageous. Defendant's illegal for-profit enterprise, and subsequent attempt to conceal it, is so extreme it exceeds all bounds of legal behavior

tolerated by the State of California and puts Plaintiff at risk of legal jeopardy, despite his best attempts to act in compliance with the law.

- 54. It was reasonably foreseeable that Plaintiff would suffer emotional injury and distress from Defendants' secret operation of a for-profit medical marijuana business in violation of California law.
- 55. As a direct, actual and proximate result of Defendants' conduct as complained of herein, Plaintiff now suffers from a constant fear he will be subject to criminal liability, may suffer employment and other social consequences as a result. Plaintiff has suffered, and continues to suffer, extreme emotional distress in a manner and amount to be proved at the trial of this matter.
- 56. As a direct and proximate result of Defendants' complete and outrageous disregard for the legal wellbeing of Plaintiff through an illegal for-profit medical marijuana enterprise, Plaintiff has suffered loss, cost, damage and expense in an amount to be proven at the trial of this matter. Plaintiff is entitled to compensatory, exemplary and punitive damages for Defendants' intentional, wanton, reckless, and extreme disregard for Plaintiff's legal rights as a person purchasing an otherwise highly illegal substance from the PLPCCC.

## THIRD CAUSE OF ACTION

## Breach of the Implied Covenant of Good Faith and Fair Dealing Against the PLPCCC

- 57. Plaintiff hereby incorporates by reference the allegations contained in the preceding paragraphs of this Complaint.
- 58. Plaintiff entered into a membership agreement with the PLPCCC, which contains as a matter of law an implied covenant of good faith and fair dealing to deal honestly, and incorporates by reference all laws applicable to the agreement and transaction.

- 59. Pursuant to California's medical marijuana laws and the California Corporations Code, the PLPCCC is ONLY permitted to sell medical marijuana on a non-profit basis. Under the Corporations Code, the PLPCCC is required to be "democratically controlled and are not organized to make a profit for themselves, as such, or for their members, as such, but primarily for their members as patrons." Further, a medical marijuana cooperative may have earnings, but these "must be used for the general welfare of its members or equitably distributed to members in the form of cash, property, credits or services."
- 60. Under California law, medical marijuana may be "[a]llocated based on fees that are reasonably calculated to cover overhead costs and operating expenses," which includes payments to individuals for "reasonable compensation... for services provided as well as out-of-pocket expenses."
- 61. The PLPCCC violated California's medical marijuana laws by secretly operating a for-profit medical marijuana business and paying the Shell Companies and Individual Defendants far in excess of "reasonable compensation" and reimbursement for out of pocket expenses. The PLPCCC had no good faith reason to operate its medical marijuana dispensary in such a manner, and as such, breached the implied covenant of good faith and fair dealing with Plaintiff.
- 62. No additional conditions besides payment of fees to the PLPCCC for products purchased there is required of Plaintiff.
- 63. By operating Defendants' for-profit medical marijuana enterprise as described herein, the PLPCCC frustrates and interferes with Plaintiff's rights to purchase and use medical marijuana as allowed by California law.
- 64. As a direct and proximate result of Defendants' breach of the implied covenant of good faith and fair dealing through an illegal for-profit medical marijuana enterprise, Plaintiff has suffered loss, cost, damage and expense in an

amount to be proven at the trial of this matter. Plaintiff is entitled to compensatory, 1 2 exemplary and punitive damages for Defendants' intentional, wanton, reckless, and extreme disregard for Plaintiff's legal rights as a person purchasing an otherwise 3 highly illegal substance from the PLPCCC. 4 5 V. PRAYER FOR RELIEF WHEREFORE, Plaintiff prays for relief and judgment as follows: 6 7 For an order awarding Plaintiff compensatory, exemplary and punitive 8 damages according to proof; 9 For an order enjoining Defendants from continuing to engage in the unlawful business acts and practices as alleged herein; 10 For an order awarding Plaintiff pre- and post-judgment interest; 11 C. For an order awarding attorneys' fees and costs of suit, including expert's 12 D. witnesses fees and electronic discovery fees as permitted by law, including 13 14 reimbursement for reasonable costs and expenses; and 15 E. Such other and further relief as this Court may deem just and proper. VI. JURY TRIAL DEMAND 16 17 Plaintiff demands a trial by jury for all of the claims asserted in this Complaint 18 so triable. 19 Respectfully submitted, DATED: October 6, 2017 20 21 THE RESTIS LAW FIRM, P.C. 22 23 William Restis, Esq. 550 West C Street, Suite 1760 San Diego, CA 92101 24 25 Email: william@restislaw.com 26 ATTORNEY FOR PLAINTIFF 27

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COMPLAINT

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