



On July 28, 2020, the [U.S. Securities and Exchange Commission \(SEC\)](#) accused six individuals and their companies with securities fraud in connection with two cannabis-related businesses in California that raised \$25 million in an unregistered securities offering.



The SEC's [complaint](#) was filed in the Central District of California and seeks permanent injunctions, disgorgement of ill-gotten gains plus prejudgment interest, and civil penalties. The SEC's complaint alleges that the defendants misappropriated over \$2.7 million of investors' money and misleadingly promised a "guaranteed" annual return on investment of 100% or more. The purported scheme raised funds from 400 investors for a marijuana farm and a cannabidiol (CBD) extraction facility. Securities-related litigation and enforcement is a growing risk for the burgeoning cannabis industry. Since 2017, the SEC has brought ten actions in federal court against cannabis companies in addition to this case. This latest filing reemphasizes the need for cannabis companies to provide truthful and complete information to current and potential investors. Companies in the cannabis industry should expect heightened scrutiny and would be well-served by focusing their efforts to ensure that any securities offerings and investor communications comply with applicable registration and disclosure regulations.

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