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## Memorandum

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**To:** Social Equity Program Participants & Certified Economic Empowerment Recipients  
**From:** Cannabis Control Commission  
**Date:** November 14, 2019  
**Subject:** Fraud Considerations

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Predatory investors and scam artists are targeting cannabis entrepreneurs, particularly those eligible for programs such as the Economic Empowerment and Social Equity programs. Our ongoing conversations with other state regulators reveal that this is a concern across many states with new legal marijuana industries. The purpose of this handout is to encourage you to be wary of such scams. Nothing in this handout should be construed as legal advice.

A trustworthy lender, investor, or other business interested in working with your business will take the time to get to know you and to consider the benefits and risks of a partnership, and you should do the same. Before partnering with any business, take the time to review relevant experience, ask questions, and check references.

We recommend consulting with qualified attorneys or other independent professionals before making a final decision and signing any contracts or agreeing to make any payments.

Here are some red flags to consider when developing partnerships and business relationships:

- Cannabis Control Commission rules, regulations, and licensing decisions are public information, and comment and inquiries from the public are welcomed. Anyone who claims to have inside information or access should not be trusted.
- Investors or lenders who *only* show interest in your status as part of a particular program are not evaluating your business the way that a legitimate investor or lender would. If anyone guarantees you funding without performing due diligence on your company and ability to run a business, you should question whether you want to work with them.
- The Commission has a robust licensing application process and a robust Change of Ownership process. While experience running other cannabis businesses is relevant to consider, no one can guarantee you a license. Anyone who claims otherwise is not telling the truth.
- It is crucial that you do your own research before contracting with any attorney or independent professional providing services for your business. Check references, ask



questions, and remember that you are ultimately responsible for the work they do on behalf on your business, including any plans they develop as part of the application process.

- Be wary of any business that has abruptly changed its name, industry, or business plan multiple times.
- Be skeptical of resumes and websites whose claims of success in cannabis business sound too good to be true – they probably are. Some warnings signs include no physical address, no names or contact information, and no references (or references who turn out to be close friends or relatives).
- There are strict consequences for allowing another entity to have direct or indirect control in your business without proper disclosure and approval. You should think carefully about working with any business that asks you to:
  - Enter a contract committing you to share future revenues or profits with a separate entity
  - Allow another entity to make key decisions about business management or operations
  - Excessively restrict your ability to engage in business transactions with other suppliers or entities
  - Control your business’s governing body or the hiring and firing of key employees
- Remember that changes in ownership and control must be approved by the Commission. If your company makes a change in ownership and control that results in your company no longer qualifying for a specific designation, such as Economic Empowerment Priority status, your company may no longer receive any benefits stemming from that designation. See the Commission’s regulations for details.
- Any company that pressures you into making a quick decision or tries to discourage you from consulting with an attorney or other independent professional should not be trusted.
- Be wary of excessive interest rates. Lenders in Massachusetts generally cannot legally charge more than 20% interest. You should also be cautious about working with lenders who ask you to use personal assets for business loan collateral.

Here are some helpful links:

The US Securities Exchange Commission issued an Investor Alert regarding Marijuana Investments and Fraud in 2018:

<https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-alert-marijuana-investments-fraud>

[If you think you’ve been a victim of fraud, you can file a complaint with the Massachusetts Office of Attorney General:](#)

<https://www.mass.gov/orgs/office-of-attorney-general-maura-healey>

If you have a complaint about a company or organization that is offering a benefit or discounted service to Economic Empowerment applicants or Social Equity Program participants, please email your complaint to us at [CannabisCommission@mass.gov](mailto:CannabisCommission@mass.gov).

