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$3M Miami Suit Against 'Cannabis King' Will Test Commercial Rights in Flailing Economy

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Meland Budwick, P.A. partner Eric Ostroff in Miami is taking on a man who calls himself the California Cannabis King, with a lawsuit alleging the marijuana entrepreneur illegally used a $3 million business loan to buy condominium units at Fontainebleau in Miami Beach and SLS Brickell.

The case will test how far commercial plaintiffs can go to seek relief in an economy ravaged by COVID-19, Ostroff said.

> "I think that particularly in the current economic circumstances, lawyers who represent companies that are creditors are going to want to pay careful attention to what remedies creditors can use to be made whole," Ostroff said. "And here, under Delaware law, not just seeking a judgment for breaching a promissory note, this case seeks to take advantage of other remedies given to creditors of a company that, according to the allegations, is insolvent.

Ostroff represents Delaware company GIA Investments LLC, which claims it was never repaid after loaning $3 million to California cannabis production and distribution companies Cannafornia Holdings Inc. and California New Wave I LLC, which are now allegedly drowning in debt.

The complaint points the finger at CEO and self-professed king of cannabis — real name Paul King — for allegedly using the companies as "his personal piggy bank."

King has sold recreational and medical cannabis products since 2017, and even

sponsored the formation of a Mixed Martial Arts team, the Cannafornia Fight Team, in partnership with Ultimate Fighting Champion welterweight champion Colby Covington.

Cannafornia's website says its goal is to bring awareness to the healing properties of marijuana amid an opioid epidemic, "in hopes that more people will put down the pills and pick up the plant."

Piercing the veil

The loan matured in December 2019, according to the suit, which said the companies had Florida offices and that King lives in Sunny Isles.

The defendants are accused of breach of contract, breach of fiduciary duty, fraudulent transfer and unjust enrichment.

King's personal attorney in Los Angeles—Stephen Boren of Boren Osher & Luftman—did not respond to a request for comment. But he has claimed in court pleadings that the loan documents were fake, according to the complaint, which included an email in which Boren called the lawsuit meritless and malicious.

Ostroff alleges New Wave and Cannafornia are alter egos, which commingled funds, had common management and didn't observe corporate formalities.

"We're seeking to pierce the corporate veil between those two companies," he said.

But the biggest obstacle, in Ostroff's view, will be figuring out the logistics of litigating during a global pandemic, as all depositions, hearings and discovery will have to be done remotely.

"It's a challenge for all lawyers to litigate and move a case forward in this environment," Ostroff said.

Ostroff has also asked the court to appoint a receiver, who would take over management of the companies while the lawsuit plays out.

> "Until the debt to my company is paid, an independent individual should be managing this company, not in the best interests of management but

in the best interests of creditors and of shareholders," Ostroff said.

Miami-Dade Circuit Judge William Thomas is set to preside over the case in the complex business litigation division.