## BEFORE THE CANNABIS COMPLIANCE BOARD STATE OF NEVADA

STATE OF NEVADA, CANNABIS COMPLIANCE BOARD,

Case No. 2021-37

Petitioner,

vs.

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DIGIPATH LABS, INC.,

Respondent.

STIPULATION AND ORDER FOR SETTLEMENT OF DISCIPLINARY ACTION

The Cannabis Compliance Board (the "CCB"), by and through its counsel, Aaron D. Ford, Attorney General for the State of Nevada, L. Kristopher Rath, Esq., Senior Deputy Attorney General, hereby enters into this Stipulation and Order for Settlement of Disciplinary Action ("Stipulation and Order") with Respondent, Digipath Labs, Inc. (hereinafter "Digipath" or "Respondent") by and through its counsel, Neal Tomlinson, Esq., and Kristina Kleist, Esq., of Brownstein Hyatt Farber Schreck, LLP. Pursuant to this Stipulation and Order, Respondent and CCB (collectively, the "Parties") hereby stipulate and agree that CCB Case No. 2021-37 (the "Administrative Action") shall be fully and finally settled and resolved upon terms and conditions set out herein.

## PERTINENT FACTS

- 1. Respondent is a registered domestic corporation licensed in Nevada to operate medical and adult-use cannabis testing establishments with certificate No. L015 and license No. RL015.
- 2. On May 25, 2021 CCB held a public meeting and considered transfer of interest applications ("TOI's") submitted by Digipath to the Department of Taxation ("Department") in 2019<sup>1</sup>. On investigation of these TOI requests, CCB staff found areas of

TOI No.'s 17013A and 17013B.

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concerns related to transfers of interests that had taken place prior to Department approval and several owners, officers, or board members who did not hold valid cannabis establishment agent cards when they should have.

3. At the May 25, 2021, CCB meeting, the CCB discussed conditionally approving the aforementioned pending TOPs on Respondent stipulating to certain violations and/or civil penalties. As set forth herein, Respondent stipulates to pay a \$20,000 civil penalty for one violation of NAC 453D.905(3)(b)(4) and two violations of NAC 453D.905(3)(e)(1), in lieu of the CCB filing and serving a Complaint for Disciplinary Action ("Complaint") and proceeding to a disciplinary hearing.

## ACKNOWLEDGEMENTS AND APPLICABLE LAW

This Stipulation and Order is made and based upon the following acknowledgements by the Parties:

- 4. Digipath has entered into this Stipulation and Order on its own behalf and with full authority to resolve the claims against it and is aware of its rights to contest the violations pending against it. These rights include the filing and service of a disciplinary complaint specifying the charges against Respondent, representation by an attorney at Respondent's own expense, the right to a hearing on any violations or allegations formally filed, the right to confront and cross-examine witnesses called to testify against Respondent, the right to present evidence on Respondent's own behalf, the right present witnesses to testify on Respondent's behalf, the right to obtain any other type of formal judicial review of this matter, and any other rights which may be accorded to Respondent pursuant to provisions of NRS Chapters 678A through 678D, NAC Chapters 453A and 453D, the Nevada Cannabis Compliance Regulations ("NCCR"), and any other provisions of Nevada law. Digipath is waiving all these rights by entering into this Stipulation and Order. If the CCB rejects this Stipulation and Order, or any portion thereof, Digipath reserves the right to withdraw any or all waivers.
- 5. Should this Stipulation and Order be rejected by the CCB or not timely performed by Respondent, it is agreed that presentation to and consideration by the CCB

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of such proposed stipulation or other documents or matters pertaining to the consideration of this Stipulation and Order shall not unfairly or illegally prejudice the CCB or any of its members from further participation, consideration, adjudication, or resolution of these proceedings and that no CCB member shall be disqualified or challenged for bias.

- 6. Respondent acknowledges that this Stipulation and Order shall only become effective after the CCB has approved it.
- 7. Digipath enters into this Stipulation and Order after being fully advised of its rights and as to the consequences of this Stipulation and Order. This Stipulation and Order embodies the entire agreement reached between the CCB and Digipath. It may not be altered, amended, or modified without the express written consent of the Parties and all alterations, amendments and/or modifications must be in writing.
- Parties have agreed to settle this matter. In settling this matter, Respondent acknowledges that the facts contained in the paragraphs in the above "Pertinent Facts" portion of this Stipulation and Order are true and correct. Respondent further acknowledges that, if the CCB filed and served a Complaint, the "Pertinent Facts" could be found to constitute one or more violations of Title 56 of NRS (NRS Chapters 678A through 678D), NRS Chapters 453A and 453D, NAC Chapters 453A and 453D, and/or the NCCR, with civil penalties of \$10,000, or more, per violation, and a revocation or suspension of each of the Respondent's licenses and certificates, if this matter went to an administrative hearing.
- 9. To resolve the Administrative Action, and only for those purposes and no other, Respondent specifically admits to the following violations with respect to CCB Case No. 2021-37: one violation of NAC 453D.905(3)(b)(4) for failing to notify the Department of a change of ownership; and two violations of NAC 453D.905(3)(e)(1) for failure to have cannabis establishment agents in possession of valid cannabis establishment agent cards. These violations are applicable to each license and certificate: L015 and RL015.

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10. Respondent agrees to pay a civil penalty of twenty thousand dollars (\$20,000)<sup>2</sup> in consideration of the CCB's agreement to fully resolve the Administrative Action on the terms set forth herein. Said sum may be paid in installments, as set forth specifically in Paragraphs 14 through 16, below.

- 11. If the CCB approves this Stipulation and Order, it shall be deemed and considered disciplinary action by the Board against Digipath.
- 12. Both parties acknowledge that the CCB has jurisdiction to consider and order this Stipulation and Order because Respondent holds privileged certificates/licenses regulated by the CCB as of July 1, 2020. Respondent expressly, knowingly, and intentionally waives the 21-day and/or 5-day notice requirements contained in the Nevada Open Meeting Law and acknowledges that this Stipulation and Order may be presented to the CCB for its consideration and potential ratification at the Board's meeting on June 22, 2021.

## STIPULATED ADJUDICATION

Based upon the above acknowledgments of the Parties and their mutual agreement, the Parties stipulate and agree that the following terms of discipline shall be imposed by the CCB in this matter:

- 13. <u>Violations</u>. Respondent shall be deemed to have committed one Category II violation and two Category IV violations, as to each and every license and certificate set forth in Paragraph 9, above, effective on the date the CCB approves this Stipulation and Order.
- 14. <u>Imposition of Civil Penalties:</u> Respondent shall pay a total civil penalty in the amount of twenty thousand dollars (\$20,000) within the time set forth in Paragraphs 15 and 16 below, to be apportioned as set forth in Paragraph 10, above.
- 15. Payment of Civil Penalties. Digipath must pay the civil penalty set forth in this agreement within the time frames set forth in this Paragraph and Paragraph 16. Digipath may pay the lump sum of \$20,000 in civil penalties within 30 days of the date the

<sup>&</sup>lt;sup>2</sup> This \$20,000 civil penalty shall be apportioned \$10,000.00 each as to L015 and RL015.

CCB approves this Stipulation and Order. In the alternative, Digipath may select to pay the civil penalties in four monthly installments of \$5,000.003 each month (the "Payment Plan Option"). Under the Payment Plan Option, Digipath must pay the first installment on the 15th calendar day of the month following the CCB meeting at which this Stipulation and Order is approved and then, thereafter, on the 15th day of each month for the next three months. For example, if this Stipulation and Order is approved at the June 22, 2021, CCB meeting, the payment of \$5,000 each month would be due as follows:

Thursday, July 15, 2021

1st Installment

Monday, August 16, 2021

2nd Installment

Wednesday, September 15, 2021

3rd Installment

Friday, October 15, 2021

Digipath may pay any installment prior to its due date.

16. <u>Penalties for Failure to Comply with Payment Plan Option</u>. Digipath acknowledges that it is critical to comply with the strict requirements of the Payment Plan Option. Digipath agrees that, should it fail to timely make any installment payment<sup>6</sup> the following penalties and procedures will be in effect:

4th Installment

- a. CCB will allow a five-business day grace period for late payment.
- b. If payment is not physically received by CCB at its Carson City office by 5:00 p.m., Pacific Time, on the last day of the grace period, Digipath shall be deemed to be in breach of this Stipulation and Order, deemed to be in default, shall pay all amounts due under this agreement, as well as an additional late payment penalty of fifty thousand dollars (\$50,000), and shall have its licenses and certificates immediately suspended, with such suspension remaining in place

<sup>3</sup> Said monthly payments shall be attributed \$2,500 to L015 and \$2,500 to RL015.

<sup>&</sup>lt;sup>4</sup> Payment must be physically received at the CCB's Carson City office no later than 5:00 p.m., Pacific Time, on the 15th day of the month on which it is due. If the 15th day of the months falls on a Saturday, Sunday, or a holiday recognized by the State of Nevada, payment shall be due on the first following business day.

As set forth in footnote 4, above, if the 15th day of the months falls on a Saturday, Sunday, or a holiday recognized by the State of Novada, payment shall be due on the first following business day.

<sup>&</sup>lt;sup>6</sup> If the lump sum option is chosen, and Digipath fails to pay that within 30 days of CCB approval of the Stipulation and Order, then the penalties of default set forth in Paragraph 16 shall also apply.

until all amounts due under this Stipulation and Order are paid in full (inclusive of the \$50,000 late payment penalty). The CCB will enter an order of default to this effect after default and all amounts due under this subsection shall be immediately due and payable to CCB. Digipath agrees it cannot and will not file any petition for judicial review and/or any action in any forum for relief from this order of default and that CCB may file any judicial action necessary to recover the amounts owed under this Paragraph, along with its attorneys' fees and costs for recovery of amounts owed.

- c. Digipath may petition the CCB for an extension of 30 days to pay any of the installments set forth in Paragraph 15. However, for the CCB to consider any such petition, the CCB must receive said petition no later than 5 business days prior to the installment deadline (which does not include any grace period). The CCB is not required to grant such a petition. In such a petition, Digipath must demonstrate to the satisfaction of CCB that there are extraordinary and unusual circumstances necessitating the extension requested. CCB may delegate the decision as to whether to grant such a petition to the CCB Chair.
- d. If an extension is granted under Paragraph 16(c), there shall be no grace period on the new payment date or dates. If Digipath does not pay by the new payment date or dates, the provisions and penalties of Paragraph 16(b) apply.
- 17. Approval of Transfers of Interest. At such time as the civil penalty is paid in full, inclusive of any penalties that may be due under Paragraph 16, the pending TOIs shall be deemed approved by the CCB and the waivers pursuant to NCCR 5.110, 5.112, and 5.125, are approved and expire on such Agenda date as Respondent's next TOI application is heard.
- 18. Potential Future Action against Respondent. The Parties agree that, pursuant to the specific facts of this case, the progressive disciplinary provisions of NAC 453D.905(4)(b) and 453D.905(4)(e) of two years shall apply to the disciplinary actions herein. Said two-year period shall commence on the date the CCB approves this agreement.

Any additional Category II violations and/or Category IV violations within said two-year period would invoke the progressive disciplinary provisions of NAC 453D.905(4)(b) and/or 453D.905(4)(e). After said two-year period expires, the CCB may still consider the compliance history of Respondent under NCCR 4.030(2). In addition to the factors listed for consideration in NCCR 4.030(2), in any future disciplinary action involving the licenses and certificates of Respondent at issue in this case, CCB will also take into account and consider the fact that Respondent has cooperated in and negotiated in good faith in the resolution of CCB Case No. 2021-37.

- denied by CCB, Respondent and counsel for the CCB agree to resume settlement negotiations in good faith and attempt to reach an agreement to amend this Stipulation and Order and resubmit an amended Stipulation and Order to the CCB to review for approval at its next regularly scheduled meeting. If such an agreement cannot be reached, the Parties agree to proceed with an Administrative Action, which shall include the filing and service of a disciplinary complaint and a disciplinary hearing before the CCB or its assigned hearing officer. Should the Administrative Action proceed for the reasons set forth in this Paragraph, CCB preserves all its claims and arguments in the Administrative Action as set forth in its Complaint (to be filed) and Respondent preserves all its defenses and arguments it may assert. An unapproved Stipulation and Order shall not be admissible as evidence or referenced in argument at any disciplinary hearing in CCB Case No. 2021-37 or any other matter involving the CCB.
- 20. Contingency if Approval Conditioned. If the CCB approves this Stipulation and Order, but said approval is contingent on certain conditions, the parties will undertake further good faith negotiations to include said conditions in an amended Stipulation and Order for execution by the CCB Chair. If Respondent does not agree to the certain conditions imposed by the CCB, the parties will undertake additional negotiations and attempt to reach an agreement to amend this Stipulation and Order and resubmit an amended Stipulation and Order to the CCB to review for approval at its next regularly

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scheduled meeting. If such an agreement cannot be reached, the Parties agree to proceed with the Administrative Action, which shall include the filing and service of a Complaint and a disciplinary hearing before the CCB or its assigned hearing officer. Should the Administrative Action proceed for the reasons set forth in this Paragraph, CCB preserves all its claims and arguments in the Administrative Action as set forth in its Complaint (to be filed) and Respondent preserves all its defenses and arguments it may assert. An unapproved Stipulation and Order shall not be admissible as evidence or referenced in argument at any disciplinary hearing in CCB Case No. 2021-37 or any other matter involving the CCB.

- 21. <u>Closure of Disciplinary Action</u>. Once this Stipulation and Order is fully performed by Respondent, the Administrative Action will be closed.
- Communications with CCB Members. Respondent understands that this 22. Stipulation and Order will be presented to the CCB in open session at a duly noticed and scheduled CCB meeting. Respondent understands that the CCB has the right to decide in its own discretion whether or not to approve this Stipulation and Order. The CCB's counsel, which is the Nevada Attorney General and its staff attorneys, will recommend approval of this Stipulation and Order. In the course of seeking CCB acceptance of this Stipulation and Order, counsel for CCB may communicate directly with individual CCB members. Respondent acknowledges that such communications may be made or conducted ex parte, without notice or an opportunity for Respondent to be heard on its part until the public CCB meeting where this Stipulation and Order is discussed, and that such contacts and communications may include, but may not be limited to, matters concerning this Stipulation and Order, the Administrative Action and any and all information of every nature whatsoever related to these matters. Respondent agrees that it has no objections to such ex parte communications. CCB agrees that Respondent and its counsel shall appear at the CCB meeting where this Stipulation and Order is discussed and, if requested, respond to any questions that may be addressed to Respondent and/or the Attorney General's staff attorneys. Respondent agrees that, should the CCB decline to approve this

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Stipulation and Order, Respondent will not contest or otherwise object to any CCB member, and/or CCB appointed hearing officer, hearing and adjudicating the Administrative Action based on the aforementioned ex parte communications with anyone from the Nevada Attorney General's Office.

- Release. In execution of this agreement, Respondent agrees that the State of 23. Nevada, the CCB, the Office of the Attorney General, and each of their members, staff, attorneys, investigators, experts, hearing officers, consultants, employees, and agents are immune from any liability for any decision or action taken in good faith in response to information and data acquired by the CCB. Respondent agrees to release the State of Nevada, the CCB, the Office of the Attorney General, and each of their members, staff, attorneys, investigators, experts, hearing officers, consultants, employees, and agents from any and all manner of actions, causes of action, suits, debts, judgments, executions, claims and demands whatsoever, known or unknown, in law or equity, that Respondent ever had, now has, may have or claim to have against any and/or all of the persons, government agencies or entities named in this Paragraph, arising out of, or by reason of, CCB's investigation of the matters set forth in this Stipulation and Order, or the administration of CCB Case No. 2021-37.
  - No Precedence. The Parties agree that this Stipulation and Order shall not 24. constitute a precedent for any other issues or proceedings before the CCB and/or in any other forum, other than those set forth in this Stipulation and Order. Furthermore, this Stipulation and Order shall not be admissible in any other proceeding or action with respect to proof of fact or any other matter and/or any other licensee and/or cannabis establishment registered agent.

Notwithstanding the foregoing, the CCB may consider the discipline imposed herein in any future disciplinary action against Respondent, as required under NCCR 4.030(2), along with the other factors set forth in NCCR 4.030(2), and possible progressive discipline pursuant to NAC 453D.905 and/or NCCR 4.035 through 4.060. As every case concerns different facts and details, this Stipulation does not act as precedence to bind CCB to

impose any particular penalty, to charge or allege any particular violation, and/or to impose any particular disciplinary action in the future for this Respondent, or any other respondents in another CCB case, for violations of the same statutes and/or regulations addressed in this Stipulation and Order. Likewise, CCB is not bound by any previous settlement agreements it has approved in entering into this Stipulation and Order.

- 25. Attorneys' Fees and Costs. The Parties each agree to bear their own attorneys' fees and costs.
- 26. <u>Further Assurances</u>. The Parties shall cooperate in executing such additional documents and performing such further acts as may be reasonably necessary to give effect to the purposes and provisions of this Stipulation and Order.
- 27. Voluntary and Informed Agreement. Respondent represents that its owners, officers, and/or its directors, who are responsible for and able to legally bind Respondent have read completely and understand fully the terms of this Stipulation and Order, that such terms are fully understood and voluntarily accepted by Respondent in advance of and as memorialized by the signing of this Stipulation and Order, and that Respondent's signature to this Stipulation and Order indicates same. Respondent further represents that it has voluntarily entered into this Stipulation and Order to make a full, final, and complete compromise upon the terms and conditions set forth herein. Respondent further represents that any releases, waivers, discharges, covenants, and agreements provided for in this Stipulation and Order have been knowingly and voluntarily granted and without any duress or undue influence of any nature from any person or entity. The Parties, and each of them, hereby expressly acknowledge that they are each represented by counsel of their own choice in this matter or have had an opportunity to obtain representation by counsel of their choice, and have been advised by counsel accordingly.
- 28. <u>Warranties of Authority</u>. The Parties to this Stipulation and Order, and each of them, expressly warrant and represent to all other Parties that each has the full right, title, and authority to enter into and to carry out its obligations becounder, with the sole

exception of the required approval of this Stipulation and Order by the CCB. The Parties also expressly acknowledge the foregoing authority.

- 29. <u>Binding Effect</u>. This Stipulation and Order shall be binding upon and inure to the benefit of the Parties hereto and the Parties' respective successors, predecessors, parents, affiliates, shareholders, employees, heirs, executors, assigns, and administrators.
- 30. Construction. The headings of all Sections and Paragraphs of this Stipulation and Order are inserted solely for the convenience of reference and are not a part of the Stipulation and Order and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision of this Stipulation and Order. In the event of a conflict between such caption and the paragraph at the head of which it appears, the paragraph and not such caption shall govern in the construction of this Stipulation and Order.
- 31. Governing Law. This Stipulation and Order shall be governed by and construed in accordance with the laws of the State of Nevada, without reference to conflict of law principles.
- 32. <u>Jurisdiction and Forum Selection</u>. The Parties consent to the jurisdiction of the Eighth Judicial District Court of the State of Nevada, in and for Clark County, to resolve any disputes related to the terms or enforcement of this Stipulation and Order.
- 33. Interpretation. This Stipulation and Order is the result of negotiations among the Parties who have each negotiated and reviewed its terms. In the event a Court ever construes this Agreement, the Parties expressly agree, consent, and assent that such Court shall not construe this Agreement or any provision hereof against any Party as its drafter for purposes of interpreting any ambiguity or uncertainty in this Stipulation and Order.
- 34. <u>Time is of the Essence</u>. Time is of the essence in the performance of all terms of this Stipulation and Order.
- 35. Severability. If any portion of this Stipulation and Order, or its application thereof to any person or circumstance, shall be deemed to any extent to be invalid, illegal, or unenforceable as a matter of law, all remaining clauses of this Stipulation and Order

-	and its application thereof shall be not affected and shall remain enforceable to the fullest
2	extent permitted by law.
3	36. Counterparts and Copies. This Stipulation and Order may be executed in
4	counterparts, each of which when so executed and upon delivery to counsel of record for the
5	Parties and/or the Parties shall be deemed an original ("Counterparts"). This Stipulation
6	and Order shall be deemed executed when Counterparts of this Stipulation and Order have
7	been executed by all the Parties and/or their counsel; such Counterparts taken together
8	shall be deemed to be the Agreement. This Stipulation and Order may be executed by
9	signatures provided by electronic facsimile or email, which signatures shall be binding and
10	effective as original wet ink signatures hereupon. All fully executed copies of this
11	Stipulation and Order are duplicate originals, equally admissible in evidence.
12	IN WITNESS WHEREOF, this Stipulation and Order has been executed by the
13	Parties and attested by their duly authorized representatives as of the date(s) so indicated.
14	The Effective Date of this Stipulation and Order shall be the date it is ordered by the CCB.
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16	Date: 6/15/2021
17	Neal Tomlinson, Esq. (Nev. Bar No. 6851)
18	Kristina Kleist, Esq. (Nev. Nar No. 13520) Brownstein Hyatt Farber Schreck, LLP
19	Counsel for Respondent Digipath
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23	L. Kristopher Rath (Nev. Bar No. 5749)  Date:
24	Ashley Balducci (Nev. Bar No. 12687) Senior Deputy Attorney General
25	Counsel for Cannabis Compliance Board
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3	MUS (GOOK)
4	L. Kristopher Rath (Nev. Bar No. 5749) Ashley Balducci (Nev. Bar No. 12687)  Date: 6/15/2021
5	Senior Deputy Attorney General
6	Counsel for Cannabis Compliance Board
7	
8	Tyler Klimas, Executive Director for the Date:
9	Tyler Klimas, Executive Director for the Date:
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12	<u>ORDER</u>
13	WHEREAS, on 22nd, day of June 2021, the Nevada Cannabis Compliance Board
14	approved and adopted all the terms and conditions set forth in the Stipulation and Order
15	for Settlement of Disciplinary Action with Respondent Digipath Labs, Inc.
16	IT IS SO ORDERED.
17	SIGNED AND EFFECTIVE this Zday of, 2021.
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19	STATE OF NEVADA, CANNABIS COMPLIANCE BOARD
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22	By: Way A COLAR
23	HON. MICHAEL L. DOUGLAS, CHAIR
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