

UP IN SMOKE

BY
ANTHONY EFFINGER,
ZEKE FAUX
AND
KATHERINE BURTON





PUBLICLY LISTED
MARIJUANA COMPANIES
ARE LURING INVESTORS
EAGER TO PROFIT FROM
THE FRENZY OVER
LEGAL POT. ONE MAN
WHO'S WON BIG IS
PENNY-STOCK VETERAN
DAVID WEINER.

UP IN SMOKE

T

HE MILKEN INSTITUTE LIKES to keep up with the newest new thing, so it was no surprise that its April conference in Los Angeles included a panel on investing in marijuana. The moderator, Mike “Zappy” Zapolin, a trainee at Drexel Burnham Lambert Inc. when junk-bond king Michael Milken reigned there, spent several minutes talking about Zappy Inc., a company he’s formed to profit from cannabis. Another member of the panel, Craig Ellins, showed an infomercial for the hydroponic pot-growing chambers developed by his new company, GrowBlox Sciences Inc. And Todd Denkin described how DigiPath Inc. plans to train people to work in pot dispensaries and become the new baristas of weed.

The three men—half the panel—share a pot pedigree: They all worked at GrowLife Inc., a money-losing company in Woodland Hills, California, backed in 2011 by a much more private man. His name is David Weiner, and he’s had a hand in financing at least five penny-stock companies like GrowLife since 2004.

The shares of all of them spiked and then plunged. Weiner has prospered. He lives in a luxury apartment building on Wilshire Boulevard in Los Angeles, according to Ellins, who says he’s known Weiner, 57, for 22 years. He owns three Signature condominiums developed by the MGM Grand in Las Vegas, property records show, and once paid \$3.3 million for a house on the beach in Santa Monica. “He has bought and sold cars like other people sell coins,” Ellins says. “To him, they’re toys. He’s the guy that goes for the high risk, high reward. When David lends a company money, it’s usually when they can’t get it anywhere else.”

With GrowLife, Weiner joined an investor frenzy for any product

related to marijuana. The sale and use of pot is now approved for medical purposes in 22 states and the District of Columbia and is legal for recreational sales in Colorado and Washington state. That has entrepreneurs and investors seeing green—both kinds. “We’re talking about a 50- to a 100-billion-dollar industry that’s just starting,” Zapolin said at the conference.

Penny-stock financier **David Weiner** has taken advantage of the rush to invest in marijuana companies.



ILLUSTRATION BY CHRIS KASCH

There are now at least 130 public companies that claim to be in the pot business, and most of them are so-called penny stocks, defined by the SEC as stocks trading for less than \$5 a share. They often trade in the risky and potentially lucrative over-the-counter market. Brendan Kennedy, chief executive officer of Privateer Holdings, a firm that invests in the marijuana industry, says he shuns the public companies. "They're full of shenanigans and charlatans," Kennedy says. "Most of them will revert to zero."

Hemp investors are undaunted. On some days, cannabis-related stocks account for 15 percent or more of all penny-stock trading, according to OTC Markets Group Inc., which runs the trading venue once known as the pink sheets. Since September 2012, the market capitalization of those stocks has soared from \$500 million to more than \$7 billion as of May 30.

Weiner arrived early at the party. His investment company, W-Net Fund I LP, has acquired at least 130 million shares of GrowLife since it went public in 2011, regulatory

ON SOME DAYS, CANNABIS-RELATED STOCKS ACCOUNT FOR 15 PERCENT OF ALL PENNY-STOCK TRADING. 'MOST OF THEM WILL REVERT TO ZERO,' POT INVESTOR KENNEDY SAYS.

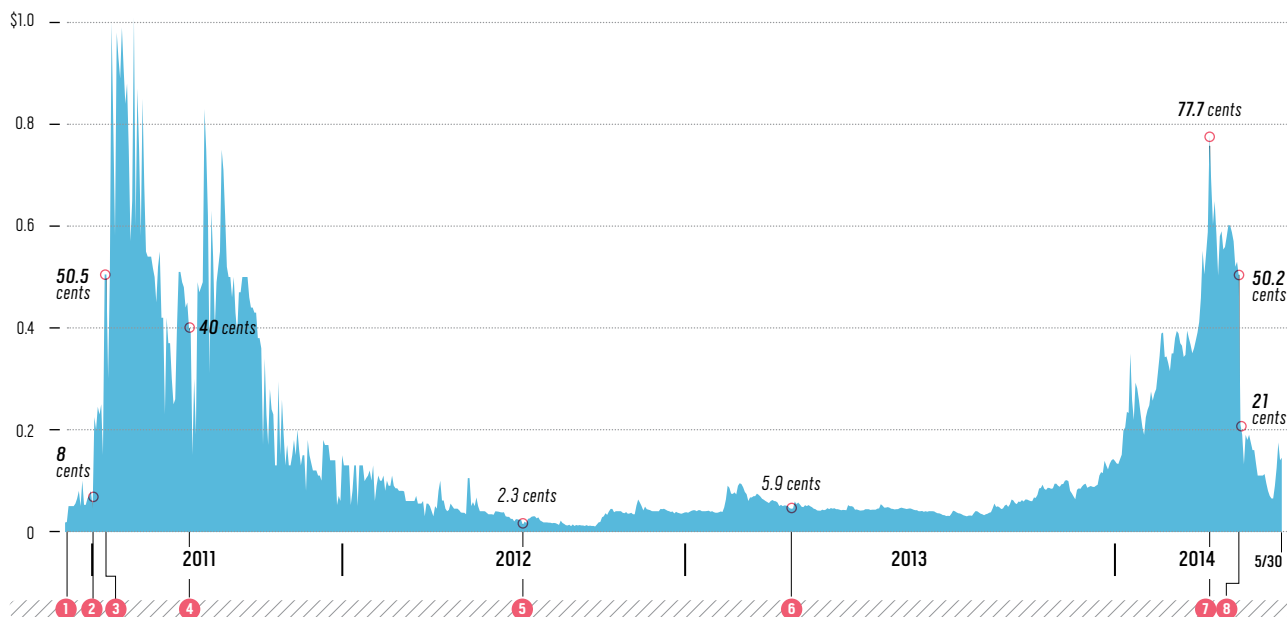
filings show, with millions of them flowing to him through loans to GrowLife that were paid off in stock rather than cash.

In March, W-Net loaned \$198,000 to Vape Holdings Inc., a firm located next door to GrowLife in a low-slung, open-air office complex owned by a partnership that shares an

FROM PENNIES TO MILLIONS

DAVID WEINER AND HIS FELLOW INVESTORS CONVERTED A MORIBUND LIGHTING COMPANY INTO A POT EQUIPMENT SELLER VALUED IN MARCH AT \$629 MILLION.

GrowLife Stock Price



- 1 FEB. 3, 2010 Weiner's Woodman Management buys Catalyst Lighting for \$210,000.
- 2 JAN. 13-FEB. 14, 2011 Weiner, relatives and associates buy 666,666 shares of Phototron for \$1 million.
- 3 MARCH 9, 2011 Phototron merges with Catalyst, and Phototron investors trade their 666,666 shares for 52 million.
- 4 JUNE 8, 2011 Weiner's W-Net registers with the SEC to sell 9.8 million of its shares.
- 5 AUG. 7, 2012 Phototron changes name to GrowLife Inc.
- 6 APRIL 2, 2013 W-Net converts \$119,000 GrowLife loan to 17 million shares at 0.7 cent.
- 7 MARCH 17, 2014 Stock peaks at 77.7 cents a share.
- 8 APRIL 10, 2014 SEC halts trading for two weeks with shares at 50.2 cents. When trading resumes they drop to 21 cents.

Sources: Bloomberg, SEC filings

UP IN SMOKE

address linked to Weiner, according to company filings. Vape sells devices that turn cannabis into smokeless vapor.

DigiPath, the training company, was located in the same office complex until April, a government filing shows, and National Marijuana News, an Internet-based radio and television station, listed its address there until June, when the information disappeared from its website.

Weiner, through his lawyer, declined to say whether he owns the building or whether he is an investor in DigiPath. Joe Tanner, a former Washington state senator, says he met with Weiner before becoming chairman of DigiPath in June. He says he doesn't know whether Weiner is an investor. Weiner wouldn't comment on anything in this article, says Sallie Hofmeister, his representative at public relations firm Sitrick & Co. in Los Angeles.

Anthony Glassman, Weiner's lawyer, says his client has never had a management role at GrowLife. "At no time during the course of GrowLife's operations did Mr. Weiner have any ability to direct the activities of that company," Glassman, a partner at Beverly Hills, California-based Glassman, Browning, Saltsman & Jacobs Inc., writes in a June 3 letter responding to questions from *Bloomberg Markets*. Asked whether Weiner had a stake in a half dozen other marijuana-related companies, including Vape, Zappy and GrowBlox, Glassman said Weiner would not answer questions about his private finances.

The U.S. Securities and Exchange Commission, which last year formed a special task force to fight what it calls microcap fraud, has taken an interest in the burgeoning public pot companies. In May, the SEC, without naming any companies, warned investors to be wary, not greedy. "Fraudsters often exploit the latest innovation, technology, product or growth industry—in this case, marijuana—to lure investors with the promise of high returns," the SEC said in a statement.

The agency has suspended trading in eight public marijuana companies this year. Trading in GrowLife was halted for two weeks on April 10. The SEC said it acted "because of questions that have been raised about the accuracy and adequacy of information in the marketplace and potentially manipulative transactions."

Sterling Scott, who was GrowLife's CEO at the time of the SEC action, says he was baffled by the trading suspension. "We don't know exactly what the SEC's concern was," Scott says. "The SEC is under no obligation, evidently, to provide any details." The SEC had no comment.

Scott resigned as GrowLife CEO on May 22 for "personal reasons," according to a company news release. Public records show he sold 5.7 million shares of GrowLife for \$2.9 million on April 9, the day before the SEC suspension. His wife filed on April 8 to sell 7.8 million shares.

Penny-stock companies market their shares through press releases and research reports that they sometimes pay to have written. Day traders pass them around on message boards and Twitter, hyping their favorites. Steve DeAngelo, president of a cannabis investors club called the ArcView Group, says investors believe so strongly in the marijuana surge that they'll seize on anything that looks like positive news as a reason to buy. "A lot of small investors want to support the growth of this industry and might be fleeced," says DeAngelo, who helped organize pot smoke-ins outside the White House in the 1970s. "There seems to be very little real activity going on."



In filings, **W-Net** lists its office as Suite 327 in this building on Ventura Boulevard in Los Angeles.

GrowLife shares soared 1,206 percent in the 12 months ended on March 17, when they peaked at 77.7 cents, lifted by a mania for all things cannabis and by a steady stream of press releases extolling the company. On the day of the high, for example, GrowLife touted a research partnership with Vape, its neighbor. GrowLife shares jumped 18.9 cents, or 32 percent, for the day, lifting its market valuation to \$629 million, even though it lost \$21.4 million in 2013 on sales of \$4.9 million. Glassman says Weiner had no role in writing or issuing GrowLife press releases.

The SEC trading suspension killed GrowLife's buzz. Its shares closed at 50.2 cents the day before and skidded to 21 cents on the day trading resumed. They closed at 14 cents on May 30.

The SEC never mentioned Weiner or Scott in its suspension, and they have never been accused of wrongdoing or been sanctioned by the SEC.

Weiner earned a master's degree in business administration from the University of California, Los Angeles, in 1981, according to his LinkedIn profile, which was taken down

GROWLIFE SHARES SOARED 7,206 PERCENT IN THE 12 MONTHS ENDED ON MARCH 17, TO 78 CENTS, DRIVEN UP BY A STEADY STREAM OF PRESS RELEASES EXTOLLING THE COMPANY.

after *Bloomberg Markets* began reporting on this story. He joined Deloitte & Touche LLP as a consultant in 1988. Ellins says he was a client and met Weiner there. Then Weiner went to work for music retailer K-tel International Inc., another Deloitte client, in 1993, his LinkedIn profile said. He became president there in 1996 and left in 1998, when he started W-Net.

In filings, Weiner's W-Net Fund I lists its address as 12400 Ventura Boulevard, Los Angeles. That's a mailbox in a cluttered shop called Universal Mail & Business.

Jihoon Hyeon, a 33-year-old day trader in Los Angeles, was once an enthusiastic GrowLife investor and said in late May he was still in the black on the stock, which he bought for less than 5 cents a share. Yet he says he's seen the value of his holdings drop since the March 17 peak by \$100,000, to \$26,250 as of May 28. After the trading suspension, Hyeon, who is disabled, had his brother drive him to GrowLife's Woodland Hills offices. He says he was surprised by how small they were. "The office was like an H&R Block," Hyeon says. "I thought, 'Maybe the SEC was right'" in suspending stock trading.

Weiner and W-Net have done better. In June 2011, according to an SEC document in which he filed to sell some of his shares, Weiner was the biggest outside holder of shares in GrowLife, then called Phototron Holdings Inc. At least 10 times in 2013, W-Net exchanged interest-bearing convertible notes for GrowLife shares at deep discounts. W-Net got a total of 81.5 million shares for 0.7 cent apiece, according to regulatory filings, and 32.5 million at 2.15 cents each. In an April 2, 2013, transaction, for example, W-Net swapped a \$119,000 loan to GrowLife for 17 million shares at 0.7 cent per share. The stock closed that day at 5.9 cents.

Attorney Glassman says Weiner sold most of his GrowLife stake before 2014, when the stock soared, and that he owned just a "tiny fraction of the 900

million shares outstanding" as of June 3. If Weiner had sold all the shares he acquired in 2013 at GrowLife's average price for that year—5.8 cents—then he would have made \$5.5 million on a \$1.3 million investment. "You can make a ton of money in this business," says John Lux, a securities lawyer in Bethesda, Maryland, who specializes in reverse mergers.

Glassman says Weiner made average returns on GrowLife. "W-Net's investment in GrowLife over three years yielded a return comparable to the [Standard & Poor's 500 Index] but with significantly more risk," Glassman writes. The S&P 500 had a total return of 56 percent from Dec. 31, 2010, to Dec. 31, 2013.

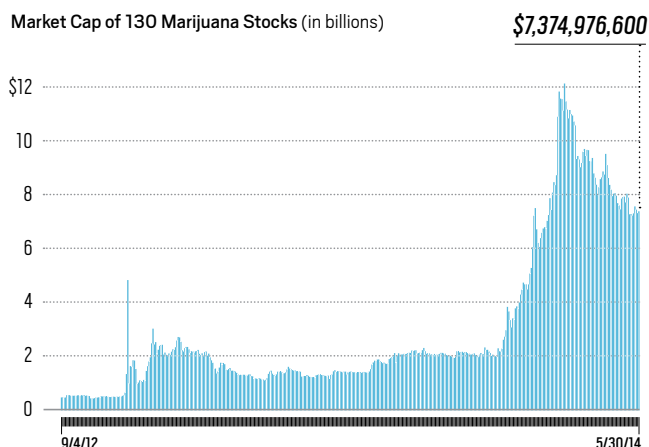
Weiner makes more on real estate than he does from stock investing, Glassman says. "Mr. Weiner's main source of income comes from his commercial real estate business, in which he leases and manages office buildings in Southern California—not from financing growth-stage companies," Glassman writes. On his LinkedIn page, Weiner said he had amassed \$50 million in Los Angeles real estate.

GrowLife, like Vape and many other penny stocks, went public through a reverse merger, in which a private company buys a public shell company—one that has failed yet still has shares trading. The private company inserts itself into the public one, bypassing an initial public offering, which takes longer and brings more scrutiny from the SEC.

Reverse mergers have a bad name on Wall Street. In a June 2011 bulletin, the SEC warned that companies going public via reverse mergers are susceptible to fraud. Some

REEFER MADNESS

INVESTORS HAVE BID UP PENNY POT STOCKS FROM \$500,000 TO MORE THAN \$7 BILLION.



Source: Bloomberg

UP IN SMOKE

are legitimate and successful, though. Berkshire Hathaway Inc., founded by billionaire Warren Buffett, came into being through a reverse merger.

Regulatory filings show that Weiner has invested in at least six companies created by reverse mergers. He owned at least part of the shell company in three of them. The investments were made through W-Net or another company he controls, Woodman Management Corp.



This store in Santa Rosa, California, is one of seven GrowLife outlets.

Former Weiner partner Ellins says GrowLife, which operates seven stores in five states, was his idea. Weiner was the moneyman, Ellins says. “He’s just a necessary part of the food chain,” he says. “He’s the guy with the money. I’m the guy who builds companies.”

GrowLife got its start as a public company in February 2010, when Weiner, through Woodman, paid \$210,000 for most of Catalyst Lighting Group Inc., a bankrupt public company that once made poles for outdoor lights, according to a filing with the SEC.

Next, W-Net joined a round of private investment in Phototron, a maker of tabletop greenhouses that advertised in *High Times* magazine. Investors included Lars Mapstead, a founder of Various Inc., the company that operated adultfriendfinder.com and other sex sites before they were bought by Penthouse Media Group Inc., and Michael Rosen, former chief marketing officer at Herbalife Ltd.

Two of Weiner’s nephews, Adam Liebross and Lee Mendelson, bought 14 percent of Phototron between them. (A distant relation of Weiner and her husband both work at Bloomberg News. They did not participate in the preparation of this story.)

Christine Sclafani, an actress who starred in the films *Milf & Cookies* and *Douchebags*, says she invested her own money and got “gift shares” in Phototron for making instructional videos on how to load sphagnum moss, water and chemicals into a Phototron greenhouse. Sclafani says she learned about the company from Denkin, the Milken panelist and a high school friend. “He’s doing everything legally,” she says of Denkin. “They do press releases; they do things to shoot their stock up. That’s their job.” Denkin didn’t return phone calls.

In all, Phototron sold 666,666 shares for \$1 million to Weiner, his nephews and other Phototron investors in a private transaction that closed on Feb. 14, 2011, according to regulatory filings. Less than a month later, Phototron merged with Catalyst Lighting, and the investors swapped their 666,666 Phototron shares for 52.2 million shares in a new, public company, still called Phototron. The name was changed to GrowLife in 2012; the company’s stock ticker remains PHOT.

The conversion rate meant that Weiner and his co-investors got shares in GrowLife at 1.9 cents apiece. The shares were initially unregistered, requiring that the group hold them for more than

a year before selling. To avoid the wait, they had to register the shares, which meant disclosing financial information and any risks associated with the company to the SEC.

The investors filed to register a portion of their shares on June 8, 2011. The SEC cleared the share sale, and the registration became effective on June 22. On that same day, GrowLife began advertising itself as an up-and-coming purveyor of marijuana supplies and equipment. A June 22 press release described plans to sell the Phototron greenhouses through networks of citizen dealers, the same way Herbalife sells protein shakes and supplements.

It took about a year for trading volume to build in the company. Volume topped 1 million shares a day on May 31, 2012, and the price averaged 5.5 cents a share that month. Had the original Phototron investors sold then, they would have almost tripled their money.

Both price and volume spiked in November 2012 after voters in Colorado and Washington approved legal recreational sales of marijuana. GrowLife issued a series of press releases, including one on Nov. 13 in which it announced that its greenhouses now shipped with LED lights that improved crop yields, part of the company’s focus on selling “the picks and shovels of the growing ‘green rush.’”

GrowLife touted the stock itself, not just the business, in

UP IN SMOKE

June 2013, when it put out a press release saying that Grass Roots Research & Distribution Inc., led by a former Bear Stearns Cos. stock analyst named D. Paul Cohen, had written a 55-page report calling GrowLife's business model "brilliant" and assigning it a price target of 22 cents a share, up from the 4.5 cents the stock fetched at the time. In fine print on page 50, Cohen warns, "Do not base any investment decision or rely on information in this commercial advertisement."

Cohen says GrowLife paid him to write the report. He also says he owns GrowLife shares. All of this is legal, he says, and it hasn't colored his opinion of the company. "GrowLife is a heck of a company," he says. "I'm saying that objectively."

Before financing GrowLife, Weiner worked and invested in a wide variety of industries. He joined the Internet boom in 1996, when he became president of K-tel. In April 1998,

THE SHARES OF WEINER-FINANCED GVI JUMPED FROM 9 CENTS TO \$10.25 AND SANK BACK TO PENNIES BEFORE THE COMPANY WAS SOLD TO A PRIVATE-EQUITY FIRM.

the music retailer known for late-night TV ads for its Super Hits compilations announced plans to sell online, sending its shares to \$68 from \$7. Weiner sold 390,000 shares for \$22 to \$33, according to regulatory filings, grossing at least \$8 million. He resigned three months after the last of the sales.

Next, Weiner turned to fashion. Paul Guez, a French clothing designer who had gotten rich by starting Sasson Jeans Inc. in the 1980s, founded Antik Denim in 2004. Weiner, according to his LinkedIn profile, took the company public the following year. SEC documents show that Antik merged with a shell company called Marine Jet Technology Corp., whose shares were flat-lined at \$2.50. They started rising just before April 14, 2005, when Antik and Marine agreed to merge, and peaked at \$25.52 that day. They fell to pennies from there and in 2008 were delisted from the Nasdaq Stock Market.

Guez says he's still an admirer of Weiner. Guez's daughters, Elizabeth and Kiera, were early investors in GrowLife, buying 1.3 million shares, according to SEC filings, a purchase Paul Guez confirms. "He is a wonderful guy," Guez says of Weiner. "He has helped lots of people."

Weiner helped finance GVI Security Solutions Inc.,

which went public in February 2004 after he merged it into Thinking Tools Inc., a failed software maker that had been a shell for four years, according to an SEC filing. GVI attracted boldface names. Howard Safir, a former New York City Police Department commissioner, joined the board as chairman in February 2004; Weiner also joined the board that month. GVI's shares soared two months later, jumping from 9 cents to \$10.25 in a month.

John Gutfreund, the former CEO of Salomon Brothers Inc., became a GVI board member in July 2005. At the time, Gutfreund was a managing director at investment bank C.E. Unterberg Towbin LLC. His firm advised GVI on its 2004 sale of 22.6 million shares, which raised \$33.9 million, according to a GVI filing on July 27, 2005. Unterberg got paid 7 percent of that total, or \$2.4 million. Gutfreund declined to comment on the matter.

Safir, in a telephone interview, says Weiner was one of the primary investors, though he rarely dealt with him.

GVI's stock tumbled after the initial run-up, and in December 2009, a private-equity firm bought the company for 39 cents a share. Other Weiner-financed companies that saw their shares soar before languishing include biotech startup AtheroNova Inc. and Internet video company DigitalFX International Inc.

Many of the same lawyers, accountants and executives turn up again and again in Weiner's deals. Ellins, for one, did "strategic planning" for K-tel, was a board member at GVI and acted as executive chairman of GrowLife. Denkin was on the board of GrowLife, while Zapolin served as chief Internet strategist. Ellins left the GrowLife board in 2013, disillusioned, he says, with the company's decision to move beyond the Phototron greenhouse and into pot-growing supplies. "They call themselves a marijuana company? All that shit is sold cheaper every day in the garden supply store," Ellins says. His new company, GrowBlox, was born out of a reverse merger with Signature Exploration & Production Corp. in Houston.

Unlike Weiner, who prefers to stay in the background, Ellins, Denkin and Zapolin plug their companies by attending events such as the prestigious Milken conference. Another panelist at the pot session, Sue Rusche, CEO of National Families in Action, an Atlanta group that strives to keep drugs away from kids, says that when the men took the stage, "they all said this was a great day for the industry." Both Zapolin and Ellins put out press releases advertising their attendance, and both made pitches for their new marijuana companies, keeping the great marijuana stock promotion machine rolling along.

Anthony Effinger is a senior writer at *Bloomberg Markets* in Portland. aeffinger@bloomberg.net **Zeke Faux** covers finance at Bloomberg News in New York. zfaux@bloomberg.net **Katherine Burton** covers hedge funds in New York. kburton@bloomberg.net With assistance from **Dan Taub** in Los Angeles and **Michael Weiss** and **Michael Novatkoski** in Princeton.