



## Avoid Cannabis Industry Scams

Emerging “hot” industries present opportunities for scam artists, and the new adult use cannabis industry in Illinois is no different. Entrepreneurs and investors in the cannabis industry should be wary of predators and scams. If an opportunity seems too good to be true, it probably is. Take the time to understand the risks involved and consider consulting with qualified attorneys and independent professionals before entering into a binding agreement or committing financial resources.

### Warning Signs

Any potential investor, consultant, or adviser who claims to have the ability to guarantee a license is lying and should not be trusted. Additionally:

- Business owners and investors should always be wary of “cold calls” or unsolicited proposals from persons or entities who cannot demonstrate or document relevant business competence and experience.
- Business owners should avoid entering into contract agreements with investors that entail (1) committing to pay a share or set amount of future revenues or profits to a separate entity; or (2) an option for investors to purchase additional shares in the future at a set price.
- Be wary of any business that has abruptly changed its name, industry, or business plan multiple times.
- Be wary of anyone promising guaranteed returns at no risk, including investment into marijuana “penny stocks.”
- Be wary of pressure tactics intended to force a quick decision to sign a document or pay money up-front.
- Web sites for cannabis companies, consultants, or suppliers with bold claims of influence or know-how but lacking verifiable information on physical addresses, contact information for investors/owners, legal representation, or past/current clients should not be trusted.
- Avoid investing in shell companies with limited assets or limited ownership in existing companies.
- If you are entering into a franchise agreement, be aware that no franchisor can guarantee you a license. Before signing, consider consulting a qualified attorney to review the agreement and identify any hidden unfavorable terms, such as a non-compete agreement.

### Predatory Lending

Due to federal law, many traditional banks do not provide financial services to businesses in the cannabis industry. Be on the lookout for predatory lenders charging excessive interest and imposing other unfavorable terms, such as up-front fees or disproportionate claims on company assets. Borrowers should consider carefully before committing and know their options, including [state loan programs](#) for those who qualify.

### Helpful links:

- If you think you’ve been a victim of fraud, file a complaint with the [Illinois Attorney General’s Consumer Fraud Bureau](#)
- The US Securities and Exchange Commission issued an [Investor Alert regarding Marijuana Investments and Fraud](#) in 2018.