**Subject:** **Fw:  4th Movement Agreement Redacted**

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California Minority Alliance (CMA) has been involved in helping create a model social equity program in the City of Los Angeles since day one of the Proposition M construct.  One of our primary concerns was that the program would focus on communities disproportionally impacted by the War on Drugs and assure that those from our communities that became licensed were protected from predatory arrangements.  The City and the Department of Cannabis Regulation (DCR) has shared those same concerns on numerous occasions both privately and in public forums going into the start of Phase 3 Round 1 on September 3rd, 2019.

Shockingly, the DCR (with Council support) has moved forward with processing licenses for applicants that clearly tried to take advantage of their social equity partners with predatory agreements.  One example brought up repeatedly by many social equity advocates and news publications in the LA Times, Politico and elsewhere, were the agreements 4th Movement forced on their social equity partners.

CMA is now in possession of an agreement 4th Movement forced on one of their social equity applicant partners mere days before the licensing process would start on September 3rd.  Enclosed is a heavily redacted copy of the agreement to protect the social equity applicant from possible retribution.  If you want to see an unredacted copy, we suggest the council request a copy of one of at least 13 similar agreements from DCR who has been sitting on these agreements and still deciding to allow further processing since September 3, 2019.

**Let's be clear council, if this was a White person taking advantage of a social equality applicant it would be thrown out! Predators can also come for within our own community hence (4th Movement)**

Some lowlights from the 44 pages.  ( Please keep in mind applicants were brought into a room late August of 2019 and handed these 44 pages and basically told they have 1 hour to sign the agreements or leave)

         Section 2.10 “In addition, SE Applicant shall indemnify HH (Hopeful Holdings, LLC or 4th Movement) and hold HH harmless against any loss, liability or expense incurred without negligence or bad faith on the part of HH arising out of or in connection with HH’s duties hereunder, including the reasonable fees and expenses of any legal counsel retained by HH.”

         Section 5.1 “ Subject to the terms of this Agreement, the right and authority to manage, operate and make decisions with respect to the business and affairs of the Company (including, without limitation, the matters set forth below) shall be vested in the Managers, who shall manage the Company in accordance with this Agreement. The Managers shall delegate certain rights and authority to manage the Company to Equitable Management, LLC”   The management company the social equity partner is agreeing to has full control and further in the agreement cannot be terminated without unanimous consent of the members of the LLC that has the license.  Even more egregious is that there was no disclosure to the Social Equity Partner prior to September 3rd, 2019 (or even to date) about the terms of the management agreement let alone who the principles are of the management company.

         Section 5.2 “Notwithstanding anything to the contrary in this Agreement, without the unanimous consent of the Members, the Managers may not take any action in the contravention of this Agreement.” “Unanimous Consent” is mentioned throughout this Agreement on multiple occasions, at minimum, assuring that the Social Equity partner does NOT have control of the company, decision making, license etc.

         Section 5.7 “HH (again Hopeful Holdings, LLC or 4th Movement) shall be designated as the “partnership representative”, as defined in Code Section 6223 of the Bipartisan Budget Act of 2015 and the Company, the Managers and the Members shall complete any necessary actions (including executing any required certificates or other documents) to effect such designation.”

         Section 7.7 “HH shall have the right, but not the obligation to purchase the Interest held by SE Applicant or any Affiliate or Transferee of SE Applicant (or Economic Interests if the Interests have been converted into an Economic Interest)(Forced Sale Interest) as set forth in Section 7.7.”  Probably the most Predatory aspect of this agreement.  HH can use a plethora of reasons to force a sale of the SE partners interest in the business and license including “a good faith determination.” On top of this, the Fair Market Value of the Forced Sale Interest shall not exceed $200,000.

         Section 7.8 “HH shall have the right, exercisable in its sole discretion to expel a Member upon the happening of any of the Expulsion Events set forth below in this Section 7.8 SE Applicant hereby grants to HH the option to purchase all of its Interest upon the terms and conditions set forth in this Section 7.8 after the occurrence of any of the following (each an Expulsion Event).  Further in the language on expulsion, “The purchase price for the Expelled Member’s Membership Interest shall be the cash value of the Initial Capital Contribution by the Expelled Member less any distributions paid to the Expelled Member.” Since the SE Partner is bringing $0 capital or property to the new Venture, their buyout on an expulsion triggered by HH would be $0.

         Section 7.9 “Notwithstanding Sections 7.1, 7.2, 7.4,7.7 the following Transfers (each of which is a Permitted Transfer) by any Member (Excluding HH for which no consent is required) shall be subject to the prior written consent of the other non-transferring Members which consent may not be unreasonably withheld”  So HH or 4th Movement can sell their interest as they see fit but the SE Partner has to go through hoops and hurdles in order to sell.

         Section 10.4 “Each of the Members and the Managers has been advised to obtain separate and independent legal and business advice from its own lawyers, accountants and advisors concerning this Agreement, and has done so or deliberately refrained from doing so.”  We have had numerous conversations with HH (or 4th Movement) SE Applicants and they have all said they were given 60 minutes to read the Agreements and sign or else they were out of consideration.  Even if they were allowed to have Counsel review the 44 pages, it is inconceivable that any legal counsel could digest and interpret all this language and then advise their Client properly.