

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

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For Immediate Release

NEWS RELEASE SUMMARY – January 24, 2013

SAN DIEGO - A man who created two medical marijuana dispensaries and a phony board of directors as a front for a multimillion-dollar drug trafficking operation was sentenced today to serve 100 months in federal prison. The defendant was immediately remanded into custody.

Joshua John Hester of San Diego pleaded guilty January 3, 2012, to eight felony charges, including conspiracy to distribute over 1,000 kilograms of marijuana, conspiracy to maintain drug-related premises, conspiracy to launder money, and criminal forfeiture. He was sentenced by United States District Judge Irma E. Gonzalez.

According to his plea agreement, Hester admitted that he was the silent owner of two marijuana dispensaries known as the “Downtown Kush Lounge” in downtown San Diego and the “Green Kross Collective” in Mission Beach, where he made millions of dollars in the retail sale of marijuana.

This is the most significant prosecution of a large-scale dispensary operator in the Southern District of California. And, this was the first time federal authorities used wiretaps in an investigation of medical marijuana dispensaries.

“Joshua Hester is the poster boy for the types of marijuana dispensary operations that the federal government is criminally targeting,” said U.S. Attorney Laura Duffy. “He wasn’t overseeing a non-profit collective that served sick people. He was a convicted drug trafficker making millions of dollars selling high-quality marijuana to recreational users and exploiting state laws that were meant to help the seriously ill.”

“The role of IRS Criminal Investigation (CI) in the investigation of Joshua Hester was to follow the money laundered as part of the conspiracy to distribute illegal marijuana,” said N. Dawn Mertz Acting Special Agent in Charge of IRS CI's Los Angeles Field Office. “IRS CI will continue to collaborate with our law enforcement partners to trace the proceeds in this highly lucrative industry and enforce our nation’s federal tax and money laundering laws.”

“This case illustrates the kind of criminal activity going on within medical marijuana dispensary operations,” said San Diego Drug Enforcement Administration Acting Special Agent in Charge William R. Sherman. “The proprietors of these operations are simply drug dealers who are hiding behind the guise of compassionate care, when in fact their only motivation is making money. We will continue to investigate these criminal enterprises that are not only violating the Federal Controlled Substances Act, but are also involved in a variety of other criminal activities.”

Since October 2011, the United States Attorney’s Office in coordination with the DEA, has issued cease and desist letters to approximately 253 marijuana dispensaries operating in the district. There has been a 95% self-closure rate in response to the letters, with less than 12 dispensaries remaining open.

In his plea agreement, Hester admitted to two types of trafficking in this case. First, he went the traditional route, using a supplier, distributing over 1,000 kilograms of high-quality marijuana known as “Canadian BC Bud,” and laundering millions of dollars of profits. When his supplier was arrested, Hester opened dispensaries and started selling and manufacturing his own marijuana and purchased bulk quantity from others.

Hester admitted that he set up a “sham” Board of Directors at the Green Kross Collective and Downtown Kush Lounge, which had no authority or control over the management of the cooperatives. Hester also admitted that he laundered over \$2 million in connection with the purchase of a residence in Rancho Santa Fe, California, where he manufactured marijuana at that location. Hester also admitted selling the supposedly non-profit Green Kross Collective for \$250,000 in cash.

Hester acknowledged that he was the true owner of the 37-acre Palomar Mountain Property, but placed the property in another name to conceal his ownership. And, he acknowledged that he intended to grow marijuana at that location. As part of his plea agreement, Hester agreed to forfeit over \$575,000 in assets, including cash, vehicles, and jewelry.

An investigation of Hester by federal drug agents began in spring of 2008 in connection with marijuana trafficking in San Diego County that was unrelated to dispensaries. It was a chance encounter with police in Glendale, California, on December 8, 2008, that propelled Hester into the dispensary business.

Glendale police had been following a suspected small-time marijuana dealer to a storage locker in Calabasas, California. “The local officers were extremely surprised to find \$843,000 in cash inside the locker as they accidentally stumbled into a multi-million dollar international drug operation,” according to Hester’s sentencing memorandum.

Hester came on the radar when he and his key marijuana supplier, Rajeev Kaushal, arrived at the locker to pick up the cash. Hester was detained but not charged. But Kaushal was taken into custody in Los Angeles and ultimately pleaded guilty in Los Angeles. Court documents said that in the two years leading

up to Kaushal's arrest in December 2008, Hester had purchased over 3,000 pounds of high-grade Canadian marijuana from Kaushal for almost \$9 million, and distributed it throughout San Diego County.

With his key supplier in custody in December 2008, Hester "turned to medical marijuana dispensaries" in the spring of 2009, according to the sentencing memorandum.

In February of 2010, the investigation shifted to the dispensary operations and agents from the Internal Revenue Service and the DEA's Narcotics Task Force obtained federal wiretaps, intercepting text messages for a 30-day period, then expanding for another 30 days to both text messages and phone conversations.

According to the Government's sentencing memorandum, "These wiretaps demonstrated that defendant Joshua Hester, who was making millions of dollars in connection with these 'medical marijuana dispensaries,' was using these 'dispensaries' as retail marijuana outlets and distribution centers. He had assembled management teams and had a Board of Directors, who worked under his direction." Hester has admitted the board was a sham, and directors had no power.

The wiretap revealed that the Green Kross Collective and the Downtown Kush Lounge were making between \$5,000 -7,000 each day at each location on the average, the sentencing memorandum said. Assuming that together, both locations generated at least \$10,000 each day, Hester was grossing approximately \$3.5 million dollars annually. The California sales tax records for the collectives show far less reported income.

According to court documents, the products seized by federal agents included: Many plastic bottles of THC-laden soft drinks labeled "7 High," "Dr. Feelgood," "Laughing Lemonade," "Rasta Berry Iced Tea," "Danktopia," "Orange Cush," "Root Buzz," and "Marijuana Dank." There were cookies and brownies labeled "White Chip Hash Brownie," "Reese's Crumbled Hash Brownie," "Cannabis Creation Brownie," "Reefers Peanut Butter Cup," "M&M Hash Brownies," Reefers Peanut Butter Cup with Nuts," "Cannabis Creation Sugar Free Cookies," and "Cannabis Creation Cookies." Agents also seized marijuana candy, including "Jolly Stones THC Medicated Hard Candies," and "Stone Candy," and different flavored lollipops, including strawberry, watermelon, bubble gum, cotton candy, orange, lemon, pina colada, and grape. The officers also seized "Bud Head Bubblegum."

The office computer showed that Green Kross Collective had approximately 1,732 members - most of the members were between the ages of 18-22, court records said. The computerized records also showed that the Downtown Kush Lounge had 811 members.

Judge Gonzalez ordered restitution in an amount to be determined at a later date.

Likewise, in a related development, the Court on January 14, 2013, ordered Hester's realtor on the Rancho Santa Fe and Palomar Mountain properties, Marco Luis, to pay restitution in the amounts of \$329,767 to CitiGroup and \$615,935 to JP Morgan. Luis pleaded guilty in August to money laundering charges in connection with those properties and was sentenced to 48 months in prison.

DEFENDANT

Criminal Case No. 10CR2967-IEG

Joshua John Hester

SUMMARY OF CHARGES

Title 21, United States Code, Sections 846 and 841(a)(1)[count 1] - Conspiracy to distribute over 1,000 kilograms of marijuana

Title 21, United States Code, Sections 856(a)(1) and 846 [counts 6, 7 and 8] - Conspiracy to maintain drug related premises

Title 18, United States Code, Sections 1956(a)(1)(A)(I) and 1956(h) [count 15] - Conspiracy to launder money

Title 18, United States Code, Sections 1957 and 1956(h) [count 16] - Conspiracy to launder money

Title 18, United States Code, Sections 1957 and 1956(h) [count 25] - Conspiracy to launder money

Title 18, United States Code, Sections 1956(a)(1)(B)(I) and 1956(h) [count 33] - Conspiracy to launder money

INVESTIGATING AGENCIES

This investigation was conducted by the Internal Revenue Service, Criminal Investigation, San Diego, and the San Diego Drug Enforcement Administration's Narcotics Task Force. The lead prosecutor is Sherri Walker Hobson.