

# Purchasers of Existing California Cannabis Businesses Must Get Their Own License from the State

*California law won't allow new purchasers of current cannabis businesses to rely on the business' existing license. by Christopher Hazlehurst*

GLENDALE, CALIFORNIA, UNITED STATES, April 21, 2021 /EINPresswire.com/ -- The cannabis industry is rapidly expanding in California and around the country. Nationwide, the industry is worth an estimated \$61 billion. In 2020, California alone saw \$4.4 billion in cannabis sales, a considerable boost from \$2.8 billion in 2019 and \$1.4 billion in 2018. Investors and entrepreneurs are eyeing the budding market with a hunger. As with any growing industry, bigger players are now entering the market, raising new questions about buying, selling, and merging cannabis businesses.

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*Narek Vardanyan, California Cannabis Attorney*

Any new entrant to California's cannabis game should

know that they are responsible for their own cannabis license. California law does not permit the transfer or assigning of cannabis licenses. There are three separate licensing authorities for cannabis businesses in California: The Bureau of Cannabis Control (BCC), CalCannabis Cultivation Licensing (CCCL), and the Manufactured Cannabis Safety Branch (MCSB) of the California Department of Public Health (CDPH). The BCC licenses businesses that sell, distribute, trade, or test cannabis in the state. The CCCL issues licenses for the cultivation of cannabis, while the MCSB governs the manufacturing of commercial cannabis in California.

Although licenses alone are non-transferable, a business that is sold to a new owner may be able to retain its existing cannabis license while a new license application is pending. Any change of ownership must be channeled through the appropriate licensing agency. The BCC regulations, for example, state that “[i]f one or more of the owners of a license change,” the new owners are required to submit an application for a license “within 14 calendar days of the effective date of the ownership change.” The business can keep operating under its existing license while the application is pending so long as at least one existing owner is staying on board.

If, however, all current owners are transferring their ownership interest, “the business shall not operate under the new ownership structure until a new license application has been submitted to and approved by the Bureau.” Obtaining a new license is, unfortunately, likely to take some time. The BCC does not have a set time frame for processing a license application. Applicants can expect to wait weeks, if not months, for a license application to be approved. Business owners waiting on an application would do well not to hassle the BCC: Their website specifically states that “sending the Bureau multiple emails requesting a status update for an application will slow down the application review process.”

Local licensing regulations can also affect cannabis mergers and acquisitions, as the authority to approve the new ownership of a cannabis business falls to the cities. [Narek Vardanyan, an attorney with McReynolds Vardanyan LLP](#) who assists cannabis owners in licensing issues, says that in some cities this could be as easy as submitting a modification request. “In other

cities,” says Vardanyan, “it is more complicated.” Vardanyan explains that certain local jurisdictions require Development Agreements in which an owner/operator is named, and it requires city approval to amend the Development Agreement to add new owners. According to Vardanyan, this often also requires approval from the Department of Planning. The amendment may also be put up for a vote by way of a voter referendum, says Vardanyan.

Additionally, some cities’ cannabis permitting process involves a Conditional Use Permit. In this case, getting new ownership approved is a simpler process, according to attorney Vardanyan, although getting a relocation request is difficult. “CUPs run with the land and buyers of the cannabis business do not own the CUP,” Vardanyan explains. “This creates a restriction in mobility.”

In most industries, purchasers acquiring a new business typically prefer to execute a full buyout. They want the full business, free and clear of the previous owners. Of course, they also prefer the business to continue operating while the acquisition takes place; business interruption can only serve to lose revenue and customer engagement. Due to the BCC’s obtuse change of ownership rules, however, cannabis business purchasers in California may want to consider keeping at least one existing owner on board until the new owners complete their background checks and licensure process. Otherwise, they will be forced to cease operations until the BCC gets around to their background checks and license applications.



Narek Vardanyan, California  
Cannabis Lawyer

Keep in mind that a new owner's application for a license could be turned down. For example, attorney Vardanyan cautions that new owners who have a criminal background for offenses that are substantially related to the licensed activity may be barred from ownership by the state. The state may allow an applicant/owner to submit mitigating evidence regarding their criminal history. However, "some cities have even more restrictive criminal background clearances than the state," warns Vardanyan.

Thankfully, not every financial transaction qualifies as a change in ownership sufficient to require a new license application. A change in financial interest holders, meaning investors who own less than 20% equity or 20% share in the profits, does not constitute a change in ownership (holding 20% or more qualifies a person as an "owner"). Additionally, no licensing concerns are triggered if an owner is leaving the business and transferring their interest to other existing owners. In both cases, the parties are still responsible for notifying the BCC of the change.

Narek Vardanyan  
McReynolds | Vardanyan LLP  
+1 818-855-2115

[email us here](#)

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