

**IN THE MATTER OF
QUALES, LLC;**

*** BEFORE THE MARYLAND
* CANNABIS ADMINISTRATION**

Respondent

*

License No. L-17-0004

*** Case No.: 23-00021**

*** * * * ***

CONSENT ORDER

The Maryland Cannabis Administration (the “Administration” or “MCA”) and Respondent **QUALES, LLC** (“Respondent”), pursuant to the Cannabis Reform Act, codified at Md. Code Ann. Alcoholic Beverages & Cannabis §§ 36-408 and 36-501 (the “Act”), as well as Code of Maryland Regulations (“COMAR”) 14.17, hereby enter into this Consent Order in order to resolve violations of the Act and COMAR in lieu of proceeding to an evidentiary hearing.

The pertinent provisions of the Act in place at the time of the events set forth herein is as follows:

§ 36-202. Powers and duties of Administration

(a) The Administration shall:

7) After a determination that a violation of this title or a regulation adopted under this title has occurred, suspend, fine, restrict, or revoke cannabis licenses and cannabis registrations, whether active, expired, or surrendered or impose any other penalty authorized by this title or any regulation adopted under this title;

§ 36-408 Independent testing laboratories

Maintenance of Impartiality

*** * ***

(e)(2) An individual who possesses an interest in or is a laboratory agent

employed by an independent testing laboratory, or an immediate family member of the individual, may not possess an interest in or be employed by a cannabis licensee.

The pertinent provisions of the Act's corresponding regulations are codified at COMAR as follows:

14.17.08 Laboratory Registration and Operations

. . .

.05 Independent Testing Laboratory Responsibilities

. . .

B. No independent testing laboratory may handle, test, or analyze cannabis or cannabis products unless the independent testing laboratory:

. . .

(2) Is independent from all other persons and entities involved in the cannabis industry.

14.17.14 Complaints, Enforcement, Record Keeping, and Inspections of Cannabis Businesses

.04 Discipline and Enforcement

* * *

D. The Administration may fine, suspend, restrict, revoke, or otherwise sanction any cannabis licensee or registrant for: (1) Any violation of the Alcoholic Beverages and Cannabis Article, Title 36, Annotated Code of Maryland; (2) Any violation of this regulation; (3) Any violation of this chapter; (4) Any other violation of this subtitle and COMAR 10.62; (5) Restricting, limiting, or otherwise impeding an inspection or investigation by the Administration; or (6) Any other violation of State, federal, or local: (a) Law; (b) Regulation; or (c) Ordinances.

FINDINGS OF FACT

The parties agree to the following statement of facts:

1. Ceres Naturals LLC is a cannabis processing facility located at 5330 Spectrum Drive, Suite H in Frederick, Maryland 21703 (“Ceres” or “Processor”).

2. Respondent is at 5330 Spectrum Drive, Suite E, in Frederick, Maryland 21703. On November 21, 2017, Respondent was issued license number **L-17-0004** by the MCA to operate as an independent testing laboratory. Manoj Adusumilli (“M.A.”) owned 100% of Respondent on such date.

3. Patriot Medical Laboratories LLC d/b/a CIAN Diagnostics (“CIAN”) executed a Lease Agreement with Ceres to sublease space for its cannabis processing facility (“Lease Agreement”). Under the Lease Agreement, CIAN agreed to provide water, heating and air conditioning, electrical current for building fixtures, and janitorial services to Processor. The Lease Agreement also required the Processor to obtain approval from CIAN for any facility modifications or changes.

4. On or about July 1, 2023, M.A. executed a Membership Purchase Agreement (“M.A. MPA”) for the sale of 100% of Respondent to Naveen Gogineni (“N.G.”), resulting in M.A.’s resignation as Manager of Respondent.

5. On or about July 1, 2023, M.A. executed a Management Services Agreement (“M.A. MSA”) to provide consulting services for the benefit of Respondent, including, but not limited to, operational support and accounting services.

6. The M.A. MSA outlined compensation in the amount of \$50,000 to be paid to M.A. upon the successful renewal of Respondent’s registration in February 2024.

7. On or around July 1, 2023, Sombabu Mullapudi (“S.M.”) executed a Management Services Agreement (“S.M. MSA”) for the benefit of Respondent to provide consulting services for its lab operations (e.g. equipment and supplies, ISO quality, and assistance in identifying lab analysts).

8. At all times material to these charges, N.G. managed and controlled Respondent, while M.A. and S.M. provided consulting services for the benefit of the Respondent.

9. The S.M. MSA required S.M. to obtain approval from Respondent prior to the commencement of a new project and outlined compensation to be paid to S.M. upon the successful renewal of Respondent’s registration in February 2024.

10. On or about September 20, 2023, S.M., an authorized agent of Respondent, applied for a cannabis agent card in connection with his work for Processor, as instructed by the

MCA.

11. S.M.'s cannabis agent registration for Processor was approved on or about September 25, 2023, under registration number **AG-004950**.

12. Between October 12, 2023 and November 3, 2023, MCA conducted an extensive investigation of Respondent and determined there were employees and/or badged agents at both Processor and Respondent's facilities.

13. Based on communications with MCA personnel, S.M applied for a cannabis agent card on or about October 13, 2023 in connection with his work for Respondent. In his application, S.M. indicated that he held an active cannabis agent card.

14. Based on the inspection and subsequent investigation, the MCA determined, in addition to S.M.:- the following agents were badged for, and employed by:- both Respondent and Processor::

(a) D.K.;

(b) M.M.;

(c) I.C.;

(d) S.S.; and

(e) S.P.

15. Based on correspondence from the MCA, Respondent acted in good faith to comply with applicable badging requirements as established by the MCA.

16. Respondent is vicariously liable for S.M. and M.A.'s failure to remain independent of Processor. Instances of noncompliance involving Respondent's other agents named herein were inadvertent and arose from a misunderstanding between the MCA and Respondent regarding the permissibility of dual badging for certain facility staff members.

17. S.M. was awarded a cannabis agent registration on or about October 18, 2023 under number **AG-005419** to provide management services to Respondent under the S.M. MSA.

18. In performing services under the S.M. MSA, S.M. asserts he did not have access to samples or related data from other cannabis licensees.

19. M.A. was awarded a cannabis agent registration on or about June 8, 2023 under registration number **AG-002179** to provide management services to Respondent under the M.A. MSA.

20. On September 21, 2023, the Processor sent a research and development sample to Respondent. M.A., an authorized agent of Respondent, asserts that no results were subsequently returned to Processor and that he did not access the sample or any related data. At that time, Processor was pre-operational.

21. On October 31, 2023, S.M. resigned from Respondent after being notified of a potential conflict related to providing consulting services to both Respondent and Processor.

22. On or around November 13, 2023, Processor informed the MCA that S.M. had been removed from both OneStop and METRC, and his agent badge, **A-004950**, was returned to the MCA.

23. In October and November 2023, MCA investigators conducted an extensive investigation, which included several unannounced inspections at both Processor's facility and the Lab's and performed an administrative records review.

24. During the course of their investigation, MCA inspectors determined that S.M., was a registered cannabis agent for both Processor and Respondent at certain times during 2023.

25. M.A. asserted that his involvement with Processor was limited to his capacity as a representative of CIAN, Processor's landlord.

26. However, in his capacity as Vice President of Operations at CIAN, pursuant to Processor's sublease, M.A. attended meetings with representatives of Processor, during which he took notes and sent follow-up communications to provide operational updates on the discussed matters. Ceres and pertained to "critical matters" to be addressed, presumably at Ceres. The

emails provide a detailed description of operations at Ceres and compliance.

27. Moreover, MCA investigators obtained a series of emails from a former Processor employee for the period of July 19, 2023 through October 8, 2023, which show that M.A. used his CIAN email address to communicate with Processor's employees about its operations while at the same time M.A. was an authorized agent of Respondent.

28. The overlap of employees, management personnel, and consultants between Respondent and Processor raises concerns regarding Respondent's ability to maintain independent from Processor.

CONCLUSIONS OF LAW

1. Respondent's conduct constitutes violations of Md. Code Ann., Alc. Bev. §§ 36-408(e)(2).
2. In addition, Respondents' conduct constitutes violations of the requirements in COMAR 14.17.08.05.

ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ORDERED that Respondent shall not employ any individual(s) already registered as an agent for another licensee, with the exception of cleaning personnel.

ORDERED that either Respondent's failure to comply with the terms of this Consent Order may be deemed a violation of the Maryland Cannabis Reform Act and may result in additional enforcement action, including suspension of Respondents' registrations; and be it further

ORDERED that Respondent shall be responsible for the costs associated with complying with this Order; and it is further

ORDERED that this Consent Order is a PUBLIC DOCUMENT pursuant to Md. Code

Ann., Gen. Prov. §§ 4-401 et seq. (2019 Repl. Vol. and 2021 Supp.).

1/21/2025

Date



Alexandra Harris, Acting Director
Maryland Cannabis Administration

CONSENT

I, Jonathan R. Wachs, am counsel for Quales, LLC, a Maryland limited liability company, and I have legal authority to enter into this agreement on behalf of Quales, LLC (hereinafter Respondent”). Respondent acknowledges that it had the opportunity to seek advice of counsel in this matter. By this Consent, Respondent agrees and accepts to be bound by this Consent Order and its conditions and restrictions. Respondent waives any rights it may have had to contest the Findings of Fact and Conclusions of Law.

Respondent acknowledges the validity of this Consent Order as if entered into after the conclusion of a formal evidentiary hearing in which the Respondent would have had the right to counsel, to confront witnesses, to give testimony, to call witnesses on its own behalf, and to all other substantive and procedural protections as provided by law. Respondent acknowledges the legal authority and the jurisdiction of the Administration to initiate these proceedings and to issue and enforce this Consent Order. Respondent also affirms that it is waiving its right to appeal any adverse ruling of the Administration that might have followed any such hearing.

I sign this Consent Order with authority and on behalf of Respondent and having consulted with counsel, Respondent fully understands and comprehends the language, meaning and terms of this Consent Order, without reservation, and understands its meaning and effect.

01/29/2025

Date

Jonathan R. Wachs

Jonathan R. Wachs
Counsel, on behalf of Respondent

NOTARY

DISTRICT OF COLUMBIA

Sworn to and subscribed before me, this 29th day of January 2025, by Jonathan R. Wachs, on behalf of Quales, LLC, and gave oath in due form of law that the foregoing Consent Order was his voluntary act and deed. He has produced a Driver's License as identification.

AMY M CUMBOW
NOTARY PUBLIC - STATE OF MICHIGAN
COUNTY OF INGHAM
MY COMMISSION EXPIRES MARCH 14, 2029
ACTING IN THE COUNTY OF Ingham



Notary Public

AMY M CUMBOW

My Commission Expires: 03/14/2029

Notarized remotely online using communication technology via Proof.