

Medbox, Inc.

OTC Pink Basic Disclosure Guidelines

December 31, 2013

1) Name of the issuer and its predecessors (if any)

We were originally incorporated on June 16, 1977 in the State of Nevada as Rabatco, Inc. In May 2000 we changed our name to MindfulEye, Inc. At that time, MindfulEye was in the business of operating self-serve kiosks where consumers could download movies onto a flash drive. Although MindfulEye had continuous operations and non-cash assets, revenues through the operation of the kiosks were minimal. That business has since been discontinued. On November 25, 2011, P. Vincent Mehdizadeh, the founder of MDS and creator of the Medbox, purchased 5,421,500 shares of common stock of the Company, after which he owned 50% of the outstanding shares of common stock of the Company. On August 30, 2011, in anticipation of the transaction discussed below, we changed our name to Medbox, Inc. to better reflect our current business operations. In 2012, Mr. Mehdizadeh, purchased additional shares of the company.

2) Address of the issuer's principal executive offices

Company Headquarters: Medbox, Inc.
8439 West Sunset Blvd., Suite 101
West Hollywood, CA 90069

Phone: (800) 762-1452
Website: www.medboxinc.com

IR Contact: Hayden IR
11 Penn Plaza
New York, NY

3) Security Information

Trading Symbol: MDBX

Exact title and class of securities outstanding:

Common Stock as of December 31, 2013

CUSIP:	584051D 100
Par or Stated Value:	\$.001 par value
Total shares authorized:	100,000,000
Total shares outstanding:	29,525,750
Free-Trading Float:	1,422,852

Preferred Stock as of December 31, 2013

Par or Stated Value:	\$.001 par value
Total shares authorized:	10,000,000
Total shares outstanding:	3,000,000

Transfer Agent:

Action Stock Transfer Corp
2469 E. Fort Union Blvd, Suite 214
Salt Lake City, UT 84121
(801) 274-1088

Is the Transfer Agent registered under the Exchange Act? Yes

List any restrictions on the transfer of security: None

Describe any trading suspension orders issued by the SEC in the past 12 months: None

4) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.); Rule 506 of the Securities Act of 1933.

B. Any jurisdictions where the offering was registered or qualified: California

C. – E. The number of shares offered, sold and purchase price:

The following information reflects all of the sales of our securities within the past two years.

On June 13, 2013, we issued to Moody's Capital Solutions, Inc. warrants to purchase 15,000 shares of our common stock at an exercise price of \$31 as consideration for their services as finder in identifying an accredited investor who participated in our private offering. The warrants expire June 13, 2018.

From January 1, 2012 through December 31, 2012, the Company sold 1,168,733 shares of common stock to accredited investors for an average of \$1.15 per share, or aggregate proceeds of \$1,359,050, including carry-over shares through January of 2013, deemed by management to be materially part of the prior period.

On April 1, 2013, we issued warrants to purchase 260,864 shares of our common stock to Vapor Systems International in exchange for the outstanding shares of Vaporfection International, Inc., which is now our wholly owned subsidiary, which were subsequently split up and reissued to the individual owners of Vapor Systems International, LLC. The warrants have an exercise price of \$.001 per share, subject to adjustment for stock dividends, subdivisions or combinations of the common stock, reclassifications and similar transactions, and are exercisable beginning on March 21, 2014 and are exercisable until April 1, 2018.

On April 1, 2013, Medbox, Inc. issued warrants to purchase 260,854 shares of our common stock for \$.001 per share, subject to adjustment, to Vapor Systems International, Inc. in exchange for all of the outstanding shares of Vaporfection International, Inc. The warrants are exercisable at the option of the holder beginning March 21, 2014 and expire April 1, 2018.

During the year ending December 31, 2013 we issued 1,079,303 shares of common stock and received gross proceeds in the amount of \$5,772,094 (of which \$4,486,541 was cash and \$1,285,553 non-cash).

From January to March 31, 2014 the company issued 485,830 shares of common stock at a price of \$5.00 per share raising proceeds of \$2,429,150. This offering ceased in February 2014.

The issuances of the securities described above were exempt from registration under the Securities Act in reliance on Section 4(a)(2) thereof and Rule 506 of Regulation D as transactions by an issuer not involving any public offering and in which shares were purchased by accredited investors. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the certificates representing the stock issued in such transactions. The offer and sale of these securities were made without general solicitation or advertising.

There were no underwritten offerings employed in connection with any of the transactions set forth above.

F. The trading status of the shares; and

All shares were issued as restricted.

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

All shares were issued with a restrictive legend

With respect to private offerings of securities, the list shall also indicate the identity of the persons who purchased securities in such private offering; *provided, however*, that in the event that any such person is an entity, the list shall also indicate (a) the identity of each natural person beneficially owning, directly or indirectly, more than ten percent (10%) of any class of equity securities of such entity and (b) to the extent not otherwise disclosed, the identity of each natural person who controlled or directed, directly or indirectly, the purchase of such securities for such entity.

See section 4(C) above.

5) Financial Statements

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

Our Financial Statements are attached at the end of this Disclosure Statement and incorporated herein by reference thereto.

6) Describe the Issuer's Business, Products and Services

A. A description of the issuer's business operations;

Overview

Business Overview and Our Subsidiaries

Business Overview and Subsidiaries

Medbox, Inc. is a Nevada corporation. We currently operate through seven wholly-owned subsidiaries:

- Prescription Vending Machines, Inc., a California corporation, dba Medicine Dispensing Systems in the State of California ("MDS"), which distributes our Medbox™ product and provides related consulting services discussed further below;
- Vaporfection International, Inc., a Florida corporation through which we distribute our medical vaporizing products and accessories.
- Medicine Dispensing Systems, Inc., an Arizona corporation, which provides our consulting services in Arizona;
- Mini-Storage Solutions, Inc., a California corporation that produces and will market our Safe Access Storage Locker product;
- Medbox Rx, Inc., a California corporation that will market our Rx product line including Lockbox Rx and Sample-Safe;
- Medbox, Inc., a California corporation that is currently inactive and which has the same name as the Company;
- Medbox Leasing, Inc., a California corporation that is currently inactive, and
- Medbox Technologies Ltd., a Canadian corporation incorporated in December 2013 to market our dispensing machines in Canada.

MDS developed the Medbox™ patented biometric medicine dispensing machine designed to confirm patient identification through a biometric verification system prior to dispensing medicine to authorized patients. The Medbox also has an optional companion machine for dispensing refrigerated products.

Medbox features patented systems that dispense herbal and prescription medications to individuals based on biometric identification; while the related patent covers both fingerprint and retinal scan identification, the Medbox currently uses only fingerprint identification. While currently used only in alternative medicine clinics, this system allows such facilities as well as

pharmacies, assisted living facilities, prisons, hospitals, doctors' offices, which facilities we intend to market to in the future, to help manage employee possession of sensitive drugs. In a retail environment typical in most alternative medicine clinics, the system also allows these clinics to document that the user is a registered patient and that the patient has a valid and unexpired authorization from a physician to possess and use the medicine dispensed. Each transaction is tracked internally for accounting and compliance purposes. Patient information is all kept securely onsite, and is not online as the software is completely self-supportive and does not require an Internet connection.

Through MDS we also offer consulting services to the pharmaceutical industry. We also offer turnkey consulting services to individuals seeking to establish alternative medicine clinics. These services include site selection, permitting, design, full build-out, and licensing. Medbox does not engage in the production, sale, or marketing of any products dispensed through our machines. We provide systems and equipment to the final distribution point of consumer pharmaceuticals in addition to certain consulting services.

MDS provides consulting services primarily to individuals and groups seeking to establish new clinics, often in jurisdictions that have recently passed legislation concerning the availability of alternative medicines (principally, medical marijuana). In general, soon after legislation is introduced in a particular state the media provides extensive coverage, interested operators commence preliminary due diligence, consultants become familiar with the legislation and local (state) issues, and once the legislation is passed there is often a deluge of prospective clinic operators, consultants, and industry participants jockeying for position within the local market.

The public is often concerned about regulation and safety and the media normally focuses heavily on this issue. Medbox, Inc. often garners substantial media attention on this issue. We believe that this attention helps us establish our local credibility and that credibility helps our competitive position with respect to our consulting business. Consulting customers who establish clinics through Medbox are contractually obligated to purchase a Medbox dispensing system, consisting of a climate controlled medicine dispensing machine and a refrigerated secondary machine for storage of additional products, for their new clinic. Since introduction of the Medbox, MDS has provided consulting services to over 150 startup clinics, all of which have acquired Medbox machines and/or point of sale systems. In 2010 and 2011, MDS sold POS systems separately from Medbox machines. As of January 2012, MDS has included the POS system with any machine sold and has discontinued selling the POS system separately.

Pursuant to the April 2013 acquisition discussed below, we also sell a line of tabletop medical vaporizers and expect to begin selling a portable line of vaporizers in the second quarter of 2014.

In December 2013, in conjunction with our entering into a consulting and distribution agreement with a Canadian company, Medbox formed a wholly owned subsidiary called Medbox Technologies Ltd., located in Vancouver, British Columbia, Canada.

Corporate History

We were originally incorporated on June 16, 1977 in the State of Nevada as Rabatco, Inc. In May 2000 we changed our name to MindfulEye, Inc. At that time, MindfulEye was in the business of operating self-serve kiosks where consumers could download movies onto a flash drive. Although MindfulEye had continuous operations and non-cash assets, revenues through the operation of the kiosks were minimal. That business has since been discontinued. On November 25, 2011, P. Vincent Mehdizadeh, the founder of MDS and creator of the Medbox, purchased 5,421,500 shares of common stock of the Company, after which he owned 50% of the outstanding shares of common stock of the Company. On August 30, 2011, in anticipation of the transaction discussed below, we changed our name to Medbox, Inc. to better reflect our current business operations.

Pursuant to a Stock Purchase Agreement between Medbox, Inc. and PVM International, Inc. ("PVM") dated as of December 31, 2011, pursuant to two separate closings held on January 1, 2012 and December 31, 2012, the Company acquired from PVM all of the outstanding shares of common stock in (i) MDS, (ii) Medicine Dispensing Systems, Inc. (our Arizona subsidiary), and (iii) Medbox, Inc. (our California subsidiary that is currently inactive), in exchange for two million shares of the Company's common stock and a \$1 million promissory note. The promissory note has been paid in full.

PVM is an entity wholly owned by P. Vincent Mehdizadeh. It is a separate entity from our subsidiary, MDS.

MDS is a for-profit corporation organized on February 15, 2008, under the laws of the state of California. Mr. Mehdizadeh, MDS' founder, developed the Medbox. MDS has been a profitable and operating business both prior and subsequent to this transaction.

In August 2012, Mr. Mehdizadeh purchased the remainder of the outstanding shares of the Company in a private transaction and transferred such shares to a holding company named Vincent Chase, Inc., controlled by Mr. Mehdizadeh at the time. As the controlling owner of the Company, Mr. Mehdizadeh replaced the Company's management with current management as discussed elsewhere in this document. As of the date hereof, Vincent Chase, Inc., is beneficially owned by Mr. Mehdizadeh.

Acquisition of Vaporfection International, Inc.

On March 22, 2013, we entered into a Securities Purchase Agreement with Vapor Systems International, LLC, to acquire from it all of the outstanding shares of common stock of Vaporfection International, Inc., a wholly owned subsidiary of Vapor Systems International, LLC formed in contemplation of this transaction and to which Vapor Systems International, LLC subsequently transferred all its operations and assets, in exchange for warrants to purchase shares of Medbox, Inc. common stock, which warrants can be exercised at a later date at the election of Vapor Systems International, LLC. The agreement was amended on July 5, 2013.

The closing of this acquisition took place on April 1, 2013. Pursuant to this agreement, Medbox issued Vapor Systems International warrants to purchase 260,864 shares of our common stock in exchange for the outstanding shares of Vaporfection International, Inc., which is now our wholly owned subsidiary. This warrant was subsequently split up and reissued to the individual owners of Vapor Systems International, LLC. The warrants have an exercise price of \$.001 per share, subject to adjustment for stock dividends, subdivisions or combinations of the common stock, reclassifications and similar transactions. The warrants are exercisable beginning on March 21, 2014 and are exercisable until April 1, 2018. Pursuant to this agreement we also agreed to fund Vaporfection International's operations with up to \$1.6 million, of which Medbox has funded approximately \$900,000 to date, for ongoing working capital purposes (which funds will remain within our control as the parent of Vaporfection International) and cancel an outstanding \$50,000 promissory note executed by Vapor Systems International to Medbox, Inc. as lender.

We also agreed to issue a number of "performance shares" of our common stock if the cumulative four-year EBITDA (earnings before interest, taxes, depreciation and amortization) of Vaporfection International, Inc. during the period March 23, 2013 to March 31, 2017 is at least 70% of \$16,883,057. If so, then we will issue additional shares of our common stock in an amount equal to such EBTIDA amount minus \$7,597,376, divided by the average closing price of the common stock over the ten trading days preceding the date of the calculation, which will be April 1, 2017. Therefore, there is no limit on the number of shares we may issue pursuant to the agreement as such number, assuming the EBTIDA figure is met, is based on trading prices and the final EBTIDA figure. However, the following table estimates the number of shares we would be required to issue at various assumed average ten-day closing prices assuming the minimum EBTIDA requirement (\$11,818,139) was met:

Average Ten-Day Closing Price	Number of Shares to be Issued
\$25.00	168,830
\$10.00	422,076
\$5.00	844,152
\$2.50	1,688,305
\$1.00	4,220,763
\$0.50	8,441,526

The EBITDA calculation will be made on an annual basis and, if the EBTIDA threshold is met or exceeded on any April 1st prior to April 1st, 2017, 25% of any shares due will be paid out that year, with the balance retained to serve as a carryover reserve provision for years with a shortfall in EBITDA earnings or fewer shares are due as a result in changes of the applicable closing price of the common stock. Of any performance shares distributed, 70% will be issued to Vapor Systems International, LLC, and 20% to the management of Vapor Systems International, Inc. and 10% to Postma Realty Investments Management, Inc., an independent contractor of Vaporfection International, Inc. The final amount of shares due to be issued will be calculated on April 1, 2017 using the final EBTIDA and ten-day closing price on such date, with any shares issued to date deducted from the final number of shares to be issued pursuant to the agreement.

Finally, Medbox, Inc. agreed to pay \$175,000 in cash and issue a warrant to purchase 5,000 shares of Medbox common stock to Amir Yomtov, the inventor of certain patents used by Vapor Systems International, in order to settle ongoing

litigation between Mr. Yomtov and Vapor Systems International. Mr. Yomtov is also restricted in the amount of shares he can re-sell during any monthly period as set forth in the agreement. During various dates in the fourth quarter of 2013 and the first quarter of 2014, we cancelled a portion of this warrant in exchange for payments to Mr. Yomtov in the amount of \$35,000. As of January 5, 2014, Mr. Yomtov may purchase approximately 3,000 shares of our common stock under this warrant.

We have accounted for the acquisition of Vaporfection International Inc. by the purchase method. The 260,854 warrants provided as part of the consideration were valued at \$4.47 each or \$1,166,017. In addition, other components of the consideration paid for the acquisition were: (1) the cash and warrants issued to Mr. Yomtov (\$197,300); (2) the cancelled promissory note owed to Medbox (\$50,000); (3) settlement of pre-existing liability in exchange for shares of our common stock (\$83,827); and (4) various assumed liabilities (\$138,094). No value was attributed to the performance shares as management believed that the probability of attaining the performance benchmarks was remote. The excess of the purchase price of \$1,635,000 over the value of the net assets acquired of \$740,000 was recorded to Goodwill or \$895,000.

We engaged Aranca US Inc., to value the transaction and assign the purchase price to the tangible and intangible assets acquired. As a result of that valuation, we allocated \$70,000 to the net assets acquired and allocated to identifiable intangible assets \$670,000 in value as follows: (1) distributor relationships - \$340,000; (2) intellectual property/technology - \$287,000; (3) Domain names - \$46,000; and (r) non-compete covenants - \$23,000.

Through our new subsidiary Vaporfection International, Inc., we distribute of a line of medical vaporizing products including award winning Vaporfection vaporizers. Awards won by the Vaporfection vaporizers include the *High Times Magazine's* Cannabis Cup, Product of the Year – Best Vaporizer 2011 for the ViVape and Best Vaporizer, Kush Expo 2012, for the ViVape 2. The Kush Expo is hosted by Monster Events, Inc., who bills it as “the world’s biggest Medical Marijuana Show.”

Our purchase of Vaporfection International included an inventory of the Vaporfection vaporizer. Vaporfection’s patented designs using Vapor Glass™ and Vapor Touch™ technology, featuring laboratory grade “glass on glass” heating element, heating chamber airway, and touch screen temperature control provide a directed stream of pure heated air into the herb, which causes it to release its medicinal ingredient into the vapor. The process virtually eliminates impurities and carcinogens from the medicating process, creating a vapor of only the purest, efficient and virtually odorless medical ingredient directly into the patient’s respiratory system. This process allows for patients to ingest medicine in hospitals, treatment facilities, and even their homes, without disturbing others nearby.

Vaporfection currently has two flagship products, one of which is a handheld portable device called the miVape that is undergoing product enhancements with a scheduled launch date of the first quarter of 2014. Vaporfection’s only product in production at present is the viVape 2 unit that is a tabletop unit and is a more robust vaporizing system.

Other 2013 Acquisition Agreements

In 2013, Medbox entered into agreements for two additional business partnerships which we anticipated would help us to develop a fuller range of products and services, however, we settled and modified one of the business arrangement and are attempting to rescind the other agreements as discussed below.

Bio-Tech Medical Software, Inc.

On February 26, 2013, Medbox entered into (i) an Amended and Restated Stock Purchase Agreement and (ii) an Amended and Restated Technology License Agreement, with Bio-Tech Medical Software, Inc. (“Bio-Tech”), a corporation that, according to information it provided to us, has developed a seed-to-sale tracking software system for biometric cannabis (marijuana) as well as a HIPAA compliant, SAS70 approved biometric e-prescribing technology that can help prevent “doctor shopping.” Pursuant to the Stock Purchase Agreement, we agreed pay Bio-Tech \$1.5 million in exchange for 833,333 shares of Bio-Tech’s common stock, with 1/3 of each issuance of common stock and the cash to Bio-Tech to be exchanged at three separate closings. We also agreed to issue to Bio-Tech 700,000 shares of our common once they had two consecutive quarters of profitability after the execution of the Amended Stock Purchase Agreement. At the first closing under the stock purchase agreement on February 26, 2013, we paid Bio-Tech \$500,000 in exchange for 277,778 shares of Bio-Tech’s common stock; we paid Bio-Tech an additional \$100,000 in June 2013. The next two scheduled closings did not take place. On June 26, 2013, we notified Bio-Tech that we were canceling these agreements with them due to a breach in a provision contained therein, and subsequently entered into negotiations with Bio-Tech to attempt to separate from our proposed business partnerships amicably. Such negotiations were ultimately unsuccessful, and on August 9, 2013, Bio-Tech sued us for breach of the agreements due to Medbox’ refusal to complete the transaction as agreed, and on August 30, 2013 we counter-sued Bio-Tech to enforce our right to cancel the agreements as a result of Bio-Tech’s breach. On February 27, 2014, the Company signed a settlement agreement

with Bio-Tech, According to the agreement, the Company maintained full license rights on the Bio-Tech technology for the term of five years with no additional monies due from the Company. All stock transfers between the companies were cancelled and rescinded. See "Item 8. Legal Proceedings" for additional information.

MedVend, LLC

On March 12, 2013, we entered into a Membership Interest Purchase Agreement with the holders (the "Sellers") of 94.8% of the equity interests in MedVend Holdings, LLC, the holding company for MedVend, LLC ("MedVend"), a Michigan based bio-tech company that features a patented automated medicine dispensing machine used for traditional prescription pharmaceutical dispensing, and several related entities. Pursuant to the agreement, we agreed to acquire 50% of the equity interests in MedVend Holdings in exchange for \$4.1 million to be paid \$300,000 in cash at closing and \$3.8 million to be paid in either cash or our common stock on the 10th business day after the one-year anniversary of the closing (the "Subsequent Payment Date"),

As contemplated by the agreement, the parties agreed to form a new company, to be named MedVend, Inc., which will be owned 50% by Medbox, Inc. and 50% by the other holders of MedVend Holdings, and into which MedVend would transfer its assets and liabilities, and which will thereafter operate MedVend's current business.

On May 7, 2013, we were served with a complaint entitled Envy Tech Fund, LLC vs. Darryl B. Kaplan, filed in the Michigan Circuit Court for the County of Oakland, Case #: 2013-133858-CKCK. The complaint alleges that the Sellers did not have authority to enter into the transaction with us because the consent of the minority stockholders was required. We have obtained a dismissal from the action and attempted to negotiate with the Sellers to rescind the Membership Interest Purchase Agreement based on the fact that the Sellers did not have the power and authority to enter into the agreement as they had represented therein. Such negotiations were not successful, and on May 8, 2013, we filed suit against the Sellers to rescind the Membership Interest Purchase Agreement. See "Item 8. Legal Proceedings" for additional information.

Employees and Independent Contractors

We currently have seven full time employees. We also use the services of 12 independent contractors. These independent contractors perform the services of accounting/bookkeeping support, machine maintenance, software support, marketing assistance, and also project manager duties in various localities nationwide. In addition, most of our sales force is on independent contractor arrangements. We currently have three independent contractors that constitute our sales force, including one who serves as sales manager, our newly appointed Vice President Matt Feinstein, and two sales agents. The Vice President receives a monthly base salary of \$8,000 and the sales agents receive a monthly base salary of \$1,000. In addition, we pay commissions of approximately 5% on technology and consulting sales, which commissions are split between the Vice President and the sales agent that was assigned as the contact for the client. We expect that Mr. Feinstein will become an employee of Medbox during the third quarter of 2014.

Implications of Emerging Growth Company Status

As a company with less than \$1 billion in revenue in our last fiscal year, we are defined as an "emerging growth company" under the Jumpstart Our Business Startups ("JOBS") Act. We will retain "emerging growth company" status until the earliest of:

- The last day of the fiscal year during which our annual revenues are equal to or exceed \$1 billion;
- The last day of the fiscal year following the fifth anniversary of our first sale of common stock pursuant to a registration statement filed under the Securities Act of 1933, as amended, which we refer to in this document as the Securities Act;
- The date on which we have issued more than \$1 billion in nonconvertible debt in a previous three-year period; or
- The date on which we qualify as a large accelerated filer under Rule 12b-2 adopted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (i.e., an issuer with a public float of \$700 million that has been filing reports with the U.S. Securities and Exchange Commission ("SEC") under the Exchange Act for at least 12 months).

As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to SEC reporting companies. For so long as we remain an emerging growth company we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Wall Street Reform and Consumer Protection Act of 2002;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to stockholder non-binding advisory votes;
- submit for stockholder approval golden parachute payments not previously approved;
- disclose certain executive compensation related items, as we will be subject to the scaled disclosure requirements of a smaller reporting company with respect to executive compensation disclosure; and
- present more than two years of audited financial statements and two years of selected financial data in a registration statement for our initial public offering of our securities.

Pursuant to Section 107(b) of the JOBS Act, we have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(2) of The JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result, our financial statements may not be comparable to companies that comply with public company effective dates. Section 107 of the JOBS Act provides that our decision to opt into the extended transition period for complying with new or revised accounting standards is irrevocable.

Because the worldwide market value of our common stock held by non-affiliates, or public float, is below \$75 million, we are also a "smaller reporting company" as defined under the Exchange Act. Some of the foregoing reduced disclosure and other requirements are also available to us because we are a smaller reporting company and may continue to be available to us even after we are no longer an emerging growth company under the JOBS Act but remain a smaller reporting company under the Exchange Act. As a smaller reporting company we are not required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act; and
- present more than two years of audited financial statements in our registration statements and annual reports on Form 10-K and present any selected financial data in such registration statements and annual reports.

Employees

We currently have 7 full time employees. We also use the services of 12 independent contractors.

Research and Development

We estimate that we spent about \$74,861 in the year ended December 31, 2013, and \$176,964 in the year ended December 31, 2012, on research and development activities.

Legal Proceedings

On May 22, 2013, Medbox initiated litigation in the Arizona District Federal Court against MedVend Holdings LLC, and its majority shareholders for fraud related to a contemplated transaction during the quarter ended March 31, 2013. The litigation is pending and Medbox has sought cancellation of the agreement entered into for a 50% ownership stake in MedVend due to a fraudulent conveyance of the asset since, as discussed above, the shareholders did not have the power to sell their ownership stake in MedVend Holdings. On November 19, 2013 this matter was transferred to Federal District court in the state of Michigan. To date, MedVend and its principals have yet to offer any explanation or affirmative defense in this action. The matter has been tied up in jurisdiction challenges since the date of filing. Medbox is awaiting an answer on this lawsuit now that jurisdiction has been confirmed by the court.

As discussed under "Item 1. Business," we entered into a Stock Purchase Agreement and Technology License Agreement with Bio-Tech Medical Software, Inc. in February 2013. Subsequently, we were informed that an executive with Bio-Tech had disclosed confidential information and disparaged Medbox in contravention of a written agreement between the parties. As a result, on June 26, 2013, we notified Bio-Tech that we were canceling our agreements with them due to a breach in a provision contained therein, and subsequently entered into negotiations with Bio-Tech to attempt to separate from our proposed business partnerships amicably. On August 19, 2013, Bio-Tech initiated litigation against Medbox in the U.S. District Court of Southern Florida, case number 13-617716, alleging that Medbox had breached the agreements due to our refusal to complete

the transaction as set forth in the agreements. We counter-sued on August 30, 2013. On 27 February, 2014 the Company signed a settlement agreement with Bio-Tech. The agreement provides that the Company receives full licensed right on biometric chain of custody and inventory management tracking in a cultivation setting for the term of five years in exchange for the \$600,000 we already paid to Bio-Tech. All stock transfers between companies (discussed in Item 1 - Business) were canceled and rescinded.

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. Other than described herein, we are not involved in, or the subject of, any pending legal proceedings or governmental actions the outcome of which, in management's opinion, would be material to our financial condition or results of operations.

B. Date and State (or Jurisdiction) of Incorporation: We were originally incorporated June 16, 1977 in the State of Nevada.

C. the issuer's primary and secondary SIC Codes;

3585 - AIR COND & WARM AIR HEATING EQUIP & COMM & INDL REFRIG EQUIP

D. the issuer's fiscal year end date; 12/31

E. principal products or services, and their markets;

Patents Related to our Business

Patent Number US 7,844,363 B1

There is one U.S. patent related to the Medbox system, Patent Number US 7,844,363 B1, which is for a medicine dispensing system that allows for safe and secure access for patients that require medicine, while still giving clinic operators a powerful tool to help with inventory control and medication management. The machine limits abuse and insures all patient data is securely kept onsite, at the pharmacy location, via computer-based application. The patent, which expires in November 2028, is owned by PVMI and exclusively licensed to Medbox, Inc. for the duration of the patent, on a payment basis to PVMI of \$1 per year.

The text for this patent is as follows:

"The present invention relates to the idea of enabling an individual to conveniently purchase herbal medications and prescription medicines from specialized machines. The system provides for the individual to be processed through a central database to be certain that the item being purchased has been legally authorized by an appropriate medical authority such as a licensed physician and has provided appropriate verification to confirm that the individual who is receiving the medication is the correct individual. The present invention enables the individual to conveniently purchase the medication from a machine."

PVMI has four additional patents pending for our dispensing and storage systems for dispensaries, urgent care centers, pharmacies, assisted living centers, prisons, hospice care facilities, and doctors' offices. One such patent is an application that seeks to expand on the existing issued patent discussed above. We have entered into an exclusive licensing agreement with PVMI with respect to these and any other patents issued in the future with respect to our products on a payment basis to PVMI of \$1 per year for each issued and pending patent.

US Patent Number D677,774 and D654,160

Through Vaporfection International, Inc., we own 2 U.S. design patents on the Vaporfection vaporizer's heating assembly. Patent D677,774 was granted on March 12, 2013 and expires in November 2027. Patent D654,160 was granted March 3, 2011 and expires March 3, 2025.

In addition, we have three U.S. nonprovisional applications filed, one U.S. provisional application filed, two U.S. design patent applications filed and two U.S. design patents issued. On January 14, 2014 we were notified that the U.S. Patent and Trademark Office granted two of the pending applications involving glass-on-glass heating within our portable vaporizer, the miVape.

We have six registered trademarks for the mivape, vivape, vaporfection, aqua vape, vaporsense and vaporglass.

New Products

We have developed the following new products that will expand our product line beyond the Medbox and the Vaporfection vaporizers. We expect these products to be manufactured by the same companies and under the same arrangements as our Medbox machine, as discussed below, and that they will be available for sale beginning during the fourth quarter of 2014.

Safe Access Storage Lockers

These systems can be used by medium to large mail-order chains, which is our target market for this product, for the retrieval of retail goods by their customers. Similar storage systems have recently been implemented by large chains such as Amazon to improve shipping logistics to consumers. These storage lockers are placed in chain retail stores (supermarkets, mini-marts, etc.) and consumers are given the option of having their items shipped or picking their items up at a nearby location by inputting a secure pin-code at one of these storage systems. Our system can be accessed through the use of pin-code or fingerprint recognition.

Lockbox Rx (a/k/a Lockbox Express)

This system provides pharmacies, our target market for this product, with a mechanism to allow their customers to pick up their medications, quickly and conveniently, 24 hours a day. This system consists of a series of lockers hooked up to a central kiosk. In order to use this system, a pharmacy client simply pre-registers at the pharmacy, one time, to use the system in the future; when the customer subsequently visits that pharmacy, the Lockbox Rx storage system will recognize the customer through biometric recognition and an identification card that includes the customer's credit card information. Thereafter, when the customer's prescription order is ready, the customer will receive a text message that their order is ready, along with suggestions or coupons for complimentary products if appropriate, which the customer can add to their order using the pharmacy's web site. Then, the customer visits the pharmacy at their convenience and proceeds directly to the Lockbox system. Once the system has verified the customer's identity, a temporary use lockbox is unlocked and the customer's medication, pre-loaded by the pharmacist, along with their additional order, if any, is ready for retrieval. The cost of the medicine and other products ordered is charged to the customer's credit card that was put on file during the registration process. The Lockbox Rx can be used for any prescription medication as well as over-the-counter medicines and other pharmacy products.

Sample-Safe

Our target market for this wall-mounted unit is doctors' offices, where, according to recent media reports, samples of prescription medications that have been provided to the office by pharmaceutical companies are often misappropriated by office staff. The unit offers strict inventory control through the use of biometrics and an internal record keeping system designed to be unalterable by office staff. The system also notifies the pharmaceutical companies when samples are in limited supply for restocking purposes. We intend to market this product to pharmaceutical companies as a cost-effective means to control inventory and communicate critical real-time data about restocking needs.

We are very excited about the introduction of these new products as additions to the Medbox family. We have developed the hardware for each of these products and are working to complete the software development. We are still developing the distribution channels for these new products.

Like the Medbox system, these new products will have an initial purchase price but the purchaser will also be required to purchase a maintenance contract from us. Because these products are for traditional medications, however, they will not include a legal consulting component and therefore the monthly fees will be lower than the monthly maintenance fees associated with the Medbox. We have not, however, set the prices of our new products or the companion maintenance agreements.

The Medicine Dispensing System: The Medbox

The founder of MDS conceived of the Medicine Dispensing System, which we call the Medbox, in 2007. In November 2007 he filed the patent application for the Medbox as discussed above, and finalized the current design of the Medbox in March 2010.

The Medbox machines are manufactured according to MDS' patented design. We have contracted with a manufacturer based in Corona, California to manufacture the Medbox. The local manufacturer, AVT, Inc., which is controlled by

Shannon Illingworth, one of our non-affiliate stockholders, has subcontracted the building of the physical machines to a manufacturer located in Spain. We do not have a contractual relationship with the Spanish manufacturer.

Although we do not have a minimum order requirement, MDS typically purchases machines in lots of 26 units shipping via an intermodal shipping container. The machines are shipped from the Spanish sub-contractor to the local manufacturer, which then installs the biometric and card reader equipment as well as the touch-screen interface. Shipping and related costs are undertaken by our Corona, California manufacture, who also arranges for shipping to the U.S. and to the location of the dispensary/purchaser upon our instructions. We make payments on these containers, which vary by contract but range from 10% to 25% of total order value: upon placing the order; an additional amount to reach 50% of the total order value deposited when the machines are ready to ship to the United States; and the remainder of the order as each machine is shipped to our directed location.

The raw materials required for our machines are fungible and readily available from a multitude of sources. We also believe that we would be able to find a replacement or additional manufacturers if our current manufacturer was unable to continue to manufacture our products or keep up with demand.

Our agreement with the manufacturer prohibits the manufacturer from producing any machine competitive with the Medbox, and provides that the sub-contractor must be prohibited from manufacturing any competitive machine for the U.S. market. When MDS receives an order for a Medbox, it contacts the local manufacturer, who installs the customer-security related electronics (biometric and card reader) and then ships the machine to the end-user. Installation is completed by the local manufacturer according to MDS specifications. The lead time for ordering machines is three weeks (order to arrival of the shipping container). The lead time from sale of a machine to a customer until the machine is installed (installation of electronics, delivery to end-user, and set-up of machine) is usually six business days.

MDS has also developed more advanced electronic features for its Medbox family of products (security, control, and tracking). Because MDS adds these features upon sale of a machine, an enhanced design can be seamlessly incorporated into the existing hardware inventory without disrupting inventory. We believe this approach provides MDS with a distinct competitive advantage in its ability to remain on the leading edge of technology. This approach further allows MDS to design technological improvements that can easily be retrofitted to existing installed machines.

The Medbox is intended for herbal medications and prescription medications. As further discussed below, our primary target market for the Medbox system is alternative medicine (medical marijuana) clinics. Currently we market the Medbox for the control and dispensing of medical marijuana. We only market this product in states that have regulatory systems in place to license alternative medicine clinics; thus we do not market in states that have de-criminalized the possession of medical marijuana if they have not put a licensing mechanism in place for clinics. In such states we assist our consulting clients with procuring licenses and otherwise operating in compliance with the relevant regulations as well as outfitting their clinics with our Medbox technology. In the clinics in states with these regulations, the Medbox machines sit behind the counter and are at the control of the clinic employee as an inventory management and compliance tool. While the Medbox machine can be used to dispense medicines to individual patients on a self-service basis, based on practical considerations, such as public sentiment, we currently do not offer that configuration to our clients. We believe, however, that in the future as the public becomes more comfortable with herbal medications, such self-service use by consumers may become common.

A conventional temperature-controlled Medbox machine retails for \$25,000. Sales terms with customers are a 50% deposit with order and 50% upon delivery.

MDS offers a second machine as an add-on to the basic Medbox machine that can hold up to ten units of 35 different items, is refrigerated and is used for refrigerated medible products (i.e. food items that contain marijuana). This system sells for a retail price of between \$15,000 and \$25,000. Sales terms remain 50% up front and 50% upon installation. The additional refrigerated machine can only be used in conjunction with the main Medbox machine and not separately.

Purchasers of a Medbox are required to purchase a maintenance contract from MDS. Pursuant to the maintenance contract purchasers receive from MDS state and local licensing support and technical support for a monthly fee (we waived a majority of such fees through June 2014). The monthly maintenance fee is \$79 a month for customers who purchased a Medbox prior to July 1, 2011 and ranges from \$295 to \$495, depending on the purchaser's geographic location, for all other customers. The terms of our standard maintenance contract provide that the contract remains in place as long as the clinic that purchased the Medbox remains open. If the clinic closes, MDS has the first right to repurchase the Medbox machine for a discounted price set forth in the contract that is based on how long the machine has been in service.

Under the terms of our standing consulting agreement, we recognize revenue when a milestone is reached. These milestones include entity formation, site selection, conditional use permit approval, business license approval, and machine placement. In addition, if the contract includes the build out of the client location then the remainder of the revenue is recognized when the facility is completed and available for move-in by the client. Specifically, once a client signs a consulting engagement, we collect an initial deposit of between \$22,500 and \$30,000 for the pre-application process of entity formation, assistance in the securing of a properly zoned location as per the guidelines set forth in the applicable jurisdiction, and filing a business license application with the state and local municipality. Thereafter, when the client's license is secured an additional payment is due and payable that we recognize as revenue. A final payment is due once the physical location is built-out pursuant to security specifications submitted to the state or local municipality and our company's Medbox machines are delivered and installed at the premises.

The Point-of-Sale System

We used to sell the point of sale system as an addition to the Medbox. The POS system consists of a monitor, keyboard, credit card reader, and computer with interface. Beginning January 1, 2012, this equipment comes standard with every Medbox machine purchased. The POS connects to the Medbox and dispenses medicine at the control of an operator. This eliminates handling of product and provides better inventory control and reduced product shrinkage.

These systems are manufactured according to MDS' patented design, are far smaller and are not purchased in container lots but instead, in lots of ten systems. The cost to MDS is \$1,000 per system. The retail price was formerly \$2,500 but as noted above the POS system is now included at no extra charge with each Medbox dispensing system machine.

Consulting Services

Alternative Medicine Clinics ("AMCs")

Through MDS and, in Arizona, Medicine Dispensing Systems, Inc., we offer consulting services to individuals in established alternative medicine territories as well as newly emerging states that have recently enacted legislation allowing the use of alternative medicine. At March 31, 2014, we had 89 consulting clients under contract in the states of California, Arizona, Connecticut, Washington, Colorado, Nevada, Oregon, and Illinois. As of March 31, 2014, 24 of these clients have been awarded licenses and 65 are in the pre-license application phase to establish alternative medicine clinics.

Through our consulting services we assist clients in opening an alternative medicine clinic. We provide persons that want to open an alternative medicine clinic comprehensive assistance through the entire clinic opening process, including legal advice through an outside contracted legal services provider, licensing, permitting, zoning hearings, public relations and marketing, site selection, negotiation with landlords and designing and equipping the clinic.

On a turn-key clinic product, which we offer in states that have a state regulated permitting process, we generally collect \$50,000 for our general consulting services, between \$40,000 and \$50,000 for a set of machines (Medbox with POS and refrigerated add-on unit), and \$60,000 for other store equipment, furniture, displays, and interior construction / leasehold improvements. In general, we typically realize a gross profit on these transactions of \$72,500 from the consulting fees/build-out and \$21,500 from the Medbox system sales.

In addition, we have also started to offer Platinum services to select customers that would rather purchase a turn-key licensed AMC than to go through the many-month process of attempting to secure a license, source a location, build it out and set up the Medbox system. For these services, clients sign an agreement with us but pay no money up front for our services. As opposed to advising clients on how to get through the permitting process as we do for our standard consulting services, with our Platinum offering we take all the steps necessary to get approval for, set up and equip an AMC in the client's name, with the client having minimal involvement; for example, the client will sign any necessary permit applications and lease agreements. Other than this minimal involvement, the client is not involved in the process until the AMC is approved, set up and ready for business, at which time the client takes possession and pays our fee. If required permits are denied or the AMC does not get set up for any reason, the client pays nothing. We expect Platinum clients will pay us between \$900,000 and \$1,500,000 for this Platinum service depending on the state in which the AMC is to be located.

We also assist the owners of existing AMCs, who are generally non-profit entities, in transferring management interests in their clinic to new parties. In for profit-markets, we also assist owners in direct sales of their businesses, including locating potential eligible purchasers.

Pharmaceutical Industry

Through Medbox Rx, Inc. we offer consulting services to entities in the pharmaceutical industry, principally chain pharmacies. Such services focus on alternative methods of storage of pharmaceutical products and networking with medical providers and pharmacies in order to increase distribution and sales. While currently we do not have any consulting clients in the pharmaceutical industry, we are currently marketing these services on a limited basis and believe that there is great potential in this area.

Turn-Key Dispensing Facility

We enter into contracts for establishing operating dispensaries that vary in price based on location, level of services provided and competitive pressures. These contracts vary in price but, for our standard consulting engagement, generally range from \$150,000 to \$250,000. As an example we have broken down a \$150,000 standard contract as follows:

	<u>Price</u>
Package Price	\$ 150,000
Consulting and Legal	\$ 50,000
Build-out	\$ 60,000
Medbox System, including optional Medible add-on and POS	\$ 40,000

Regulatory Requirements

While we are not required to obtain governmental approval in connection with the manufacture and sale of our products, establishing an operating dispensary requires governmental approval, usually at the local and State level. This is obtained through a complex licensing process that is newly adopted by the states in almost all cases, which we navigate on behalf of our clients. The regulatory framework includes a rule-making procedure that includes a period for public comment. This is traditionally followed by draft rules posted by the department of health for the state or other consumer affairs department charged by the state to facilitate the impending dispensary program. Thereafter, final rules are posted. The entire post legislative process can take six months to one year to fully implement. Licenses are typically granted within three to six months of final rules being adopted and implemented.

Sales Channels

As discussed above, our primary target market for the Medbox and our related products and services are alternative medicine clinics. MDS currently advertises its products and services via internet advertising to entrepreneurs seeking to establish a clinic. MDS' advertisements can be found at our web site www.thedispensingsolution.com and in print magazine ads such as Entrepreneur Magazine and Culture Magazine. The information at our web site should not be considered a part of, and is not incorporated by reference into, this document.

MDS also promotes its machines to existing clinic operators via direct mail and advertising (both print and online).

After initial contact is made by a potential client, the Medbox sales team gives an orientation as to the different products and services we offer. Typically a meeting is scheduled for a live demonstration of our products at one of our offices.

Historic Sales Review

During the 36 months ended December 31, 2013, MDS sold 158 Medbox machines, which includes both base machines and the optional refrigerated add-on unit. During that time we also sold 53 POS Systems, which we no longer sell separately.

At December 31, 2013, we had approximately \$10 million in contract commitments for our consulting services and Medbox machines. Our contract commitments are revenue for products and services that are contingent on events for which there is substantial uncertainty at the date the contract or agreement was entered into. Future delivery on these commitments and recognition of additional consulting revenue is contingent on the clients who have contracted for them receiving the required state licenses. As a result, we will recognize these revenues as each milestone is achieved: the license is obtained; the dispensary site is determined and built out; and, the dispensing machine is delivered. Since our contract commitments are contingent on events with substantial uncertainty, it should not be looked at as an indicator for future earnings.

The Prescription Dispensing Market

As further discussed above our secondary market, which we intend to develop in the future, is doctors' offices, pharmacies, assisted living facilities, prisons, urgent care facilities and hospice care facilities that are interested in being able to dispense traditional prescription medications. For pharmacies this could be during off-hours or even during regular hours when the pharmacy wants to offer customers a self-service option, for example, to bypass a long line. As an example, our Lockbox Rx machine would allow a pharmacy customer to visit the store after the pharmacy counter is closed and, using an identification card and pre-established verification retrieve their medication from our Lockbox Rx system. A physician who prescribes a fair amount of a particular group of medications could have a Medbox machine on site that can dispense the medications to nurses or assistants to dispense to patients, right at his or her office. The same model could be utilized at an urgent care facility, where medication management and patient convenience is a top priority. This would eliminate the patient's need to separately visit a pharmacy for their initial prescription and, therefore, provide greater convenience to the patient, while also generating a revenue stream for the healthcare service provider. We believe these markets also provide an opportunity for us to market the technology we will acquire in connection with our pending acquisitions.

The Alternative Medicine Market

Our primary target market is alternative medicine (medical marijuana) clinics. In addition to our Medbox technology, these clients are often very good prospects for our consulting services.

The development of the alternative medicine market is a function of state legislation. As a result, while specific markets may not be currently available (a potential disadvantage), we can easily monitor the progress of legislation and know with some degree of certainty when new geographic markets will be coming on line. This allows us to target our limited sales and marketing resources to those new markets. In this way, we believe the current legislative environment works in our favor - if the whole country were currently a potential market our limited resources would result in an inability to effectively cover all potential market territories. With limited markets open we can better cover those available territories and have the advantage that our Medbox product is often featured in the media during the legislative process prior to the opening of a new market. We believe that this media coverage provides us with brand awareness and a certain level of credibility. If the market was wide open – in other words, if all or most states in the U.S. had already passed alternative medicine statutes, we would likely not benefit from the free media coverage we have recently enjoyed. Therefore, existing conditions of the slow roll-out of new states that become potential markets for our products favors our current position.

As noted above, we market the Medbox in states that have regulatory systems in place to license alternative medicine clinics. So far ten states have implemented such licensing systems. Of these states, we currently serve clients in Arizona, Connecticut, California, Colorado, Nevada, Illinois, Oregon and Washington and consider these states our current primary target market. We consider Michigan to be a secondary target market that we plan to target once that state adopts a dispensary licensing process in the near future. We provide licensing and application support in states outside of California through phone, email, in-person client meetings when necessary, and also through the use of video-conferencing. While we maintain physical offices in some of our target market states, most client matters are accomplished remotely.

The Vaporfection Vaporizer Market

Our target market for our vaporizer products is patients who use inhaled medications. We market our vaporizer products to distributors and customers alike through the use of social media, print ads, and online marketing channels. We also market our vaporizer products directly to state licensed dispensaries for sale to their registered patients.

Competition

Competition – Dispensing Systems

We have competition in each product / service line and discuss each that we are aware of in turn below. We start with our flagship product, the Medbox. Of course, we also compete with the traditional model for the dispensing of regulated medications, where a consumer purchases their medication at a pharmacy through a face-to-face transaction with pharmacy personnel.

The information in this section is based on publicly available information regarding the companies discussed.

InstyMeds Corporation
Minneapolis, Minnesota

InstyMeds offers the InstyMeds Prescription Medication Dispenser (“PMD”) and InstyMeds Prescription Writer. The PMD is an automated, ATM-style dispenser of acute prescription medications that dispenses directly to patients at the point of care. The system features a touch screen, credit card swipe, and a 24/7 patient assistant phone. According to InstyMeds, as of December 2012, the PMD is sold in 34 states and has safely dispensed over one million medications to patients. InstyMeds sells to conventional medical facilities including hospitals, clinics, surgery centers and urgent care facilities, and markets its system as a way for patients to quickly receive their initial prescription of acute care medications. The Prescription Writer interfaces to the PMD and medication is dispensed. We view this system as competitive with the Medbox in the physician market. To our knowledge, InstyMeds has not pursued the alternative medicine market and, because their product dispenses medicine directly to patients, we believe their technology is not compatible with that market in the manner in which we currently target it, that is, by dispensation through an operator as opposed to directly to patients. The PMD system does not possess biometric verification or a patient database as is proprietary through PVMI’s patent that we license for our products.

MedBox, LLC
Manchester, Missouri

MedBox, LLC was founded in July 2006 but remains in prototype development stage. The firm’s intended market is pharmacies, physicians, pharmaceutical manufacturers and health insurance companies. Similar to InstyMeds, MedBox, LLC seeks to provide immediate dispensing of prescriptions at the healthcare provider’s facility. A central video monitor allows the patient to connect to and communicate with the pharmacist. MDS has issued a cease and desist letter to MedBox, LLC, as to its usage of the term “Medbox” as Medbox is a registered trademark of MDS. To our knowledge, MedBox, LLC has not pursued the alternative medicine market and for reasons similar to that discussed above, we believe their technology is not currently compatible with that market. The system does not possess biometric verification or a patient database as is proprietary through PVMI’s patent that we license for our products.

QuigMeds™
Malvern, Pennsylvania

QuigMeds™, a division of Qmeds, Inc. and organized in late 2004, offers a vending machine for prescription medications. The system can hold over 700 unit-of-use packages, prints labels and patient information documentation, uses a touch-screen device and operates on a closed, fully secure wireless network. The system is designed for use by physicians and office staff and is not presently designed for direct patient use. The QuigMeds™ system has two components – a dispensing cabinet and a stand-alone touch screen where orders are entered. The firm’s target market appears to be medical practices and they focus on physician dispensing of prescription medications. To our knowledge, this company has not pursued the alternative medicine market. This product does not possess biometric verification or a patient database as is proprietary through PVMI’s patent that we license for our products.

Dispense Labs
Aliso Viejo, California

Dispense Labs is a company established in 2012 that offers a marijuana vending machine called “Autospense” that is consumer accessed and can operate 24 hours per day. This company’s business model is different from ours in that it caters to dispensaries that need to provide 24-hour direct consumer access to product. Therefore, we do not believe that this company is a threat to our business. According to information previously provided to us by Dispense Labs, the company had one machine operational as of March 2013; we have no way of verifying additional sales of their units at this point.

Competition – Vaporfection Vaporizers

There are a myriad of vaporizing products currently available in the marketplace. We believe our proprietary glass on glass technology and attractive packaging allows for users to experience the cleanest and healthiest vapor in the industry. The currently acknowledged market leader is a product manufactured and distributed by Storz & Bickel located in Germany with U.S. offices. A summary list of a representative selection of competitors to our viVape2 product, based on publicly available information about these products, is below.

Vaporizer Competition Comparison

Company	Vaporperfection	Storz & Bickel	Arizer	Herbal Aire	7th Floor	7th Floor	Vapir
Model	viVape 2	Volcano	Extreme Q	Herbal Whip/Direct	Silver Surfer	DaBuddha	Rise
Style	Bag/Whip	Bag Only	Bag/Whip	Inhale	Whip Only	Whip Only	Bag/Whip
Vaporization Method	Forced Air Convection	Forced Air Convection	Convection	Convection	Convection	Convection	Forced Air Convection
Materials to Vaporize	Herbs, Wax	Herbs, Liquids Aluminum Heating	Herbs, Aromatherapy	Herbs (do not grind)	Herbs, Wax, Oils	Herbs	Herbs, Waxy Oils
Heating Element	Glass	Block	Ceramic	Ceramic	Ceramic	Ceramic	Ceramic
Heat Up Time	2 Minutes	5- 7 Minutes	~ 3 Minutes	~ 2-3 Minutes	~ 2-3 Minutes	~2-3 Minutes	Less than 1 minute
Temperature Settings	C, F, Digital Touchscreen	Digital or Dial (different units)	Digital, Remote Control	Analog - Dial	Dial - Analog (Custom Glass)	Dial - Analog	C, F, Digital Display
Exterior	ABS Plastic, Brushed Aluminum	Stainless Steel	Midnight Chrome Finish	Glass filled Nylon/Teflon	Anodized Aluminum	Hardened Aluminum	Stainless Steel
Size	7.75" x 5.25" x 2.5"	8" x 8" x 7"	2.5" x 2.5" x 6.5"	3.5" x 3.5" x 7"	7" x 5.25" x 6.25"	5.5" x 5.5" x 6.5"	7" x 10" x 7"
Weight	1.75 lbs	6 lbs	2 lbs	3.6 lbs	2.5 lbs	2.5 lbs	3 lbs
Warranty	3 year	3 Years	3 Years (Lifetime on Element)	3 Years	3 Years	3 Years	1 Year
MSRP	\$299	\$539 Classic, \$669 Digital	\$239	\$ 215 - \$249	\$269.99	\$189 (Silver) \$209 (Black)	\$249.99
Extra Features	Automatic shutoff timer, digital touch screen, dual voltage, removable power cord, glowing LED glass chamber	Digital(C or F) lareg LED Display with set and actual temperature, automatic switch-off	Dual voltage, 3 Fan settings,	Learning temperature control, fan blows only when drawn, dual voltage, 18 special air jets	Variety of colors, uniqure reverse 90 degree angle design, custom glass knob and heater cover, hands free option	Has hands free option	Adjustable temperature and fan speed, HEPA filter, multi-user adapter, dual voltage (separate models), removable power cord

Competition – Safe Access

Similar storage systems have recently been implemented by large chains such as Amazon to improve shipping logistics to consumers. These storage lockers are placed in chain retail stores (supermarkets, mini-marts, etc.) and consumers are given the option of having their items shipped or picking their items up at a nearby location by inputting a secure pin-code at one of these storage systems. We believe that our systems are superior in design and also offer increased security through the use of biometrics to verify identity of the user.

Future Goals

We believe that based on the Company's existing and in-development products, there are opportunities for us in compliance and inventory control in many different industries. We believe that while alternative medicine is an industry that desperately needs regulation, the prescription dispensing market is also in need of a standardized monitoring system that can help limit abuse. We are committed to developing products that help limit abuse of pharmaceutical products across a multitude of industries while improving the standard of care for patients and consumers.

While we currently focus on sales in the United States, in December 2013 we entered an agreement with a Canadian company to sell our Medbox machines in the Canadian market along with providing them consulting services. Our long-range plans include expanding the marketing of our products in Canada, as well as to other countries that legalize marijuana.

7) Describe the Issuer's Facilities

Properties

Real Property

At present, we do not own any property. We currently lease office space at:

- 8439 West Sunset Blvd., Suite 100 & 101, West Hollywood, CA 90069 (4,000 square foot office);
- 6700 Fallbrook Ave. Suite 289, West Hills, CA 91307 (1,500 square foot office);
- 7047 E Greenway Parkway, Suite 250, Scottsdale, AZ 85254 (1,000 square foot office); and
- 1400 E. Hillsboro Blvd., Ste. 200, Deerfield Beach, FL 33441 (1,600 square foot office).

In addition, we maintain conference room capabilities at the following office locations:

- 445 Park Ave., 9th Floor, New York City, New York 10022 (virtual);
- 1 Dundas Street West, Suite 2500, Toronto M5G 1Z3, Canada (virtual);
- 100 Pall Mall, St. James, London SW1Y 5NQ, UK (virtual); and
- 14F 1-2-1 Kinshi, Sumida-ku, 1300031 Tokyo, Japan (virtual)

8) Officers, Directors, and Control Persons

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

The following table sets forth the beneficial ownership of our common stock as of March 31, 2014, by (1) each person, or group of affiliated persons, known by us to be the beneficial owner of 5% or more of our outstanding common stock, (2) each of our directors, (3) each of our executive officers listed in the summary compensation table, below, and (4) all of our directors and executive officers as a group.

This information as to beneficial ownership was furnished to the Company by or on behalf of each person named. To our knowledge, each person named in the table has sole voting and investment power with respect to all of the securities shown as beneficially owned by such person, except as otherwise set forth in the notes to the table. At December 31, 2013, there were 14,762,875 shares of our common stock issued and outstanding.

Title Of Class	Name And Address Of Beneficial Owner⁽¹⁾	Amount and Nature Of Beneficial Ownership	Percentage Of Class
Common Stock	Dr. Bruce Bedrick ⁽²⁾	9,142,908 ⁽³⁾	20.3%
Common Stock	Vincent Mehdizadeh ⁽⁴⁾	26,238,940 ⁽⁵⁾	58.3%
Common Stock	Vincent Chase, Inc.	23,036,302 ⁽⁶⁾	51.2%
Common Stock	PVM International, Inc.	3,202,638 ⁽⁷⁾	7.1%
Common Stock	All Directors and Officers as a Group	35,381,848	78.6%

* Less than 1%

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934, as amended, under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security

within 60 days.

- (2) The address for Dr. Bedrick is 8439 West Sunset Blvd., Suite 101, West Hollywood, CA 90069.
- (3) Includes 1,000,000 shares of our Series A Convertible Preferred Stock. Each share of our Series A Convertible Preferred is convertible into five shares of our common stock.
- (4) The address for Mr. Mehdizadeh is 6700 Fallbrook Ave., Suite 289, West Hills, CA 91307.
- (5) Includes 3,202,638 shares of common stock held by PVM International, Inc. PVM International, Inc. is owned and controlled by Mr. Mehdizadeh. Also includes 13,036,302 of common stock and 2,000,000 shares of Series A Convertible Preferred held by Vincent Chase, Inc. Each share of Series A Convertible Preferred Stock is convertible into five shares of common stock. Vincent Chase, Inc. is owned and controlled by Mr. Mehdizadeh.
- (6) The address for Vincent Chase, Inc. is 6700 Fallbrook Ave. Suite 289, West Hills, CA 91307. Includes 13,036,302 shares of common stock and 2,000,000 shares of Series A Convertible Preferred. Each share of Series A Convertible Preferred Stock is convertible into five shares of common stock.
- (7) The address for PVM International, Inc. is 6700 Fallbrook Ave. Suite 289, West Hills, CA 91307.

Executive Officers and Director

The following table sets forth, as of March 31, 2014, the name, age and positions of our executive officers and directors.

NAME	AGE	POSITION
Dr. Bruce Bedrick	44	Chief Executive Officer and Director
P. Vincent Mehdizadeh	35	Chief Operating Officer and Chairman of the Board
Thomas Iwanski	56	Chief Financial Officer
Matthew Feinstein	44	Vice President
J. Mitchell Lowe	60	Director

The business background and certain other information about our directors and executive officers is set forth below:

Dr. Bruce Bedrick – Chief Executive Officer, Director

Dr. Bruce Bedrick is a highly accomplished, versatile and respected Physician and business owner with over 15 years of diverse and innovative experience. As a dynamic leader, he consistently achieves outstanding results in challenging environments while building and maintaining strong, loyal relationships with both colleagues and community members. Dr. Bedrick offers the unique combination of hands-on administration that maximizes organizational effectiveness, operations-oriented leadership that ensures efficiency and people-oriented guidance that yields productivity. Prior to joining the Company, Dr. Bedrick opened a chiropractic practice in 2008, which he managed until the Fall of 2010 when he sold his practice to pursue other business endeavors.

Dr. Bedrick joined MDS in the Fall of 2010 as its Chief Operating Officer. He became CEO of Medbox, Inc. in December 2011 and has served as a Director since December 2011. As our CEO, Dr. Bedrick is responsible for managing our day-to-day operations, as well as overseeing our marketing and sales divisions. He provides leadership at Medbox in the planning and implementation of all new strategic initiatives. Dr. Bedrick has over 15 years experience in the healthcare field as a practitioner, consultant and executive. He has successfully developed and operated several healthcare practices during that time. A Philadelphia native, Dr. Bedrick earned his undergraduate degree from Ithaca College and his Doctorate from Western States Chiropractic College.

Our Board of Directors believes that Dr. Bedrick's qualifications to serve as a Director of Medbox include his medical and business background, his development of healthcare practices in the past, as well as a wealth of knowledge about new business development gained as a result of years of prior business experiences.

P. Vincent Mehdizadeh – Chief Operating Officer and Chairman of the Board

Mr. Mehdizadeh founded MDS in February 2008 and served as our senior consultant from December 2012 until May 10, 2013, at which time he was appointed our Chief Operating Officer and Chairman of the Board. Mr. Mehdizadeh is also acting as our principal financial officer following the departure of our former acting Chief Financial Officer on October 1, 2013. The company he controls, PVMI, holds the 2010 patent which is the underlying technology of the Medbox.

Mr. Mehdizadeh was responsible for assembling the talented management core of Medbox, developing the concept behind the business model driving the revenue for the company, and also assists with seminars, media interviews, and public speaking engagements on behalf of the company.

Prior to December 2012, Mr. Mehdizadeh was the CEO and Founder of MDS. Prior to founding MDS, Mr. Mehdizadeh was the Director of Client Relations for the following law offices at various times from 2003 through 2008: Law Office of Donald J. Townley; Law Offices of Frank E. Miller; Law Offices of Thomas R. Lee; Rexford Law Group; and the Moheban Law Firm.

Our Board of Directors believes that Mr. Mehdizadeh's qualifications to serve as a Director of Medbox include his experience and knowledge of our main product as the founder of MDS and the creator of the Medbox as well as his knowledge of the alternative medicine market as a result of such experience.

In 2007, Mr. Mehdizadeh was involved in the sale of his automobile to a private party. The transaction terms were in dispute by the parties and Mr. Mehdizadeh pled no-contest to charging the vehicle purchaser's credit card without express written consent. The matter was resolved with Mr. Mehdizadeh receiving and successfully completing probation. Mr. Mehdizadeh has applied for an expungement of the record and is awaiting the outcome of that request, which should result in a deletion of the record.

During 2005-2008, Mr. Mehdizadeh was the non-attorney manager for a law firm. In 2008 the supervising attorney, Thomas R. Lee [CA SBN 61858], whom clients had retained to handle their legal matters retired and left clients without representation. The department of consumer affairs of Los Angeles investigated the matter and decided to recommend prosecution against Mr. Mehdizadeh and not Mr. Mehdizadeh's attorney employer, Mr. Lee. After a 15 count criminal complaint was filed in 2010, in order to avoid a trial and ongoing bad publicity, Mr. Mehdizadeh pled no-contest in 2013 to two counts related to theft that resulted in probation. Under the terms of a negotiated plea agreement, Mr. Mehdizadeh voluntarily paid \$450,000 in restitution to clients of Mr. Lee's office. Mr. Mehdizadeh accepted the terms of the plea that provided that once Mehdizadeh's probation is complete, the record of the incident be deleted. Mr. Mehdizadeh maintains his innocence and believes he was unfairly targeted.

Thomas Iwanski – Chief Financial Officer

Mr. Iwanski joined Medbox on April 15, 2013 as our accounting consultant. He became our Chief Financial Officer in February 2014. Mr. Iwanski has more than 23 years (18 of which were with publicly traded companies) of executive management, corporate governance and financial experience. He has also been self-employed as a consultant specializing in corporate financing and operations improvement since September 2010. As a consultant, in December 2013, Mr. Iwanski became Interim Chief Financial Officer and Secretary of Energous Corporation. A Nasdaq listed company specializing in wire-free charging solutions. Prior to joining Medbox, since May 2007, Mr. Iwanski served as Director and Chief Executive Officer of Live-Vu Communications, Inc., a company that specializes in turnkey telemedicine and telehealth solutions for hospitals, clinics, long-term care facilities and homes incorporating proprietary video technology. From September 2006 through May 2007, Mr. Iwanski served as Chief Financial Officer of SyncVoice Communications, Inc. From April 2005 through July 2006, Mr. Iwanski served as Senior Vice President, Corporate Secretary and Chief Financial Officer of IP3 Networks, Inc. From February 2003 through April 2005 Mr. Iwanski served as a Special Advisor to the CEO of Procom Technology, Inc., where he played a prominent role in the development and implementation of business and financial strategies. Mr. Iwanski has also served in various other positions, including Vice President Finance, Chief Financial Officer, Director and Secretary for a number of companies, including Cognet, Inc., NetVantage, Inc., Kimalink, Inc., Xponent Photonics, Inc., Prolong, Inc. and Memlink, Inc. Mr. Iwanski also currently serves on the board of directors of Pacific Health Care Organization, Inc., a specialty workers' compensation managed care company providing a range of services for California employers and claims administrators. In June 2013 Mr. Iwanski filed a personal bankruptcy petition in connection with alleged guarantees of debt of Live-Vu Communications,

Inc. Mr. Iwanski also has approximately ten years of public accounting experience having worked for KPMG, LLP, as a Senior Audit Manager, and is a Certified Public Accountant. Mr. Iwanski received a Bachelor of Business Administration from the University of Wisconsin-Madison in 1980.

Matthew Feinstein – Vice President

Mr. Feinstein became a consultant to Medbox heading our sales force in June of 2013, and was promoted to Vice President on February 1, 2014. Mr. Feinstein's role is to assist with the sales, marketing and operations of the Company and its subsidiaries. As a consultant for the Company over the last eight months, Mr. Feinstein has been instrumental in increasing revenues and establishing sales and marketing processes within the Company. Mr. Feinstein comes from a successful tenure of leadership roles in nationally recognized companies with significant expertise in driving nationwide rollouts of automated retail technology. Over the last 6 years, he was Operational Supervisor at Redbox where he developed policies and procedures and created performance metrics for employees and kiosks. He was subsequently recruited to become Director of Operations at minuteKEY, a self-service key duplicating kiosk company with more than 2,000 locations nationwide.

J. Mitchell Lowe – Director

The Company has elected J. Mitchell Lowe, co-founder of Netflix and former Redbox president, to its Board of Directors, effective March 3, 2014. Mr. Lowe is our first independent director and based on his diverse background and wide-ranging expertise, we expect that he will assist us with various aspects of our business, including strategy development and implementation, executive recruiting and corporate governance matters. Mr. Lowe has been a groundbreaking leader in the home entertainment and tech industries since the 1980s, when he started Video Droid, a rental movie vending machine and store. After starting Video Droid and spending years crafting websites for video stores, Mr. Lowe was asked to help in the formation of Netflix in partnership with Marc Randolph and Reed Hasting. He served as Vice President of Business Development and strategic alliances for Netflix from 1998 to 2003, departing just after their initial public offering to join a small team from McDonald's to form what became Redbox DVD Rental Kiosks. At Redbox, Mr. Lowe began as Chief Operating Officer, becoming President in early 2009, and playing a pivotal role in scaling Redbox from a handful of rental kiosks to nearly 32,000 kiosks and over \$1.5 billion in annual revenue. Since leaving Redbox in 2011, he has served as an independent consultant for entrepreneurs and startups. He has been CEO of a company called Quarterly Co., which is a mail subscription service, since October 2013.

Our Board of Directors believes that Mr. Lowe's qualifications to serve as a Director of Medbox include his extensive experience in the retail kiosk industry and with startup companies generally, his strategic expertise, his business and managerial experience as discussed above and his long-term relationships. While Medbox offers solutions that are not comparable to kiosks per se, the fact that he has successfully directed large companies rollout cutting-edge technology adds immense value to our company. We will also take advantage of his corporate governance experience as we grow and evolve as a public company.

There are no family relationships between any of our executive officers and directors.

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

See above Bio of P. Vincent Mehdizadeh with reference to a plea agreement for matters occurring prior to 2008.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

See Item 8 above.

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel:

Darrin M. Ocasio, Esq.
Sichenzia Ross Friedman Ference LLP
61 Broadway, 32nd flr. New York, NY 10006

Accountant:

Q Accountancy Corporation
16140 Sand Canyon Ave., Ste. 101
Irvine, California 92618

Investor Relations Consultant: None

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

None.

10) Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, P. Vincent Mehdizadeh, certify that:

1. I have reviewed this Annual disclosure statement of Medbox, Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

April 3, 2014

/s/ P. Vincent Mehdizadeh
By: P. Vincent Mehdizadeh
Its: Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Medbox, Inc.

We have audited the accompanying consolidated balance sheets of Medbox, Inc. as of December 31, 2013 and 2012 and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medbox, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Q Accountancy Corporation

/s/ Q Accountancy
Irvine, California
March 28, 2014

MEDBOX, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 168,003	\$ 1,026,902
Marketable securities	184,800	-
Accounts receivable	1,864,506	2,052,000
Note receivable	115,000	-
Inventory	1,269,454	416,254
Prepaid expenses and other current assets	89,241	-
Total current assets	<u>3,691,004</u>	<u>3,495,156</u>
\$49,192 and 43,491, respectively	169,128	51,018
Investments, at cost	1,200,000	-
Intangible assets, net of accumulated amortization of \$32,750	653,959	-
Goodwill	1,090,037	-
Deposits and other assets	98,726	4,850
Total assets	<u>\$ 6,902,854</u>	<u>\$ 3,551,024</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 598,314	\$ 265,737
Deferred revenue	-	1,608,280
Notes payable	75,000	50,000
Related party notes payable	111,794	869,038
Customer deposits	203,186	-
Current portion of long-term debt	-	16,428
Total current liabilities	<u>988,294</u>	<u>2,809,483</u>
Long term-debt, less current portion	-	42,420
Total liabilities	<u>988,294</u>	<u>2,851,903</u>
Stockholders' equity		
Preferred stock, \$0.001 par value: 10,000,000 authorized; 3,000,000 and 6,000,000 issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	3,000	6,000
Common stock, \$0.001 par value: 100,000,000 authorized, 29,525,750 and 27,367,144 issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	29,526	27,367
Additional paid-in capital	6,785,358	1,150,673
Common stock subscribed	(15,000)	(153,250)
Retained earnings (accumulated deficit)	(888,324)	(331,669)
Total stockholders' equity	<u>5,914,560</u>	<u>699,121</u>
Total liabilities and stockholders' equity	<u>\$ 6,902,854</u>	<u>\$ 3,551,024</u>

See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Revenues, net	\$ 5,223,775	\$ 2,590,579
Cost of revenues	2,587,656	1,051,135
Gross margin	2,636,119	1,539,444
Selling, general and administrative expenses		
Selling and marketing	664,383	806,221
Research and development	74,861	176,964
General and administrative	2,456,435	895,798
Total selling, general and administrative expenses	3,195,679	1,878,983
Loss from operations	(559,560)	(339,539)
Other income (expense), net	6,905	(4,948)
Loss before provision for income taxes	(552,655)	(344,487)
Provision for income taxes	4,000	-
Net loss	\$ (556,655)	\$ (344,487)
Earnings per share attributable to common stockholders		
Basic	\$ (0.02)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding		
Basic	28,971,983	25,119,175
Diluted	44,506,230	55,119,175

See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Preferred Stock</u>		<u>Common Stock*</u>		<u>Additional</u>	<u>Common Stock</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u> <u>Capital</u>	<u>Subscribed</u>	<u>Earnings</u> <u>(Accumulated)</u> <u>(Deficit)</u>	<u>Stockholders'</u> <u>Equity</u>
Balances at January 1, 2012	6,000,000	\$ 6,000	20,829,678	\$ 20,830	\$ 270,545	\$ -	\$ 12,818	\$ 310,193
Issuance of common stock for acquisition PVMI	-	-	4,000,000	4,000	(4,000)	-	-	-
Buyout of PVMI shareholders	-	-	-	-	(125,000)	-	-	(125,000)
Issuance of common stock, net of issuance costs	-	-	2,463,366	2,463	855,952	-	-	858,415
Subscriptions for common stock, net of issuance costs	-	-	74,100	74	153,176	(153,250)	-	-
Net loss	-	-	-	-	-	-	(344,487)	(344,487)
Balances at December 31, 2012	<u>6,000,000</u>	<u>6,000</u>	<u>27,367,144</u>	<u>27,367</u>	<u>1,150,673</u>	<u>(153,250)</u>	<u>(331,669)</u>	<u>699,121</u>
Issuance of common stock, net of issuance costs	-	-	2,115,100	2,115	4,484,426	-	-	4,486,541
Cancellation of preferred stock	(3,000,000)	(3,000)	-	-	3,000	-	-	-
Proceeds of common stock subscribed	-	-	-	-	(138,250)	138,250	-	-
Issuance of warrants for acquisition of Vaporfection	-	-	-	-	1,166,000	-	-	1,166,000
Issuance of common stock for accounts payable	-	-	43,506	44	119,509	-	-	119,553
Net loss	-	-	-	-	-	-	(556,655)	(556,655)
Balances at December 31, 2013	<u>3,000,000</u>	<u>\$ 3,000</u>	<u>29,525,750</u>	<u>\$ 29,526</u>	<u>\$ 6,785,358</u>	<u>\$ (15,000)</u>	<u>\$ (888,324)</u>	<u>\$ 5,914,560</u>

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See notes to consolidated financial statements.

MEDBOX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Net loss	\$ (556,655)	\$ (344,487)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	69,564	29,922
Gain on sale of property and equipment	(20,682)	-
Changes in operating assets and liabilities		
Accounts receivable	3,400	(2,052,000)
Inventory	(684,648)	(316,254)
Prepaid expenses and deposits	(36,725)	-
Accounts payable and accrued expenses	(243,458)	190,668
Deferred revenue and customer deposits	(1,464,193)	1,608,280
Net cash (used in) operating activities	(2,933,397)	(883,871)
Cash flows from investing activities		
Receipts on (issuance of) note receivable	(115,000)	104,650
Purchase of property and equipment	(134,451)	-
Advances for investments	(1,250,000)	-
Net cash provided by (used in) investing activities	(1,499,451)	104,650
Cash flows from financing activities		
Receipts on advances to officer	-	177,050
Related party notes payable, net	(746,285)	744,038
Payments on long term debt	(16,307)	(15,771)
Issuance of (payments on) notes payable	(150,000)	50,000
Dividends paid to subsidiary's shareholders	-	(49,965)
Proceeds from issuance of common stock, net	4,486,541	858,415
Net cash used by financing activities	3,573,949	1,763,767
Net decrease in cash	(858,899)	984,546
Cash, beginning of period	1,026,902	42,356
Cash, end of period	\$ 168,003	\$ 1,026,902
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 2,106	\$ 4,975
Cash paid for income tax	\$ 10,851	\$ 59,141
Non- cash transactions:		
Marketable securities received for accounts receivable	\$ 184,800	\$ -
Liabilities assumed for Vaporfection	\$ 73,739	\$ -
Debt repayments	\$ 53,500	\$ -
Cancellation of preferred stock	\$ 3,000	\$ -
Common stock issued for accounts payable	\$ 119,536	\$ -
Common stock issued for related party notes payable	\$ -	\$ 125,000
Common stock issued for PVMI	\$ -	\$ 2,000
Common stock warrants issued for Vaporfection	\$ 1,166,000	\$ -

See notes to consolidated financial statements.

MEDBOX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 1 – Nature of Operations

Business Description

Medbox, Inc. (the “Company”) was incorporated in the state of Nevada on June 16, 1977, originally as Rabatco, Inc., subsequently changing its name on May 12, 2000 to MindfulEye, Inc., and again on August 30, 2011 to Medbox, Inc. The Company, through its subsidiaries Prescription Vending Machines, Inc. dba, Medicine Dispensing Systems, Inc. (“MDS”) and Medbox Technologies, Ltd. (“MT”), is a leader in providing consulting services and patented biometrically controlled medicine storage and dispensing systems to the medical and retail industries. In addition, through its wholly owned subsidiary, Vaporfection International, Inc. (“VII”), the Company sells a line of vaporizer and accessory products online and through distribution partners. The Company is headquartered in West Hollywood, California with offices in Arizona and Florida.

On December 31, 2011, Medbox, Inc. entered into a Stock Purchase Agreement with PVM International, Inc. (“PVM”). Pursuant to two separate closings held on January 1, 2012 and December 31, 2012, the Company acquired from PVM all of the outstanding shares of common stock in (i) Prescription Vending Machines, Inc.,(PVM) (ii) Medicine Dispensing Systems, Inc. (its Arizona subsidiary), and (iii) Medbox, Inc. (its California subsidiary that is currently inactive) (these three listed subsidiaries are hereafter referred to as the “PVM Named Subsidiaries”), in exchange for two million shares of the Company’s common stock and a \$1 million promissory note.

The transaction between Medbox, Inc. and PVM is deemed to be a reverse acquisition, where Medbox, Inc. (the legal acquirer) is considered the accounting acquiree and the PVM Named Subsidiaries (the legal acquiree) are considered the accounting acquirer. The assets and liabilities are transferred at their historical cost with the capital structure of Medbox, Inc. Medbox, Inc. is deemed a continuation of the business of PVM Named Subsidiaries and the historical financial statements of PVM Named Subsidiaries are the historical financial statements of Medbox, Inc. For accounting purposes, the reverse merger is treated as a recapitalization of Medbox, Inc.

The Company’s MDS subsidiary was incorporated in the state of California in 2008 and its subsidiary, MDS was incorporated in the state of Arizona in 2011.

On March 22, 2013, the Company entered into a Securities Purchase Agreement with Vapor Systems International, LLC to acquire 100% of the outstanding common stock of VII in exchange for warrants to purchase 260,864 shares of the Company’s common stock. In addition, the Company agreed to provide up to \$1,600,000 in working capital to VII at the Company’s sole discretion which included \$175,000 paid to the inventor of certain patents including a warrant to purchase 5,000 shares of the Company’s common stock. This transaction was closed in April 2013.

On December 9, 2013 the Company formed MT, a Canadian corporation to operate as a consulting sales and marketing operation in Canada. As of December 31, 2013 there was no activity for this company.

Stock Split

On December 19, 2013, the Board of Directors of the Company approved a two-for-one stock split of the Company’s common stock, effected in the form of a stock dividend. Each shareholder of record at the close of business on December 18, 2013 received one (1) additional share for every outstanding share held on the record date. The additional shares were distributed on February 3, 2014. All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been restated to reflect the effect of this two-for-one stock split for all periods presented. The Company retained the current par value of \$0.01 per share for all shares of common stock. Stockholders’ equity reflects the stock split by reclassifying an amount equal to the par value of the additional shares arising from the split from Additional Paid-in Capital to Common Stock.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, PVM, MDS, VII and MT. All intercompany transactions have been eliminated. VII and MT, represents additional subsidiaries included in the consolidated financial statements for the year 2013.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements as well as the reported expenses during the reporting periods. Actual results could differ from these estimates.

The Company's significant estimates and assumptions include the valuation of the Company's common stock used in the valuation of goodwill, accounts receivable and note receivable collectability, inventory, advances on investments, the valuation of restricted stock received from customers, the amortization and recoverability of capitalized patent costs and useful lives of long-lived assets, and income tax expense, some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. Although the Company believes that its estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made.

Accounting Period

The Company's accounting period ends on December 31st.

Cash Equivalents

The Company maintains cash in bank accounts, consisting solely of deposits held at major banks, which, at times, may exceed federally insured limits. Cash equivalents include investments in open ended money market accounts held at the same major banks. For purposes of the balance sheets and statements of cash flows, the company considers all highly liquid purchased with a maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

The Company maintains cash balances at several financial institutions in the United States. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2013 and 2012, the Company's uninsured balances totaled \$0 and \$776,902, respectively. The Company has not experienced any losses in such accounts and periodically evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

At December 31, 2013 and 2012, four and five of customers represented 60.90% and 64.09% of outstanding receivables, respectively.

Impairment of Long-lived Assets

The Company reviews for the impairment of long-lived assets, including goodwill, intangible assets acquired in the purchase of VII, advances on investments, trademarks and patents, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Company has not recorded any impairment losses in either 2013 or 2012.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense for the years ending December 31, 2013 and 2012 was \$664,383 and \$806,221, respectively.

Fair Value of Financial Instruments

Pursuant to ASC No. 825, *Financial Instruments*, the Company is required to estimate the fair value of all financial instruments included on its balance sheets. The carrying value of cash, accounts receivable, other receivables, inventory, accounts payable and accrued expenses and notes payable approximate their fair value due to the short period to maturity of these instruments. The Company's marketable securities and related customer deposits require fair value measurement on a recurring basis as the

Company has received advance payment of restricted stock in a publicly traded company for contracted services. The Company has no exposure to gain or loss on the increase or decrease in the value of the marketable securities as any shortfall in the ultimate liquidated value of the securities will be supplemented by additional restricted stock from the customer and any liquidation in excess above the Companies billings will be returned to the customer.

Revenue Recognition

The Company applies the revenue recognition provisions pursuant to Accounting Standards Codification 605, *Revenue Recognition* ("ASC 605") (formerly SAB Topic 13A), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize the revenue and provides guidance for disclosure related to revenue recognition policies.

The Company recognizes revenue related to consulting fees based upon the terms of the contract. In general, the Company recognizes revenue when a milestone is reached in the contract such as submittal of the license application or if otherwise delineated, such as awarding of a license or securing the location. In addition, if the contract includes the build out of the client location and the installation of Medbox dispensing machines then the remainder of the revenue is recognized when the facility is completed and available for move-in by the client. The contract terms are broken down in specific milestones with specific attributable revenue to be earned upon successful completion of the milestone terms (i.e. milestone - obtaining the license; condition for the revenue to be recorded - after obtaining the license for the client the company will record a specified amount of revenue attributable to this milestone based on the contract). All milestones from the consulting agreements are considered to be substantive for revenue recognition and the revenue is recorded when the work/condition described is performed/achieved.

In addition, the Company intends to charge maintenance fees for consulting, equipment and software on a monthly basis, and would recognize revenue on these monthly charges when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured. The Company may have chosen for a period of time to waive the service fees that would generate service revenues as a "good will" gesture to its customers while their new businesses begin operations. Since all equipment is new, there is limited need in service and maintenance.

Advance payments from clients in advance of work performed are recorded as customer deposits on the balance sheet.

An allowance for bad debts is established for any customer who is deemed as possibly uncollectible.

Equipment sales not associated with a consulting contract are recognized as the product is shipped and title passes.

Provisions for estimated returns and allowances, and other adjustments are provided in the same period the related sales are recorded. The Company will at times allow customers to get full refunds should political events prevent the customer from being able to operate his contracted location. The provision for returns as well as an allowance for bad debts will be included in the Company's balance sheet should the Company deemed such allowances justified. For the years ended December 31, 2013 and 2012, management determined that no such allowances were necessary.

Cost of Revenues

Cost of revenues consists primarily of expenses associated with the delivery and distribution of our products and services. These include expenses related to the manufacture of our dispensary units, construction expense related to the customer dispensary, site selection and establishment of licensing requirements, and consulting expense for the continued management of the dispensary unit build out, server and security equipment, rent expense, energy and bandwidth costs, and support and maintenance costs prior to client moves in.

Basic and Fully Diluted Net Loss Per Share

Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share are computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period from the potential 5 for 1 conversion feature of the Company's Series A preferred stock outstanding. Potential common shares consist of the incremental common shares issuable upon the exercise of the conversion of the Company's 260,854 warrants to the sellers of VII as the likelihood of conversion is probable do to the low exercise price per share of \$0.001 (using the if-converted method). The

computation of basic loss per share for the years ended December 31, 2013 and 2012 excludes potentially dilutive securities of 30,000 and 0, respectively, because their inclusion would be antidilutive.

As of December 31, 2013 and 2012, the Company had 3,000,000 and 6,000,000 shares, respectively of Series A preferred stock outstanding with par value of \$0.001 that could be converted into 15,000,000 and 30,000,000 shares, respectively of the Company's common stock.

Potentially dilutive securities outlined in the table below have been excluded from the computation of diluted net loss per share, because the effect of their inclusion would have been anti-dilutive.

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Financing Warrants to purchase common stock	30,000	-
Total potentially dilutive securities	<u>30,000</u>	<u>-</u>

Accounts Receivable and Allowance for Bad Debts

The Company is subject to credit risk as it extends credit to our customers for work performed as specified in individual contracts. The Company extends credit to its customers, mostly on an unsecured basis after performing certain credit analysis. Our typical terms require a portion of the contract price up front and the rest payable upon certain agreed milestones. The Company's management periodically reviews the creditworthiness of its customers and provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for bad debts based on our assessment of the current status of individual accounts. Accounts still outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance for bad debts accounts and a credit to accounts receivable. As of December 31, 2013 and 2012, the Company's management considered all accounts outstanding fully collectible.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The Company accumulates costs for the developing of new markets and charges them to the cost of revenues after finalizing work on the consulting agreements for specific market.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally accelerated) for tax purposes where appropriate. The estimated useful lives for significant property and equipment categories are as follows:

Vehicles	5 years
Furniture and Fixtures	5 years
Office equipment	3 years

Depreciation expense for the years ending December 31, 2013 and 2012 was \$69,564 and \$29,922, respectively.

Goodwill

First, the Company qualitatively evaluates annually the recoverability of identifiable intangible assets when events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. Such circumstances could include,

but are not limited to a significant decrease in the market value of an asset, a significant adverse change to the extent or manner in which an asset is used, or an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. Second, if management determines that full recovery may not occur, the Company then quantitatively measures the carrying amount of the asset against the estimated non-discounted future cash flows associated with it. Should the sum of the expected future cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts. As of both December 31, 2013 and 2012, the Company's management has determined that there has been no impairment losses associated with these assets.

Design costs and trademarks & patents are initially measured based on their fair values at time of purchase. The design costs and trademarks & patents are being amortized on a straight-line basis over the life of the trademarks and are stated at cost net of accumulated amortization.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC 740. The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The components of the deferred tax assets and liabilities are classified as current and non-current based on their characteristics. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

In addition, the Company's management performs an evaluation of all uncertain income tax positions taken or expected to be taken in the course of preparing the Company's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

Commitments and Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Reclassifications

Certain amounts from the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation.

Recent Accounting Pronouncements

There were various accounting updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, consolidated results of operations or cash flows.

Management's Evaluation of Subsequent Events

The Company evaluates events that have occurred after the balance sheet date of December 31, 2013, through the date which the financial statements were available to be issued. Based upon the review, other than described in Note 16 – Subsequent Events, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the financial statements.

Note 3 - Acquisition

On March 22, 2013, the Company entered into a purchase agreement for 100% of the issued and outstanding common stock of VII owned by Vapor Systems International LLC. The Company issued 260,854 warrants to shareholders of VII allowing them to purchase one (1) share of the Company's common stock at \$.001 per share beginning April 1, 2014. These warrants were valued for the Company's accounting purposes at \$4.47 per share which represented the fair value of the Company's common stock as determined by the Company's independent appraiser. In addition, the Company assumed certain liabilities and a 10% convertible note of VII in the aggregate amount of approximately \$470,000. The total value of the acquisition was approximately \$1,635,000 and has been allocated in accordance with ASC 805 as per the Company's independent valuation as follows:

Machinery & Equipment	\$	70,000
IP and related technology		287,000
Amortizable intangible assets:		
Customer contracts and related relationships		314,000
Trade name, trademark, and domain name		46,000
Non-compete covenants		23,000
Goodwill		895,000
		<hr/>
Total assets acquired		1,635,000
Fair value of liabilities assumed		(469,000)
Net fair value	\$	<u>1,166,000</u>

The amortizable intangible assets have useful lives not exceeding ten years and a weighted average useful life of seven years. No amounts have been allocated to in-process research and development and \$895,000 has been allocated to goodwill. In addition, from the date of acquisition through December 31, 2013, the liabilities assumed have been increased by approximately \$195,000 as they have been accrued or settled. Accordingly, \$195,000 has also been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes.

In addition to the above warrants, the purchase agreement and associated consulting contract with the prior management company of the business unit calls for additional shares to be issued in the event that the performance of the business unit exceeds \$11,818,140 of accumulated EBITDA profitability over the subsequent four year operating period. The Company's issuance of the additional shares is contingent upon future events and accordingly has treated the achievement of that performance provision as being remote and consequently has not assigned any future value to the purchase price.

Note 4 - Investments

On February 8, 2013, the Company entered into an agreement with Bio-Tech Medical Software, Inc. ("Bio-Tech") which would allow the Company to purchase 833,333 of authorized shares of common stock which would represent 25% of Bio-Tech's issued and outstanding shares of common stock for \$1,500,000. The Company advanced \$600,000 upon execution of this agreement for the right to purchase with the remaining balance of \$900,000 due and payable in installments at various dates by August 25, 2013. On June 26, 2013, the Company notified Bio-Tech that it was canceling the agreement. On February 27, 2014, the Company signed a settlement agreement with Bio-Tech. According to the agreement, the Company received full licensed right on biometric inventory tracking technology for the term of five years with no additional monies due. All stock transfers between the companies were canceled and rescinded.

On March 12, 2013, the Company entered into an agreement with three members of Medvend Holdings LLC whereby the Company would acquire 50% of their equity interest in Medvend. The purchase price of the equity interest is \$4,100,000; the Company paid an advance of \$300,000 upon execution of the contract for the right to purchase and another \$300,000 was disbursed as an additional investment to Medvend Holdings LLC. In May 2013, the three members of Medvend Holdings LLC were named in a lawsuit by that entity's minority shareholders alleging improper conveyance of the three members' ownership interest in Medvend Holding LLC to the Company. Accordingly, also in May 2013, the Company filed suit against Medvend Holdings, LLC and the three members of that entity that were involved in the transaction. As of December 31, 2013, the Company's management expects a full recovery of its investment.

Note 5 – Inventories

Inventories are stated at the lower of cost or market value. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method.

The consolidated inventories at December 31, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Work in process and related capitalized costs	\$ 878,956	\$ 275,000
Deposits on dispensing machines	138,423	82,754
Vaporizers and accessories	193,575	-
Dispensing machines	58,500	58,500
Total inventory	<u>\$ 1,269,454</u>	<u>\$ 416,254</u>

Note 6 – Property and Equipment

Property and equipment at December 31, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Office equipment	\$ 17,192	\$ 2,509
Furniture and fixtures	73,567	-
Vehicle	-	92,000
Website development	46,922	-
Product development	52,570	-
	<u>190,251</u>	<u>94,509</u>
Less accumulated depreciation	<u>(21,123)</u>	<u>(43,491)</u>
Property and equipment, net	<u>\$ 169,128</u>	<u>\$ 51,018</u>

During 2013, the Company sold a vehicle with an initial value at cost of \$92,000 and net book value of \$32,818 at the day of sale. The Company received proceeds of \$53,500. As a result, the Company recorded a gain of \$20,682 related to the sale which has been included in other income on the Company's statements of operations.

As of December 31, 2013 the \$120,596 represents the net book value of the assets acquired from VII, \$20,000 represents PVM and \$28,532 represents Company assets.

Website development is capitalized and not depreciated until integration into the platform.

Product design costs are related to development of new product and related prototype unit by VII. These development costs are accumulated and capitalized until the date of launching the new product.

Property and equipment of VII were consolidated at fair market value established by independent evaluators at the date of acquisition.

Note 7 – Intangible Assets

The Company acquired certain intangible assets with its purchase of 100% of the outstanding common stock of VII on March 22, 2013. The Company accounts for intangible assets acquired in a business combination, if any, under the purchase method of accounting at their estimated fair values at the date of acquisition. Intangibles are either amortized over their estimated lives, if a definite life is determined, or are not amortized if their life is considered indefinite.

	<u>2013</u>	<u>2012</u>
Distributor relationship	\$ 314,000	\$ -
IP/Technology	303,709	-
Domain names	46,000	-
Non-Compete covenants	23,000	-
	<u>686,709</u>	<u>-</u>
Less accumulated amortization	<u>(32,750)</u>	<u>-</u>
Intangible assets, net	<u>\$ 653,959</u>	<u>\$ -</u>

Intangible assets of VII were consolidated at fair market value established by independent evaluators at the date of acquisition.

The estimated useful lives for significant intangible assets are as follows:

Distributor Relationship	10 years
Domain Names	10 years
Non-Compete covenants	3 years

With the recent acquisition of its intangible assets in April 2013, the Company's management does not believe any impairment of intangible assets has occurred as of December 31, 2013.

Note 8 – Accounts and Notes Receivable

As of December 31, 2013, accounts receivable totaling \$1,864,506 represent receivables from clients of the Company's subsidiary, PVM. The corresponding amount at December 31, 2012 was \$2,052,000.

During December 2013, the Company entered in to a multiple advance secured promissory note for up to \$1,000,000 with a Canadian partner of which \$115,000 was disbursed in 2013. This note is due and payable, together with interest at 5% per annum. As of December 31, 2013 the outstanding balance of this note receivable was \$115,000.

Periodically the Company assesses and reviews the receivables for collectability, as of December 31, 2013, the Company's management considered all accounts outstanding fully collectible.

Note 9 - Marketable Securities and Customer Deposits

Marketable securities

At December 31, 2013, the Company held as a deposit of 7,000,000 shares (issued on September 5, 2013) as payment for \$300,000 in accounts receivable billed to a customer. The fair value of the shares as of December 31, 2013 (with 12% discount because of restriction) was \$184,800. The value of these unliquidated shares is offset against the outstanding amounts owed to the Company until such time that the shares are liquidated and the cash proceeds are used to pay off the receivable and any excess cash will be returned to the client in accordance with the contract. For financial reporting purposes, the Company does not classify these shares as investments, but rather as a deposit for receivable settlement.

Customer deposits

Advance payments from customers are recorded as customer deposits on the balance sheet.

	<u>2013</u>	<u>2012</u>
Advance payments from customers	\$ 127,550	\$ -
Prepaid sales of vaporizers	75,636	
Total customer deposits	<u>\$ 203,186</u>	<u>\$ -</u>

At December 31, 2012 the Company didn't hold any deposits from customers.

Note 10 – Long-term and Short-term Debt

Long-term debt at December 31, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Loan to a bank payable in monthly installments of \$1,535 including interest at 8.8% through May 2016. The note is secured by a vehicle.	\$ -	\$ 58,848
Notes payable to unrelated third party payable		<u>50,000</u>
Total long-term debt		108,848
Less current portion		<u>(16,428)</u>
Long-term portion	<u>\$ -</u>	<u>\$ 92,420</u>

During 2013 the Company sold the vehicle. The original vehicle acquisition was financed by an auto loan provided by a major bank. The outstanding balance of the loan was repaid in full to the bank with proceeds from the sale of the vehicle.

Short-term debt at December 31, 2013 and 2012 consists of:

	<u>2013</u>	<u>2012</u>
Note payable to unrelated third party payable	\$ 75,000	\$ -
Notes payable to related party	111,794	
Total current debt	<u>\$ 186,794</u>	<u>-</u>

Note payable to unrelated party was signed on March 22, 2013 and is due on April 22, 2014, bearing an interest rate of 10% per annum. Interest expense for 2013 on notes payable amounted to \$27,417. The notes payable to related parties bear no interest.

Note 11 – Related Party Transactions

During 2012, the Company issued notes payable to a shareholder in the aggregate amount of \$125,000 in exchange for the shareholder's original investment in PVM common stock. The notes bear no interest and are due on demand. As of December 31, 2012, the outstanding balance on the notes was \$94,000 and as of December 31, 2013, the notes were paid in full.

On January 1, 2012, the Company issued a note payable to PVMI which is 100% owned by the founder of the Company in the amount of \$1,000,000 along with the issuance of 2,000,000 shares of the Company's common stock for 100% of PVMI Named Subsidiaries and for the exclusive use of patents related to PVMI's dispensing systems. The note was secured with 1,000,000 shares of the Company's common stock. The note was due on demand and bore interest at 10% of the outstanding balance beginning January 1, 2013. The balance at December 31, 2012 was \$775,038 and as of December 31, 2013, the note was paid in full.

The Company utilizes Vincent Chase Inc., which is 100% owned by the founder of the Company for management advisory and consulting services. During the years ended December 31, 2013 and 2012, the Company incurred fees of \$262,500 and \$230,706, respectively, for these services.

During 2013, the Company issued two promissory notes payable to Vincent Chase Inc., on September 20, 2013 in the amount of \$150,000 and on October 28, 2013 in the amount of \$100,000. At December 31, 2013 the outstanding amount for the combined notes was \$111,794.

The Company utilizes Kind Clinics, LLC, which is 100% owned by the Chief Executive Officer of the Company for management advisory and consulting services. During the year ended December 31, 2012, the Company incurred \$113,613 in fees for these services.

For the year ending December 31, 2013, the Company paid salary to Dr. Bruce Bedrick, the Chief Executive Officer in the gross amount of \$133,991. In addition, during 2013 the Company paid to Dr. Bedrick various expense reimbursements related to Company construction projects in Arizona in the amount of \$98,519 and advances on investments in Bio-tech in the amount of \$24,000.

For the year ended December 31, 2012 the Company utilized AVT, Inc., for the procurement, manufacture and assembly of its dispensary units. During 2012, the Company incurred approximately \$480,000 and \$510,000 in manufacturing costs. In addition, the Company's existing inventory of dispensary units was held at AVT, Inc.'s manufacturing facility in Corona, California on behalf of the Company. The Company believes that its transactions with AVT, Inc. during 2012 were completed on an arms-length basis.

Note 12 – Stockholder's Equity

Preferred Stock

In November 2011, the Company issued 6,000,000 shares of its Series A convertible preferred stock, par value \$0.001 per share, to the founder and a shareholder of the Company. Each share of preferred stock can be converted into five shares of common stock. In October 2012, 3,000,000 shares of preferred stock were returned to the Company by the shareholder and reissued to the founder. In January 2013, the founder returned to the Company the 3,000,000 shares of Preferred stock and they were immediately cancelled.

Common Stock

During 2013, the Company issued 1,079,303 shares of common stock at an average price \$5.35, resulting in net cash proceeds of \$4,486,541. In addition, during 2013, the Company had non-cash additions to equity from the issuances of warrants and common stock in connection with the VII acquisition of \$1,285,553.

On December 18, 2013 the Company declared a two-for-one (2:1) forward stock split on its outstanding common stock, effectuated in the form of a common stock dividend. This stock dividend required FINRA approval which was granted in 2014 and the stock dividend aggregating in 14,762,875 common shares was issued on February 3, 2014. Accordingly, the Company's consolidated financial statements have been retroactively stated to reflect the 2:1 forward stock split.

Note 13– Income (Loss) Per Share

The calculation of basic and diluted net income (loss) per share for the twelve months ended December 31, 2013 and 2012 is summarized as follows:

	<u>Income (Loss)</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per-Share</u> <u>Amount</u>
<u>December 31, 2013</u>			
Basic EPS:			
Net loss attributable to common shareholders	\$ (556,655)	28,971,983	\$ <u>(0.02)</u>
Effect of dilutive securities			
Convertible preferred stock	---	<u>15,534,247</u>	
Diluted EPS:			
Net loss attributable to common shareholders and assumed conversions	<u>\$ (556,655)</u>	44,506,230	\$ (0.01)
<u>December 31, 2012</u>			
Basic EPS:			
Net loss attributable to common shareholders	\$ (344,487)	25,119,175	\$ <u>(0.01)</u>
Effect of dilutive securities			
Convertible preferred stock	---	30,000,000	
Diluted EPS:			
Net loss attributable to common shareholders and assumed conversions	<u>\$ (344,487)</u>	55,119,175	\$ <u>(0.01)</u>

Note 14 – Income Taxes

The Company accounts for income taxes under FASB ASC 740-10, which requires use of the liability method. FASB ASC 740-10-25 provides that deferred tax assets and liabilities are recorded based on the differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences.

Deferred income taxes are provided for temporary differences arising from using the straight-line depreciation method for financial statement purposes and accelerated methods of depreciation for income taxes, including differences between book and tax for amortizing organization expenses. In addition, deferred income taxes are recognized for certain expense accruals, allowances and net operating loss carry forwards available to offset future taxable income, net of valuation allowances for potential expiration and other contingencies that could impact the Company's ability to recognize the benefit.

The Company is required to file federal and state income tax returns. Various taxing authorities may periodically audit the Company's income tax returns. These audits would include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions.

The Company has not yet undergone an examination by any taxing authorities. Management has performed its evaluation of all other income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax provisions in the accompanying financial statements.

From time to time, the Company may be subject to interest and penalties assessed by various taxing authorities. These amounts have historically been insignificant and are classified as other expenses when they occur.

The consolidated provision for federal and state income taxes for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current income taxes		
Federal	\$ (147,442)	\$ (117,125)
State	(34,335)	(30,450)
	<u>(181,777)</u>	<u>(145,575)</u>
Deferred income taxes		
Federal	147,442	117,125
State	38,335	30,450
	<u>185,777</u>	<u>145,575</u>
Provision for income taxes	\$ 4,000	\$ ---

The components of the Company's tax rates for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Tax rates		
Federal	34.00%	34.00 %
State	8.84%	8.84 %
	<u>42.84%</u>	<u>42.84 %</u>

The tax provision differs from the expense that would result from applying statutory rates to income before income taxes primarily because of depreciation, state income taxes, and the nondeductibility of certain expenses for income tax purposes.

Note 15 – Commitments and Contingencies

The Company may rent property, equipment, transportation equipment, and various clinics on an as needed basis.

On August 1, 2011, the Company entered into a lease agreement for office space located in West Hollywood, California through June 30, 2017 at a monthly rate of \$14,397.

In addition, the Company leases office facilities located at West Hills, California and Scottsdale, Arizona from unrelated third parties at a monthly rate of \$1,300 and \$1,420. The West Hills lease is on a month to month basis. The Arizona lease is a non-auto renewing lease with the most current agreement covering the period from November 1, 2013 to April 30, 2014. In March 2014, a new lease agreement was signed for six months commencing May 1, 2014.

At December 17, 2013 the Company's subsidiary VII entered in to an agreement for a 1 year non-cancelable lease in Deerfield Beach, Florida. The lease starts on January 1, 2014 at a monthly rate of \$1,981, after December 31, 2014 the lease will be on a month to month basis.

The Company rents virtual offices/meeting spaces in Tokyo, London and New York on a month to month basis for approximate \$330 per month. The payment is charged to rent expense as incurred.

Total rent expense under operating leases for December 31, 2013 and 2012 was \$142,200 and \$124,727, respectively.

The minimum future lease payments under non-cancelable operating leases with remaining term in excess of one year at December 31, 2013 were as follows:

Note 16 – Subsequent Events

In January and February 2014 the Company sold 485,830 shares of common stock at a price of \$5.00 per share raising net proceeds of approximately \$2,400,000.

The Company's inventory at December 31, 2013 includes the capitalized costs acquired by the Company during developing of new markets. These costs are charged to cost of revenues after finalizing work on the consulting agreements for specific market by allocation total capitalized costs to the number of clients in the specific market. In late January 2014 the announcement for

awarding licenses for dispensaries in Massachusetts was issued and the Company was unsuccessful obtaining any license in that state. As a result, the acquired costs accumulated for developing the market of Massachusetts will be charged to cost of revenues in January 2014 in the amount of \$259,657.

In February 2014 the Company issued notes payable to PVMI which is 100% owned by the founder of the Company in the amount of \$250,000 and \$100,000. These notes were substantially repaid and as of March 28, 2014 the outstanding balance was \$16,574.

The Company retained Vincent Chase Inc. for 2014 for management advisory and consulting services for the monthly compensation of \$12,500.

On December 18, 2013 the Company declared a two-for-one (2:1) forward stock split, effectuated in the form of a common stock dividend on each share of its outstanding common stock. The stock dividend was issued on February 3, 2014 in the amount of 14,762,875 common shares.

On February 26, 2013, the Company entered into a Stock Purchase Agreement and Technology Licensing Agreement to acquire 25% or 833,333 shares of Bio-Tech in exchange for \$1,500,000 and 700,000 shares of the Company's common stock. On February 27, 2014 the Company signed a settlement agreement with Bio-Tech. According to the agreement, the Company maintained full license rights on the Bio-Tech technology for the term of five years with no additional monies due from the Company. All stock transfers between the companies were canceled and rescinded.

The Company has elected J. Mitchell Lowe, co-founder of Netflix and former Redbox president, to its Board of Directors, effective March 3, 2014. Mr. Lowe is the first Independent Director of the Company.