



### **Not-so-risky business**

By Patrick Yeagle

Chris Stone knew from the start that it would all work out. And even if it didn't, he wasn't afraid to fail. Stone is part owner of HCI Alternatives, Springfield's first medical cannabis dispensary, which marked its first year in business this month. Opening the shop was a risk, Stone says, but he's confident in its future and that of the Illinois medical cannabis industry.

Besides his stake in HCI, Stone is a lobbyist, commercial real estate developer and owner of several video gaming parlors in Springfield. He says he became interested in medical cannabis after researching it for a liquor distributor who saw existing distribution infrastructure as potentially well-suited for the medical cannabis industry. Ultimately, the distributor decided not to get involved in medical cannabis distribution because of banking complications, but Stone saw an opportunity in the industry for himself.

Illinois lawmakers approved a limited medical cannabis pilot program in August 2013. Thanks to the painstaking process of creating administrative rules to govern the program, it would take more than two years before the first medical cannabis dispensaries opened in Illinois in November 2015. HCI Alternatives opened at 628 E. Adams St. on Feb. 15, 2016. A second medical cannabis dispensary, Maribis of Springfield, opened earlier this year under different ownership.

In the early days of Illinois' pilot program, there were questions about whether the medical cannabis industry in Illinois could survive, given the strict limits on which conditions made patients eligible, cumbersome procedures for patient approval, costly minimum investments for cannabis growers and dispensaries and reluctance among doctors to essentially recommend patients for the program.

Since then, several things have changed. The list of eligible conditions has been expanded – both through legislative action and lawsuits. Patient approval for the program has been streamlined. Doctors no longer have to attest that a patient seeking approval for the program may benefit from marijuana use; they must simply sign a form confirming that a patient has a qualifying medical condition. As a result, the number of eligible patients statewide has grown from 4,400 when HCI Alternatives opened to 15,900 as of Feb. 1.

Stone says the changes are welcome, but he would have invested in the industry even without the expectation that the regulations would be loosened. While some in the industry are still concerned about the number of patients in the program, Stone says it takes time to establish a business – especially in a new market.

"Trust me, it's going to grow," he said. "We're in the first year of this thing. There are probably a lot of people who are burning through cash and not making any money. Venture capital funds burn through cash, and they generally don't make any money for three to four years. When they do make money, they generally return capital around year four, and from year five on, it's gravy if you do the right things. Don't think you're going to get your money back in six months or even a year. You don't get into a business like this thinking that's going to happen."

Stone says the biggest challenge for HCI in its first year hasn't been getting enough customers; it's been inventory control. State regulations mandate nightly inventory counts and extremely specific record-keeping to make sure no marijuana makes it to the street illegally.

"The computer systems the state has put in place on their side and on ours have to be completely, 100-percent accurate," Stone said. "If they're not, we have to reconcile it and figure out where we're wrong, whether it's dollar amounts or the inventory itself."

There are now 51 licensed medical cannabis dispensaries in Illinois, and it appears sales are picking up pace. From November 2015 to Feb. 1 of this year, dispensaries across the state made a total of \$42.2 million in retail sales. More than 10 percent of that total came in December of last year, at nearly \$4.7 million.

The Illinois medical cannabis program – and other state-level moves to relax marijuana restrictions – have developed despite the fact that the plant is still officially illegal at the federal level. Under the Obama administration, the U.S. Drug Enforcement Agency refused to reschedule marijuana from the most tightly controlled Schedule I classification to Schedule II or lower. Other Schedule I drugs include heroin and LSD, while cocaine and methamphetamine are listed on Schedule II. Despite the DEA's reticence toward marijuana, a federal budget bill passed in 2014 directed the agency not to raid medical marijuana facilities in states where it's legal.

The stance of President Donald Trump's administration toward marijuana legalization at the state level remains to be seen. Although incoming U.S. Attorney General Jeff Sessions is considered strongly anti-marijuana by some observers, Stone notes that Sessions also places a strong emphasis on state's rights. Stone isn't expecting federal raids on state-licensed medical cannabis facilities to start under the new administration.

Instead, Stone expects social acceptance of marijuana to accelerate at "warp speed" over the next 10 years, probably to be accompanied by relaxed legal restrictions and more patients in Illinois' medical cannabis program. In the meantime, he says some medical cannabis businesses in Illinois will consolidate or even fail, but the industry itself will survive.

"The State of Illinois is the most restrictive and highly regulated state in the country when it comes to medical marijuana, and I think for good reason," he said. "To roll this out slowly is the better deal." u