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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q/A**  
(Amendment No. 1)

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 000-54928

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**MEDBOX, INC.**

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

45-3992444  
(I.R.S. Employer  
Identification No.)

8439 West Sunset Blvd., Suite 101, West Hollywood, CA  
(Address of principal executive offices)

90069  
(zip code)

(800) 762-1452  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 12, 2014, the registrant had 30,011,580 shares of common stock, par value \$0.001 per share, outstanding.

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**Explanatory Note**

This Amendment No. 1 to Medbox, Inc.'s Form 10-Q for the three and six months ended June 30, 2014, initially filed with the U.S. Securities and Exchange Commission (the "SEC") on August 14, 2014 (the "Original Filing"), includes restated condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013 (the "Restated Financials") and a revised Management's Discussion and Analysis of Financial Condition and Results of Operations, which has been amended to provide disclosure regarding the effect of the Restated Financials.

The unaudited condensed consolidated financial statements of the Company contained in the Original Filing have been restated to correct errors relating to (i) the timing of recognition of certain revenues for certain customer contracts prior to the period in which they were earned, (ii) recognition of investments from related parties as capital contributions, and (iii) improper capitalization of inventory costs. See Note 15 to the Company's condensed consolidated financial statements included in "Item 1. Financial Statements" of this report and the information set forth in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information. The Company also has restated its unaudited condensed consolidated financial statements as of and for the quarterly periods ended March 30 and September 30, 2014 and the audited condensed consolidated financial statements for the years ended December 31, 2013 and December 31, 2012 set forth in its General Form of Registration of Securities on Form 10 in connection herewith.

The Company has amended and restated in its entirety each item of the Original Filing that required a change to reflect this restatement and to include certain additional information. These items include Item 1 and Item 2 of Part I and Item 6 of Part II of this report. No other information included in the Original Filing is amended hereby.

Except as stated above, this Amendment speaks only as of August 14, 2014 (the "Original Filing Date"), and this filing has not been updated to reflect any events occurring after such date or to modify or update disclosures affected by other subsequent events. In particular, forward-looking statements included in this Amendment represent management's views as of the Original Filing Date. Such forward-looking statements should not be assumed to be accurate as of any future date. This Amendment should be read in conjunction with the Company's other filings made with the SEC subsequent to the Original Filing Date, together with any amendments to those filings.

As previously disclosed in the Company's Current Reports on Form 8-K filed on December 30, 2014 and March 9, 2015, respectively, the Company's unaudited condensed consolidated financial statements previously included in the Original Filing, the Company's audited condensed consolidated financial statements for the years ended December 31, 2012 and 2013 reported in the Company's General Form of Registration of Securities on Form 10 and the unaudited condensed consolidated financial statements as of and for the quarterly periods ended March 31, and September 30, 2014 and 2013 should not be relied upon until restatements thereof have been filed with the SEC.

Pursuant to Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, this Form 10-Q/A includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

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**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

MEDBOX, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited) (Restated)	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 975,027	\$ 168,003
Marketable securities	321,043	184,800
Accounts receivable	309,097	339,735
Note receivable	—	115,000
Inventory	670,777	632,986
Prepaid expenses and other current assets	357,566	89,241
<b>Total current assets</b>	<b>2,633,510</b>	<b>1,529,765</b>
Property and equipment, net of accumulated depreciation of \$35,409 and \$21,123, respectively	155,190	140,658
Investments, at cost	—	1,200,000
Intangible assets, net of accumulated amortization of \$57,417 and \$32,750 respectively	813,946	682,429
Note receivable	155,000	—
Goodwill	1,100,037	1,090,037
Deposits and other assets	43,662	98,726
Total assets	<b>\$ 4,901,345</b>	<b>\$ 4,741,615</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 641,698	\$ 448,314
Deferred revenue	1,141,672	683,621
Notes payable	—	75,000
Related party notes payable	516,674	111,794
Customer deposits	1,660,198	785,861
Short term loan payable	76,738	—
<b>Total current liabilities</b>	<b>4,036,980</b>	<b>2,104,590</b>
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value: 10,000,000 authorized; 3,000,000 and 6,000,000 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	3,000	3,000
Common stock, \$0.001 par value: 100,000,000 authorized, 30,011,580 and 29,525,750 issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	30,012	29,526
Additional paid-in capital	10,583,731	8,156,358
Common stock subscribed	—	(15,000)
Treasury stock	(1,209,600)	—
Accumulated deficit	(8,542,778)	(5,536,859)
<b>Total stockholders' equity</b>	<b>864,365</b>	<b>2,637,025</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,901,345</b>	<b>\$ 4,741,615</b>

See notes to condensed consolidated financial statements

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**MEDBOX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>For the 3 months ended</b>		<b>For the 6 months ended</b>	
	<b>June 30, 2014 (Restated)</b>	<b>June 30, 2013 (Restated)</b>	<b>June 30, 2014 (Restated)</b>	<b>June 30, 2013 (Restated)</b>
Revenues	\$ 360,105	\$ 261,603	\$ 386,197	\$ 530,198
Revenues, related parties	—	—	24,918	—
Less: allowances and refunds	—	—	(60,000)	—
Net revenue	360,105	261,603	351,115	530,198
Cost of revenues	728,669	181,037	1,678,543	451,097
Gross margin	(368,564)	80,566	(1,327,427)	79,101
Operating expenses				
Selling and marketing	286,784	161,005	430,008	415,257
Research and development	67,033	10,000	75,033	18,500
General and administrative	663,415	661,451	1,225,115	1,354,133
<b>Total operating expenses</b>	<b>1,017,232</b>	<b>832,456</b>	<b>1,730,156</b>	<b>1,787,890</b>
Loss from operations	(1,385,796)	(751,890)	(3,057,583)	(1,708,789)
Other income (expense), net	38,012	(5,787)	51,664	(6,195)
Loss before provision for income taxes	(1,347,784)	(757,677)	(3,005,919)	(1,714,984)
Provision for income taxes	—	—	—	—
Net loss	(1,347,784)	(757,677)	(3,005,919)	(1,714,984)
Earnings per share attributable to common stockholders				
Basic	\$ (0.04)	\$ (0.03)	\$ (0.10)	\$ (0.06)
Diluted	\$ (0.04)	\$ (0.03)	\$ (0.10)	\$ (0.06)
Weighted average shares outstanding				
Basic	30,531,365	28,705,243	30,523,860	28,333,390
Diluted	30,531,365	28,705,243	30,523,860	28,333,390

*See notes to condensed consolidated financial statements*

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**MEDBOX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the period ended June 30, 2014 (unaudited) and December 31, 2013**

	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Common Stock Subscribed	Retained Earnings (Accumulated) (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balances at January 1, 2013	6,000,000	\$ 6,000	27,367,144	\$27,367	—	\$ —	\$ 1,711,673	\$(153,250)	\$ (1,745,419)	\$ (153,629)
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
Capital contributions, related parties	—	—	—	—	—	—	810,000	—	—	810,000
Net loss	—	—	—	—	—	—	—	—	(3,791,440)	(3,791,440)
Balances at December 31, 2013	<u>3,000,000</u>	<u>\$ 3,000</u>	<u>29,525,750</u>	<u>\$29,526</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 8,156,358</u>	<u>\$ (15,000)</u>	<u>\$ (5,536,859)</u>	<u>\$ 2,637,025</u>
Issuance of common stock, net of issuance costs	—	—	485,830	486	—	—	2,427,373	—	—	2,427,859
Proceeds from common stock subscribed	—	—	—	—	—	—	—	15,000	—	15,000
Treasury stock	—	—	—	—	(60,000)	(1,209,600)	—	—	—	(1,209,600)
Net loss (restated)	—	—	—	—	—	—	—	—	(3,005,919)	(3,005,919)
Balances at June 30, 2014 (Unaudited) (Restated)	<u>3,000,000</u>	<u>\$ 3,000</u>	<u>30,011,580</u>	<u>\$30,012</u>	<u>\$(60,000)</u>	<u>\$(1,209,600)</u>	<u>\$10,583,731</u>	<u>—</u>	<u>\$ (8,542,778)</u>	<u>\$ 864,365</u>

*See notes to condensed consolidated financial statements*

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**MEDBOX, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Six Months Ended	
	June 30,	
	2014	2013
Cash flows from operating activities		
Net income (loss)	\$(3,005,919)	\$(1,714,984)
Adjustments to reconcile net income (loss) to net cash:		
Depreciation and amortization	38,953	26,139
Allowances and refunds	60,000	—
Profit on sale of the investments	(9,600)	—
Value of securities received for services	(98,532)	—
Unrealized gain on marketable securities held for resale	(26,511)	—
Changes in operating assets and liabilities		
Accounts receivable	(29,362)	(59,739)
Loan receivable	—	(55,000)
Inventories	(37,791)	(628,864)
Prepaid expenses and other assets	(213,261)	(149,584)
Accounts payable and accrued expenses	193,384	(113,506)
Customer deposits	863,137	457,455
Deferred revenue	458,051	567,500
Net cash used in operating activities	(1,807,451)	(1,670,583)
Cash flows from investing activities		
Issuance of note receivable	(40,000)	—
Purchase of property and equipment, net	—	(193,593)
Purchase of intangible assets	(195,002)	—
Advances for investments	—	(1,200,000)
Net cash used in investing activities	(235,002)	(1,393,593)
Cash flows from financing activities		
Related party notes payable, net	404,880	(869,038)
Payments on long term loan	—	(58,137)
Short term loan, net	76,738	—
Payments on notes payable	(75,000)	—
Contributions to capital, related party	—	810,000
Proceeds from issuance of common stock, net	2,442,859	2,537,015
Net cash provided by financing activities	2,849,477	2,419,840
Net increase in cash	807,024	(644,336)
Cash, beginning of period	168,003	1,026,902
Cash, end of period	975,027	382,566
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 2,872	\$ 6,731
Cash paid for income taxes	—	\$ 9,068
Non- cash transactions:		
Liabilities assumed for Vaporfection International, Inc.	\$ —	\$ 469,000
Common stock warrants issued for Vaporfection International, Inc.	\$ —	\$ 1,166,000

*See notes to condensed consolidated financial statements.*



**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BUSINESS ORGANIZATION, NATURE OF OPERATIONS**

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. (“PVM”), Medicine Dispensing Systems, Inc. (“MDS”), Medbox Rx, Inc. 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. The Company, through its wholly owned subsidiary, Vaporfection International, Inc. (“VII”), sells a line of vaporizer and accessory products online and through distribution partners. The Company provides management oversight and compliance services for retail dispensaries and cultivation facilities through its Medbox Management Services, Inc. subsidiary. In addition, the Company procures real estate and enters into leases for retail dispensaries and cultivation centers through its real estate subsidiaries of Medbox Property Investments, Inc. and its wholly owned subsidiary, MJ Property Investments, Inc. 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. (“PVMI”). Pursuant to two separate closings held on January 1, 2012 and December 31, 2012, the Company acquired from PVMI all of the outstanding shares of common stock of (i) Prescription Vending Machines, Inc., (ii) Medicine Dispensing Systems, Inc. (our Arizona subsidiary), and (iii) Medbox, Inc. (our California subsidiary that is currently inactive) (these three listed subsidiaries are hereafter referred to as the “PVMI 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 PVMI is deemed to be a reverse acquisition, where Medbox, Inc. (the legal acquirer) is considered the accounting acquiree and the PVMI 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 PVMI Named Subsidiaries and the historical financial statements of PVMI 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 subsidiary, Prescription Vending Machines, Inc. was incorporated in the state of California in 2008 and our subsidiary, Medicine Dispensing Systems, Inc. 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 260,854 shares (before stock dividend) 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 (before stock dividend) of the Company’s common stock. This transaction was closed in April 2013.

On December 9, 2013 Medbox formed Medbox Technologies Ltd (MT), a Canadian corporation to operate as a consulting sales and marketing operation in Canada. As of June 30, 2014 there was no activity for this company.

On April 9, 2014, the Company formed six new subsidiaries, as follows:

- Medbox CBD, Inc., specializing in hemp-oil concentrates and development of pharmaceutical products derived from cannabis to produce and distribute products based upon lifting of federal prohibitions of such activities.
- Medbox Property Investments, Inc., specializing in real property acquisitions and leases to dispensaries and cultivation centers.  
MJ Property Investments, Inc. specializing in real property acquisitions and leases to retail stores and cultivation centers in the state of Washington. (This is a wholly owned subsidiary of Medbox Property Investments, Inc.)
- Medbox Management Services, Inc., specializing in dispensary management services to State licensed dispensaries for cultivation, dispensing, and marijuana infused products (MIPS).
- Medbox Merchant Service, Inc., specializing in banking transactions with prepaid debit cards, convenience checks, and cash depository needs for operators.
- Medbox Armored Transport, Inc., specializing in armored car transport of cash from dispensaries to participating banks.
- Medbox Investments, Inc., specializing in investments and strategic partnerships in other public companies in the marijuana ancillary service sector that Medbox believes are viable and have growth potential.

In order to obtain the license for one of the Company’s clients the Company registered a nonprofit corporation Allied Patient Care, Inc. in the state of Oregon.

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**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

*Principles of Consolidation*

The consolidated financial statements include the accounts of Medbox, Inc. and its wholly owned subsidiaries, PVM, MDS, VII, MT, Medbox Rx, Inc. (Rx), Medbox CBD, Inc., Medbox Property Investments, Inc., MJ Property Investments, Inc., Medbox Management Services, Inc., Medbox Merchant Service, Inc., Medbox Armored Transport, Inc., and Medbox Investments, Inc. All intercompany transactions have been eliminated.

Medbox CBD, Inc., Medbox Property Investments, Inc., MJ Property Investments, Inc., Medbox Management Services, Inc., Medbox Merchant Service, Inc., Medbox Armored Transport, Inc. and Medbox Investments, Inc., represents additional subsidiaries included in the consolidated financial statements for the year 2014.

*Use of Estimates*

The preparation of condensed 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 condensed consolidated financial statements as well as the reported expenses during the reporting periods. 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 and warrants 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. Actual results could differ from these estimates.

*Concentrations of Credit Risk (Restated)*

The Company maintains cash balances at several financial institutions in the Los Angeles, California area and Florida. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014 and December 31, 2013, the Company's uninsured balances totaled \$432,261 and \$0, 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 June 30, 2014 two customers accounted for 90.2 % of the outstanding receivables of the Company, as compared to 78.1% at December 31, 2013 For the six months ended June 30, 2014 and 2013, two customers accounted for 66.6% and 93.4% of the gross revenues, respectively.

Customer	June 30, 2014		January - June 2014		December 31, 2013		January - June 2013	
	Accounts Receivable		Revenue		Accounts Receivable		Revenue	
	Amount, \$	%			Amount, \$	%		
A	175,000	56.6%	175,000	42.6%	150,000	44.2%	150,000	28.3%
B	104,000	33.6%			115,200	33.9%		
C			98,532	24.0%			150,000	28.3%
D							100,000	18.9%
E							95,000	17.9%
	<u>279,000</u>	<u>90.2%</u>	<u>273,532</u>	<u>66.6%</u>	<u>265,200</u>	<u>78.1%</u>	<u>495,000</u>	<u>93.4%</u>
Total	<u>309,097</u>	<u>100%</u>	<u>411,116</u>	<u>100.0%</u>	<u>339,736</u>	<u>100%</u>	<u>530,198</u>	<u>100.0%</u>

*Advertising and Marketing Costs*

Advertising and marketing costs are expensed as incurred. The Company incurred advertising and marketing costs of \$286,784 and \$161,005 for the three months ended June 30, 2014 and 2013, and \$430,008 and \$415,257 for the six months ended June 30, 2014 and 2013, respectively.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

*Research and Development*

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of \$67,033 and \$10,000 for the three months ended June 30, 2014 and 2013, and \$75,033 and \$18,500 for the six months ended June 30, 2014 and 2013, respectively.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

*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 and received warrants for service provided to unrelated third party. The Company has no exposure to gain or loss on the increase or decrease in the value of the marketable securities received as a payment from customer 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 Company's billings will be returned to the customer. The securities received as a payment for services provided will be exposed to gains or losses following their initial evaluation as of the date the revenue was earned.

Warrants and other financial assets received as a payment for the services provided are recorded as "Marketable securities" under the current assets if they are expected to be realized within 12 months. The Company uses the Black-Scholes model to measure the value of the warrants. At each reporting date the Company will reevaluate the value of marketable securities and record any changes in value to other income (expense) under "Unrealized gain or losses from marketable securities".

*Revenue Recognition (Restated)*

The Company applies the revenue recognition provisions pursuant to ASC No. 605, *Revenue Recognition*, 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.

Revenue is only recognized when the following four criteria are met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) sales price is fixed and determinable and 4) collectability is reasonably assured. For multi-year contracts with upfront payments made by customers, the upfront payments are recognized over the longer of the contract period or the customer relationship. For contracts that include multiple deliverables such as the build out of customer facilities, the Company recognizes revenue when a milestone is reached in the contract such as securing the location, delivery of dispensing machines or completion of the facility. The contract terms are broken down in specific milestones with specific attributable revenue to be earned upon successful completion of the milestone terms. (e.g. if a milestone is completing construction on a client dispensary, the condition for the revenue to be recorded is after issuance of a certificate of occupancy for the newly completed facility. The Company will record a specified amount of revenue attributable to this milestone based on the contract). Equipment sales not associated with a consulting contract are recognized as the product is shipped and title passes. Advance payments from clients in advance of work performed are recorded as customer deposits on the balance sheet.

An allowance for bad debt is established for any customer when their balance is deemed as possibly uncollectible.

Provisions for estimated returns and allowances, and other adjustments are usually provided in the same period the related sales are recorded. The Company will at times allow customers to receive full refunds should regulatory events prevent the customer from being able to operate his or her contracted location. The provision for returns as well as an allowance for doubtful accounts is included in the Company's balance sheet as determined by management.

*Cost of Revenues (Restated)*

Cost of revenue 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 when the client moves in. We only begin capitalizing costs when we have obtained a license and a site for operation of a customer dispensary or cultivation center. The previously capitalized costs are charged to cost of revenue in the same period that the associated revenue is earned. In the case where it is determined that previously inventoried costs are in excess of the projected net realizable value of the sale of the licenses then the excess cost above net realizable value is written off to cost of revenues. In addition, cost of revenue related to our vaporizer line of products consists of direct procurement cost of the products along with costs associated with order fulfillment, shipping, inventory storage and inventory management costs.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

**Basic and Fully Diluted Net Income/Loss Per Share**

Basic net income/loss per share is computed by dividing net income/loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share includes the effects of any outstanding options, warrants and other potentially dilutive securities. The Company did not consider any potentially dilutive common shares in the computation of diluted loss per share for the periods ending June 30, 2014 and December 31, 2013, due to the net loss, as they would have an anti-dilutive effect on EPS.

As of June 30, 2014 and December 31, 2013, the Company had 3,000,000 shares of Series A preferred stock outstanding with par value of \$0.001 that could be converted into 15,000,000 shares of the Company's common stock. The Company also had 295,854 warrants to purchase common stock outstanding as of June 30, 2014.

*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 the customer to pay a portion of the contract price up front and the rest 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 operations and a credit to an allowance for doubtful accounts 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 doubtful accounts. As of June 30, 2014 and December 31, 2013, the Company's management considered all accounts outstanding fully collectible.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

*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

*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.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (RESTATED)**

*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.

**NOTE 3 – ACQUISITION**

On March 22, 2013, the Company entered into a purchase agreement for 100% of the issued and outstanding common stock of Vaporfection International Inc. ("VII") owned by Vapor Systems International LLC. The Company closed the transaction on April 1, 2013. The Company issued 260,854 warrants to shareholders of VII allowing them to purchase one (1) share of Medbox 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	<u>895,000</u>
Total assets acquired	1,635,000
Fair value of liabilities assumed	<u>(469,000)</u>
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 March 31, 2014 and December 31, 2013, the liabilities assumed have been increased by approximately \$10,000 and \$195,000 respectively as they have been accrued or settled. No additional adjustments to Goodwill occurred in the three months ended June 30, 2014. Accordingly, \$205,000 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 of common stock to be issued in the event that the performance of the business unit exceeds \$11,818,140 of accumulated EBITBA profitability over the subsequent 4 year operating period. The performance payout is contingent upon future events and accordingly has the Company has treated the obtainment of that performance provision as being remote and consequently has not assigned any future value to the purchase price.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – INVESTMENTS**

On February 8, 2013, the Company entered into an agreement with Bio-Tech Medical Software, Inc. which would allow the Company to purchase 833,333 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 agreements with them.

On February 27, 2014, the Company signed a settlement agreement, and in connection therewith, a second amended and restated technology license agreement with Bio-Tech. Pursuant to the second amended and restated technology license agreement, the Company received full licensed right to biometric inventory tracking technology for the term of five years with no additional monies due. All stock transfer between companies was canceled and rescinded.

On June 5, 2014 the Company entered into a sale agreement with an affiliate company owned by the co-founder of the Company for the sale of all Bio-Tech rights and claims and a contribution for legal costs of \$4,800 in exchange for the return of 30,000 shares of the Company's common stock with a fair value of \$604,800. These shares are treated as treasury stock and are able to be reissued.

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 whereby 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, Medbox filed suit against MedVend Holdings, LLC and the three members of that entity that were involved in the transaction.

On June 5, 2014 the Company entered into a sale agreement with an affiliate company owned by the co-founder of the Company for the sale of all the MedVend rights and claims and a contribution for legal costs of \$4,800 in exchange for 30,000 shares of the Company's common stock with a fair value of \$604,800. These shares are treated as treasury stock and are able to be reissued.

The shares of common stock received for the Bio-Tech and MedVend sales to the affiliate company are recorded as treasury stock at cost of \$1,209,600.

**NOTE 5 – INVENTORIES (RESTATED)**

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 June 30, 2014 and December 31, 2013 consist of:

<u>Inventories</u>	<u>June 30, 2014</u> <u>(Restated)</u>	<u>December 31, 2013</u>
Work in process and related capitalized costs	\$ —	\$ 242,488
Deposits on dispensing machines	214,102	138,423
Vaporizers and accessories	456,675	193,575
Dispensing machines	—	58,500
Total inventory	<u>\$ 670,777</u>	<u>\$ 632,986</u>



**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2014 and December 31, 2013 consists of:

<b>Property and Equipment</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Office equipment	\$ 18,770	\$ 17,192
Furniture and fixtures	74,404	73,567
Website development	46,922	46,922
Product tooling	50,503	24,100
	190,599	161,781
Less accumulated depreciation	(35,409)	(21,123)
Property and equipment, net	<b>\$ 155,190</b>	<b>\$ 140,658</b>

Product tooling costs are related to the tooling of a new product by VII. These tooling costs are accumulated and capitalized until the date of launching the new product which is expected to commence in the third quarter of 2014.

**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.

<b>Intangible assets</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Distributor relationship	\$ 314,000	\$ 314,000
IP/technology/patents	403,363	332,179
Domain names	131,000	46,000
Non-compete covenants	23,000	23,000
Subtotal	871,363	715,179
Less accumulated amortization	(57,417)	(32,750)
Intangible assets, net	<b>\$ 813,946</b>	<b>\$ 682,429</b>

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

Distributor Relationship	10 years
Domain Names	10 years
IP/Technology/Patents	10 years
Non-Compete covenants	3 years

The Company's management does not believe any impairment of intangible assets has occurred as of June 30, 2014.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 – ACCOUNTS AND NOTES RECEIVABLE (RESTATED)***Accounts receivables*

Periodically, the Company assesses and reviews the receivables for collectability. As of June 30, 2014 and December 31, 2013, the Company's management considered all accounts outstanding fully collectible.

*Notes Receivable*

During December 2013, the Company entered into a multiple advance secured promissory note for \$1,000,000 with a Canadian partner, all transactions with whom are considered to be on an arms-length basis. This note is due on December 10, 2018 and payable, together with interest at 5% per annum. As of June 30, 2014 and December 31, 2013 the outstanding balance of this note receivable was \$155,000 and \$115,000 respectively.

**NOTE 9 – MARKETABLE SECURITIES**

Marketable securities of the Company represent the shares received as a payment from clients for services provided. As of June 30, 2014 and December 31, 2013 the fair value of these marketable securities was \$321,043 and \$184,800, respectively.

As of June 30, 2014, the Company held as a deposit 7,000,000 restricted 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 June 30, 2014 and December 31, 2013 (with 12% discount because of restriction as of December 31, 2013) was \$196,000 and \$184,800. The value of these unliquidated shares is offset against the outstanding amounts owed to the Company up to \$300,000 (the value of receivable of the client) until such time that the shares are liquidated and only at that time that the cash proceeds are used to pay off the receivable will any excess cash received be returned to the client in accordance with the contract.

On May 19, 2014 the Company entered into an agreement with MJ Holdings, Inc., a publicly traded company that provides real estate financing and related solutions to licensed marijuana operators. The Company will market MJ Holdings' real estate financial products and offerings to its consulting clients and will direct all incoming real estate related opportunities to MJ Holdings. Under the agreement, the Company will receive 50% of management fees and profits realized from the real estate opportunities it presents, in addition to warrants to purchase shares in MJ Holdings. The initial term of the agreement is six months, and will renew automatically for successive one month terms, unless one of the parties notifies the other in writing of its the intention to terminate the agreement. During the six month period MJ Holdings, Inc. will issue to the Company 33,333 warrants of common stock on each month's anniversary of the contract. As of June 30, 2014 the Company received two warrants for the services provided under the agreement. The following table represents the initial recognition value and subsequent adjustment as of reporting date:

<b>Warrants</b>	<b>Initial Recognition Fair Value</b>	<b>Fair Value at Conversion</b>	<b>Gain or Loss</b>	<b>Fair Value as of June, 30 2014</b>
Warrant #1	\$ 95,866	\$ (94,719)	\$ (1,147)	\$ —
Conversion of the Warrant #1 to 10,825 shares	—	94,719	(10,609)	84,110
Warrant #2	2,666	—	38,267	40,933
Total	<u>\$ 98,532</u>	<u>\$ —</u>	<u>\$ 26,511</u>	<u>\$ 125,043</u>

At initial recognition the value of warrants is recorded as "Marketable securities" and revenue for services provided. Subsequent to initial recognition all valuation adjustments are reflected through other income (expense) as "Unrealized gain or losses from marketable securities". In June 2014, warrant #1 was converted to 10,825 shares of MJ Holdings common stock through the cashless exercise option. The fair value of the shares as of June 30, 2014 was \$84,110. The Company uses the published closing price of the stock to value the stock held by the Company.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – MARKETABLE SECURITIES**

The Company uses a Black-Scholes model to measure the value of the warrants. The following data were introduced in the model in order to assess the value of the warrants assuming that the Company expects to keep the warrants for six months:

<b>Black-Scholes Calculator Data</b>	<b>Initial Valuation and Recognition</b>		<b>Fair Value as of</b>
Warrant	#1	#2	#2
Stock price, \$	8.69	4.00	7.77
Exercise price, \$	6.41503521	8.454933	8.454933
Time to maturity, Years	0.5	0.5	0.475
Annual risk-free rate, %	0.05	0.05	0.07
Annualized volatility, %	70.0	70.0	70.0
Black-Scholes Value per warrant, \$	2.876	0.080	1.228
Number of warrants/shares	33,333	33,333	33,333
Total value of warrants/shares, \$	95,866	2,666	40,933

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – CUSTOMER DEPOSITS (RESTATED)**

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

<u>Customer deposits</u>	<u>June 30, 2014</u> <u>(Restated)</u>	<u>December 31, 2013</u>
Advance payments from customers	\$ 1,585,160	\$ 710,225
Prepaid sales of vaporizers	75,038	75,636
Total customer deposits	<u>\$ 1,660,198</u>	<u>\$ 785,861</u>

**NOTE 11 – SHORT-TERM DEBT**

Short-term debt as of June 30, 2014 and December 31, 2013 consisted of:

<u>Short-term debt</u>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Notes payable to unrelated third party	\$ —	\$ 75,000
Notes payable to related party	516,674	111,794
Short term loan payable	76,738	—
Total short-term debt	<u>\$ 593,412</u>	<u>\$ 186,794</u>

Note payable to unrelated party was signed on March 22, 2013 and was due on April 22, 2014, bearing an interest rate of 10% per annum. The note was paid in full.

The notes payable to related parties bear no interest.

The short term loan represents the outstanding balance of the financing in the amount of \$137,160 for the Directors' & Officers' liability insurance. The financing bears 4.25% interest and is payable in monthly payments of \$15,511 for nine months with the first payment due on March 5, 2014 and the last payment due on November 5, 2014.

**NOTE 12 – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets as of June 30, 2014 and 2013 consisted of:

<u>Prepaid expenses and other current assets</u>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Prepaid expenses:		
Rent	\$ 21,951	\$ 3,962
Directors & officers insurance	88,900	
Audit	25,000	25,000
Financial consultants	12,083	20,833
Business report	30,000	—
Other vendors	39,632	39,446
Other current assets-		
Earnest money deposits	140,000	—
Prepaid expenses and other current assets	<u>\$ 357,566</u>	<u>\$ 89,241</u>

Earnest money deposits consists of monies paid for opening escrow for the purchase of multiple properties to be used to develop retail dispensary or product cultivation facilities.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 – RELATED PARTY TRANSACTIONS (RESTATED)**

The Company utilizes Vincent Chase Inc., which is a related party and 100% owned by a co-founder of the Company for management advisory and consulting services. During the six months ended June 30, 2014, the Company incurred \$75,000 for these services at the rate of \$12,500 per month. The rate was increased to \$25,000 per month starting July 1, 2014.

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. As of June 30, 2014 the aforementioned notes were repaid in full.

During the first six months of 2014, the Company issued three notes payable to PVM International Inc. (“PVM”), a related party which is 100% owned by a co-founder of the Company in the amounts of \$250,000, \$100,000 and \$500,000. These notes were subsequently partially repaid leaving \$516,674 outstanding as of June 30, 2014.

On March 25, 2014, the Company completed a contract for management rights with a related party and shareholder in the amount of \$400,000. Also, the same related party paid the Company \$150,000 during the first quarter of 2014 on behalf of one of the related party’s partners. These amounts were recorded as deposits in the Company’s balance sheet. In addition, on March 28, 2014, the Company entered into an agreement with the same related party for territory rights in Colorado for \$500,000. The agreement has a term of five years and, accordingly, the revenue will be recognized ratably over five year term.

On July 9, 2014 the Company repaid \$500,000 of the related party notes payable to PVM.

On July 21, 2014, the Company paid \$75,000 to PVM as a partial payment for advances made by PVM for escrow deposits used to secure properties for possible license acquisition in the San Diego market area.

On August 13, 2014, the Company issued a note payable to PVM for \$350,000 in exchange for cash received.

**NOTE 14 – STOCKHOLDER’S EQUITY**

*Preferred Stock*

In November 2011, the Company issued 6,000,000 shares of \$0.001 par value Series A convertible preferred stock to the founder and a shareholder of the Company. This preferred stock can be converted to common stock at a ratio of 1 (one) share of Series A Preferred Stock to 5 (five) shares of common stock. In October 2012, 3,000,000 shares of Series A 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 Series A Preferred Stock and they were immediately cancelled. As of June 30, 2014, there are 3,000,000 shares of Series A Preferred Stock outstanding.

*Common Stock*

On June 5, 2014 the Company entered into two separate sale agreements with an affiliate company owned by the co-founder of the Company. One was for the sale of all Bio-Tech rights and claims and a contribution for legal costs of \$4,800 in exchange for 30,000 shares of Company common stock with a fair value of \$604,800 and another for the sale of all the MedVend rights and claims and a contribution for legal costs of \$4,800 in exchange for 30,000 shares of Company common stock with a fair value of \$604,800. These 60,000 shares of common stock are treated as treasury stock and are able to be reissued.

During the first quarter of 2014, the Company issued 485,830 shares of common stock at the price \$5.00 per share, resulting in net cash proceeds of \$2,427,859.

On December 19, 2013 the Company declared a 1:1 common stock dividend on each share of outstanding common stock. This stock dividend aggregating 14,762,875 restricted common shares was issued on February 3, 2014. Accordingly, the Company’s 2013 condensed consolidated financial statements have been retroactively stated to reflect the common stock dividend.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

The Company leases property for its day to day operations and has recently begun leasing facilities for possible retail dispensary locations and cultivation locations as part of the process of applying for retail dispensary and cultivation licenses.

*Office Leases*

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. Starting July 1, 2014, the monthly rent increased by 3% to \$14,828 per month.

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 May 1, 2014 to October 31, 2014.

At December 17, 2013 the Company's subsidiary Vaporfection International Inc. entered into a 1 year non-cancelable office lease in Deerfield Beach, Florida. The lease started on January 1, 2014 at a monthly rate of \$1,981. After December 31, 2014 the lease converts to a month to month basis.

The Company rents virtual offices/meeting spaces in Tokyo, New York, Toronto and Seattle on a month to month basis for an aggregate of approximately \$390 per month. The payment is charged to rent expense as incurred.

Total rent expense under operating leases for the three months ended June 30, 2014 and 2013 was \$52,129 and \$29,893, and for the six months ended June 30, 2014 and 2013 was \$103,602 and \$43,914, respectively.

*Retail/Cultivation facility leases*

The Company's business model of acquiring retail dispensary and cultivation licenses has made it important to acquire real estate either through lease arrangements or through purchase agreements in order to secure a possible license. On May 8, 2014, the Company entered into a lease agreement for five years with a monthly payment of \$7,400 in order to apply for a license and build-out of a location for a client.

The following table is a summary of our material contractual lease commitments as of June 30, 2014:

<u>Year Ending</u>	<u>Office Rent</u>	<u>Retail/Cultivation Facility Lease</u>
2014	\$ 88,968	\$ 44,400
2015	177,936	88,800
2016	177,936	88,800
2017	88,968	88,800
2018	—	88,800
2019	—	29,600
<b>Total</b>	<b>\$ 533,808</b>	<b>\$ 429,200</b>

*Real Estate Commitments*

As part of the changes in the Company's business model, the Company entered in various real estate purchase agreements at various times in order to allow the filing of retail dispensary or cultivation facility licenses in certain states and localities. These purchase agreements generally provide for a period of due diligence and a termination clause in the event that the Company is unable to obtain a license for its client. The agreements generally also provide for some monthly payment from escrow in order to compensate the real estate owner for the passage of time until the sale transaction is complete. Most of these payment releases from escrow are nonrefundable but applicable towards the purchase price if the Company decides to proceed with the purchase. The Company intends to close on the real estate where purchase agreements have been signed, or to seek partners to replace the Company on each property purchased.

During the six months period ended June 30, 2014 the Company deposited \$140,000 into six escrow accounts in order to secure the purchase of real estate to be used for future retail/cultivation facilities with an aggregate purchase price of \$4,639,000. The real estate purchase agreements have closing dates varying between July 18, 2014 and January 30, 2015. Two of the agreements were subsequently extended.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

*Other Commitments*

The Company has an obligation to a prior manufacturer of VII products to purchase certain unused components after a certain period of time upon the completion of the purchase of the stock of VII. The amount the Company is now committed to purchase is approximately \$56,000.

**NOTE 16 – RESTATEMENT**

On December 30, 2014, Medbox, Inc. (the “Registrant”) filed with the Securities and Exchange Commission a Current Report on Form 8-K (the “Original 8-K”) disclosing its determination to (i) amend and restate its financial statements for the year ended December 31, 2013, the third and fourth quarters of 2013 and the first three quarters of 2014 and (ii) to examine the Company’s financial statements for the fiscal year 2012 and the first two quarters of 2013 and, if necessary, to restate those also. Thereafter, management, together with its professional advisor, undertook a comprehensive review of revenue recognition for all periods from 2012 to the present.

Management and the outside professional advisor have completed the review of revenue recognition for the years 2012, 2013 and 2014. Conclusions that relate to the periods being restated herein include:

- 1) Revenue on some contracts with customers was recognized before all required criteria were met, resulting in an overstatement of revenue;
- 2) Certain transactions with related parties in the amount of \$810,000 during the year ended December 31, 2013 were improperly recorded as revenue instead of capital contributions; and,
- 3) Certain inventory costs in 2013 were improperly capitalized resulting in an understatement of cost of sales. These are costs to seek licenses and locations that should have been recorded as expense prior to executing a contract with a customer, obtaining a license and closing on real estate to operate a dispensary or cultivation center.

The combined impacts of all adjustments to the applicable line items in our consolidated financial statements for the periods covered by this Form 10-Q/A are provided in the tables below.

**Financial Statement Presentation.** In addition to the restatement of our consolidated financial statements, we have also restated the following items to reflect certain changes noted above.

- Note 2 – Summary of Significant Accounting Policies
- Note 5 – Inventories
- Note 8 - Accounts and Notes Receivable
- Note 10 - Customer Deposits
- Note 13. Related Parties

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16. RESTATEMENT****MEDBOX, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2014 (Unaudited) (As originally presented)	Impact of 2013 restatement	Early Recognition of Revenue	June 30, 2014 (Unaudited) (Restated)
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 975,027			\$ 975,027
Marketable securities	321,043			321,043
Accounts receivable	1,113,944	(1,524,771)	719,924	309,097
Inventory	1,545,311	(636,468)	(238,066)	670,777
Prepaid expenses and other current assets	357,566			357,566
<b>Total current assets</b>	4,312,891			2,633,510
Property and equipment	155,190			155,190
Investments, at cost	—			—
Intangible assets	813,946			813,946
Note receivable	155,000			155,000
Goodwill	1,100,037			1,100,037
Deposits and other assets	43,662			43,662
<b>Total assets</b>	6,580,726	(2,161,239)	481,858	4,901,345
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 791,698	(150,000)		\$ 641,698
Deferred revenue	—	683,621	458,051	1,141,672
Notes payable	—			—
Related party notes payable	516,674			516,674
Customer deposits	472,538	582,675	604,985	1,660,198
Provision for customers refunds	314,940		(314,940)	—
Short term loan payable	76,738			76,738
<b>Total current liabilities</b>	2,172,588	1,116,296	748,096	4,036,980
Stockholders' Equity				
Preferred stock	3,000			3,000
Common stock	30,012			30,012
Additional paid-in capital	9,212,731	1,371,000		10,583,731
Common stock subscribed	—			—
Treasury stock	(1,209,600)			(1,209,600)
Accumulated deficit	(3,628,005)	(4,648,535)	(266,238)	(8,542,778)
<b>Total stockholders' equity</b>	4,408,138	(2,161,239)	481,858	864,365
<b>Total liabilities and stockholders' equity</b>	\$ 6,580,726			\$ 4,901,345



**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16. RESTATEMENT****MEDBOX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For Three Months Ended June 30, 2014</b>		
	<b>As originally presented</b>	<b>Early Recognition of Revenue</b>	<b>Restated</b>
Revenue	\$ 434,448	(74,343)	\$ 360,105
Revenue from related party	—		—
Less: allowances and refunds	(266,930)	266,930	—
Net revenue	167,518	192,587	360,105
Cost of revenue	548,557	180,112	728,669
Gross margin	(381,039)	12,475	(368,564)
Operating expenses			
Selling and marketing	286,784		286,784
Research and development	67,033		67,033
General and administrative	783,415	(120,000)	663,415
<b>Total operating expenses</b>	<b>1,137,232</b>		<b>1,017,232</b>
Loss from operations	(1,518,271)		(1,385,796)
Other income, net	11,501		11,501
Unrealized gain/loss from marketable securities	26,511		26,511
	38,012		38,012
Loss before provision for income taxes	(1,480,259)		(1,347,784)
Provision for income taxes	—		—
Net loss	\$ (1,480,259)	132,475	\$ (1,347,784)
Loss per share attributable to common stockholders			
Basic	\$ (0.05)		\$ (0.04)
Diluted	\$ (0.05)		\$ (0.04)
Weighted average shares outstanding			
Basic	30,531,365		30,531,365
Diluted	30,531,365		30,531,365

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16. RESTATEMENT****MEDBOX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>For Six Months Ended June 30, 2014</u>		
	<u>As originally presented</u>	<u>Early Recognition of Revenue</u>	<u>Restated</u>
Revenue	\$ 728,998	(342,801)	\$ 386,197
Revenue from related party	1,000,000	(975,082)	24,918
Less: allowances and refunds	<u>(1,229,710)</u>	<u>1,169,710</u>	<u>(60,000)</u>
Net revenue	499,288	(148,173)	351,115
Cost of revenue	<u>1,440,477</u>	<u>238,066</u>	<u>1,678,543</u>
Gross margin	(941,189)	(386,238)	(1,327,427)
Operating expenses			
Selling and marketing	430,008		430,008
Research and development	75,033		75,033
General and administrative	<u>1,345,115</u>	<u>(120,000)</u>	<u>1,225,115</u>
<b>Total operating expenses</b>	<u>1,850,156</u>	<u>(120,000)</u>	<u>1,730,156</u>
Loss from operations	(2,791,345)		(3,057,583)
Other income, net	25,153		25,153
Unrealized gain/loss from marketable securities	<u>26,511</u>		<u>26,511</u>
	<u>51,664</u>		<u>51,664</u>
Loss before provision for income taxes	(2,739,681)		(3,005,919)
Provision for income taxes	—		—
Net loss	<u>\$ (2,739,681)</u>	<u>(266,238)</u>	<u>\$ (3,005,919)</u>
Earnings per share attributable to common stockholders			
Basic	<u>\$ (0.09)</u>		<u>\$ (0.10)</u>
Diluted	<u>\$ (0.09)</u>		<u>\$ (0.10)</u>
Weighted average shares outstanding			
Basic	<u>30,523,860</u>		<u>30,523,860</u>
Diluted	<u>30,523,860</u>		<u>30,523,860</u>

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**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16. RESTATEMENT****MEDBOX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>For Three Months Ended June 30, 2013</u>		
	<u>As originally presented</u>	<u>Early Recognition of Revenue</u>	<u>Restated</u>
Revenue	\$ 1,574,820	(1,313,217)	\$ 261,603
Revenue from related party	—		—
Less: allowances and refunds	—		—
Net revenue	<u>1,574,820</u>		<u>261,603</u>
Cost of revenue	<u>181,037</u>		<u>181,037</u>
Gross profit	1,393,783		80,566
Operating expenses			
Selling and marketing	161,005		161,005
Research and development	10,000		10,000
General and administrative	<u>661,451</u>		<u>661,451</u>
<b>Total operating expenses</b>	<u>832,456</u>		<u>832,456</u>
Income (loss) from operations	561,327		(751,890)
Other income (expense), net	<u>(5,787)</u>		<u>(5,787)</u>
	<u>(5,787)</u>		<u>(5,787)</u>
Income (loss) before provision for income taxes	555,540		(757,677)
Provision for income taxes	<u>90,060</u>		<u>90,060</u>
Net income (loss)	<u>\$ 465,480</u>	(1,313,217)	<u>\$ (847,737)</u>
Earnings per share attributable to common stockholders			
Basic	<u>\$ 0.02</u>		<u>\$ (0.03)</u>
Diluted	<u>\$ 0.01</u>		<u>\$ (0.03)</u>
Weighted average shares outstanding			
Basic	<u>28,705,243</u>		<u>28,705,243</u>
Diluted	<u>43,540,408</u>		<u>28,705,243</u>

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**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 16. RESTATEMENT****MEDBOX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>For Six Months Ended June 30, 2013</u>			
	<u>As originally presented</u>	<u>Early Recognition of Revenue</u>	<u>Related parties</u>	<u>Restated</u>
Revenue	\$ 2,820,342	(1,480,144)	(810,000)	\$ 530,198
Revenue from related party	—			—
Less: allowances and refunds	—			—
Net revenue	<u>2,820,342</u>			<u>530,198</u>
Cost of revenue	<u>801,097</u>	(350,000)		<u>451,097</u>
Gross profit	2,019,245			79,101
Operating expenses				
Selling and marketing	415,257			415,257
Research and development	18,500			18,500
General and administrative	<u>1,354,133</u>			<u>1,354,133</u>
<b>Total operating expenses</b>	<u>1,787,890</u>			<u>1,787,890</u>
Income (loss) from operations	231,355			(1,708,789)
Other income (expense), net	<u>(6,195)</u>			<u>(6,195)</u>
	<u>(6,195)</u>			<u>(6,195)</u>
Income (loss) before provision for income taxes	225,160			(1,714,984)
Provision for income taxes	<u>90,060</u>			<u>90,060</u>
Net income (loss)	<u>\$ 135,100</u>	<u>(1,130,144)</u>	<u>(810,000)</u>	<u>\$ (1,805,044)</u>
Earnings per share attributable to common stockholders				
Basic	<u>\$ 0.00</u>			<u>\$ (0.06)</u>
Diluted	<u>\$ 0.00</u>			<u>\$ (0.04)</u>
Weighted average shares outstanding				
Basic	<u>28,333,390</u>			<u>28,333,390</u>
Diluted	<u>44,410,738</u>			<u>44,410,738</u>

**NOTE 17 – SUBSEQUENT EVENTS**

On July 9, 2014, the Company repaid \$500,000 of related party notes payable to PVM International, Inc.

On July 19, 2014, the Company received the third warrant for 33,333 shares of common stock as a payment for services provided to MJ Holdings. The warrant was initially valued at \$53,866 using the Black Scholes model.

On July 21, 2014, the Company paid \$75,000 to PVM International, Inc. as a partial payment for advances made by PVMI for escrow deposits used to secure properties for possible license acquisition in the San Diego market area.

On July 21, 2014, the Company entered into a securities purchase agreement (the "Purchase Agreement") with accredited investors (the "Investors")

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 – SUBSEQUENT EVENTS**

pursuant to which the Company agreed to sell, and the Investors agreed to purchase, convertible debentures (the “Debentures”) in the aggregate principal amount of \$3,000,000, in three tranches, each in the amount of \$1,000,000. The initial closing under the Purchase Agreement, for Debentures in the aggregate principal amount of \$1,000,000, occurred on July 21, 2014. The Debentures bear interest at the rate of 10% per year (half of which is due at issuance) and are convertible into common stock at a conversion price of \$11.75 per share (subject to adjustment in the event of stock splits, stock dividends, and similar transactions, and in the event of subsequent sales of common stock at a lower purchase price (subject to certain exceptions)). Repayment of principal on the debentures, together with accrued interest thereon, is due in seven monthly installments, commencing six months from issuance. The Company may make such payments in cash (in which event the Company will pay a 30% premium) or, subject to certain conditions, in shares of common stock valued at 70% of the lowest volume weighted average price of the common stock for the 20 prior trading days. In connection with the Purchase Agreement, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with the Investors, pursuant to which the Company agreed to file a registration statement for the shares of common stock issuable upon conversion of, or payable as interest on, the Debentures, within 45 days of the initial closing date under the Purchase Agreement, and to have such registration statement declared effective within 120 days of the initial closing date. Subsequent closings under the Purchase Agreement, each for Debentures in the aggregate principal amount of \$1,000,000, will occur, subject to customary closing conditions, within two days of the Company’s filing of a registration statement with the Securities and Exchange Commission under the Registration Rights Agreement, and within 2 days of the effective date of such registration statement.

On July 23, 2014, Mr. Guy Marsala was appointed to fill a vacancy in the board of directors and then was elected Chairman of the Board of Directors of Medbox, Inc. (the “Company”). Immediately afterwards, Dr. Bruce Bedrick resigned as President and Chief Executive Officer of the Company and Mr. Marsala was then appointed President and Chief Executive Officer of the Company.

In connection with Mr. Marsala’s election as President, Chief Executive Officer and Chairman, on July 23, 2014, the Company entered into an employment agreement with Mr. Marsala (the “Employment Agreement”). Pursuant to the Employment Agreement, the Company agreed to engage Mr. Marsala, and Mr. Marsala agreed to serve as the Company’s President, Chief Executive Officer and Chairman, for a two-year term, which term will automatically be extended for successive additional one-year terms, unless either party provides written notice to the other 90 days prior to the expiration of the initial term or any successive term, that Mr. Marsala’s engagement will not be extended. The Company agreed to pay Mr. Marsala a salary of \$330,000 per year and to pay Mr. Marsala \$2,500 per month for living expenses in the West Hollywood, California area. Mr. Marsala will also be entitled to an annual bonus of up to \$250,000, including up to \$125,000 in cash and up to \$125,000 in equity of the Company, subject to performance criteria and objectives to be established by mutual agreement of the Board of Directors and Mr. Marsala within 90 days of the effective date of the Employment Agreement, and thereafter from time to time by the Board of Directors in consultation with Mr. Marsala. Mr. Marsala will also be entitled to an award of restricted stock units, to be issued within 90 days of the effective date of the Employment Agreement, under an equity incentive plan to be adopted by the Company, in the amount of the greater (by value) of 50,000 shares of common stock or \$500,000 of common stock based on the volume weighted average price for the 30 day period prior to the date of the grant. The Company also agreed to make an equal stock award to Mr. Marsala on each anniversary date of the Employment Agreement.

**MEDBOX, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 17 – SUBSEQUENT EVENTS**

The Company may terminate the Employment Agreement with or without Cause (as defined in the Employment Agreement) upon written notice to Mr. Marsala. In the event the Company terminates the Employment Agreement without Cause, Mr. Marsala terminates the Employment Agreement with Good Reason (as defined in the Employment Agreement), or the Employment Agreement is not renewed as a result of notice to Mr. Marsala provided 90 days prior to expiration of the initial or a renewal term, Mr. Marsala will be entitled to payment of 1.5 times his annual salary and payment of all remaining lease payments or lease breakage fees on living quarters in the West Hollywood area up to the sum of \$2,500 per month, unless the Company takes over the lease, and provided that the Company's Chief Financial Officer has had a reasonable opportunity to review and approve in writing any such lease or extension thereof or amendment or modification thereto in advance of Mr. Marsala binding himself thereto. Termination by the Company within 365 days of a Change of Control (as defined in the Employment Agreement) in the absence of Cause will conclusively be deemed a termination by the Company without Cause.

After June 30, 2014 the Company, through its operating subsidiaries, Medbox Property Investments, Inc. and MJ Property Investments, Inc. entered into seven additional real estate purchase agreements with an aggregated value of \$13,565,000 and paid deposits of \$378,000 into the escrow accounts. In addition to amounts already paid, the Company is expecting to pay an additional \$82,000 into the escrow accounts for two of the aforementioned seven properties before August 31, 2014. The newly signed agreements have closing dates varying between December 11, 2014 and February 10, 2015.

In order to extend the closing date to October 18, 2014 on two of the real estate agreements previously signed during the second quarter of 2014, the Company paid an additional \$35,000 on July 23, 2014, and will make three monthly rent payments not applicable towards purchase price in the amount of \$3,200 per month starting July 18, 2014 for one of the agreements, and the Company paid an additional nonrefundable and not applicable toward purchase price fee of \$15,000 for the second agreement.

On July 28, 2014, MJ Property Investments, Inc. entered into a promissory note secured by a deed of trust with a seller of a property anticipated to be used for development of a retail store in the state of Washington. The purchase price of the property was \$399,000 of which \$150,000 was paid on July 23, 2014, and the remaining promissory note of \$249,000 bears interest of 12% and has six monthly interest-only payments of \$2,490 due beginning August 1, 2014 and the principal fully due on January 30, 2015. In the event of a default, as defined, the interest rate increases to 18% and the note can be accelerated.

During July 2014 one of the real estate properties that MJ Property Investments, Inc. opened escrow on was foreclosed upon and the agreement was canceled and escrow money in the amount of \$10,000 was reimbursed to the Company on July 28, 2014.

During July, MJ Property Investments, Inc. allowed the escrows to expire on two agreements with an aggregate purchase price of \$2,500,000 and forfeited \$100,000 in earnest money in order to negotiate more favorable terms for the purchases.

A summary of open real estate purchase transactions as of August 13, 2014 is represented in the table below:

<b>Property</b>	<b>Purchase price</b>	<b>Initial closing date</b>	<b>Amount paid in escrow</b>	<b>Date escrow opened</b>
1	\$ 3,500,000	12/11/2014	\$ 100,000	07/25/2014
2	3,650,000	01/05/2015	100,000	07/21/2014
3	2,450,000	12/01/2014	100,000	08/13/2014
4	790,000	01/01/2015	30,000	08/12/2014
5	480,000	01/31/2015	5,000	08/12/2014
6	2,100,000	02/10/2015	33,000	08/13/2014
7	595,000	01/31/2015	10,000	08/13/2014
8	695,000	10/18/2014	10,000	06/28/2014
9	820,000	10/18/2014	45,000	06/28/2014
Total	<u>\$ 15,080,000</u>		<u>\$ 433,000</u>	

On July 22, 2014 Medbox Property Investments, Inc., entered into a new lease for a facility which will be used in the application process for both a dispensary and cultivation facility. The lease is payable monthly at a rate of \$20,000 per month. The lease has a five year term, but is contingent upon license approval which allows for early termination of the lease after January 1, 2015 if the license is not granted.

On August 6, 2014, the board of directors approved the adoption of the 2014 Medbox, Inc. Equity Incentive Plan providing for the issuance of equity based instruments to employees, directors and consultants covering up to an initial total of 2,000,000 shares of common stock.

On August 13, 2014, the Company issued a note payable to PVMI for \$350,000 in exchange for cash received.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

#### **Forward-Looking Statements**

Information in this Quarterly Report on Form 10-Q/A may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different than the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

Examples of forward-looking statements include, but are not limited to, statements regarding our proposed services, market opportunities and acceptance, expectations for revenues, cash flows and financial performance, and intentions for the future. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" in the Company's Registration Statement on Form 10 Amendment 2 filed with the Securities and Exchange Commission (the "SEC") on May 13, 2014 and any amendment thereto. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-Q/A will in fact be accurate. Further, we do not undertake any obligation to publicly update any forward-looking statements, except as may be required under applicable securities laws. As a result, you should not place undue reliance on these forward-looking statements

#### **Overview**

We are a leading dispensary infrastructure and licensing specialist, patented technology provider, and partner to the cannabis industry. We offer our patented systems, software and consulting services to pharmacies, alternative medicine dispensaries and local governments in the U.S. and provide medicine-dispensing and compliance technology to clients who are involved in dispensing alternative medicine to end-users. Our systems provide control, accountability, and security. In addition, we provide business opportunities to interested entrepreneurs that want to get involved in the industry by allowing them to participate in the management functions of the dispensary, or being a member of the governing body of the dispensary's corporate entity, or even own the real estate that houses the dispensary or cultivation facility. Since inception we have focused primarily on the medical marijuana marketplace. Our products and services are directed to help these facility operators gain greater control over these drugs while allowing dispensing in a more economical and controlled manner. In addition, in April of 2013, we purchased Vaporfection International, Inc. which has an award winning tabletop model vaporizer and is about to introduce a portable vaporizer.

We generate revenue from various sources including consulting services we provide to medical marijuana entrepreneurs, sale of our medicine dispensing technologies, the sale of licensing rights, the sale of management rights, the development and sale of geographic territories, referral fees and revenue sharing from real estate transactions with partners, revenue from providing monthly auditing and accountability support to dispensary operators and the sale of vaporizers and certain limited accessories. The continued success of our primary business will depend on states continuing to legalize the use of marijuana for medical purposes and, equally important, having such states and the individual localities in such states, to the extent required by the applicable state legislation, adopt a corresponding process to both license alternative medicine clinics for dispensing the medical marijuana and licensing cultivation facilities required to grow the plant. The success of our business will require a continuation of the current federal policy of not enforcing the federal prohibition on the use of marijuana in states that have legalized it.

Our current revenue model consists of the following income streams:

1. *Consulting fee revenues.* This revenue stream is a consistent component of our current and anticipated future revenues and is negotiated at the time of the contract. In jurisdictions where there is intense competition for a limited number of licenses, we believe the Medbox model, with its incorporated security measures, promotes a distinct advantage in the application selection process in the states where an applicant is graded on the ability to demonstrate compliance.
2. *Revenues on dispensary unit and vaporizer sales.* Medbox machines retail for approximately \$50,000 for each machine set (including the POS system). In addition, many consulting contracts bundle the sale of the dispensary units within the scope of deliverables to be provided that might also include location build out costs. Gross margins on our tabletop vaporizer sales and accessories are expected to initially average out to a net loss position due to initial higher manufacturing costs prior to the cost reduction process that has been undertaken. Our introduction of our portable miVape product in late third quarter of 2014 is expected to provide a cost effective product with industry standard margins while providing significant value to the customer.
3. *Other revenue includes sales of territory rights, sales/leases of management rights of newly awarded dispensary licenses, and sales/leases of management rights of newly acquired dispensary licenses and physical locations.* We enter in transactions with clients who are interested in operating existing dispensary locations, buying previously issued dispensary licenses, or are interested in developing certain territories with the assistance of Medbox. Terms for each deal are varied and the sales arrangements typically include the delivery of our dispensing technology and dispensary location build-out.

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- Revenue from referral fees and revenue sharing from real estate transactions with partners.* The Company expects to generate revenue from matching its clients with a real estate financing partner to facilitate property purchases and subsequent leasebacks to our clients at a premium to market rates due to the sensitive use contemplated to be operated at the leased location. The Company currently has a real estate referral arrangement with MJ Holdings whereby MJ Holdings issues warrants to purchase shares of its common stock on a monthly basis to the Company during the term of the arrangement and the Company in turn refers industry specific real estate transactions to MJ Holdings in exchange for a 50/50 income sharing split.
- Revenue from the matching of joint venture participants with soon to be licensed dispensaries.* The Company expects to generate revenue from clients that wish to participate in the industry and have traditional business background, experience, and strong ties to the state in question where the application is being made. Fees vary in each market area.
- Revenue from providing monthly auditing and accountability support to dispensary operators.* The Company expects to generate revenue from providing monthly auditing and accountability support to dispensary operators through Medbox's Advisory & Audit Oversight Committee (AAOC). Services entail bi-weekly onsite audits of client dispensaries to ensure regulatory compliance, transaction and taxation reporting transparency, and adherence to state licensing guidelines for licensing renewal purposes. Fees vary in each market area.

### Comparison of the three months ended June 30, 2014 and 2013

#### Overview of Results

The Company reported a consolidated net loss of \$1,347,784 for the three months ended June 30, 2014 and a net loss of \$757,677 for the three months ended June 30, 2013. The decrease in net income of \$590,107 was primarily due to a few key factors related to the increase in cost of revenues and the increase in certain identified costs. The increase in costs of revenue included increased costs of developing the new markets in San Diego, Illinois, Washington, Nevada and Oregon. Operating costs increased due to increases in research and development expenses that in comparable periods were often paid directly by an affiliate but now is being incurred directly by the Company and increases in sales and marketing expenses related to additional sales staffing, product promotion of vaporizers and lobbying cost increases to better understand individual states' regulations.

#### Revenue

Total revenue consisted of revenue from Medbox system sales, location build-outs fees, referral fees and revenue sharing from real estate transactions with partners, sale of the territory rights and consulting service fees, which are often bundled together in a single offering to clients and revenue from sales of vaporizers and accessories of the Company's subsidiary Vaporfection International, Inc. ("VII").

Revenue Description	For the three	For the three	Increase (Decrease)
	months ended June, 30 2014	months ended June, 30 2013	
Consulting agreements	\$ 45,739	\$ 92,051	\$(46,312)
Sale of locations and management rights	175,000	150,000	25,000
VII-product sales	15,916	19,552	(3,636)
Related party	24,918	—	24,918
Finder's fee	98,532	—	98,532
Gross revenue	360,105	261,603	98,502
Allowances and refunds	—	—	—
Net revenue	<u>\$ 360,105</u>	<u>\$ 261,603</u>	<u>\$98,502.</u>

#### Consulting Revenue

The revenue from consulting fees for the three months ending June 30, 2014 decreased \$46,312 compared to three months ended June 30, 2013, due to the reduced activity period over period in the Arizona market.

#### Sale of locations and management rights

During the second quarter of 2014, the Company sold 50% of its management rights in one Arizona location for \$175,000.

Revenue of \$150,000 was recorded in the second quarter of 2013 from a single client for the sale of a new location in Arizona.



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### *VII-Product sales*

In the second quarter of 2014, the Company sold \$15,916 of vaporizer products and accessories through our VII operating subsidiary. This is a reduction of \$3,636 or 18.6% compared to \$19,522 sold in three months ended June 30, 2013. We expect to be able to release our newest portable vaporizer product for general availability in the second quarter of 2015.

### *Finder fee*

During the second quarter of 2014, the Company entered into an agreement with MJ Holdings, Inc., a publicly traded company that provides real estate financing and related solutions to licensed marijuana operators. Medbox agreed to market MJ Holdings' real estate financial products and offerings to its consulting clients and agreed to direct all incoming real estate related opportunities to MJ Holdings (for details see also note to financial statements, Note 10 – Marketable securities and customer deposits). Revenue recognized in three months ended June 30, 2014 from this agreement was \$98,532. There were no similar revenues for the three months ended June 30, 2013.

### *Cost of revenue*

Our cost of revenue includes systems costs for our systems sales and construction, build-out, licenses or rights repurchased from former clients and resold to new clients, and permits for our consulting activities and costs associated with our Vaporfection International, Inc. subsidiary which included the product cost of vaporizers and accessories, the fulfillment activities associated with sales orders and the Company's purchasing department.

During the three months ended June 30, 2014, the costs of revenue increased by \$547,632 or 302.5% to \$728,669 compared to \$181,037 for the three months ended June 30, 2013. This was mainly due to costs associated with development of new markets in San Diego, Nevada, Oregon, Washington and Illinois.

### *VII-Product cost*

For the three months ended June 30, 2014, the cost of goods sold of VII was \$47,870 compared to \$47,626 for the three months ended June 30, 2013. Cost of goods sold includes costs associated with shipping and storing the product along with personnel assigned the function to manage the inventory.

### *Operating Expenses*

Operating expenses consist of all other costs incurred during the period other than cost of revenue. The Company incurred \$1,017,232 in operating expenses for three months ended June 30, 2014 compared to \$832,456 for the three months ended June 30, 2013. The increase of \$184,776 or 22.2% was primarily due to the increase in selling and marketing expenses of \$125,779 and increases in research and development expenses of \$57,033..

### *Sales and Marketing expenses*

Sales and marketing expenses include public relations and promotion, lobbying, purchased advertising, travel and entertainment and outside services for sales and marketing consultants and sales lead generation. The Company incurred \$286,784 and \$161,005 in sales and marketing expenses for the three months ended June 30, 2014 and 2013, respectively. The expense increased by \$125,779 or 78.1% in the second quarter of 2014 compared to the second quarter of 2013. The expenses incurred during the three month periods ended June 30, 2014 and 2013 are summarized and described below.

<u>Expense Description</u>	<u>For the three months ended June, 30 2014</u>	<u>For the three months ended June, 30 2013</u>	<u>Increase (Decrease)</u>
VII sales and marketing expense	\$ 61,337	\$ 35,605	\$ 25,732
Lobbying	92,785	—	92,785
Public relationship expense	9,625	27,416	(17,791)
Employee costs	38,937	—	38,937
Independent contractors costs	26,763	40,895	(14,132)
Meetings, conferences and trade shows	35,865	2,862	33,003
Purchased advertising	9,815	29,188	(19,373)
Other (sum of smaller accounts)	11,657	25,039	(13,382)
Total sales and marketing	<u>\$ 286,784</u>	<u>\$ 161,005</u>	<u>\$125,779</u>

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During three months ended June 30, 2014 and 2013, the Company incurred \$61,337 and \$35,605 in marketing and sales expenses related to VII activity. The increase is related to the fact that the Company is preparing to launch a new vaporizer product during the second quarter of 2015.

The Company incurred lobbying expenses in the second quarter of 2014 in the amount \$92,785 in order to promote the Company in states/markets of interest and to better understand the regulations being developed in those state or local governments. To maximize efficiency, the Company is utilizing services of lobbying experts from the specific states/market of interest. In addition, this strategy led to a decrease of \$17,791 in public relations expenses to \$9,625 for the three months ended June 30, 2014 compared to \$27,416 for the three months ended June 30, 2013.

To perform day-to-day marketing operations the Company uses independent contractors who are managed by a sales executive who is a Company employee. The employment of a sales executive in 2014 led to additional costs of \$38,937 for the three months ended June 30, 2014. There were no similar costs in the second quarter of 2013. Better management and supervision of independent contractors and in-house expertise allowed the Company to reduce the cost of independent contractors' by \$14,132 to \$26,763 for the three months ended June 30, 2014 compared with \$40,895 for the same period of 2013.

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During the three months ended June 30, 2014, the Company incurred increased expenses for meetings, conferences and trade shows in the amount of \$33,003. This additional expense allowed the Company to promote its products and services to a broad range of possible clients at more specialized events, to become informed about competitors and their products and to receive general and specific knowledge of the industry. The Company reduced purchased advertising expenses by \$13,382 as compared to the same period of 2013 because of the current emphasis on the attendance at conferences and trade shows as mentioned above versus purchased advertising.

### *Research and development*

Research and development consists of engineering work done on the software enhancements of the Medbox. This work is funded in connection with an affiliate company owned by a co-founder. Our research and development expenses for the three months ended June 30, 2014 and 2013, were \$67,033 and \$10,000, respectively, and represent the Company's investment in developing new tracking technologies for cultivation facilities that we intend to sell to clients as a package with their consulting agreement. In addition, the Company believes that this software will give our clients a competitive advantage in the process of applying for licenses for cultivation facilities.

### *General and administrative*

General and administrative expenses include legal, lobbying, accounting, payroll, consulting, rent and other costs. The Company's total general and administrative expenses were fairly consistent for the three months ended June 30, 2014 as compared to the three month period ended June 30, 2013. The expenses incurred during the three month periods ended June 30, 2014 and 2013 are summarized and described below:

Expense Description	For the three	For the three	Increase (Decrease)
	months ended June, 30 2014	months ended June, 30 2013	
VII general and administrative expenses	\$ 35,607	\$ 32,355	\$ 3,252
Costs of being public	126,693	6,904	119,789
Bad debt expense	25,000	—	25,000
Insurance	38,100	—	38,100
Rent expense	52,129	29,893	22,236
Fund raising consultants	6,250	65,000	(58,750)
Professional accounting services	17,750	63,500	(45,750)
Management fee - Vincent Chase, Inc.	37,500	75,000	(37,500)
Legal costs	91,698	148,972	(57,274)
Lobbying costs	—	47,134	(47,134)
Employee costs	43,611	84,833	(41,222)
Independent contractors costs	71,685	22,171	49,514
Charity and donations	21,500	300	21,200
Other (sum of smaller accounts)	95,892	85,389	10,503
Total general and administrative	<u>\$ 663,415</u>	<u>\$ 661,451</u>	<u>\$ 1,964</u>

The increase differences in the components of general and administrative expenses for the three months ended June 30, 2014 compared to three months ended June 30, 2013 is primarily due to the provision for doubtful accounts receivable in the amount of \$25,000, increases in costs related to being a public company of \$119,789, increases in insurance costs of \$38,100 and increases in rent expense of \$22,236 offset by the reductions in fund raising consultant costs of \$58,750, decreases in outside professional accounting services of \$45,750, reductions in management fee of \$37,500 and reductions in legal costs of \$57,274.

During the three months ended June 30, 2014 the Company incurred \$126,693 in costs related to being a public company such as SEC related legal costs, investor relations costs, SEC filing costs and independent directors' compensation cost which in aggregate increased by \$119,789 compared to the same period of 2013.

During the second quarter of 2014, the Company identified some of the accounts receivable as doubtful for collection and charged to operations the amount of \$25,000. There were no similar events during the second quarter of 2013.

Insurance expense increase by \$38,100 during the three months ended June 30, 2014 due to the introduction in 2014 of directors' and officers' insurance. There was no such expense during the same period of 2013.

The rent expense during the three months ended June 30, 2014 increased by \$22,236 to \$52,129 compared to \$29,893 for three months ended June 30, 2013. This change is due to the fact that the Company increased the amount of leased office space which led to monthly rent increase from \$5,303 to \$14,396. Also during the three months ended June 30, 2014 the Company incurred an additional \$3,562 in rent expense for our Arizona office. There was no such rent expense during the same period of 2013.

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The Company reduced by \$58,750 fund raising expenses during three months ended June 30, 2014, compared to the same period of 2013.

The Company improved its cost management through engaging employees and independent contractors instead of sourcing an outside firm's services for some of the activities. This led to a decrease of \$45,750 in professional accounting service expense to \$17,750 for the three months ended June 30, 2014, compared to \$63,500 for the three months ended June 30, 2013. At the same time this led to an increase in the Company's expenses related to independent contractors by \$49,514 to \$71,685 for the three months ended June 30, 2014 compared to \$22,171.

A significant reduction of general and administrative expenses of \$12,500 per month is due to a temporary reduction in the fees from \$25,000 to \$12,500, paid for management consulting to Vincent Chase, Inc., a related party company. This led to savings of \$37,500 for the second quarter of 2014 compared to the same period of 2013. Effective July 1st the management fee returned to \$25,000 per month.

Another significant change in general and administrative expenses is represented by the reduction of \$57,274 in legal costs for the three months ended June 30, 2014 to \$91,698 compared to \$148,792 for the three months ended June 30, 2013. This is mostly due to the fact that the Company incurred \$126,687 for the three months ended June 30, 2013 in legal cost related to the lawsuit on the behalf of the Company's Arizona clients. This matter was finalized in 2013 and had no comparable costs in 2014. This reduction was offset by increases in general legal expenses related to corporate matters of \$69,409 for the three months ended June 30, 2014 compared to the same period of 2013.

During the second quarter of 2014 the Company did not utilize lobbying services, related to the general matters, this led to a reduction in general and administrative services by \$47,134 for the three months ended June 30, 2014 compared to the same period of 2013. Some lobbying services were used and described above as a part of sales and marketing expenses.

Employee costs decreased by \$41,222. This is mostly due to the fact that during the three months ended June 30, 2013 there was one additional executive employee who is no longer with the Company whose cost approximated \$11,900. In addition, another employee's services which were previously classified as a component of general and administrative expenses were transitioned, effective January 1, 2014, as a component of cost of revenue thereby reducing general and administrative employee related costs by approximate \$10,000 for the three months ended June 30, 2014.

During the second quarter of 2014, the Company made donations in the amount of \$21,500.

The Company expects that its general and administrative expenses will increase during 2014 as we add additional management talent and continue to build out our infrastructure to take advantage of market opportunities.

### Other Income (Expense)

Other income for three months ending June 30, 2014 was \$38,012 compared to other losses of \$5,787 for three months ending June 30, 2013. The increase of \$43,799 is due to the other interest income on the outstanding note receivable from a Canadian company and the other interest income on the balance of outstanding receivable from one of the Company's clients. In addition the Company's subsidiary VII paid off the interest bearing note payable acquired as part of the acquisition of that business. The interest expense incurred for the three months ended June 30, 2013 was \$5,250.

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### Comparison of the six months ended June 30, 2014 and 2013

#### Overview of Results

The Company reported a consolidated net loss of \$3,005,919 for the six months ended June 30, 2014 and a consolidated net loss of \$1,714,984 for the six months ended June 30, 2013. The increase in net loss of \$1,290,935 was primarily due to a few key factors related to the decrease in revenues and the increase in costs of revenues and other certain identified costs. Costs of revenues increased due to the costs related to the Arizona location as well as development of new markets San Diego, Illinois, Washington, Nevada and Oregon.

The Company's subsidiary VII was acquired on April 1, 2013 and, accordingly, the VII expenses did not exist for the first quarter of 2013. Therefore, the results for the six months ended June 30, 2013 are not comparable to the same period of 2014. For ease of review, the VII expenses are presented as a separate item.

#### Revenue

Revenue consisted of Medbox system sales, location build-outs fees, finder's fees, sale of the territory rights and consulting service fees, which are often bundled together in a single offering to clients, and revenue from sales of vaporizers and accessories of the Company's subsidiary Vaporfection International, Inc. ("VII"). For the six months ended June 30, 2014, the Company recorded revenue of \$351,115 compared to \$530,198 for the same period of 2013.

<b>Revenue Description</b>	<b>For the six months ended June, 30 2014</b>	<b>For the six months ended June, 30 2013</b>	<b>Increase (Decrease)</b>
Consulting	\$ 71,696	\$ 510,646	\$(438,950)
Sale of locations and management rights	175,000	—	175,000
VII-product sales	40,969	19,552	21,417
Sale of territories, related party	24,918	—	24,918
Finder's fee	98,532	—	98,532
Gross revenues	411,115	530,198	(119,083)
Allowances and refunds	(60,000)	—	(60,000)
Net revenues	\$ 351,115	\$ 530,198	\$(179,083)

#### *Consulting Revenue*

The consulting revenue for the six months ended June 30, 2014 decreased by \$438,950 to \$71,696 compared to \$510,646 for the six months ended June 30, 2013. The decline in revenue is due to delays in adopting final regulations in the San Diego, Illinois, Washington, Nevada and Oregon markets, which delayed processing of applications and market development.

The Company obtained a provisional license in the State of Oregon but because of delays with the city permits for interior build-outs could not finalize the delivery of the facility to the client within the quarter.

The Company's revenue model is significantly different in the second quarter of 2014 as compared to second quarter of 2013, which is mainly due to the fact that the Company is moving away from the business model of obtaining license for clients for a set upfront fee. The Company is in the process of modifying its consulting engagements by providing ongoing management and support services for clients so that the consulting contract would continue in perpetuity. The impact of this change is that the Company expects revenue to be based upon the passage of time and the ability of the individual locations to continue operations.

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### *Sale of locations and management rights*

The Company sold management rights for Arizona locations to unrelated parties for \$175,000.

### *VII-Product sales*

In the six months ended June 30, 2014, the Company sold \$40,969 worth of vaporizer products and accessories through our VII operating subsidiary. This number cannot be directly compared to the six months ended June 30, 2013 due to the fact that the subsidiary was acquired on April 1, 2013, such that there was no such revenue for the first three months of 2013 and only the sales for three months ended June 30, 2014 can be compared to three months ended June 30, 2013. During the second quarter of 2014, VII sold products for a value of \$15,916 which represents a reduction of \$3,636 or 18.6% compared to \$19,522 sold in the three months ended June 30, 2013. We expect to be able to release our newest portable vaporizer product for general availability during the second quarter of 2015.

### *Sale of territories*

In the first six months of 2014, the Company entered into a sale for exclusive rights to place the Medbox patented dispensing systems in Denver, Colorado to the same related party mentioned above in the management rights sale to a related party, for which the related party paid \$500,000. This \$500,000 is being recognized over the five year term of the agreement, with \$24,918 recognized as revenue in the six months ended June 30, 2014.

There was no similar revenue in the comparable period of 2013.

### *Finder fee*

During the second quarter of 2014 the Company entered into an agreement with MJ Holdings, Inc., a publicly traded company that provides real estate financing and related solutions to licensed marijuana operators. Medbox will market MJ Holdings' real estate financial products and offerings to its consulting clients and will direct all incoming real estate related opportunities to MJ Holdings (for details see also note to financial statements, Note 10 – Marketable securities and customer deposits). The revenue recognized for the six months ended June 30, 2014 from this agreement was \$98,532. There was no similar revenue in 2013.

### *Allowances and refunds*

During the first quarter of 2014, the Company recorded an allowance for refunds to be paid to San Diego clients.

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### Cost of revenue

Cost of revenue includes systems costs for our systems sales and construction, build-out, and permits for our consulting activities and costs associated with our Vaporfection International, Inc. subsidiary which included the product cost of vaporizers and accessories, the fulfillment activities associated with sales orders and the Company's inventory management department.

<b>Costs of Revenue</b>	<b>For the six months ended June, 30 2014</b>	<b>For the six months ended June, 30 2013</b>	<b>Increase (Decrease)</b>
Cost of inventory	\$ 1,369,221	\$ 167,000	\$1,202,221
Constructions and build-outs	—	60,512	(60,512)
VII-product cost	113,038	19,437	93,601
Other (sum of smaller accounts)	196,284	204,118	(7,834)
<b>Total costs of revenue</b>	<b>\$ 1,678,543</b>	<b>\$ 451,097</b>	<b>\$1,227,446</b>

Total costs of revenue increased during the six months ended June 30, 2014 by \$1,227,446, which is mostly due to the increases in inventory costs of the locations and management rights sold during the first six months of 2014 along with the write off of the costs incurred for the developing of San Diego, Illinois, Washington, Nevada and Oregon markets. This increase was slightly offset by the reduction in construction and build-out costs due to the delay in procuring additional licenses.

#### *Cost of inventory*

Cost of inventory includes the cost of one property sold, with the balance consisting of costs to develop markets in San Diego, Illinois, Washington, Nevada and Oregon.

#### *Constructions and build-outs*

The Company did not have any sales which would have associated charges to cost of revenue for any construction and build-out costs for the first six months of 2014 due to delays in adopting final regulations in states in which the Company intends to submit applications and the timing of application submittals for other states, accordingly revenue and related costs of revenue were not recognized. The costs of \$60,512 incurred in 2013 related to build outs for our clients in Arizona.

#### *VII-Product cost*

The Company incurred costs of \$113,038 for the six months ended June 30, 2014 associated with our Vaporfection International, Inc. subsidiary which included the product cost of vaporizers and accessories, the fulfillment activities associated with sales orders and the Company's purchasing department. As previously described, these costs cannot be compared to the same period of 2013 because Vaporfection was acquired on April 1, 2013. The Company expects to release its newest portable vaporizer product late in the second quarter of 2015 which is expected to significantly increase the activity in the business unit.

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### *Other costs of revenue*

The outside services, legal costs and independent contractors incurred as a part of revenue generation supporting activities slightly decreased by \$7,834 for the six months ended June 30, 2014 compared to the same period of 2013.

### *Operating Expenses*

Operating expenses consist of all other costs incurred during the period other than cost of revenue. The Company incurred \$1,730,156 in operating expenses for six months ended June 30, 2014 compared to \$1,787,890 for the six months ended June 30, 2013. The decrease of \$57,734 or 3.5% was primarily due to a decrease in general and administrative expenses.

### *Sales and Marketing expenses*

Sales and marketing expenses include public relations and promotion, lobbying, purchased advertising, travel and entertainment and outside services for sales and marketing consultants and sales lead generation. The Company incurred \$430,008 and \$415,257 in sales and marketing expenses for the six months ended June 30, 2014 and 2013, respectively.

The expenses incurred during the six month periods ended June 30, 2014 and 2013 are summarized and described below.

<b>Expense Description</b>	<b>For the six</b>	<b>For the six</b>	<b>Increase</b>
	<b>months ended</b>	<b>months ended</b>	<b>(Decrease)</b>
	<b>June, 30 2014</b>	<b>June, 30 2013</b>	
VII sales and marketing expense	\$ 105,055	\$ 35,605	\$ 69,450
Lead generation-Kind Clinics	—	113,613	(113,613)
Lobbying	92,785	—	92,785
Public relations firm expense	9,625	47,966	(38,341)
Employee costs	38,937	—	38,937
Independent contractors costs	97,618	80,855	16,763
Outside services	3,263	54,999	(51,736)
Meetings, conferences and trade shows	43,291	9,135	34,156
Purchased advertising	29,879	61,085	(31,206)
Other (sum of smaller accounts)	9,555	11,999	(2,444)
Total sales and marketing	<u>\$ 430,008</u>	<u>\$ 415,257</u>	<u>\$ 14,751</u>

During six months ended June 30, 2014, the Company incurred \$105,055 in marketing and sales expenses related to VII activity. As previously mentioned the comparison to the same period of 2013 is impracticable due to the fact that there was no VII activity for the first quarter of 2013. The expenses incurred for only three months ended June 30, 2013 were \$35,605. The Company increased its marketing expenses related to VII subsidiary due to the fact we expect to launch a new product to the market in the third quarter of 2014. The Company expects additional increases in sales and marketing expenses for this business for the rest of the year.

Although the total change in sales and marketing expenses is relatively small, \$14,751 for the six months ended June 30, 2014 compared to the same period of 2013, some significant changes occurred in the structure of expenses.

During the first six months of 2013 the Company incurred a one-time expense for sales and marketing support and leads generation from Kind Clinics in the amount of \$113,613, a related party.

The Company incurred an increase in lobbying expenses for the six months ended June 30, 2014 in the amount \$92,785 in order to promote the Company in the states/markets of interest. To maximize efficiency, the Company is utilizing the service of lobbying experts from the specific states/market of interest. In addition, this strategy led to savings of \$38,341 in public relations expenses.



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To perform day-to-day marketing operations, the Company uses independent contractors who are managed by a Company sales executive. During the six months ended June 30, 2014, the Company incurred \$136,555 in payroll and independent contractor related costs compared to \$80,855 for the same period of 2013. The increase of \$55,700 in the employee/consultant related costs led to the reduction in the utilization of the outside service firms to perform day-to-day operations thereby saving \$51,736.

During the six months ended June 30, 2014, the Company increased the expenses for meetings, conferences and trade shows by \$34,156 compared to the same period of 2013. This was due to the reallocation of resources from purchased advertising and allowed the Company to promote its products and services to a broad range of possible clients by participating in the industry specific events and tradeshow, to become informed about competitors and their products and to get general and specific knowledge of the industry.

### *Research and development*

Research and development consists of engineering work done on the software enhancements of the Medbox. This work is funded in connection with an affiliate company owned by a co-founder. Our research and development expenses for the six months ended June 30, 2014 and 2013, were \$75,033 and \$18,500, respectively, and represent the Company's investments in developing new tracking technologies for cultivation facilities that we intend to sell to clients as a package with their consulting agreement. In addition, the Company believes that this software will give our clients a competitive advantage in the process of applying for licenses for cultivation facilities.

### *General and administrative*

General and administrative expenses include costs of being a public company, legal, lobbying, accounting, payroll, consulting, rent and other costs. The Company's general and administrative expenses decreased by \$128,998 to \$1,225,115 for the six months ended June 30, 2014 compared to \$1,354,133 for the six months period ended June 30, 2013.

The expenses incurred during the six month periods ended June 30, 2014 and 2013 are summarized and described below:

<b>Expense Description</b>	<b>For the six months ended June, 30 2014</b>	<b>For the six months ended June, 30 2013</b>	<b>Increase (Decrease)</b>
VII general and administrative expenses	\$ 105,167	\$ 60,543	\$ 44,624
Costs of being public	174,226	26,959	147,267
Fund raising consultants	12,500	145,000	(132,500)
Bad debt	25,000	—	25,000
Legal costs	155,407	294,543	(139,136)
Lobbying costs	22,700	101,008	(78,308)
Professional accounting services	75,845	118,185	(42,340)
Employee costs	99,543	128,755	(29,212)
Independent contractors costs	112,820	8,775	104,045
Management fee - Vincent Chase, Inc.	75,000	150,000	(75,000)
Management fee – Kind Clinics	—	61,019	(61,019)
Insurance	63,500	—	63,500
Rent expense	103,602	43,914	59,688
Charity and donations	31,800	10,500	21,300
Other (sum of smaller accounts)	168,005	204,932	(36,927)
Total general and administrative	<u>\$ 1,225,115</u>	<u>\$ 1,354,133</u>	<u>\$(128,998)</u>

During the six months ended June 30, 2014, the Company incurred \$105,167 of general and administrative expenses related to its subsidiary VII. The increase of \$44,624 compared to the same period of 2013 is due to the fact that the Company acquired VII on April 1, 2013 and had no similar expenses for the first quarter of 2013.

During the six months ended June 30, 2014, the Company incurred additional costs of \$147,267 related to being a public company such as SEC legal costs, investor relations, filings cost and independent directors' compensation costs.

The \$12,500 cost of fund raising consultants incurred during the six months ended June 30, 2014, decreased by \$132,500 compared to the \$145,000 incurred for the same period of 2013 as the Company discontinued the service of the previously engaged firms.

During the second quarter of 2014, the Company determined some accounts receivable were uncollectable and wrote off \$25,000. There were no similar events during the first six months of 2013.

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Another significant change in general and administrative expenses represents the reduction by \$139,136 in legal costs for the six months ended June 30, 2014 to \$155,407 compared to \$294,543 for the six months ended June 30, 2013. This is mostly due to the fact that the Company incurred expenses in the amount of \$240,833 for the six months ended June 30, 2013 in legal cost related primarily to the lawsuit on the behalf of the Company's Arizona clients. The Arizona matter was finalized in 2013. This reduction was offset by the increased general legal expenses related to the general corporate matters incurred during the six months ended June 30, 2014.

The Company reduced lobbying services related to general matters during the first six months of 2014. This led to a reduction in general and administrative services of \$78,308 for the six months ended June 30, 2014 to \$22,700 from \$101,008 for the six months ended June 30, 2013. Some services were used and described above as a part of sales and marketing expenses.

The decrease of \$42,340 in professional accounting service expense to \$75,845 for the six months ended June 30, 2014 compared to \$118,185 for the same period of 2013 is partially due to improved cost management and talent attraction through engaging employees and independent contractors instead of sourcing outside firms for services of certain activities. At the same time this led to an increase in the Company's expenses related to the independent contractors of \$104,045.

The payroll costs decreased by \$29,212. This is mostly due to the fact that during the six months ended June 30, 2013 there was one additional executive employee that earned approximately \$17,700 for the period that is no longer with the Company. In addition another employee's services were classified as a cost of revenue starting in 2014.

A significant reduction of general and administrative expenses of \$12,500 per month is due to the reduction in the fees from \$25,000 to \$12,500, paid for management consulting to Vincent Chase, Inc., a related party company. This led to savings of \$75,000 in the costs incurred for the six months ended June 30, 2014 compared to the same period of 2013. Effective July 1, 2014, the monthly charge will return to \$25,000.

During the six months ended June 30, 2013, the Company incurred \$61,019 in consulting fees paid to one of its founders and shareholders. There were no such expenses during the same period of 2014.

The insurance expense increased by \$63,500 during the six months ended June 30, 2014. This was due to the introduction in 2014 of the directors' and officers' insurance program. There were no such expenses during the same period of 2013.

Rent expense during six months ended June, 2014 increased by \$59,688 to \$103,602 compared to \$43,914 for the six months ended June 30, 2013. This change is due to the fact that the Company increased the leased office space which led to monthly rent increase from \$5,303 to \$14,396. Also during the six months ended June 30, 2014 the Company incurred additional \$7,125 in rent expense for our Arizona office. There was no such rent expense during the same period of 2013.

During the six months ended June 30, 2014, the Company made donations in the amount of \$31,800 compared to \$10,500 for the same period of 2013.

The Company expects that its general and administrative expenses will increase during 2014 as we add additional management talent and build out our infrastructure to take advantage of market opportunities.

### Other Income (Expense)

Other income increased by \$57,859 to \$51,664 for six months ending June 30, 2014 compared to other losses of \$6,195 for the six months ending June 30, 2013. The change is due to other interest revenue on the outstanding note receivable from the Canadian company and other interest revenue on the balance of outstanding receivable from one of the Company's clients. In addition, because the Company's subsidiary VII paid off the interest bearing note payable, the interest expense incurred for the three months ended June 30, 2013 was \$5,250.

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### Liquidity and Capital Resources

As of June 30, 2014, the Company had cash on hand of \$975,027 compared to \$168,003 at December 31, 2013. The \$807,024 increase in cash on hand is primarily the result of stock sale proceeds of \$2,442,859, proceeds from net notes payable from a related party of \$404,880 and net loans payable of \$76,738 partially offset by repayment on the note payable of \$75,000 and the use of cash for general operations and for developments of new markets of \$1,807,451, the purchases of tangible and intangible assets related to development of the new product of \$195,002 and the issuance of notes receivable of \$40,000.

### Cash Flow

During the six months ended June 30, 2014 cash was primarily used to fund operations, development of the markets and license application processes. We had a net increase in cash of \$807,024 during the six months ended June 30, 2014.

See below for additional discussion and analysis of cash flow.

Cash flow	For the six months ended June 30,	
	2014	2013
	(unaudited)	(unaudited)
Net cash used in operating activities	\$ (1,807,451)	\$ (1,670,583)
Net cash used in investing activities	(235,002)	(1,393,593)
Net cash provided by financing activities	2,849,477	2,419,840
Net increase (decrease) in cash	<u>\$ 807,024</u>	<u>\$ (644,336)</u>

#### Cash Flows – Operating Activities

During the six months ended June 30, 2014, cash flows used in operating activities were \$1,807,451, consisting primarily of the net loss for the first six months of 2014 of \$3,005,919 reduced for non-cash adjustments of depreciation and amortization of \$38,953 and the establishment of a non-cash provision for sales allowances and refunds of \$60,000, and increased for the non-cash adjustments of fair value of marketable securities received as payment for services of \$98,532, unrealized gain on reevaluation of the aforementioned securities of \$26,511 and profit reduction of the expenses related sale of the investments of \$9,600. Additional components of cash used in operating activities were an increase in prepaid expenses and other assets of \$213,261 related primarily to the advance funding of \$127,000 for the Company's annual director and officers insurance policy and earnest money for real estate acquisitions of \$140,000, and an increase in inventory of \$37,791 which consisted primarily of an increase in inventory costs for new markets, a net increase in vaporizer inventory, additional advances paid to our Medbox machine supplier during the first six months of 2014 and purchases of the inventory during the period, offset by reductions due to sales of a retail location and management rights and the write off of certain inventoried costs. These operating uses of cash were offset by a net decrease of accounts receivable of \$29,362, increases in accounts payable and accrued expenses of \$193,384 due to the timing of the payment of trade payables and the overall increase in operating costs. In addition, customer deposits provided net cash during the quarter of \$863,137 and deferred revenue provided another \$458,051 primarily due to the increase in amounts collected on contracts prior to work being completed and revenue recognized.

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During the six months ended June 30, 2013 cash flows used in operating activities were \$1,670,583, consisting primarily of the increase in inventories of \$628,864 which consisted primarily of the increase in inventory levels due to retail dispensary construction projects in progress in the state of Arizona, VII inventory of \$266,849, additional advances paid to our Medbox machine supplier, which was offset by the reduction in inventory due to sales of a retail location and management rights. Net accounts payable decreased by \$113,506 due to the timing of the payment of trade payables. There also was cash used through an increase in notes receivables from a company client of \$55,000, an increase in accounts receivable of \$59,739, and a net increase of prepaid expenses of \$149,584 related primarily to the increase in an office rent deposit of approximately \$42,726 due to additional office space leased, additional deposits in the amount of \$56,000 for securing locations for future applications in the city of San Diego and an additional retainer for the audit services of \$25,000. The use of the cash flows from operating activities was offset mainly by customer deposits which provided net cash during the quarter of \$457,455 and deferred revenue provided another \$537,473 primarily due to the increase in amounts collected on contracts prior to work being completed and revenue recognized.

### *Cash Flows – Investing Activities*

During the six months ended June 30, 2014, cash flows used in investing activities were \$235,002, consisting primarily of purchase of intangible assets related to purchase of a domain name and patents costs of \$195,002 and increases in the amounts of notes receivable of \$40,000. During the six months ended June 30, 2013, cash flows used in investing activities were \$1,393,593, consisting primarily of \$1,200,000 in advances for investments and purchase of property and equipment of \$193,593.

### *Cash Flows – Financing Activities*

During the six months ended June 30, 2014, cash flows provided by financing activities were \$2,849,477, consisting primarily of \$2,442,859 of proceeds from issuance of common stock, increase in net proceeds from related party notes payable of \$404,880 and net proceeds from short term loan of \$76,738, offset by payments on a note payable of \$75,000 which we acquired as a part of the VII purchase. During the six months ended June 30, 2013, cash flows provided by financing activities were \$2,419,840, which consisted of \$2,537,015 of proceeds from issuance of common stock and contributions of capital from a related party of \$810,000 less net payments on the related party notes payable of \$869,038 and payments of \$58,137 on a long term loan.

### *Future Liquidity and Cash Flows*

Management believes that the Company's cash balances on hand, cash flows expected to be generated from operations, proceeds from current and future expected debt issuances and proceeds from future share capital issuances will be sufficient to fund the Company's net cash requirements through June 2015. However, in order to execute the Company's long-term growth strategy, which may include selected acquisitions of businesses that may bolster the expansion of the Company's management services business, and purchases of real estate which would be used as a basis for acquiring retail dispensary and cultivation facilities in regulated markets, the Company will need to raise additional funds through public or private equity offerings, debt financings, or other means.

One such debt financing, a convertible debenture transaction recently entered is described below:

On July 21, 2014, the Company entered into a securities purchase agreement (the "Purchase Agreement") with accredited investors (the "Investors") pursuant to which the Company agreed to sell, and the Investors agreed to purchase, convertible debentures (the "Debentures") in the aggregate principal amount of \$3,000,000, in three tranches, each in the amount of \$1,000,000. The initial closing under the Purchase Agreement, for Debentures in the aggregate principal amount of \$1,000,000, occurred on July 21, 2014. The Debentures bear interest at the rate of 10% per year (half of which is due at issuance) and are convertible into common stock at a conversion price of \$11.75 per share (subject to adjustment in the event of stock splits, stock dividends, and similar transactions, and in the event of subsequent sales of common stock at a lower purchase price (subject to certain exceptions)). Repayment of principal on the debentures, together with accrued interest thereon, is due in seven monthly installments, commencing six months from issuance. The Company may make such payments in cash (in which event the Company will pay a 30% premium) or, subject to certain conditions, in shares of common stock valued at 70% of the lowest volume weighted average price of the common stock for the 20 prior trading days. In connection with the Purchase Agreement, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with the Investors, pursuant to which the Company agreed to file a registration statement for the shares of common stock issuable upon conversion of, or payable as interest on, the Debentures, within 45 days of the initial closing date under the Purchase Agreement, and to have such registration statement declared effective within 120 days of the initial closing date. Subsequent closings under the Purchase Agreement, each for Debentures in the aggregate principal amount of \$1,000,000, will occur, subject to customary closing conditions, within two days of the Company's filing of a registration statement with the Securities and Exchange Commission under the Registration Rights Agreement, and within 2 days of the effective date of such registration statement.

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The Company will continue to execute on its business model by attempting to raise additional capital through the sales of debt or equity securities or other means, however there is no guarantee that such financing will be available on terms acceptable to the Company, or at all.

Our primary source of liquidity are cash flows from operations of the Company's main subsidiary, Prescription Vending Machines, Inc. (DBA – MDS). Our MDS portion of our overall business model related to our existing consulting business relies significantly on the know-how of our management team and its staff to be successful in acquiring licenses and business locations for our clients, in addition to constructing client locations and the sale of our Medbox machines. Since a majority of the revenue from this business is related to services we provide, the timing of receiving the cash has a significant effect on our cash flows. In addition, our overall profitability is impacted by the number of consulting contracts we are able to secure as well as on the avoidance of significant legal and outside professional costs that can be incurred in the process of fulfilling our obligations under each consulting contract. In the case of our MDS consulting business we make milestone payments to our Medbox machine supplier based on where the machines are in the procuring process. This arrangement requires periodic cash outlays, but avoids large disbursements at any one time helping to smooth our cash outflows. A change in the business model in acquiring retail dispensary and cultivation licenses has made it important to acquire real estate either through lease arrangements or purchase in order to secure a license. This has required that Company spend cash for earnest deposits on various real estate locations during the quarter and thereafter. The Company intends to find a partner for the acquisition of the various locations where licenses are applied for, however, the timing of those partnerships may require the Company to acquire ownership of the underlining real estate for a period of time. This process requires significant cash outlays which have ranged from \$10,000 to \$100,000 per property.

A summary of our active real estate purchase transactions as of August 8, 2014 is as follows:

<b>Property</b>	<b>Purchase price</b>	<b>Initial closing date</b>	<b>Amount paid in escrow</b>	<b>Date escrow opened</b>	<b>Amounts to be paid in escrow</b>
1	\$ 3,500,000	12/11/2014	\$ 100,000	7/25/2014	\$ —
2	3,650,000	01/05/2015	100,000	7/21/2014	—
3	2,450,000	12/01/2014	100,000	8/13/2014	—
4	790,000	01/01/2015	30,000	8/12/2014	—
5	480,000	01/31/2015	5,000	8/12/2014	15,000
6	2,100,000	02/10/2015	33,000	8/13/2014	67,000
7	595,000	01/31/2015	10,000	8/13/2014	—
8	695,000	10/18/2014	10,000	6/28/2014	—
9	820,000	10/18/2014	45,000	6/28/2014	—
Total	<u>\$ 15,080,00</u>		<u>\$ 433,000</u>		<u>\$ 82,000</u>

In addition, our VII subsidiary has cash demands for the completion of its portable vaporizer product and the follow-on production costs for the new product which is expected to be release in the second quarter of 2015. These additional investments along with continued investment into the operating cost of this business will continue to be a net user of cash until Vaporfection's cash requirements can be re-evaluated after the expected launch of the new portable vaporizer next year.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The information required by Item 3 is not required to be provided by issuers that satisfy the definition of “smaller reporting company” under SEC rules.

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this report, our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on their evaluation of our disclosure controls and procedures, our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2014, to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure due to the need for more enhanced and formalized documentation regarding the financial statement closing and review process to ensure that the application of the Company’s accounting policies and the presentation of disclosures in the notes to the financial statements is adequate.

Management intends, by the end of 2014, to engage a consultant who will assist the Company in the identification of required key controls, the necessary steps required for procedures to ensure the appropriate communication and review of inputs necessary for the financial statement closing process, as well as for the appropriate presentation of disclosures within the financial statements.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

On May 22, 2013, Medbox initiated litigation in the Arizona District Federal Court against MedVend Holdings LLC (“MedVend”), 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 the shareholders did not have the power to sell their ownership stake in MedVend. 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.

On June 5, 2014 the Company entered into the sale agreement with an affiliate company owned by the co-founder of the Company for the sale of all the MedVend rights and claims and a contribution for legal costs of \$4,800 in exchange for the return of 30,000 shares of the Company’s common stock with a fair value of \$604,800.

We entered into a Stock Purchase Agreement and Technology License Agreement with Bio-Tech Medical Software, Inc. (“Bio-Tech”) 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, 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 February 27, 2014 the Company signed a settlement agreement, and in connection therewith, a second amended and restated technology license agreement with Bio-Tech. The second amended and restated technology license agreement provides that the Company receives full licensed right to 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 were canceled and rescinded.

On June 5, 2014 the Company entered into a sale agreement with an affiliate company owned by the co-founder of the Company for the sale of all Bio-Tech rights and claims and a contribution for legal costs of \$4,800 in exchange for the return of 30,000 shares of the Company’s common stock with a fair value of \$604,800.

In addition to the above, we may, be subject to various claims and legal actions arising in the ordinary course of business from time to time. We are not currently a party to any pending legal proceedings that we believe will have a material adverse effect on our business or financial condition.

### Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” as filed with the Company’s Registration Statement on Form 10 Amendment 2 filed with the Securities and Exchange Commission on May 13, 2014, as amended. The factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this report.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

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**Item 6. Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
10.1	Bio-Tech Purchase and Sale Agreement (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 000-54928), filed with the Commission on June 10, 2014).
10.2	Med Vend Purchase and Sale Agreement (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K (File No. 000-54928), filed with the Commission on June 10, 2014).
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*
101.LAB	XBRL Taxonomy Extension Label Linkbase.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.*

\* Filed herewith.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Medbox, Inc.**

Date: March 16, 2015

By: /s/ Guy M. Marsala  
Guy M. Marsala  
Chief Executive Officer (principal executive officer)

Date: March 16, 2015

By: /s/ C. Douglas Mitchell  
C. Douglas Mitchell  
Chief Financial Officer (principal financial and accounting officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Guy M. Marsala, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Medbox, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2015

/s/ Guy M. Marsala

Guy M. Marsala  
Chief Executive Officer  
(principal executive officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Douglas Mitchell, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Medbox, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 16, 2015

/s/ C. Douglas Mitchell

C. Douglas Mitchell  
Chief Financial Officer  
(principal financial officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Medbox, Inc. (the "Company") on Form 10-Q/A for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guy M. Marsala, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2015

/s/ Guy M. Marsala

Guy M. Marsala  
Chief Executive Officer  
(principal executive officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Medbox, Inc. (the "Company") on Form 10-Q/A for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Douglas Mitchell, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2015

/s/ C. Douglas Mitchell

C. Douglas Mitchell  
Chief Financial Officer  
(principal financial officer)