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OKANOGAN COUNTY
PLANNING & DEVELOPMENT

To: members of the Okanogan County Planning commission

From: K and M Growers Tonasket, Wa

Thank you for allowing our industry to meet with you and share information.

K and M Growers is approaching our 2 year anniversary. Some facts and figures from 2015.

We employ 9 people year round and 30 people at harvest time. Last year we paid out over \$350,000 in wages, state and federal taxes.

In 2015 we paid out over \$157,000 in expenses to grow, package and sell our crop and make improvements to our facility. Local business that we rely on include North Country distributors, Midway building supply, O.K. Chevrolet, Vern's Automotive, Lee Frank's Inc., Tonasket Feed and Supply, Washington Tractor, Home Depot, Elemental Gardner, Highland Internet, Havillah road printing, Donna Hicks tax service, Sam Boers electric, Range construction, Kruse electric, Andy Beletrani plumbing, Cooks cutting edge, Ricard Drilling, Okanogan county pud and Walmart just to name a few. That's 20 businesses in Okanogan county, not to mention various gas stations and restaurants.

It has been stated that this industry should be able to amortize start up expenses in one year. To date K and M Growers has only been able to pay back 35% of those expenses. We are one of the lucky ones. Included please find two articles addressing this issue. One is from the October 25th, 2015 edition of the Wenatchee world quoting 2 producer/processors in the Wenatchee area that not only have been unable to start paying back their investment but actually had to take out loans to pay excise taxes. The other is an article from marijuana venture magazine (a leading industry publication) that quotes the owners of the states largest processing facility in Spokane. It states not only have they not made a profit but have been unable to even pay themselves!

Please do not change the zoning laws in Okanogan county. Literally hundreds of Okanogan county residents depend on this industry for their livelihood.

Three business' stories

Blewett Pass Farms

Collin Smith and his family's Blewett Pass Farms were already growing medical marijuana when recreational pot became legal and they jumped in. Most of their 15,000 square feet of production is indoors. They had to weather a three-month period with no sales early this year when the market was still flooding with last year's outdoor harvest production. It was tough.

"One of the biggest problems with indoor, is you're constantly growing," Smith said. "You can't stop if you have had sales or not enough cash flow. When things are going bad for a retailer, they just close down for a while and maybe lose their rent. We can't stop, because all the plants would die."

The company is still paying on old excise tax due. Smith acknowledges the improved tax system now, but still feels the 37-percent excise tax paid by the customer is too high. He still thinks they'll make it.

"Our costs are super low," he said. "I built a system that's cheap to run. It doesn't take a lot of labor. We'll be able to slide along until enough people go out of business."

Monkey Grass

"We grow, harvest, process and concentrate under one roof. That's huge," said Monkey Grass' Kátey Cooper of the partners' business plan. "Our biggest issue right now is making up for all the time we did have to pay 25 percent of our

revenue to the LCB (Control Board). Monkey Grass and The Happy Crop Shoppe, separate but family-

"When things are going bad for a retailer, they just close down for a while and maybe lose their rent. We can't stop, because all the plants would die."

COLLIN SMITH
Blewett Pass Farms

ties-related retail business, are looking to offer cannabis that's distinctive and at different price points, a niche they say will distinguish them from others who seek only to sell at as low a price as possible.

"It's about making those partnerships now, making a good impression," Cooper said. "We took this opportunity and we're making history. We'd better make great history, and make a brand that is going to be remembered.

The retailers are being hounded by hundreds of us. You have to have something different about you."

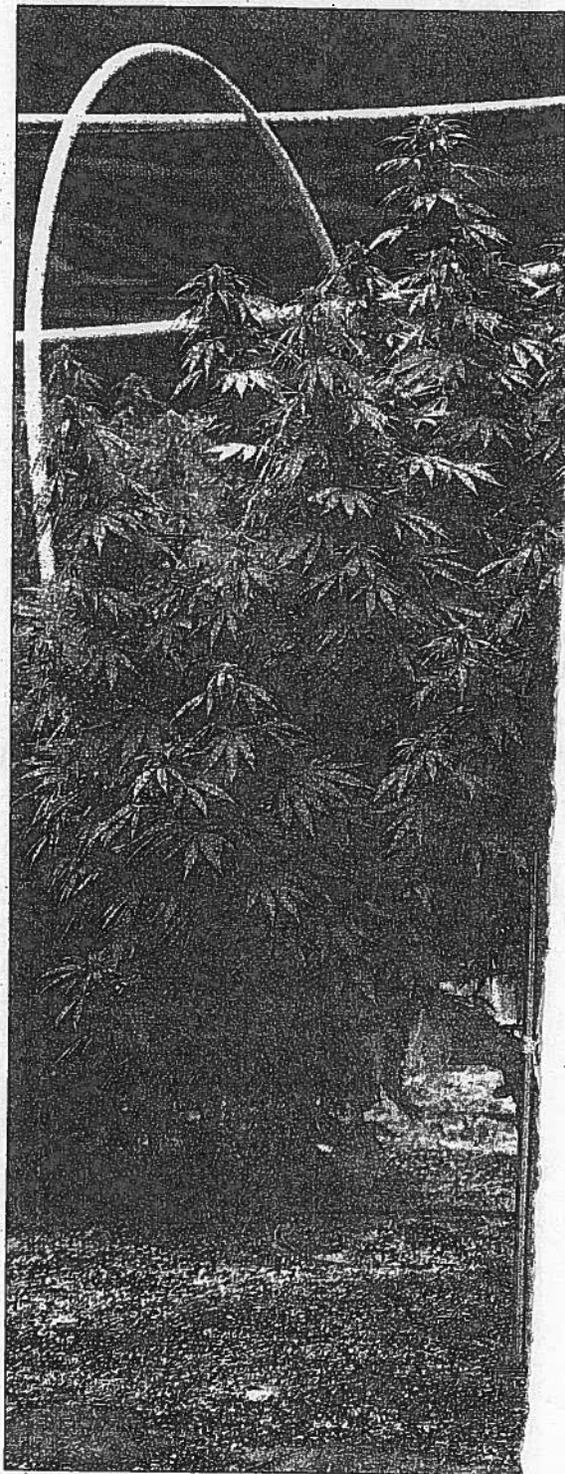
Copeland's Cannabis

Harry Copeland has kept expenses low at his Copeland's Cannabis in Monitor by starting small and doing all the work himself.

Cannabis produced by his 100 plants, all grown hydroponically, have been flying off the retail shelves. He's looking to double or triple his business. He'll make a profit this year.

"I'm retired. I took it on to supplement my income," said Copeland, who used to own Tom, Dick and Harry's, a Monitor hamburger restaurant. "It's kind of fun to see how the industry is evolving. I've been happy with it. It's frustrating at times, but any business is. I think it's going to grow. And I think it's here to stay."

— Christine Pratt, World staff



Debin Smith with Blewett Pass Farms prunes ma

THE WENATCHEE
WORLD

DIGITAL

Log on from any con

For years in the music industry, record sales were charted through phone calls and conversations with music stores. The widely-believed assumption was that rock and roll topped the charts. It wasn't until the industry started tracking records directly based on sales that the true pecking order — with country western at the top — came to light.

The same analogy can be made of the cannabis industry, where so many numbers and reports tend to be anecdotal in nature, rather than based on facts. That is, until recently, as Washington's seed-to-sale tracking and programs such as Tetra-trak reveal the true sales and production numbers of every licensed marijuana business in the state.

And what that data shows is that Grow Op Farms is absolutely dominating the Washington market.

The Spokane Valley-based producers of the wildly popular Phat Panda brand have sold nearly \$3 million dollars of cannabis in the past six months.

Grow Op Farms was the top-selling producer/processor in the state for a four-month stretch between February and May (June results had not been released as of press time).

In April, Grow Op finished the month just shy of a \$1 million milestone. Its \$946,000 in sales was more than the next two companies combined.

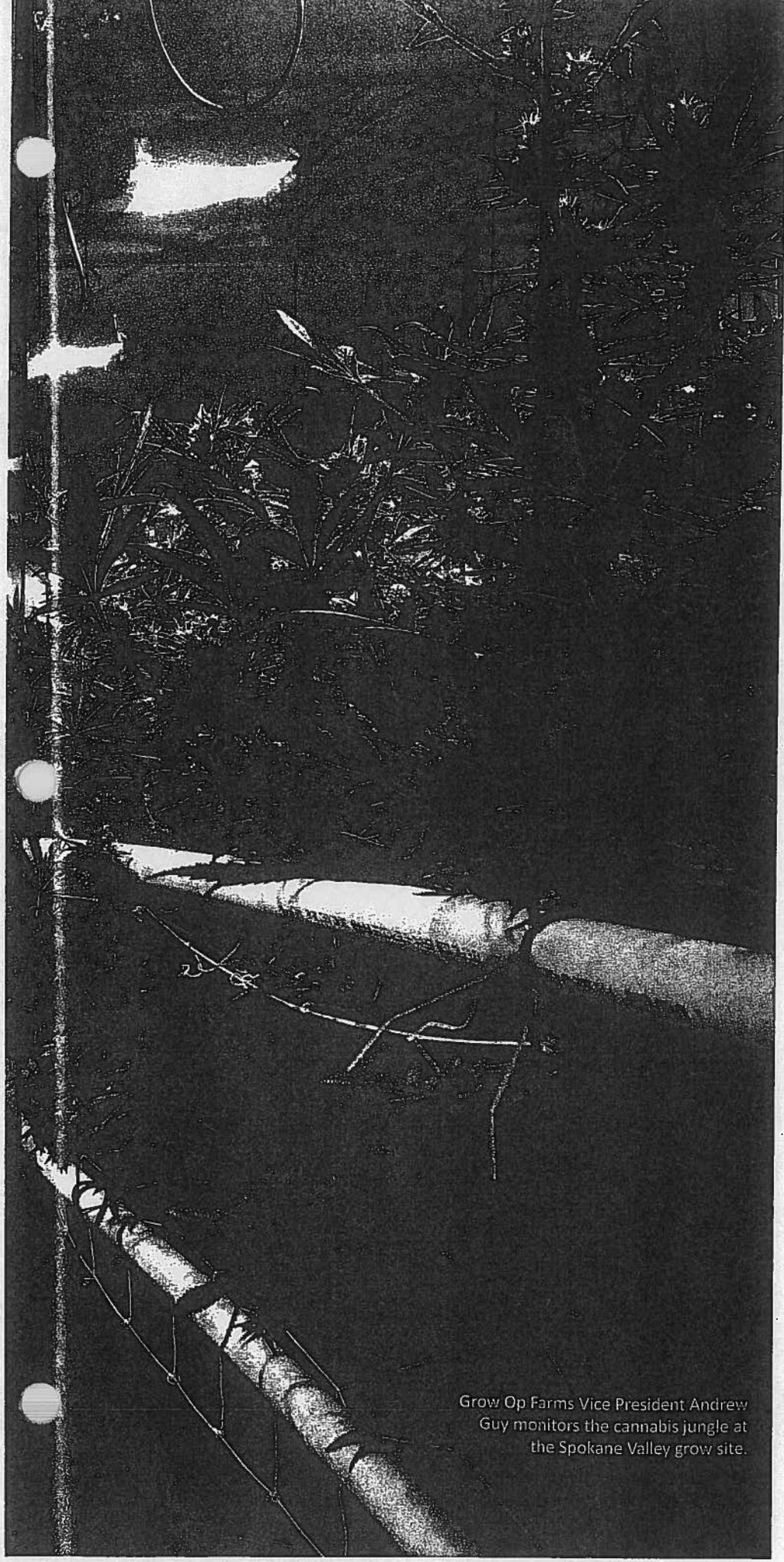
BMF Washington, which produces the Liberty Reach brand, sold \$471,000 of product, while DB3, of Zoots fame, sold \$458,000 of product.

Despite being operational for just six months, Grow Op Farms ranks third in the state for total revenue since Washington's recreational market launched in July 2014. Co-founders Rob and Katrina McKinley say the Grow Op team is biggest reason they've been able to grow so rapidly, with the quality of their product and their marketing and brand creation as other significant factors in their success.

The McKinleys brought a wealth of entrepreneurial experience to the grow, but had never been directly involved in the marijuana business. In addition to a wide range of other business ventures, the McKinleys own a successful marketing company, which lent its name — Phat Panda — to the company's flower brand.

The McKinleys say they've been lucky

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Grow Op Farms Vice President Andrew Guy monitors the cannabis jungle at the Spokane Valley grow site.

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However, the Phat Panda prototypes were an instant hit among Grow Op's employees. The name came from a lesson McKinley took from one of his early mentors — use an animal if you want to create a memorable, catchy brand. Thus Grow Op Farms utilized Phat Panda for its flower products and Sticky Frog for its concentrates.

Katrina McKinley came up with the idea of using mug-style glass jars during a trip through Hobby Lobby.

While the jars might be more expensive than the typical plastic bags most producers use, the glass helps separate Phat Panda from many of its competitors.

McKinley describes one instance where a retailer specifically requested his shipment in plastic bags. Grow Op Farms granted the special request, but in the hustle and bustle of putting the shipment together, packaged the flower in glass jars just like every other shipment.

Originally, McKinley and his team were apologetic for the mix-up. But within a couple weeks, the glass jars were flying off the shelves and the retailer completely reversed his stance.

The glass jars and catchy packaging have also created a collectible craze among some consumers, McKinley said. He regularly hears comments from people that they are trying to collect every jar, or that they save the bigger mugs to reuse as drinking glasses.

The packaging is crucial for getting consumers to buy Phat Panda products in the first place, but getting them to keep coming back for more is a factor of quality, McKinley says.

"Cool packaging might lead people to buy a product once, but if they're not satisfied with the product, they're not going to keep buying it," McKinley says.

McKinley says he believes Grow Op Farms grows the best cannabis in the state.

But, then again, everybody in this industry says that, right?

"If our product weren't the best in the state, then the retailers wouldn't call back after we drop samples and the customers wouldn't become repeat buyers," McKinley says.

EMPLOYEES

Guy says the employees of Grow-Op Farms are what make Washington State's largest cannabis producer successful.

Without having the right staff in place to manage all aspects of the garden, as well as the trimming, processing and packaging needs, Phat Panda wouldn't be what it is today, he says.

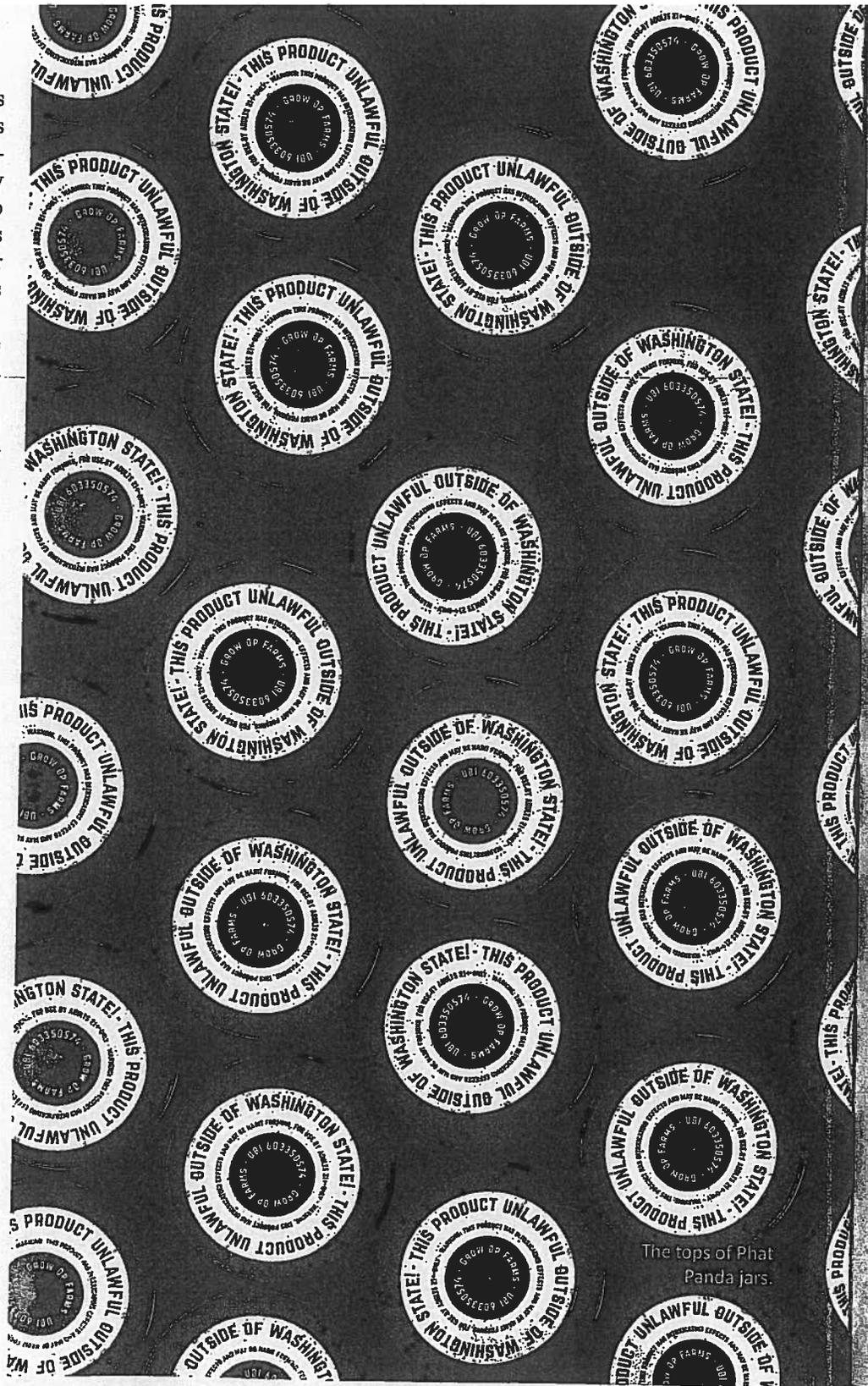
The business currently has about 40 full-time employees and 27 part-timers.

"A lot of the employees really enjoy working with the marijuana," Katrina McKinley says. "They love it. Not only do

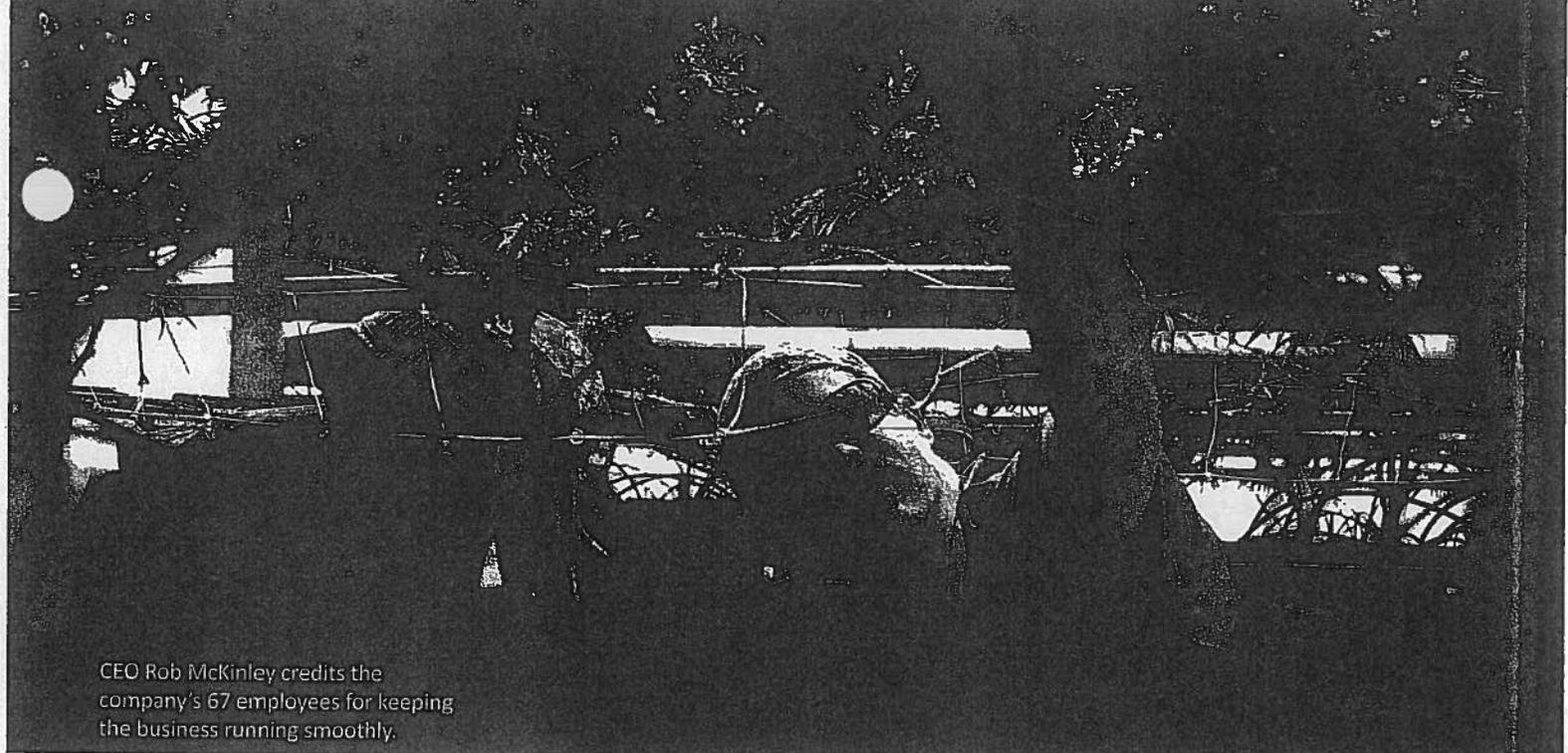
we try our best to treat them well, but they like their work. They want to be there, because they like what they're doing. It's awesome that they get the opportunity to do something they used to have to hide in their house to do and now they can actually do it for work and get paid to do it, legally."

The attrition rate has been extremely

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The tops of Phat Panda jars.



CEO Rob McKinley credits the company's 67 employees for keeping the business running smoothly.

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low since Grow-Op Farms began operating. That's been crucial in getting everybody up to speed and on the same page, Guy says.

The company has been able to retain the bulk of its work force by taking care of the employees.

"We treat them well, and in turn reciprocate with their time and energy," Guy says.

Grow-Op Farms' lowest-paid employees make at least \$12 an hour, while many make \$15 an hour or more, plus the possibility of overtime during especially busy times.

The entire management team has the option for an ownership stake written into their contracts, and every employee is eligible for profit sharing. Rob McKinley says 4% of the net profit at the end of the year is set aside for bonus dividends for all employees at the end of the year.

On the busiest days of the week — Tuesdays, Wednesdays and Thursdays — the company provides lunch or dinner for all employees

The McKinleys don't take a salary from the company. Instead, they've been reinvesting any profits back into the enterprise.

"Right now, as long as we're bringing in more than we're spending, that's a good month," Rob says.

Staffing was originally one of the biggest obstacles Grow-Op Farms had to address.

"We grossly underestimated the amount



of people that we needed, mostly on the processing side," Guy says.

McKinley adds that the operation grew so fast during its first few months that employees were working 10-12 hours a day for several weeks at a time. That shortage cost the company a lot of money in overtime as it tried to keep up with the staffing needs.

"Since we are growing plants and they have schedules, flex time is difficult to offer any of the growing staff," McKinley says. "Processing is a similar situation. Certain jobs have to get done in a very organized way. There isn't a lot of free-wheeling like you might find in a small

tech startup where as long as I get my code written no one else is harmed. With plants if they aren't attended to correctly it will negatively affect the whole operation, not just that one person and their job."

Grow-Op Farms currently does not offer health insurance, but could be offering a medical/dental plan in the next few months for employees who wish to participate, McKinley says.

While working for Phat Panda is extremely fun, it's certainly not easy, Guy says.

"It's challenging," he says. "Every day it's the most challenging thing any of us

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Grower

have ever done.”

There have been times when Guy has worked 24-hour shifts or more. The magnitude of the grow makes it easy to lose track of time taking care of necessary tasks, he says.

“We shackle him at night so he can’t leave,” McKinley jokes.

OPERATIONS

One challenge almost all state-licensed growers face is scaling up to commercial quantities.

“It’s one thing to grow one room, but changing that to 16 big rooms and meeting the labor demands is completely different,” Guy says.

There really is no secret to how Grow Op Farms has managed to tackle that challenge better than any other producer in Washington. The growers have done everything they can to maximize their allotted 21,000 square feet of canopy. They’ve had to learn how to manage the balancing act of keeping enough clones and mother stock to supply the 16 grow rooms. They use top-of-the-line lights and nutrients, McKinley says. They capitalize on econ-

omies of scale.

The company initially faced a challenge with keeping the full-automated programming running correctly, McKinley says. With such a high-tech operation, it took a while before employees were familiar with the inner workings.

The growers have kept the operation within their means, focusing on what they do well. There are plans of introducing a line of non-perishable edibles in the near future, but rather than investing in extraction equipment and hiring somebody to handle concentrates, the company has outsourced that part of the operation to Weed Bunny, a Rainier-based processor.

On an average week, Grow Op Farms puts out about 40,000 to 50,000 grams of flower, 12,000 pre-rolled joints and 1,000 grams of concentrates.

The week leading up to 4/20, the grow facility stepped up its production to put 80,000 grams of flower and 17,000 joints on the shelves of retailers.

Despite consistently high revenue, McKinley admits the company is probably not making a lot of profit right now. The operating cost of a nearly 600-light grow operation, coupled with the cost of labor,

is tremendous (all Phat Panda buds are trimmed by hand).

McKinley says his goal is to build Grow Op Farms into a \$50 million dollar company in gross revenues.

“I think we can get there within 18 months or so,” he says.

Without a background in the cannabis industry, McKinley said he initially didn’t know what to expect in terms of yields. When early numbers came out, Grow Op was averaging about three pounds per light.

That set a high bar to follow, McKinley says.

“We didn’t really set out to dominate (the market), but as soon as that was provided to us, then there’s only one way to do it,” he says. “You’re either going to do it or you’re not. We fortunately have the team that can take it by the horns and do it.”

The company is in the process of implementing changes that could push its weekly production to around 80,000 grams.

“When we’re at that point, I think it’s going to be really hard for people to keep up with us,” McKinley says.

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