

# Inside the Collapse of California Distribution Giant Herbl

Stakeholders weigh in on the company's receivership and where the market could go from here.

[MELISSA SCHILLER](#) | JUNE 23, 2023

California cannabis distribution giant [Herbl](#) appears to be the latest casualty in the state's faltering cannabis market, as reports surface of the company being placed in receivership after falling behind on a loan.

The company's collapse, first reported by [MJBizDaily](#), means that potentially tens of millions of dollars in invoices will remain unpaid to brands, and California may lose out on millions of dollars in unpaid taxes.

East West Bank, the company's main lender, canceled a line of credit last week that it had provided to Herbl, [MJBizDaily](#) reported. The company's other investors include Measure 8 Ventures, Salveo Capital and Silverleaf Venture Partners, according to the news outlet.

The terms of Herbl's receivership mean that investors and other claimants owed money could be paid before the cannabis brands the distributor served, [MJBizDaily](#) reported.

California's cannabis regulations require brands to sell their products through licensed distributors like Herbl; distributors collect payment from retailers once the products are sold, and then remit payment for the original product delivery, minus a fee, back to the brand, according to the news outlet.

California's cannabis brands first began reporting unpaid or partially paid invoices with Herbl earlier this year, the news outlet reported, and the company has now laid off most of its employees.

At one time, the company employed more than 200 and partnered with more than 1,000 licensed retailers, according to [MJBizDaily](#).

Herbl did not immediately return a request from *Cannabis Business Times* for comment.

[Coastal Sun](#), a grower based in Santa Cruz, Calif., has worked with Herbl since June 2022. Chief Financial Officer Darren Story tells *CBT* that there were indications that the distributor has "been in trouble for a while."

"They've been surviving off of investor capital," Story says. "That's a risky business model because it's like tech companies. Everyone thinks they're going to come in and just lose money and burn cash, and then eventually they'll figure out economies of scale or they'll drive out competition and they'll be able to make adjustments to become profitable. That's proven to be very challenging in California and in cannabis, in particular. The investors just grow weary of losing money."

California's distributor model has been deteriorating for some time, Story says.

“It’s fell,” he says. “It’s just crumbled. It’s come unglued. So, now most of the brands are doing it themselves. ... The problem is the product needs to efficiently get from producer to retail customer, and it’s not been as efficient as people were hoping for. [There have been] a lot of bottlenecks.”

Anticipating the collapse of Herbl, Story and the Coastal Sun team have been preparing to make adjustments to their business since February, when the distributor extended its terms of payment to brands from 45 to 60 days. Story calls this move a “breach of contract” that sent shockwaves through Herbl’s clients.

“When they start extending payments, that means they’re in trouble,” he says. “And we knew that they were ... trying to source additional capital and it wasn’t working. So, we started making adjustments, [and] then and we pivoted fairly nicely. And in the long run, it’s going to make us stronger. These are the times where well-run companies that are able to adapt and be flexible and take advantage of weaknesses in the market come out very, very strong.”

## **An Uncertain Outlook**

Coastal Sun began growing blueberries in 2015 and started cultivating medical cannabis for a collective later that same year. The company then became a brand after Proposition 64 legalized adult-use cannabis in California. Story says that the evolution of the state’s cannabis market means that some business models will ultimately get squeezed out of the industry.

“We’ve got to run through it, it’s going to go through the ringer, and there’s going to be some pain and suffering short term, but in the long run, it’s only going to make everybody else that’s left surviving, that’s here to serve patients, stronger,” he says. “And California as an industry will come out much better off.”

Lex Corwin, founder of Nevada City-based [Stone Road Farms](#), says that Herbl’s collapse further illustrates that “the supply chain is really broken” in California, with retailers taking up to 200 days to pay invoices—or not paying them at all.

“I remember the first time I learned about Herbl’s model, basically cashing out products from manufacturers and cultivators and then delivering them to stores and collecting the invoices,” Corwin says. “I was like, that’s just a really dangerous place to be in the supply chain. They were referred to as the ‘bank of cannabis,’ and anyone that’s been in it for a while knows that you don’t want to be the bank of cannabis. And the fact that they were sending so much money for [accounts receivable] that they weren’t able to collect—ultimately, just between taxation, the AR issue [and] all the regulatory stuff, I think it was a \$2.3-million loan that ultimately, they defaulted on. A lot of people are going to be hurt because of this.”

To combat the fallout of a challenging regulatory and economic climate, Sabrina Wheeler, Stone Road’s chief operating officer, says more businesses are moving toward “lean operating models,” outsourcing more positions and keeping payroll expenses low.

“I feel like people are realizing that they need to consolidate some of these positions, and having more key players handling multiple different facets of the business is going to be more sustainable than just having a huge team of top talent that might not be all bringing in the revenue they need to be able to make their salaries make sense for the business’s sustainability long term,” she says.

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Corwin and Wheeler act as a two-person team to run Stone Road, which Corwin says is one of the only ways the business can survive in California’s tumultuous cannabis market, where brands simply are not getting paid.

“If we really broke it down with how much we’re not paid, the business doesn’t really make sense,” Corwin says. “And I feel like a lot of people are in that position, and with our business, we’re literally two people running everything. And if it’s this tough for us, I can only imagine [how tough it is for] people who were able to raise a good amount of money and funded their operations off that and are now in a situation where they don’t raise outside capital, but their entire business is contingent on outside capital to do the basic business functioning. You’re going to continue to see more people go out of business and you’re going to see more people ultimately doing reductions in force because, until the credit issue in California gets solved, it’s not a conducive business.”

To weather the storm, Wheeler says companies must focus on their core business—what drives their revenue—and outsource the rest.

“One of the biggest things in business is really focusing on what you’re good at, leaning into that, leaning into what’s producing revenue, and that way you can at least stay afloat and then be able to build upon it,” she says. “Especially in the climate that cannabis has been [in], specifically in California, you do have to get creative, and you can’t operate like most standard industries—grocery, alcohol, so on and so forth. It’s just wildly different.”

In the longer-term, Corwin and Wheeler say Herbl is not alone in its struggle—they foresee more California cannabis businesses closing their doors amid unsustainable market conditions.

“It’s not on just a distribution level,” Wheeler says. “We’ve seen a vacuum happening on the brand side, too. If you look at all the brands in the market now versus even a year ago, a lot of people have left, or at least left California. And then, taking it one step further with the AR issue, retailers feel it, too, on a taxation level. ... I think in the past two weeks, we’ve heard of a few retailers closing shop because they can’t even make the tax payments. Now, once they close their doors, too, not only do they owe their taxes, but now all these brands are left unpaid and there’s very little you can do about it at that point. I think we are seeing it on all levels and there definitely must be changes made for the industry to stay afloat.”

While Stone Road has never worked with Herbl, Corwin and Wheeler say many of their friends and colleagues have been impacted by the distributor’s collapse, and the company’s failure does not bode well for the industry.

“We are obviously very sorry to hear about this,” Corwin says. “I would urge people, specifically legislators, to look at why this happened and try to get to some of the root causes, or it’ll continue to happen. And then there won’t be that much of an industry left.”

## **A Learning Opportunity**

As California’s cannabis market picks up the pieces after Herbl’s collapse, Wheeler says she hopes that not only regulators in California, but also those elsewhere in the country, will use Herbl’s story as a cautionary tale.

“I can just hope that, at least immediately, other markets coming online can learn from this and adjust some things before it gets to this level,” she says. “Thankfully, now that [Stone Road is] entering our fifth market, we have heard in the other markets we’re in that this is less of an issue, though it is starting to creep up in some of those markets. [I’m] just hoping to nip it in the bud and put some things in place to avoid this.”

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Zachary Kobrin, partner in [Akerman's](#) Government Affairs and Public Policy and Cannabis groups, says that Herbl's collapse is as much an indication of poor public policy and an economic downturn as it is potentially poor management by the distributor.

“The problem is the way that the California market is run—where you have to run through a distributor, and the distributors are essentially fronting the money,” Kobrin says. “The distributors are selling the product directly to the retailers, and then in turn, sending that revenue back down to the growers and the processors. [In] California, which has thousands of retailers, if the economy turns and they're not paying their bills, that means Herbl's fronting product, not getting paid for it downstream, [and] the growers and the processors are getting screwed.”

Kobrin echoes concerns from Corwin and Wheeler that California's challenging market conditions ultimately set Herbl up for failure.

“From all accounts, this was a decently run company,” Kobrin says. “If that's the case, then you basically have a situation where the people that Herbl was supposed to be getting paid from, because of the economy, [they] were not able to pay them, and in turn, Herbl was not able to pay the people it buys product from. That's the simplest breakdown of how something like this can happen.

“The California regulations, the way the structure of the California industry is set up, it fostered this situation,” Kobrin continues. “I don't think across the board, across the country, this is going to cause a collapse. I think that this is going to hit a lot of people. I think that ... smaller companies that don't necessarily have the capital to sustain a loss ... will feel the ripple of this, and it's unfortunate.”

Like Corwin and Wheeler, Kobrin says other markets should take note of Herbl's collapse and avoid similar missteps in regulation.

“I hope regulators take notice and use it as an opportunity,” he says. “I hope this isn't one of those [situations] where regulators ... are blaming the company. ... I think this is probably a little bit of everyone's fault, and ultimately, someone should do a nice postmortem and figure out how we can evolve the business and the industry in California [after] something like this.”

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