

OCTOBER 24, 2016

---

# THE WALL STREET TRANSCRIPT

---

Connecting Market Leaders with Investors

---

**THE FOLLOWING REPORT IS EXCERPTED FROM  
THE WALL STREET TRANSCRIPT**

**10-24-16**

## **MEDICAL RESEARCH, DIAGNOSTIC SUBSTANCES & LIFE SCIENCE TOOLS REPORT**

---

### **NOTICE**

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

### **CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS**

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963  
Published by Wall Street Transcript Corporation  
622 Third Ave, 34th Floor New York, NY 10017  
Copyright 2012 Wall Street Transcript Corporation  
All Rights Reserved

# Digipath, Inc. (OTCMKTS:DIGP)



**TODD DENKIN** is Founder, Chief Operating Officer and President of Digipath, Inc. His career has been defined by foresight — the ability to spot and take advantage of emerging market trends and navigate new companies into lucrative markets. In 2009, Mr. Denkin identified a trend in grow-your-own hydroponic systems and co-founded the self-contained hydroponic system leader Phototron Holdings, helping take the company public and serving as its President. He also founded 10 Mile Farms, a hydroponic vegetable growing system dedicated to sprouting locally grown organic produce in communities across the country.



**CINDY ORSER, PH.D.**, as Chief Science Officer at Digipath Labs for Digipath, Inc., was responsible for the initial conceptualization, development and rollout of the company's industry-leading standardized botanical nutraceutical testing facilities. Dr. Orser draws from over 20 years of experience innovating in academia and private industry. She has been the liaison between her company, Big Sky Biosystems Inc., and regulatory compliance agencies, including the FDA, CDC and DHS. Her responsibilities have included conceptualizing and managing key projects, lab benchmarking, fundraising and budgeting, staffing, managing personnel, identifying outside collaborators and directing subcontractors.

## SECTOR — HEALTH SERVICES

**(BAF601) TWST: Can you give us a description and brief history of the company?**

**Mr. Denkin:** Digipath was founded back in 2010 in Las Vegas, Nevada, when we were in the digital pathology space, and had hardware and software for digital pathology applications for laboratories, including research labs, and small hospitals and colleges. We were all over the world with clients in Australia and Asia. Our biggest competition was GE, which makes a \$250,000 digital pathology machine. Ours sold for \$40,000 or \$50,000, and then, there was back-end software support.

Back in 2014, we saw what was happening in the marijuana space and decided to use our laboratory expertise to get into the medical marijuana testing laboratory space. Las Vegas, Nevada, was a new market that was coming online, and we applied for our license in Nevada. That was about a one-year process going through the rigorous application period that Nevada put into place. We had to secure real estate and get architecture and do all of the things necessary to prove that we were a real company and were going to do what we said we were going to do.

We were awarded our provisional license in November of 2014, and we opened our doors in May of 2015. We were inspected on April 20 of last year and then 30 days later got our operations license and have been going strong ever since. We are about 3,000 tests into our lifetime here in Nevada. It is a fast and growing

marketplace, where we have about 60% to 70% of the market share and are expecting big things after the election in November when everyone's going to vote on adult use.

**TWST: That 60% to 70% of market share, is it for medical marijuana testing in the U.S.?**

**Mr. Denkin:** No, it is for medical marijuana that is grown by licensed Nevada cultivators and patients and available on the shelves at Nevada dispensaries.

**TWST: Can you give us any sense of your current revenues, and are they all attributed to medical marijuana testing?**

**Mr. Denkin:** Yes, all of our revenues are attributed to medical marijuana testing and consulting. In September, we had our best month yet and expect revenues to grow as the market grows.

**TWST: Are you giving guidance or projections, and do you want to give any sense of the market potential here?**

**Mr. Denkin:** Our corporate policy is not to provide guidance or projections, but suffice it to say that we believe the potential market for medical marijuana testing is large. According to GreenWave Advisors, a research firm in the cannabis industry, the cannabis lab testing market in the U.S. will be an \$850 million business by 2020, assuming we have full legalization across the country.

**TWST: Can you describe the lab facility and its capacity and capabilities? Also, for clarification, are you only in the testing space or also, in any way, creating product?**

**Mr. Denkin:** That's a great question. We are only in the

testing lab space. I'll have Dr. Cindy Orser explain to you what we do in the lab in a moment, but we are not in the product-making business. The interesting thing about being in the lab business is that you have to be independent from the grower, dispensary and any other kind of product manufacturer to ensure good, accurate legal results. We are not in bed with anybody, and we are giving fair and unbiased results. So we cannot be in the product-making business, especially here in Nevada. That is how it works and how it usually works around the country. From a lab perspective, we are really a full state-of-the-art laboratory.

---

***“The interesting thing about being in the lab business is that you have to be independent from the grower, dispensary and any other kind of product manufacturer to ensure good, accurate legal results. We are not in bed with anybody, and we are giving fair and unbiased results. So we cannot be in the product-making business, especially here in Nevada.”***

---

**Dr. Orser:** You may not be aware, but Nevada has the most rigorous quality-assurance standards for medical marijuana of any state in the country, and it started out that way. There was no legacy of prior production or production without regulation. For every sample of flower that we get in, there are actually eight tests that we have to perform, and also unique to Nevada, we actually are the ones who go out to the growers or the production facilities and collect the random sample out of the batches or lots. We bring them back to the lab, and every sample is barcoded and put through a visual inspection. Then, we take a photograph of the sample. We construct a certificate of analysis — C of A — for each sample that comes to the lab. We turn every sample around within 48 hours.

So after the visual inspection, the sample is homogenized to a fine powder. It is very uniform, and the homogenized sample is used for all of the subsequent analytical tests. We perform a potency test, which is the composite cannabinoid analysis, and we analyze for 11 different cannabinoids. Most states only require analysis for four cannabinoids, but we analyze for 11 because we can purchase certified reference standards for them, and we also analyze for 22 terpenes. The cannabinoids and terpenes together make up the chemoprofile of the strain.

Then, for quality assurance, we analyze for the presence of heavy metals, and in Nevada, we have a list of 24 pesticides we screen for. The state has just recently updated its regulations, and now, we will also be screening for the presence of plant growth regulators, which is a really good idea, and for herbicides. Then, we have a rather broad microbial panel we screen for, starting with pathogenic *E. coli* and salmonella, and then, total aerobic microorganisms, total yeast and mold, enterobacteriaceae and bile-tolerant bacteria. Then, we have a panel of five mycotoxins that we screen for the presence of, with mycotoxins referring to myco, or fungi, so these are toxins made by fungi.

All of that data then gets collected and becomes the certificate of analysis for that particular sample. If the product

passes all of the limits that the state has imposed for quality, then it is a pass, and if not, then it is a fail. The state receives all the data electronically, and our clients have a customer portal that they can log in to through our information management system where they can just download their reports.

**TWST: How are patients going to be able to understand what it is they are supposed to be shopping for? What should they be looking for to know the product has passed your testing? If somebody passes your screen, do they get a seal of some kind?**

**Dr. Orser:** Digipath has a large educational component. We reach out in part by creating written patient pamphlets. I write blog posts that are posted on our website; we go to dispensaries, which hold meet-a-lab-scientist events; and we do a lot of outreach. In the state of Nevada, there is a requirement that all dispensaries provide written information for patients so that they do have some element of knowledge before they try and make a cannabis selection.

Right now, there is a lot of confusion in the market because there are so many strain names that no longer really have much meaning because there is no verification that a particular strain is actually authentic. Digipath is collaborating with a company, Medicinal Genomics, from Woburn, Massachusetts, that is leading the way in genotyping strains. So we are advocating for combining the genotype of strains with the chemoprofile so that the patient then has some guarantee of the product that he or she is buying. We have created, like I said, an informational pamphlet that we co-market with dispensaries to give the patient some insight as to what type of product they should be looking for based on their particular ailment.

**TWST: So should they be asking for a chemoprofile?**

**Dr. Orser:** Yes, they should, and in fact, dispensaries are also required by the state to maintain a book that contains all of the certificates of analysis and that includes all of the lab testing information. If patients come in and see something, and they think they want to buy, then they can ask to see the lab report on this, and the dispensary has to produce that so they can see that it has, in fact, passed certain quality-assurance tests, and they can look at potency.

**TWST: Obviously, you want to remove some of the offensive items in the medical marijuana, but what are the desired aspects given that patients are looking for healing agents, for lack of a better word? Are the cannabinoids the most important elements?**

**Dr. Orser:** Because THC and CBD — tetrahydrocannabinol and cannabidiol — have gotten so much attention, the populace is really focused on the THC and CBD content. But the more we learn — and I should point out, there are over 20,000 scientific publications on cannabis — the more it seems to be a combination of specific cannabinoids with the terpenes. There is a lot of information out there, and we are learning more and more every week about what is called the entourage effect. The terpenes are the aroma of cannabis; like for lemons, limonene is the terpene responsible for that distinct lemony scent. Ironically, there is a subset of cannabis strains that also contain limonene as well as many other distinct terpenes. So we know that the terpenes can have a big impact on the effect of the cannabinoids in the human body. It is really the two groups of chemicals combined.

**Mr. Denkin:** From a negative standpoint, we are looking for pesticides or an extreme amount of heavy metals or an extreme amount of any kind of microbial problem. We don't remove that

stuff. We just report what it is that we find, and then, if it's above the limit, then the state takes action. We just do the analysis and make the report to the grower or producer as well as the state of Nevada.

---

***“Our goal as the only real publicly traded cannabis laboratory company is to become that 900-pound gorilla. Our business model is not to just stop here in Nevada but to open up labs in really every state over time, and to really create the standards and help this industry to put real science behind cannabis testing.”***

---

**TWST:** There is greater interest in recent years in marijuana research. Are you involved in that arm of things whereby you want to be helping advance work at research sites that might be seeking drug candidates in this area?

**Dr. Orser:** Once again, the state of Nevada is ahead of its time, and we now have the ability to support R&D efforts and are doing that. We cannot initiate R&D on our own, again, because we are a lab service, but certainly, we can provide a lot of advice and direction to producers or growers who are interested in tailoring their products.

**TWST:** Or even companies that are making a drug? I was speaking to one company that has put some plans on the back burner due to the demonization, if you want to call it that, of marijuana in research.

**Dr. Orser:** Our requirement is, whomever we help with their R&D, they have to have what is called an MME license in the state of Nevada. For many pharmaceutical companies, the long-held policy is to do its own testing internally and to not contract out to third parties unless it is to verify results. I would certainly love to be involved more in the drug development aspect because there are just so many opportunities at the moment for development of novel formulations.

**Mr. Denkin:** There are two kinds of research and development. There is the cannabis research and development, which is really developing cannabis out for regular drug research, and then, there is the biotech research and development to really make this into a viable pharmaceutical drug that is duplicatable every time. So there are really two buckets that we can delve into when doing R&D.

**TWST:** Part of what you're doing as a company is marketing so as to develop some of the standards in the industry and also you might be advancing on certain policy positions. What trends are you most closely observing in this area, and how are you trying to steer the conversation?

**Dr. Orser:** Clearly, standardization is the key here. We are big proponents of standardization in the cannabis testing field. We give presentations to promote standardization with state regulators, attorneys general and all participants in the industry. I am also a big advocate of changing how we refer to strains now, and to try and bring in more standard agronomic terms for plant cultivars to emphasize the need to validate a genotype before it is given a name that may or may not be accurate. So we are trying to bring more solid science to the field of cannabis testing and hoping that it trickles down into the growers and producers.

**Mr. Denkin:** Our goal is to really establish ourselves as the leader in cannabis testing, not only here in Nevada, which we've already done, but also around the country. The promotion of the standardization of these testing protocols is absolutely 100% necessary in order to do that. The good thing is that we got our start in the most stringent state in the union, which is Nevada, and our belief is that Nevada will become the bellwether state that the other states will end up following, exactly how they did with gambling.

**TWST:** Who is your chief competition, and are they like you in design and even belief system about this industry?

**Mr. Denkin:** The truth is that we really don't have competition. There are some nationally known laboratories, such as Steep Hill and SC Labs. They are based in California where there are lax rules. In fact, they have no rules. So nothing against those guys, they are all good people and all smart scientists, but what we have been able to do is become experts in pesticides, microbial contaminants, heavy metals, mycotoxins and all of the bad things that nobody else around the country is really testing for.

So when you say, do we have competition? Yeah, there is another lab down the street, but there is certainly not another Digipath lab down the street. Our goal as the only real publicly traded cannabis laboratory company is to become that 900-pound gorilla. Our business model is not to just stop here in Nevada but to open up labs in really every state over time, and to really create the standards and help this industry to put real science behind cannabis testing.

**TWST:** How are you expanding the market for marijuana testing?

**Mr. Denkin:** We are still going to be involved in product development, but these products just will not be our products.

**TWST:** And you'd have legal paperwork around it to ensure there was no perceived conflict of interest?

**Mr. Denkin:** Yes. All of our customers have specific needs and hopes and dreams that they want to create the best, the biggest, the brightest, and we can help them do that because they can create something, and then, we give them a test result because they don't really know what they have until it runs through the analytical process. It is all theory until we give them actual numbers, so the testing aspect is a huge part of product development.

**TWST:** You talked about how much is known about marijuana but also how much is not known. For those uninitiated, what should they be wary of if they are smoking it either recreationally or medicinally? What sort of effects could they be undergoing internally that they might not be aware of?

**Dr. Orser:** Well, the problem with pesticides is that they represent a chronic exposure, over time, for an accumulated impact. We do not really know what that impact might be because there is not a body of evidence surrounding the clinical impact of inhalation of combusted pesticides. So it is an unknown but also represents a massive clinical experiment that is being conducted with no controls. It is an experiment that is ongoing, and we will just have to wait and see, but clearly, it is not a good idea to be inhaling pesticides.

**TWST:** The dispensaries that you're working with, are the patients frequenting them mostly there for pain control, anti-nausea or some combination of ailments?

**Dr. Orser:** The ailment usually revolves around pain, as in inflammatory pain or chronic muscle pain like fibromyalgia,

irritable bowel syndrome, as well as Crohn's diseases. All respond quite well to cannabinoid therapy.

**Mr. Denkin:** In Nevada, some of the qualifying conditions are AIDS, cancer, glaucoma, PTSD, persistent muscle spasm, seizures, severe nausea, severe pain and then a bunch of other conditions specifically approved by the Department of Health.

**TWST: Are you sensing an opening up of both policy and conversation due to the opioid crisis, or is the opening something that has been brewing for many, many years before the crisis?**

**Mr. Denkin:** I think it has been brewing for about 40 or 50 years, but the strange part about the whole opioid crisis is that here we are having a conversation about this opioid crisis — right? — and no one is doing anything about it. Is it really a crisis just because we spout numbers out on a monthly basis on how bad it is? We see marijuana use, both recreationally and medicinally, in states where there are opioid problems, and the opioid usage is decreasing. We are big fans of that clearly. We are in the medicinal cannabis business and believe it can solve so many problems that opioids are prescribed to do now that I believe it is a huge transition that is starting to happen, and we are going to see it increase over time.

**TWST: You've talked a little bit about your growth strategy. Does it involve co-developments? Are you seeking any agreements right now, and if so, can you talk about any plans in that area?**

**Mr. Denkin:** We are seeking some agreements, but nothing that we could talk about. We are actively looking for operating laboratories around the country — whether they are toxicology, environmental or pathology labs — that we can acquire. We want to add services to them, which will include medical marijuana testing. But yes, we are currently aggressively looking. Because of our recent success in Nevada, we want to capitalize on that and on the brand we have been able to build. Daddy always said, "Take something complex, make it simple, and then repeat until rich." So we are in the repeat-until-rich phase of our business plan.

**TWST: What is your chief challenge right now operationally, and what are you doing to address it?**

**Mr. Denkin:** Operationally, my chief problem is sustaining regular cash flow because it is a brand-new marketplace. So we have new guys coming onboard, and not only do we have new growers coming onboard, but there are also new labs coming onboard. I have to combat other labs that come in at lower prices sometimes. I mean, we are a brand-new market, so it is not only the creation of a market, but it is the creation of an industry. There are going to be some growing pains, but I believe that our business plan and business model position us in the right place at the right time. Operationally, you want to be able to have the capital to do the things you need to do, to stay competitive and to create more revenue for the company.

**TWST: What do you want a potential investor in Digipath to know today?**

**Mr. Denkin:** We talked about the opioid crisis. I just wanted to add one more thing to that because it has been reported that in Colorado, medical marijuana saved Medicare about \$165 million in 2013. So \$165 million was not spent on opioids; it was spent on medical marijuana. And we see this as a definite trend as marijuana becomes legal across the country. So I just wanted to add that because it is a huge number that nobody is talking about, because it is the pharmaceutical companies that I believe over time will come in and acquire medical marijuana companies.

**TWST: Is there anything else you wanted to add that we haven't talked about?**

**Mr. Denkin:** I just want to hammer down the point that our goal as Digipath is to legitimize cannabis testing in the United States and then throughout the world. We need to standardize everything that we are doing to have the same rules across states. What investors need to know about Digipath is, that is what we are going to do. We are not just going to talk about that we should be doing this, but this is what we are doing. Cindy is out on a speech tour. I travel around the country as well, and talk about standards and other up-and-coming marijuana states, and it is so important because it legitimizes the cannabis space.

One thing I would add about an investor investing in the lab space is really it is an investment in the entire industry because the lab folks are the gatekeepers of the product. Nothing can be sold until it is tested. We do not control the market, but we really are knee-deep in the market. We see where it is going, who is the best, who is selling and not selling, and we have a gauge of how much product has been moved. The thing I cannot stress enough is that from a marijuana-investment standpoint, we do not grow or sell it, or make any products with it, but rather, all we do is test it. The great thing about that is it is mandatory in order to sell your products. So the testing space is a really good place.

**TWST: Thank you. (KJL)**

**TODD DENKIN**

**Founder, COO & President**

**CINDY ORSER, PH.D.**

**Chief Science Officer of Digipath Labs  
Digipath, Inc.**

**6450 Cameron St.**

**#113**

**Las Vegas, NV 89118**

**(702) 533-6884**

**www.digipath.com**

**e-mail: info@digipath.com**