

California's Metrc Track-and-Trace Is in the Hot Seat Again, and a Judge Says DCC Isn't Following the Law



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What Global Cannabis Marketing Actually Looks Like

PufCreativ CEO John Shute on the gap between U.S. and EU markets, and what brands should do about it

California's legal cannabis market has been bleeding for years. Operators are squeezed by high taxes, local red tape, price compression, and a thriving illicit trade that keeps undercutting licensed businesses. Everybody in the game knows diversion is real. The question is whether the state's enforcement tools are being used the way the law requires, and whether the dominant track-and-trace vendor, Metrc, is part of the solution or part of the problem.

Two court moments now frame this fight.

First, the Fourth Appellate District Court of Appeal ruled that Catalyst's parent company, HNHPC, has standing to sue the Department of Cannabis Control, confirming that DCC has enforceable duties tied to track-and-trace oversight. That decision revived Catalyst's lawsuit and sent it back to trial court instead of letting it die on a technicality.

Second, on December 9, 2025, Orange County Superior Court Judge Lee Gabriel ruled that **DCC's current use of Metrc does not comply with California law.** (<https://ocscefm1.occourts.org/eService/getDoc.cfm?id=F29AD49361BF593AB555C7061B26EC553DD185279382EB65D59E58308D0AF07E>) Specifically, the judge found that DCC is not meeting the legal requirement that track-and-trace flag irregularities for the department to investigate.

Put together, these decisions do not just keep a lawsuit moving. They challenge California's entire seed-to-sale enforcement model. They also raise uncomfortable questions for every other state relying on Metrc to keep legal cannabis from leaking into illegal markets.

"With the court ruling the DCC has received not only a painful black eye but a message from the judicial system for major reforms. This type of case is very difficult to win and municipalities love to hide their favorite refuge the word "discretion" ...this ruling illuminates how egregiously the track and trace mandate is carried out"

-Elliot Lewis, Founder and CEO of Catalyst Cannabis Co

Let's break down what happened, why it matters, and what changes could come next.

What Metrc Is Supposed To Do In California

Metrc, short for Marijuana Enforcement Tracking Reporting and Compliance, is California's official Cannabis Track-and-Trace system. Every licensed cultivator, manufacturer, distributor, and retailer is required to log cannabis activity inside Metrc, from plants in veg to products sold at retail.

At a basic level, track-and-trace is meant to:

1. Create a digital chain of custody for cannabis.
2. Track inventory and transfers in real time.
3. Flag suspicious patterns that may indicate diversion, fraud, or other violations.

4. Support enforcement so legal product does not quietly end up fueling the illicit market.

California law does not just say “build a system.” Under MAUCRSA, the Legislature required a track-and-trace system that is designed to flag irregularities for DCC to investigate. That means automatic, report driven flagging tied to clear criteria, not just raw data stored in a database.

That last part, flagging irregularities automatically, is where California’s system has been accused of failing.

The Catalyst Lawsuit: Why Retailers Went Nuclear

Catalyst Cannabis is one of California’s biggest licensed retailers. Through its parent affiliate HNHPC, Catalyst sued DCC and Metrc in 2021, alleging that the state’s track-and-trace regime is failing to do its job. The core claim is that DCC is not doing what MAUCRSA requires, and that inaction enables massive diversion out of the licensed supply chain.

Catalyst’s case centers on a specific alleged mechanism for diversion.

Burner Distributors

The allegation is that certain distribution licenses are obtained and used as diversion pipelines. Product is legally received in Metrc, then labeled “lost,” “destroyed,” or rerouted on paper while physical cannabis is shipped into illegal channels. These “burner distros” create a buffer between legitimate operators upstream and diversion downstream, making the leak hard to trace without strong anomaly detection.

Catalyst argues that Metrc can be configured to detect these irregularities automatically, but DCC has not established objective criteria or rules that tell the system what to flag. Without those criteria, analysts are forced to manually sift raw data, which is slow, inconsistent, and easy to overwhelm.

Catalyst has publicly claimed that as much as 80 to 90 percent of cannabis entered into California’s Metrc system gets diverted or lost before it reaches licensed retail. DCC disputed that number in court, but reporting indicates the department did not present a credible alternative estimate during trial.

Regardless of the exact percentage, the key point is simple. Diversion at scale is harming licensed operators, and the state has a legal duty to use track-and-trace to fight it.

First Win: The Appeals Court Confirms DCC Has Enforceable Duties

In August 2023, the Fourth Appellate District Court of Appeal ruled that HNHPC has standing to sue DCC and its former director Nicole Elliott for failing to perform mandatory duties under MAUCRSA. The trial court's dismissal was reversed, and the case was sent back to continue.

That decision did not decide whether Catalyst's diversion claims were proven. But it did confirm something huge.

1. DCC's track-and-trace oversight duties are not optional.
2. If the system is not designed and used to flag irregularities, that may violate MAUCRSA.
3. A licensed operator harmed by diversion can challenge state inaction.

Put bluntly, the state cannot dodge responsibility by calling enforcement a policy choice.

Second Win: Judge Gabriel Says DCC's Metrc Use Does Not Comply

Fast forward to the November 2025 trial and a ruling issued December 9, 2025. Judge Lee Gabriel found that DCC's current use of Metrc does not comply with the legal requirement to flag irregularities for investigation.

Key takeaways from trial coverage include:

1. Metrc can generate irregularity flags and automated reports if configured with objective criteria.
2. DCC has not implemented a rules based, report driven flagging system.
3. The department is relying heavily on manual review and reactive enforcement rather than systematic detection.

Judge Gabriel set a status conference for February 6, 2026, to address implementation. The goal is to establish criteria and deploy automated, report driven irregularity flagging that does not depend on humans spotting anomalies manually.

This is not a polite suggestion. It is a judicial finding that the agency's current workflow is unlawful under MAUCRSA.

Why This Matters For California Operators

Licensed cannabis businesses do not need another academic argument. They need a market where the rules are enforced equally.

Diversion Keeps Prices in the Basement

When product flows into the illicit market, it sells cheaper because it avoids taxes, testing, and compliance overhead. That undercuts legal retailers and drags down wholesale pricing across the board. The legal market ends up forced to compete with its own diverted supply.

Honest Operators Get Punished Twice

Legit companies pay for compliance and still lose sales to diverted product. Meanwhile, Metrc violations can carry severe penalties for licensees. So the system is strict on paper but weak against the biggest leak points, which is the worst possible combo for a regulated industry.

The Legal Market's Credibility Depends on Track-and-Trace Trust

Consumers, regulators, and investors only believe in a regulated system if monitoring works. A court saying your flagship compliance tool is not being used legally is a credibility gut punch for California's entire framework.

The Metrc Angle: Software Failure Or Regulator Failure?

Judge Gabriel's ruling does not say Metrc is inherently broken. It says DCC is not using it correctly.

But Metrc's role still matters.

Metrc holds an exclusive, high value contract in California and dominates track-and-trace nationwide. A former Metrc executive, Marcus Estes, has also filed whistleblower litigation alleging Metrc ignored diversion signals and failed to meet obligations to flag irregularities. The complaint describes burner distributor abuse as widespread and known within the system.

So the plain answer is this looks like both a configuration and enforcement problem and a vendor accountability problem. If Metrc can flag irregularities and DCC has not required or deployed that functionality, that is on DCC. If Metrc knew its platform was being used in a way that enabled diversion and did nothing, that is on Metrc too.

Either way, the courts are now forcing that conversation into daylight.

What DCC Will Likely Be Forced To Change

The February 6, 2026 status conference is basically a court ordered engineering and enforcement meeting. To comply, DCC should expect to implement:

- 1. Objective irregularity criteria** Clear thresholds and patterns that automatically trigger red flags. Think repeated loss events, weird lab result trails, abnormal transfer volumes, mismatched weights, or repeated high risk license relationships.
- 2. Automated anomaly reporting inside Metrc** Not optional dashboards. Not “if we get around to it.” A functional alerting engine that systematically surfaces suspicious activity.
- 3. Dedicated analyst workflows tied to alerts** You cannot just generate warnings and ignore them. Enforcement procedures have to connect to the data output.
- 4. Targeted audits of distributor behavior** Burner distro allegations are specific. A rules based system will inevitably generate a priority list, and DCC will be expected to act on it.

If DCC does not do these things, Catalyst will have strong grounds to push for court supervised compliance steps.

National Implications: California Sets The Tone For Every Metrc State

Metrc holds exclusive track-and-trace contracts in more than 20 states. California is the largest legal cannabis market in the world. When a California court says the system is not being used to comply with statutory obligations, every other Metrc state should pay attention.

Diversion patterns do not respect state lines. If burner distro models worked in California, they can work elsewhere unless systems are configured to detect them.

California's outcome could become a case study for:

1. More aggressive anomaly flagging nationwide.
2. Vendor contract rewrites requiring proactive detection.
3. Increased litigation from operators harmed by regulatory inaction.

The Era Of “Trust Us” Enforcement Is Over

Track-and-trace was built to be the firewall between legal cannabis and the illicit market. The courts are now saying California installed that firewall but never turned it on.

The appeals court ruling let Catalyst keep fighting. The December 9, 2025 trial ruling says the fight is justified because DCC's current Metrc usage fails to comply with MAUCRSA's requirement to flag irregularities.

Now the state has two options.

1. Fix Metrc enforcement the way the law intended, and start choking off diversion with objective, automated detection.
2. Keep stalling, and watch courts and likely more plaintiffs force the issue anyway.

Either way, the old routine of “trust us, we're monitoring it” is done. California cannabis is about to find out what real seed-to-sale enforcement looks like. If DCC follows the court's direction, licensed operators finally get a fighting chance in a market that has been tilted against them for way too long.



- Appeals Court Sides With Catalyst In Lawsuit Against DCC And METRC
(<https://beardbrosparms.com/appeals-court-sides-with-catalyst-in-lawsuit-against-dcc-and-metrc/>)
- Metrc and California DCC: A Legacy of Denial Amid Mounting Evidence of Cannabis Diversion
(<https://beardbrosparms.com/articles/metrc-and-california-dcc-a-legacy-of-denial-amid-mounting-evidence-of-cannabis-diversion/>)
- Broken Trust in Cannabis Compliance, The Fallout of the METRC Whistleblower Lawsuit
(<https://beardbrosparms.com/articles/broken-trust-in-cannabis-compliance-the-fallout-of-the-metrc-whistleblower-lawsuit/>)
- METRC Money Grab? Delays Could Cost Oregon Cannabis Farmers Millions
(<https://beardbrosparms.com/metrc-money-grab-delays-could-cost-oregon-cannabis-farmers-millions/>)