

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

- Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2016
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number: 000-54677

CV Sciences, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

80-0944870

(I.R.S. Employer Identification No.)

2688 South Rainbow Boulevard, Suite B, Las Vegas, NV 89146

(Address number of principal executive offices) (Zip Code)

(866) 290-2157

(Registrant's telephone number, including area code)

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

Non-accelerated filer

Accelerated filer

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of May 16, 2016, the issuer had 52,013,924 shares of issued and outstanding common stock, par value \$0.0001.**

DOCUMENTS INCORPORATED BY REFERENCE. None

CV SCIENCES, INC.
FORM 10-Q
TABLE OF CONTENTS

	<u>PAGE</u>
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	4
Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015 (audited)	4
Condensed Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2016 and 2015	5
Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited) for the three months ended March 31, 2016	6
Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2016 and 2015	7
Notes to Condensed Consolidated Financial Statements (unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosure About Market Risk	25
Item 4. Controls and Procedures	25
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings	26
Item 1A. Risk Factors	26
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
Item 3. Defaults Upon Senior Securities	26
Item 4. Mine Safety Disclosure	26
Item 5. Other Information	26
Item 6. Exhibits	27
SIGNATURES	28

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at <http://www.sec.gov>.

On our Internet website, <http://www.cvsciences.com>, we post the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

When we use the terms "CV Sciences", "Company", "we", "our" and "us" we mean CV Sciences, Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, as well as any predecessor entities, unless the context otherwise indicates.

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, the other reports, statements, and information that the Company has previously filed with or furnished to, or that we may subsequently file with or furnish to, the SEC and public announcements that we have previously made or may subsequently make include, may include, or may incorporate by reference certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and that are intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. To the extent that any statements made in this report contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as "expects", "plans", "may", "anticipates", "believes", "should", "intends", "estimates", and other words of similar meaning. These statements are subject to risks and uncertainties that cannot be predicted or quantified and, consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation, marketability of our products; legal and regulatory risks associated with the share exchange; our ability to raise additional capital to finance our activities; the future trading of our common stock; our ability to operate as a public company; our ability to protect our proprietary information; general economic and business conditions; the volatility of our operating results and financial condition; our ability to attract or retain qualified senior management personnel and research and development staff; and other risks detailed from time to time in our filings with the SEC, or otherwise.

Information regarding market and industry statistics contained in this report is included based on information available to us that we believe is accurate. It is generally based on industry and other publications that are not produced for purposes of securities offerings or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. We do not undertake any obligation to publicly update any forward-looking statements. As a result, investors should not place undue reliance on these forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CV SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) March 31, 2016	(Audited) December 31, 2015
Assets		
Current assets		
Cash (Note 2)	\$ 536,141	\$ 518,462
Accounts receivable, net (Note 2)	868,419	870,552
Notes receivable (Note 3)	555,784	617,681
Inventory (Note 4)	13,874,524	14,133,920
Prepaid expenses and other current assets	466,635	451,127
Total current assets	<u>16,301,503</u>	<u>16,591,742</u>
Property & equipment, net (Note 2)	390,590	439,615
Intangibles, net (Note 6)	5,405,650	5,620,000
Goodwill	4,643,812	4,643,812
Total other assets	<u>10,440,052</u>	<u>10,703,427</u>
Total assets	<u>\$ 26,741,555</u>	<u>\$ 27,295,169</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 878,632	\$ 659,408
Accrued expenses (Note 5)	408,432	522,719
Secured convertible promissory notes payable, net (Note 8)	–	881,803
Unsecured note payable to vendor	79,482	138,975
Contingent consideration	250,000	250,000
Total current liabilities	<u>1,616,546</u>	<u>2,452,905</u>
Non-current liabilities		
Unsecured note payable, net (Note 8)	560,911	–
Deferred tax liability	1,556,300	1,556,300
Total liabilities	<u>3,733,757</u>	<u>4,009,205</u>
Commitments and contingencies (Note 11)		
Stockholders' equity (Note 9)		
Preferred stock, par value \$0.0001; 10,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, par value \$0.0001; 190,000,000 shares authorized; 51,513,924 and 45,451,389 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	5,150	4,544
Additional paid-in capital	40,525,256	39,270,911
Accumulated deficit	(17,522,608)	(15,989,491)
Total stockholders' equity	<u>23,007,798</u>	<u>23,285,964</u>
Total liabilities and stockholders' equity	<u>\$ 26,741,555</u>	<u>\$ 27,295,169</u>

See accompanying notes to the condensed consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

	For the three months ended March 31,	
	2016	2015
Product sales, net	\$ 2,422,678	\$ 2,714,051
Cost of goods sold	797,043	1,136,105
Gross Profit	1,625,635	1,577,946
Operating Expenses:		
Selling, general and administrative	2,689,245	3,940,651
Research and development	141,813	323,145
Total Operating Expenses	2,831,058	4,263,796
Operating Loss	(1,205,423)	(2,685,850)
Other income (expense):		
Interest income	27,655	37,041
Interest expense	(355,349)	-
Total Other (Expense) Income	(327,694)	37,041
Loss before taxes	(1,533,117)	(2,648,809)
Provision for income taxes	-	-
Net Loss	\$ (1,533,117)	\$ (2,648,809)
Weighted average common shares outstanding		
Basic & diluted	49,931,919	34,174,805
Net loss per common share		
Basic & diluted	\$ (0.03)	\$ (0.08)

See accompanying notes to the condensed consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the three months ended March 31, 2016
UNAUDITED

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance - December 31, 2015	45,451,389	\$ 4,544	\$ 39,270,911	\$ (15,989,491)	\$ 23,285,964
Shares issued for professional services	500,000	50	174,950	-	175,000
Shares issued pursuant to conversion of senior convertible promissory notes (Note 9)	5,562,535	556	407,444	-	408,000
Fair value of warrants issued in connection with unsecured promissory note	-	-	266,800	-	266,800
Stock-based compensation	-	-	405,151	-	405,151
Net loss	-	-	-	(1,533,117)	(1,533,117)
Balance - March 31, 2016	<u>51,513,924</u>	<u>\$ 5,150</u>	<u>\$ 40,525,256</u>	<u>\$ (17,522,608)</u>	<u>\$ 23,007,798</u>

See accompanying notes to the condensed consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	For the three months ended March 31,	
	2016	2015
OPERATING ACTIVITIES		
Net loss	\$ (1,533,117)	\$ (2,648,809)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	263,375	249,725
Amortization of debt issuance costs	126,086	–
Amortization of beneficial conversion feature of convertible debt	38,392	–
Common stock issued for underwriting services	175,000	–
Stock-based compensation	405,151	1,755,994
Interest on note receivable	–	(31,562)
Change in operating assets and liabilities:		
Accounts receivable	2,133	(934,150)
Prepaid inventory	–	(1,809,379)
Inventory	321,293	885,796
Prepaid expenses and other current assets	(15,508)	(36,897)
Accounts payable and accrued expenses	104,937	(13,569)
Net cash used in operating activities	<u>(112,258)</u>	<u>(2,582,851)</u>
INVESTING ACTIVITIES		
Purchase of equipment	–	(74,698)
Repayment of notes receivable	–	75,117
Net cash flows provided by investing activities	<u>–</u>	<u>419</u>
FINANCING ACTIVITIES		
Common stock issued for cash	–	2,520,000
Borrowing from issuance of note payable, net of costs	801,430	–
Repayment of convertible debt	(612,000)	–
Repayment of unsecured note payable	(59,493)	–
Net cash flows provided by financing activities	<u>129,937</u>	<u>2,520,000</u>
Net increase (decrease) in cash	17,679	(62,432)
Cash, beginning of period	518,462	2,302,418
Cash, end of period	<u>\$ 536,141</u>	<u>\$ 2,239,986</u>
Supplemental disclosures of non-cash transactions:		
Conversion of convertible promissory notes to common stock	\$ (408,000)	\$ –
Value of warrants issued with unsecured promissory note	(266,800)	–
Common stock issued for underwriting services	(175,000)	(87,600)
Inventory returned in satisfaction of note receivable	61,897	–
Supplemental cash flow disclosures:		
Interest paid	\$ 259,934	\$ –
Taxes paid	–	16,091

See accompanying notes to the condensed consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. ORGANIZATION AND BUSINESS

CV Sciences, Inc. (the “Company,” “we,” “our” or “us”) was incorporated under the name Foreclosure Solutions, Inc. in the State of Texas on December 9, 2010. On July 25, 2013, the Company’s predecessor, CannaVest Corp., a Texas corporation (“CannaVest Texas”), merged with the Company, a wholly-owned Delaware subsidiary of CannaVest Texas, to effectuate a change in the Company’s state of incorporation from Texas to Delaware. On January 4, 2016, the Company filed a Certificate of Amendment of Certificate of Incorporation reflecting its corporate name change to “CV Sciences, Inc.,” effective on January 5, 2016. In addition, on January 4, 2016, the Company amended its Bylaws to reflect its corporate name change to “CV Sciences, Inc.” The Company previously operated under the corporate name of CannaVest Corp. The change in corporate name was undertaken in connection with the acquisition of CanX Inc., a Florida-based, specialty pharmaceutical corporation (“CanX Acquisition”) as more fully set forth in our Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on January 4, 2016.

The Company operates two distinct business segments: a specialty pharmaceutical segment focused on developing and commercializing novel therapeutics utilizing synthetic Cannabidiol (“CBD”); and, a consumer product segment in manufacturing, marketing and selling plant-based CBD products to a range of market sectors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The condensed consolidated financial statements include the accounts of CV Sciences, Inc. and its wholly-owned subsidiaries US Hemp Oil, LLC, CannaVest Laboratories, LLC, Plus CBD, LLC. and CANNAVEST Acquisition, LLC; and the accounts of a 70% interest in CannaVest Europe, GmbH (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation. The Company commenced commercial operations on January 29, 2013. On May 2, 2016, the Company filed Articles of Dissolution for its wholly-owned subsidiaries US Hemp Oil, LLC and CannaVEST Laboratories, LLC, with the Secretary of State of Nevada, effective as of April 29, 2016. Neither US Hemp Oil, LLC nor CannaVEST Laboratories, LLC had any assets or liabilities.

The unaudited condensed consolidated interim financial statements have been prepared by the Company pursuant to the rules and regulations of the SEC. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2015, filed with the SEC on the Company’s Annual Report on Form 10-K filed on April 14, 2016. The results for the three months ended March 31, 2016, are not necessarily indicative of the results to be expected for the full year ending December 31, 2016.

Change in Accounting Policy – During the first quarter of fiscal 2016, the Company changed its accounting policy for shipping and handling costs from sales of Company products. Under the new accounting policy, these costs are included in cost of goods sold, whereas, they were previously included in selling, general and administrative expenses. Including these expenses in cost of goods sold better aligns these costs with the related revenue in the gross profit calculation. This accounting policy change has been applied retrospectively.

The Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015 have been reclassified to reflect this change in accounting policy. The impact of this reclassification was an increase of \$86,291 and \$53,024 to cost of goods sold for the first quarter of 2016 and 2015, respectively, and a corresponding decrease to selling, general and administrative expenses in the same periods. This reclassification had no impact on Net Sales, Operating Loss, Net Loss or Net Loss per Share.

Liquidity – For the three months ended March 31, 2016 and 2015, the Company had net losses of \$1,533,117 and \$2,648,809, respectively. In addition, for the three months ended March 31, 2016 and 2015, the Company had negative cash flows from operations of \$112,258 and \$2,582,851, respectively. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations over the next year solely from current revenues and cash flow due to increased sales and because our current inventory levels are sufficient to support sales for 2016, resulting in reduced cash outflow for inventory purchases. In addition, we do not intend to purchase raw inventory from our supply chain arrangements from the 2016 crop. The Company’s pharmaceutical business segment will require additional capital of approximately \$1,500,000 over the next 12 months. We currently have an executed term sheet on a financing arrangement that would provide this capital. Management believes that it will be able to obtain such financing on terms acceptable to the Company, however, there can be no assurances that the Company will be successful. If the Company is unable to raise additional capital, the Company would likely be forced to curtail pharmaceutical development.

Business Combinations – We apply the provisions of the Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”), in the accounting for our acquisitions. ASC 805 establishes principles and requirements for recognizing and measuring the total consideration transferred to and the assets acquired, liabilities assumed and any non-controlling interests in the acquired target in an asset purchase. ASC 805 requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at the acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date, including our estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to:

- future expected cash flow from supply chain relationships with growers and processors of our hemp extracted CBD oil;
- expected costs to develop the In-process Research and Development (“IPR&D”) into commercially viable pharmaceutical products and estimated cash flows from the projects when completed;
- the acquired company’s brand, trade names and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined Company’s product portfolio; and
- discount rates.

Goodwill and Intangible Assets – The Company evaluates the carrying value of goodwill and intangible assets annually during the fourth quarter in accordance with ASC 350 *Intangibles – Goodwill and Other* and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit’s carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies’ data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill.

We make critical assumptions and estimates in completing impairment assessments of goodwill and other intangible assets. Our cash flow projections look several years into the future and include assumptions on variables such as future sales and operating margin growth rates, economic conditions, market competition, inflation and discount rates.

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization, and (3) goodwill. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, our long-term strategy for using the asset, any laws or regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their useful lives, generally five years. IPR&D has an indefinite life and is not amortized until completion and development of the project, at which time the IPR&D becomes an amortizable asset. If the related project is not completed in a timely manner or the project is terminated or abandoned, the Company may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value. The intangible assets with estimable useful lives are amortized on a straight line basis over their respective estimated useful lives to their estimated residual values. This method of amortization approximates the expected future cash flow generated from their use. During the three months ended March 31, 2016 and 2015, there were no impairments.

Use of Estimates – The Company's consolidated financial statements have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We evaluate our estimates, including those related to contingencies, on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant estimates include the valuation of intangible assets, the amortization lives of intangible assets, valuation of contingent consideration, inputs for valuing warrants and stock-based compensation, and the allowance for doubtful accounts. It is at least reasonably possible that a change in the estimates will occur in the near term.

Reportable Segment – With the recent CanX Acquisition, the Company has two business segments. Our consumer products segment develops, manufactures and markets products based on plant-based CBD, including under the name *PlusCBD*[™] in a variety of market sectors including nutraceutical, beauty care, specialty foods and vape. Our drug development segment is newly established to develop a variety of drug candidates which use synthetic CBD as a primary active ingredient. There were no activities for the Company's drug development segment for the three months ended March 31, 2016.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, the Company considers amounts held by financial institutions and short-term investments with an original maturity of three months or less when purchased to be cash and cash equivalents. At each of March 31, 2016 and December 31, 2015, the Company had no cash equivalents.

Concentrations of Credit Risk – As of March 31, 2016, the Federal Deposit Insurance Corporation ("FDIC") provided insurance coverage of up to \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts and does not believe that the Company is exposed to significant risks from excess deposits. The Company's cash balance in excess of FDIC limits totaled \$208,267 at March 31, 2016.

At March 31, 2016, the Company had three notes receivable totaling \$555,784, two of which are from sale of inventory to MediJane Holdings, Inc. and Medical Marijuana, Inc. ("MJNA"), and the third note is from a litigation settlement with MJNA (Note 3).

One customer represented 64% of our accounts receivable balance at March 31, 2016 and two customers represented 83% of our accounts receivable balance at December 31, 2015.

Accounts Receivable – Generally, the Company requires payment prior to shipment. However, in certain circumstances, the Company grants credit to companies located throughout the U.S. Accounts receivable consists of trade accounts arising in the normal course of business. Accounts receivable for large accounts are generally secured. Smaller accounts receivable, generally less than \$10,000, are unsecured and no interest is charged on past due accounts. Accounts for which no payments have been received after 30 days are considered delinquent and customary collection efforts are initiated. Accounts receivable are carried at original invoice amount less a reserve made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis.

Management has determined the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and credit history, and current economic conditions. As of March 31, 2016 and December 31, 2015, the Company had recorded an allowance for doubtful accounts related to accounts receivable in the amount of \$100,000.

Revenue Recognition - The Company recognizes revenue in accordance with the ASC Topic 605, *Revenue Recognition* which requires persuasive evidence of an arrangement, delivery of a product or service, a fixed or determinable price and assurance of collection within a reasonable period of time. The Company records revenue when goods are delivered to customers and the rights of ownership have transferred from the Company to the customer.

Sales Tax - The Company is responsible for collecting tax on sales to end customers and remitting these taxes to applicable jurisdictions. These taxes are assessed based on the location of the end customer and the laws of the jurisdiction in which they reside.

Shipping and Handling - Shipping and handling costs totaled \$86,291 and \$53,024 for the three months ended March 31, 2016 and 2015, respectively, and are recorded in cost of goods sold.

Returns - Finished Products - Within ten (10) days of a customer's receipt of Company's finished products, the customer may return (i) finished products that do not conform to Company's product specifications or (ii), finished products which are defective, provided that notice of condition is given within five (5) days of receiving the finished products. The failure to comply with the foregoing time requirements shall be deemed a waiver of the customer's claim for incorrect or defective shipments. In the event of the existence of one or more material defects in any finished product upon delivery to the customer, the Company shall, at its sole option and cost, either (a) take such measures as are required to cure the defect(s) designated in the notice, or (b) replace such defective finished product(s). The Company may, at its sole option, require the return or destruction of the defective finished products. The customer shall afford the Company the opportunity to verify that such defects existed prior to shipment and were not, for purposes of example and not limitation, the result of improper transport, handling, storage, product rotation or misuse by the customer.

Bulk Oil Products - Sales of bulk oil products are generally final, and beginning in 2015 the Company does not accept returns under any circumstances. There is no allowance for customer returns at March 31, 2016 or December 31, 2015 due to insignificant return amounts experienced during the fiscal quarter ended March 31, 2016 and the year ended December 31, 2015.

Compensation and Benefits - The Company records compensation and benefits expense for all cash and deferred compensation, benefits, and related taxes as earned by its employees. Compensation and benefits expense also includes compensation earned by temporary employees and contractors who perform similar services to those performed by the Company's employees, primarily information technology and project management activities.

Stock-Based Compensation - Certain employees, officers, directors and consultants of the Company participate in various long-term incentive plans that provide for granting stock options and restricted stock awards. Stock options generally vest in equal increments over a two- to four-year period and expire on the tenth anniversary following the date of grant. Restricted stock awards generally vest 100% at the grant date.

The Company recognizes stock-based compensation for equity awards granted to employees, officers, and directors as compensation and benefits expense on the condensed consolidated statements of operation. The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant. The fair value of restricted stock awards is equal to the closing price of the Company's stock on the date of grant. Stock-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.

The Company recognizes stock-based compensation for equity awards granted to consultants as selling, general and administrative expense on the condensed consolidated statements of operations. The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant and unvested awards are revalued at each reporting period. The fair value of restricted stock awards is equal to the closing price of the Company's stock on the date of grant multiplied by the number of shares awarded. Stock-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.

Inventory – Inventory is stated at lower of cost or market, with cost being determined on average cost basis. There was no reserve for obsolete inventory as of March 31, 2016 or December 31, 2015. Amounts paid to suppliers in advance for inventory is classified as prepaid inventory. Once the Company has assumed ownership, the cost of prepaid inventory is reclassified to inventory. As of March 31, 2016, the Company had \$7,812,530 of inventory in Germany and The Netherlands.

Property & Equipment – Equipment is stated at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. Depreciation is provided on a straight-line basis over the assets' estimated useful lives. Tenant improvements are amortized on a straight-line basis over the remaining life of the related lease. Maintenance or repairs are charged to expense as incurred. Upon sale or disposition, the historically-recorded asset cost and accumulated depreciation are removed from the accounts and the net amount less proceeds from disposal is charged or credited to other income (expense).

Property and equipment, net, as of March 31, 2016 and December 31, 2015 were as follows:

	<u>Useful Lives</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Office furniture and equipment	3 years	\$ 323,265	\$ 323,265
Tenant improvements	14 to 39 months	70,592	70,592
Laboratory and other equipment	5 years	361,710	361,710
		<u>755,567</u>	<u>755,567</u>
Less: accumulated depreciation		(364,977)	(315,952)
		<u>\$ 390,590</u>	<u>\$ 439,615</u>

Depreciation expense for the three months ended March 31, 2016 and 2015 was \$49,025 and \$44,225, respectively.

Fair Value of Financial Instruments – In accordance with ASC Topic 825, *Financial Instruments*, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments and includes this additional information in the notes to its financial statements when the fair value is different than the carrying value of those financial instruments. The estimated fair value of the Company's current assets and current liabilities approximates their carrying amount due to their readily available nature and short maturity.

Long-Lived Assets – In accordance with ASC Topic 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property and equipment is measured by comparing its carrying value to the undiscounted projected future cash flows that the asset(s) are expected to generate. If the carrying amount of an asset is not recoverable, we recognize an impairment loss based on the excess of the carrying amount of the long-lived asset over its respective fair value, which is generally determined as the present value of estimated future cash flows or at the appraised value. The impairment analysis is based on significant assumptions of future results made by management, including revenue and cash flow projections. Circumstances that may lead to impairment of property and equipment include a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition and a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset including an adverse action or assessment by a regulator.

Debt Issuance Costs – Debt issuance costs have been capitalized as a discount to secured convertible promissory notes payable and are being amortized to interest expense using the interest method over the expected terms of the related debt agreements.

Loss per Share – The Company calculates earning or loss per share ("EPS") in accordance with ASC Topic 260, *Earnings per Share*, which requires the computation and disclosure of two EPS amounts, basic and diluted. Basic EPS is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock outstanding plus all potentially dilutive shares of common stock outstanding during the period. The Company had 9,723,000 and 6,390,000 of stock options outstanding that are anti-dilutive at March 31, 2016 and March 31, 2015, respectively. As of March 31, 2016, there was also warrants outstanding to purchase up to 2,000,000 shares of common stock. In addition, during the second quarter of 2016, the Company issued 500,000 shares of common stock in connection with the purchase of raw materials from our European supplier. The Company may also be required to issue up to 19,500,000 shares of common stock related to contingent consideration from the CanX Acquisition.

Research and Development Expense – Research and development costs are charged to expense as incurred and include, but are not limited to, employee salaries and benefits, cost of inventory used in product development, consulting service fees, the cost of renting and maintaining our laboratory facility and depreciation of laboratory equipment.

Income Taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized when the rate change is enacted. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In accordance with ASC Topic 740, *Income Taxes*, the Company recognizes the effect of uncertain income tax positions only if the positions are more likely than not of being sustained in an audit, based on the technical merits of the position. Recognized uncertain income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which those changes in judgment occur. The Company recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. As of March 31, 2016 and December 31, 2015, the Company did not have a liability for unrecognized tax uncertainties. The Company is subject to routine audits by taxing jurisdictions. Management believes the Company is no longer subject to tax examinations for the years prior to 2011.

Recent Issued and Newly Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which completes the joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and the International Financial Reporting Standards. ASU 2014-09 will become effective for the Company beginning January 1, 2017 and early adoption is not permitted. The Company is currently evaluating the potential impact of ASU 2014-09 on the Company’s consolidated financial statements.

In August 2014, the FASB issued guidance requiring management to evaluate on a regular basis whether any conditions or events have arisen that could raise substantial doubt about the entity’s ability to continue as a going concern. The guidance (1) provides a definition for the term “substantial doubt,” (2) requires an evaluation every reporting period, interim periods included, (3) provides principles for considering the mitigating effect of management’s plans to alleviate the substantial doubt, (4) requires certain disclosures if the substantial doubt is alleviated as a result of management’s plans, (5) requires an express statement, as well as other disclosures, if the substantial doubt is not alleviated, and (6) requires an assessment period of one year from the date the financial statements are issued. The standard is effective for the Company’s reporting year beginning January 1, 2017 and early adoption is permitted. The Company is evaluating the potential impact of this guidance on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*, which requires inventory measured using any method other than last-in, first out or the retail inventory method to be subsequently measured at the lower of cost of net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016 and for interim periods within such annual period. Early application is permitted. The Company is evaluating the potential impact of this guidance on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations* (“ASU 2015-16”), which simplifies the accounting for measurement-period adjustments by eliminating the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires the cumulative impact of measurement period adjustments, including the impact on prior periods, to be recognized in the reporting period in which the adjustment is identified. ASU 2015-16 is effective for public companies for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company has implemented this standard during the first quarter of 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the potential impact of this guidance on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation* (“ASU 2016-09”), which involve multiple aspects of the accounting for share-based transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the potential impact of this guidance on the Company’s consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC did not, or are not believed by management to have a material impact on the Company’s present or future financial statements.

3. NOTES RECEIVABLE

Notes receivable at March 31, 2016 and December 31, 2015 was comprised of the following:

	March 31, 2016	December 31, 2015
Medical Marijuana, Inc. settlement note and accrued interest	\$ 60,351	\$ 60,351
Medical Marijuana, Inc. promissory note and accrued interest	480,000	480,000
MediJane Holdings note and accrued interest	15,433	77,330
	<u>555,784</u>	<u>617,681</u>
Less current portion	555,784	617,681
Long-term portion	<u>\$ –</u>	<u>\$ –</u>

The MJNA settlement note relates to an agreement as reported in the Company’s Form 8-K filed with the SEC on July 20, 2015 (the “July Form 8-K”). As further discussed in the July Form 8-K, on July 14, 2015, the Company entered into a settlement agreement with MJNA, HempMeds PX, LLC, Kannaway, LLC, General Hemp, LLC, HDDC Holdings, LLC, Rabbit Hole Technologies, Inc., Hemp Deposit and Distribution Corporation and MJNA Holdings, LLC (collectively, the “MJNA Parties”) to settle multiple litigation matters between the Company and the MJNA Parties (the “Settlement Agreement”).

Pursuant to the Settlement Agreement, the MJNA Parties paid the Company the sum of \$150,000 and delivered a promissory note in the principal amount of \$600,000 (“Settlement Note”), bearing interest at the rate of 6% per annum, payable in six equal monthly installments of \$101,757 commencing August 15, 2015. The promissory note was secured by shares of the Company’s common stock held by the MJNA Parties. In November 2015, MJNA failed to timely pay the fourth payment installment under the Settlement Note and therefore defaulted on the Settlement Note. On December 3, 2015, the Company foreclosed on the Settlement Note collateral consisting of Company common stock. The foreclosure resulted in the Company obtaining rights to receive 624,750 shares of our common stock in full satisfaction of the remaining principal and accrued interest balance. At the foreclosure date, the Company took immediate possession of 500,000 shares held in escrow. At March 31, 2016, the Company was arranging to obtain the remaining 124,750 shares as collateral under the Settlement Note. The Settlement Note balance of \$60,351 at each of March 31, 2016 and December 31, 2015 represents the fair value at the foreclosure date of the remaining 124,750 shares.

In August 2015, we entered into an agreement to sell MJNA our products and received from MJNA a promissory note in the principal amount of \$2,002,910 (“MJNA Promissory Note”) that was to be paid in 12 equal installments beginning on November 3, 2015 in exchange for the product shipped to MJNA. The MJNA Promissory Note is secured by 2,000,000 shares of the Company’s common stock held in escrow. MJNA has failed to make any payments on the MJNA Promissory Note and is in default. The MJNA Promissory Note is likely not collectible, and the probable form of collection is for the Company to foreclose on the 2,000,000 shares of Company common stock. At March 31, 2016 and December 31, 2015, the fair value of the collateral was determined to be \$480,000, equal to the \$0.24 per share closing price of the Company’s Common Stock as of December 31, 2015, multiplied by the 2,000,000 shares of Company common stock.

The MediJane Holdings, Inc. (“MJMD”) note relates to the sale of Company products during December 2014 in exchange for a convertible promissory note in the amount of \$1,200,000 (“MJMD Note”). The full amount of the MJMD Note was due on June 23, 2015 along with accrued interest at 10%. MJMD was unable to secure financing in support of its operations and was not able to sell or otherwise commercialize the Company products purchased. In February 2016, the Company entered into an amendment to the MJMD Note, providing for the return of Company products previously sold to MJMD. A portion of the Company products previously sold to MJMD were returned to the Company in February 2016 with the remaining products to be returned in June 2016. At March 31, 2016 and December 31, 2015, the fair value of the remaining Company products to be returned was determined to be \$15,433 and \$77,330, respectively, equal to the cost value of the Company products to be returned.

4. INVENTORY

Inventory at March 31, 2016 and December 31, 2015 was comprised of the following:

	March 31, 2016	December 31, 2015
Raw materials	\$ 13,271,249	\$ 13,668,255
Finished goods	603,275	465,665
	<u>\$ 13,874,524</u>	<u>\$ 14,133,920</u>

5. ACCRUED EXPENSES

Accrued expenses at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016	December 31, 2015
Accrued interest on convertible debt	\$ –	\$ 69,063
Accrued payroll expenses	225,488	160,960
Other accrued liabilities	182,944	292,696
	<u>\$ 408,432</u>	<u>\$ 522,719</u>

6. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following at March 31, 2016 and December 31, 2015:

	Original Fair Market Value	Accumulated Amortization	Net	Useful Life (Years)
Balance - March 31, 2016:				
Vendor relationships	\$ 1,170,000	\$ 741,000	\$ 429,000	5
In-process research and development	3,730,000	–	3,730,000	–
Trade names	330,000	150,667	179,333	5
Non-compete agreements	2,787,000	1,719,683	1,067,317	5
	<u>\$ 8,017,000</u>	<u>\$ 2,611,350</u>	<u>\$ 5,405,650</u>	
Balance - December 31, 2015:				
Vendor relationships	\$ 1,170,000	\$ 682,500	\$ 487,500	5
In-process research and development	3,730,000	–	3,730,000	–
Trade names	330,000	134,167	195,833	5
Non-compete agreements	2,787,000	1,580,333	1,206,667	5
	<u>\$ 8,017,000</u>	<u>\$ 2,397,000</u>	<u>\$ 5,620,000</u>	

Amortization expense for the three months ended March 31, 2016 and 2015 totaled \$214,350 and \$205,500, respectively.

7. RELATED PARTIES

Total receivables from MJNA totaled \$540,351 at both March 31, 2016 and December 31, 2015, respectively.

During the three months ended March 31, 2016 and 2015, the Company paid \$2,977 and \$1,542,413, respectively, to a stockholder of the Company who is a supplier of hemp oil and hemp to the Company.

8. NOTES PAYABLE

Secured Convertible Promissory Notes Payable

On May 19, 2015 (the "Closing Date"), the Company entered into a Securities Purchase Agreement ("SPA") with Redwood Management, LLC (the "Investor" or "Redwood") pursuant to which the Investor committed to lend to the Company up to \$6,500,000 (the "Financing").

During the year ended December 31, 2015, the Company issued four tranches of convertible promissory notes ("Notes") in the aggregate principal amount of \$1,785,000 to the Investor and other third parties who were assigned rights by the Investor to participate in the Financing (together with the Investor, the "Investors"). During the first quarter of 2016, the Company repaid all obligations under the SPA and has no intention of seeking further capital from the Investor, or any other investor(s) in the Financing.

The Company's borrowings and conversions under the SPA for the three months ended March 31, 2016 and for the year ended December 31, 2015 is summarized in the table below:

	<u>Maturity</u>	<u>March 31, 2016 Balance</u>	<u>December 31, 2015 Balance</u>	<u>Interest Rate</u>
Senior Secured Convertible Promissory Notes:				
Tranche 1 (Promissory Note 1)	May 19, 2016	\$ —	\$ 510,000	10%
Tranche 2 (Promissory Note 2)	June 12, 2016	255,000	510,000	10%
Tranche 3 (Promissory Note 3)	July 24, 2016	510,000	510,000	10%
Tranche 4 (Promissory Note 4)	September 16, 2016	255,000	255,000	10%
Total borrowings		1,020,000	1,785,000	
Convertible notes converted (Promissory Note 1)		—	(510,000)	
Convertible notes converted (Promissory Note 2)		(255,000)	(255,000)	
Convertible notes converted/repaid (Promissory Note 3)		(510,000)	—	
Convertible notes repaid (Promissory Note 4)		(255,000)	—	
Unamortized debt issuance costs		—	(99,805)	
Unamortized debt discount - beneficial conversion feature		—	(38,392)	
Net carrying amount of debt		—	881,803	
Less current portion		—	881,803	
Long-term borrowings - net of current portion		\$ —	\$ —	

During the three months ended March 31, 2016, the Company repaid the remaining principal and interest balance under the Notes as follows: (i) issued 3,062,535 shares of its common stock to the Investors in connection with conversion of the remaining \$255,000 principal balance of Promissory Note 2; (ii) repaid \$357,000 of the aggregate principal amount of Promissory Note 3 plus interest in the amount of \$148,944 in cash to the Investors, and issued 2,500,000 shares of its common stock to the Investors in connection with the conversion of the remaining principal amount of \$153,000 of Promissory Note 3; and, (iii) repaid the entire principal amount of Promissory Note 4 in the amount of \$255,000 plus interest in the amount of \$93,075 in cash to the Investors.

Unsecured Note Payable

On January 29, 2016, the Company issued an unsecured promissory note to a lender in the principal amount of \$850,000 (“Promissory Note”) in consideration of a loan provided to the Company by the lender. The Promissory Note bears interest at 12% per annum, and the Company is obligated to make monthly interest-only payments in the amount of \$8,500, commencing March 1, 2016. All principal and accrued and unpaid interest is due under the Promissory Note on February 1, 2018. The Company has the right to prepay the Promissory Note without penalty or premium, provided that if a prepayment of principal is made before July 1, 2016, the investor is entitled to a prepayment interest guarantee equal to six months’ interest payments on the Promissory Note. In connection with the Promissory Note, the Company incurred an original issue discount of \$30,000 and \$18,570 of other debt issuance costs, which will be amortized over the Promissory Note term.

The Company’s borrowing under the Promissory Note for the three months ended March 31, 2016 and for the year ended December 31, 2015 is summarized below:

	<u>Maturity</u>	<u>March 31, 2016 Balance</u>	<u>December 31, 2015 Balance</u>	<u>Interest Rate</u>
Unsecured promissory note payable	February 1, 2018	\$ 850,000	\$ –	12%
Unamortized original issue discount and debt issuance costs		(44,522)	–	
Unamortized debt discount - fair value of warrants		<u>(244,567)</u>	<u>–</u>	
Net carrying amount of debt		560,911	–	
Less current portion		<u>–</u>	<u>–</u>	
Long-term borrowings - net of current portion		<u>\$ 560,911</u>	<u>\$ –</u>	

Pursuant to the terms of the Promissory Note, the Company issued to the lender a common stock purchase warrant providing the lender with the right to purchase up to 2,000,000 shares of the Company’s common stock (the “Warrant”). The Warrant is exercisable, subject to certain limitations, subsequent to July 1, 2017 and before the date that is five years from the date of issuance at an exercise price of \$0.20 per share, subject to adjustment upon the occurrence of certain events such as stock splits and dividends. The Company recorded the fair value of the Warrant of \$266,800 as a debt discount associated with the Promissory Note. During the three months ended March 31, 2016, the Company recorded interest expense of \$22,233 for amortization of the Warrant fair value. The assumptions used by the Company for calculating the fair value of the Warrant using the Black-Scholes valuation model were: (i) Volatility of 83.3%; (ii) Risk-Free Interest Rate of 2.12%; and (iii) Expected Term of five years.

9. STOCKHOLDERS’ EQUITY

Common Stock

The Company is authorized to issue up to 190,000,000 shares of common stock (par value \$0.0001). As of March 31, 2016 and December 31, 2015, the Company had 51,513,924 and 45,451,389 shares of common stock issued and outstanding, respectively. During the three months ended March 31, 2016, the Company issued 5,562,535 shares of common stock in connection with conversion of convertible debt and also issued 500,000 shares of common stock in connection with investment banking services.

Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of \$.0001 par value preferred stock with designations, rights and preferences to be determined from time to time by the Board of Directors of the Company. Each such series or class shall have voting powers, if any, and such preferences and/or other special rights, with such qualifications, limitations or restrictions of such preferences and/or rights as shall be stated in the resolution or resolutions providing for the issuance of such series or class of shares of preferred stock. As of March 31, 2016 and December 31, 2015 there was no preferred stock issued and outstanding.

Options/Warrants

On July 23, 2014, Company stockholders approved the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan, which provides for the granting of stock options, restricted stock awards, restricted stock units, stock bonus awards and performance-based awards. On December 21, 2015, Company stockholders approved an amendment to the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan, increasing the number of shares that may be issued under such plan to 15,000,000 shares of common stock. This plan serves as the successor to the 2013 Equity Incentive Plan.

In January 2016, the Company issued a common stock purchase warrant with the right to purchase up to 2,000,000 shares of the Company common stock (Note 8).

10. STOCK-BASED COMPENSATION

On July 23, 2014, Company stockholders approved the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan (as amended, the “Amended 2013 Plan”), which provides for the granting of stock options, restricted stock awards, restricted stock units, stock bonus awards and performance-based awards. On December 21, 2015, Company stockholders approved an amendment to the Amended 2013 Plan, increasing the number of shares that may be issued under such plan to 15,000,000 shares of common stock. The Amended 2013 Plan serves as the successor to the 2013 Equity Incentive Plan. There were no option awards under the 2013 Equity Incentive Plan. As of March 31, 2016, the Company had 5,277,000 of authorized unissued shares reserved and available for issuance upon exercise and conversion of outstanding awards.

The stock options are exercisable at no less than the fair market value of the underlying shares on the date of grant, and restricted stock and restricted stock units are issued at a value not less than the fair market value of the common stock on the date of the grant. Generally, stock options awarded are vested in equal increments ranging from two to four years on the annual anniversary date on which such equity grants were awarded. The stock options generally have a maximum term of 10 years. The following table summarizes stock option activity for the Amended 2013 Plan during the three months ended March 31, 2016:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contract Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding - December 31, 2015	9,799,036	\$ 1.97	9.20	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(76,036)	2.82	—	—
Expired	—	—	—	—
Outstanding - March 31, 2016	<u>9,723,000</u>	1.97	8.96	159,800
Total exercisable - March 31, 2016	<u>7,337,346</u>	2.10	8.91	124,550
Total unvested - March 31, 2016	<u>2,385,654</u>	1.56	9.11	32,250
Total vested or expected to vest - March 31, 2016	<u>9,723,000</u>	1.97	8.96	159,800

The following table summarizes unvested stock options as of March 31, 2016:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value Per Share on Grant Date</u>
Unvested stock options - December 31, 2015	2,511,055	\$ 1.37
Granted	—	—
Vested	(125,401)	2.44
Cancellations	—	—
Unvested stock options - March 31, 2016	<u>2,385,654</u>	1.31

The Company recognized expenses of \$405,151 and \$1,165,994 relating to stock options issued to employees, consultants, officers, and directors during the three months ended March 31, 2016 and 2015, respectively. The Company recognized expenses of \$0 and \$590,000 relating to common stock issued to employees, consultants, officers, and directors during the three months ended March 31, 2016 and 2015, respectively. For the three months ended March 31, 2016 and 2015, stock-based compensation of \$405,151 and \$1,743,327, was expensed to selling, general and administration, respectively. For the three months ended March 31, 2016 and 2015, stock-based compensation of \$0 and \$12,667, was expensed to research and development, respectively. As of March 31, 2016, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to employees, officers, and directors was \$2,718,572, which is expected to be recognized over a weighted-average period of 2.04 years.

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has non-cancelable operating leases, which expire through 2017. The leases generally contain renewal options ranging from 1 to 3 years and require the Company to pay costs such as real estate taxes and common area maintenance. The following table provides the Company's lease commitments at March 31, 2016:

	Total Operating Leases
For the years ending December 31,	
2016	\$ 488,107
2017	266,675
	<u>\$ 754,782</u>

The Company incurred rent expense of \$139,382 and \$74,492 for the three months ended March 31, 2016 and 2015, respectively.

The Company has two supply arrangements in place with European farmers to supply raw material in future years. The first arrangement contemplates growth and processing of 2,600 kilograms of product and the second contract provides up to 1 million kilograms of raw product to the Company. At March 31, 2016, there was approximately \$302,000 remaining to be paid under this second contract related to the 2015 crop. We have contractual rights for the growth and processing of hemp oil for delivery through October 2018 under both of these contracts. We anticipate the cost under both contracts will remain consistent with current year prices.

Contingencies

On April 23, 2014, Tanya Sallustro filed a purported class action complaint (the "Complaint") in the Southern District of New York (the "Court") alleging securities fraud and related claims against the Company and certain of its officers and directors and seeking compensatory damages including litigation costs. Ms. Sallustro alleges that between March 18-31, 2014, she purchased 325 shares of the Company's common stock for a total investment of \$15,791. The Complaint refers to Current Reports on Form 8-K and Current Reports on Form 8-K/A filings made by the Company on April 3, 2014 and April 14, 2014, in which the Company amended previously disclosed sales (sales originally stated at \$1,275,000 were restated to \$1,082,375 - reduction of \$192,625) and restated goodwill as \$1,855,512 (previously reported at net zero). Additionally, the Complaint states after the filing of the Company's Current Report on Form 8-K on April 3, 2014 and the following press release, the Company's stock price "fell \$7.30 per share, or more than 20%, to close at \$25.30 per share." Subsequent to the filing of the Complaint, six different individuals filed a motion asking to be designated the lead plaintiff in the litigation. On March 19, 2015, the Court issued a ruling appointing Steve Schuck as lead plaintiff. Counsel for Mr. Schuck filed a "consolidated amended complaint" on September 14, 2015. On December 11, 2015, the Company filed a motion to dismiss the consolidated amended complaint. After requesting several extensions, counsel for Mr. Schuck filed an opposition to the motion to dismiss on March 21, 2016. The Company's reply brief was filed on April 25, 2016. No hearing date has been set by the Court at this time. Management intends to vigorously defend the allegations and an estimate of possible loss cannot be made at this time.

On March 17, 2015, stockholder Michael Ruth filed a shareholder derivative suit in Nevada District Court alleging two causes of action: 1) Breach of Fiduciary Duty, and 2) "Gross Mismanagement." The claims are premised on the same event as the already-pending securities class action case in New York discussed above - it is alleged that the Form 8-K filings misstated goodwill and sales of the Company, which when corrected, lead to a significant drop in stock price. The Company filed a motion to dismiss the suit on June 29, 2015. Instead of opposing the Company's motion, Mr. Ruth filed an amended complaint on July 20, 2015. Thereafter, Mr. Ruth and the Company agreed to stay the action pending the outcome of the securities class action case in New York discussed above. Management intends to vigorously defend the allegations. Since no discovery has been conducted and the case remains stayed, an estimate of the possible loss or recovery cannot be made at this time.

Royalties

In addition to the contingent consideration in connection with the CanX Acquisition (Note 2), the Company is obligated to pay a 5% royalty of net sales on each of the first and second CBD drug products respectively, subject to, and commencing with the first commercial release by the Company of each of the first and second CBD drug products by the Company formulated to treat human medical conditions.

12. SUBSEQUENT EVENTS

On May 2, 2016, the Company filed Articles of Dissolution for its wholly-owned subsidiaries US Hemp Oil, LLC and CannaVEST Laboratories, LLC, with the Secretary of State of Nevada, effective as of April 29, 2016. Neither US Hemp Oil, LLC nor CannaVEST Laboratories, LLC had any assets or liabilities.

During the second quarter of 2016, the Company issued 500,000 shares of common stock in connection with the purchase of raw materials from our European supplies.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations for the interim period ended March 31, 2016, should be read in conjunction with the financial statements and the notes to those statements that are included elsewhere in this Quarterly Report on Form 10-Q. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

OVERVIEW

We are a life science company with two distinct business segments. Our specialty pharmaceutical business segment is focused on developing and commercializing novel therapeutics utilizing synthetic Cannabidiol ("CBD"). Our consumer product business segment is focused on manufacturing, marketing and selling plant-based CBD products to a range of market sectors.

Our pharmaceutical business segment is a development stage, specialty pharmaceutical company developing synthetic cannabinoids to treat a range of medical conditions. The Company's product candidates are based on proprietary formulations, processes and technology that we believe are patent-protectable, and we plan to vigorously pursue patent protection on the Company's two drug candidates.

Our consumer product business segment manufactures, markets and sells consumer products containing plant-based CBD under our PlusCBD™ brand in a range of market sectors including nutraceutical, beauty care, specialty foods and vape.

We expect to realize revenue from our consumer products business segment to fund a portion of our working capital needs. However, in order to fund our pharmaceutical product development efforts, we will need to raise additional capital through either the issuance of equity and/or debt. Given the small size of our company and the development stage of our pharmaceutical business segment, we may find it difficult to raise sufficient capital to meet our needs. We do not have any firm commitments for all of our capital needs, and there are no assurances it will be available to us. If we are unable to access capital as necessary, our ability to generate revenues and to continue as a going concern will be in jeopardy.

Non-GAAP Financial Measures

We currently focus on Adjusted EBITDA to evaluate our business relationships and our resulting operating performance and financial position. Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash expenses and other adjustments as set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance and it is a meaningful financial metric in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain non-cash items and other adjustments.

We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported results in accordance with accounting principles generally accepted in the United States ("GAAP"), provides useful information to investors regarding our performance for the following reasons:

- because non-cash equity grants made to employees and non-employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based compensation expense is not a key measure of our operating performance; and
- revenues and expenses associated with acquisitions, dispositions, equity issuance and related offering costs can vary from period to period and transaction to transaction and are not considered a key measure of our operating performance.

We used Adjusted EBITDA:

- as a measure of operating performance;
- to evaluate the effectiveness of our business strategies; and
- in communication with our board of directors concerning our financial performance

Adjusted EBITDA is a non-GAAP measure and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The term Adjusted EBITDA is not defined under GAAP, and Adjusted EBITDA is not a measure of net income (loss), operating income or any other performance measure derived in accordance with GAAP.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and
- Adjusted EBITDA can differ significantly from company to company depending on strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, the level of capital investment, thus, limiting its usefulness as a comparative measure.

Adjusted EBITDA should not be considered as a measure of discretionary cash available to us for investment in our business. We compensate for these limitations by relying primarily on GAAP results and using Adjusted EBITDA as supplemental information.

A reconciliation from our net loss to Adjusted EBITDA, a non-GAAP measure, for the three months ended March 31, 2016 and 2015 and is detailed below:

	For the three months ended March 31,	
	2016	2015
Net loss	\$ (1,533,117)	\$ (2,648,809)
Interest income	(27,655)	(37,041)
Interest expense	355,349	–
Amortization of purchased intangible assets	214,350	205,500
Depreciation of property & equipment	49,025	44,225
EBITDA	<u>(942,048)</u>	<u>(2,436,125)</u>
EBITDA Adjustments:		
Stock-based compensation expense (1)	405,151	1,755,994
Total EBITDA Adjustments	<u>405,151</u>	<u>1,755,994</u>
Adjusted EBITDA	<u>\$ (536,897)</u>	<u>\$ (680,131)</u>

- (1) Represents stock-based compensation expense related to stock options and stock grants awarded to employees, consultants and non-executive directors based on the grant date fair value under the Black-Scholes valuation model.

Critical Accounting Policies

We have disclosed in the notes to our consolidated financial statements and in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2015 Annual Report on Form 10-K, those accounting policies that we consider to be significant in determining our results of operation and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of our 2015 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

During the first quarter of fiscal 2016, the Company changed its accounting policy for shipping and handling costs from sales of Company products. Under the new accounting policy, these costs are included in cost of goods sold, whereas, they were previously included in selling, general and administrative expenses. Including these expenses in cost of goods sold better aligns these costs with the related revenue in the gross profit calculation. This accounting policy change has been applied retrospectively and had no impact on Net Sales, Operating Loss, Net Loss or Net Loss per Share.

Recent Accounting Pronouncements

See Note 2 in the accompanying notes to condensed consolidated financial statements.

Results of Operations

Three months ended March 31, 2016 and 2015

Revenues and gross profit - We had sales of \$2,422,678 and gross profit of \$1,625,635 representing a gross profit percentage of 67.1% for the three months ended March 31, 2016 versus sales of \$2,714,051 and gross profit of \$1,577,946 representing a gross profit percentage of 58.1% for the three months ended March 31, 2015. The sales decrease for the three months ended March 31, 2016 is primarily due to lower bulk oil and product pricing in 2016 over 2015. During the first quarter of 2015 we lowered our wholesale and retail pricing by approximately 50%. In addition, our current sales mix is more heavily weighted to branded finished products as compared to our historical focus on bulk oil sales. The combination of lower prices in 2016 compared to 2015, plus the transition from the Company's historical reliance on bulk oil sales to a more diversified manufacturer and distributor of consumer products, contributed to lower sales in the first quarter of 2016 compared to 2015. The gross margin increase in 2016 over 2015 is due to the change in sales mix, and greater harvest and processing yields, which resulted in lower production costs for bulk oil and finished products.

Selling, general and administrative expenses - For the three months ended March 31, 2016 and 2015, the Company incurred selling, general and administrative (the "SG&A") expenses in the amount of \$2,689,245 and \$3,940,651, respectively. SG&A expense for the three months ended March 31, 2016 and 2015 includes \$405,151 and \$1,743,327, respectively, of stock-based compensation, a non-cash expense. The SG&A expenses include \$49,025 and \$44,225 of depreciation expense, and, \$214,350 and \$205,500 of amortization expense of intangible assets, for the three months ended March 31, 2016 and 2015, respectively. After adjusting for non-cash stock-based compensation and amortization of intangible assets for the three months ended March 31, 2016 and 2015, SG&A costs increased by approximately \$73,000 in the first quarter of 2016 compared to the first quarter of 2015.

Research and development expenses - For the three months ended March 31, 2016 and 2015, the Company incurred research and development ("R&D") expenses of \$141,813 and \$323,145, respectively. These expenses are related to the cost of process development, rental of our laboratory facility, payroll expenses, laboratory supplies, product development and testing, and outsourced research personnel for the period. The decrease for the three months ended March 31, 2016 over 2015 relates primarily to the Company transitioning R&D activities into production of inventory products. R&D expense during the three months ended March 31, 2016 and 2015, includes \$0 and \$12,667 of stock-based compensation, respectively, a non-cash expense.

Interest income/expense - Interest income was \$27,655 and \$37,041, respectively, for the three months ended March 31, 2016 and 2015. Interest expense was \$355,349 for the three months ended March 31, 2016 and \$0 for the three months ended March 31, 2015. Interest expense for the three months ended March 31, 2016 relates primarily to interest on the Company's convertible debt financing completed in May 2015 and fully repaid during the first quarter of 2016.

Liquidity and Capital Resources

A summary of our changes in cash flows for the three months ended March 31, 2016 and 2015 is provided below:

	For the three months ended March 31,	
	2016	2015
Net cash flows provided by (used in):		
Operating activities	\$ (112,258)	\$ (2,582,851)
Investing activities	-	419
Financing activities	129,937	2,520,000
Net increase (decrease) in cash	17,679	(62,432)
Cash, beginning of period	518,462	2,302,418
Cash, end of period	<u>\$ 536,141</u>	<u>\$ 2,239,986</u>

Operating Activities

Net cash provided by or used in operating activities includes net loss adjusted for non-cash expenses such as depreciation and amortization, and stock-based compensation. Operating assets and liabilities primarily include balances related to funding of inventory purchases and customer accounts receivable. Operating assets and liabilities that arise from the funding of inventory purchases and customer accounts receivable can fluctuate significantly from day to day and period to period depending on the timing of inventory purchases and customer behavior.

Net cash used in operating activities for the three months ended March 31, 2016 and 2015 totaled \$112,258 and \$2,582,851, respectively. Cash provided by sale of inventory was \$321,293 for the three months ended March 31, 2016 compared to cash used for prepayments of inventory and inventory purchases of \$923,583 for the three months ended March 31, 2015. Cash provided by accounts receivable was \$2,133 for the three months ended March 31, 2016 compared to \$934,150 in cash used to fund accounts receivable for the three months ended March 31, 2015. Cash provided by accounts payable and accrued expenses was \$104,937 for the three months ended March 31, 2016 compared to cash used by accounts payable and accrued expenses of \$13,569 for the three months ended March 31, 2015. Amortization of debt discounts totaled \$126,086 for the three months ended March 31, 2016 compared to \$0 for the three months ended March 31, 2015. Amortization of beneficial conversion feature of convertible debt totaled \$38,392 for the three months ended March 31, 2016 and \$0 for the three months ended March 31, 2015. Common stock issued for services totaled \$175,000 for the three months ended March 31, 2016 compared to \$0 for the three months ended March 31, 2015. Stock-based compensation totaled \$405,151 for the three months ended March 31, 2016, compared to \$1,755,994 for the three months ended March 31, 2015. Depreciation and amortization totaled \$263,375 for the three months ended March 31, 2016 compared to \$249,725 for the three months ended March 31, 2015.

Investing Activities

The Company had \$0 provided by investing activities for the three months ended March 31, 2016 and net cash provided by investing activities totaling \$419 for the three months ended March 31, 2015. The net cash provided by investing activities for the three months ended March 31, 2015 consisted of \$74,698 of property and equipment purchases and \$75,177 of principal repayments on note receivable.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2016 and 2015 totaled \$129,937 and \$2,520,000, respectively. Cash flows provided by financing activities for the three months ended March 31, 2016 consisted of \$801,430 in borrowing net proceeds from the issuance of notes payable, \$612,000 of repayments on convertible notes payable and \$59,493 of repayments on note payable to vendor. Cash flows provided by financing activities for the three months ended March 31, 2015 consisted of \$2,520,000 in proceeds from the sale of common stock.

On January 29, 2016, the Company issued an unsecured promissory note to a lender in the principal amount of \$850,000 ("Promissory Note"). The Promissory Note bears interest at 12% per annum, and the Company is obligated to make monthly interest-only payments in the amount of \$8,500, commencing March 1, 2016. All principal and accrued and unpaid interest is due under the Promissory Note on February 1, 2018. The Company has the right to prepay the Promissory Note without penalty or premium, provided that if a prepayment of principal is made before July 1, 2016, the investor is entitled to a prepayment interest guarantee equal to six months' interest. In connection with the Promissory Note, the Company incurred an original issue discount of \$30,000 and \$18,570 of other debt issuance costs, which will be amortized over the Promissory Note term.

The Company has yet to attain a level of operations which allows it to meet operating and working capital cash flow needs. We expect to realize revenue to fund a portion of our working capital needs through the sale of finished products and raw materials to third parties. However, in order to fund our pharmaceutical product development efforts, we will need to raise additional capital through either the issuance of equity and/or debt. We expect to be dependent upon obtaining additional financing in order to adequately fund working capital, infrastructure and expenses in order to execute plans for future operations so that we can achieve a level of revenue adequate to support our cost structure, none of which can be assured.

Liquidity

For the three months ended March 31, 2016 and 2015, the Company had net losses of \$1,533,117 and \$2,648,809, respectively. In addition, for the three months ended March 31, 2016 and 2015, the Company had negative cash flows from operations of \$112,258 and \$2,582,851, respectively. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations over the next year solely from current revenues and cash flow due to increased sales and because our current inventory levels are sufficient to support sales for 2016, resulting in reduced cash outflow for inventory purchases. In addition, we do not intend to purchase raw inventory from our supply chain arrangements from the 2016 crop. The Company's pharmaceutical business segment will require additional capital of approximately \$1,500,000 over the next 12 months. We currently have an executed term sheet on a financing arrangement that would provide this capital. Management believes that it will be able to obtain such financing on terms acceptable to the Company, however, there can be no assurances that the Company will be successful. If the Company is unable to raise additional capital, the Company would likely be forced to curtail pharmaceutical development.

We expect to realize revenue to fund our working capital needs through the sale of raw and finished products to third parties. However, we cannot be assured that our working capital needs to develop, launch, market and sell our products will be met through the sale of raw and finished products to third parties. If not, we may not be able to maintain profitable operations. If we are unable to maintain profitable operations sufficient to fund our business, we would need to raise additional capital through either the issuance of debt or equity. In the event we are unable to maintain profitable operations or raise sufficient additional capital, our ability to continue as a going concern would be in jeopardy and investors could lose all of their investment in the Company.

Numerous other consumer products are currently in development and we will continue to scale up our processing capability to accommodate new products in our pipeline.

Off-Balance Sheet Arrangements

The Company has two supply arrangements in place with European farmers to supply raw material in future years. The first arrangement contemplates growth and processing of 2,600 kilograms of product and the second contract provides up to 1 million kilograms of raw product to the Company. At March 31, 2016, there was approximately \$302,000 remaining to be paid under this second contract related to the 2015 crop. We have contractual rights for the growth and processing of hemp oil for delivery through October 2018 under both of these contracts. We anticipate the cost under both contracts will remain consistent with current year prices.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, which is comprised of one person holding the offices of President and Chief Executive Officer and one person holding the offices of Chief Financial Officer and Secretary, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report (the “Evaluation Date”). Based on such evaluation, our management concluded that our disclosure controls and procedures were not effective, at a reasonable assurance level, as of the Evaluation Date, to ensure that information required to be disclosed in reports that we file or submit under that Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management in a manner that allows timely decisions regarding required disclosures.

An evaluation was performed under the supervision and with the participation of the Company’s management of the effectiveness of the design and operation of the Company’s procedures and internal control over financial reporting as of March 31, 2016. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework of 1992 (the “1992 COSO Framework”).

Management is aware of and has identified the following material weaknesses in our internal control over financial reporting: a) the Company has not completed implementation of our procedures and internal control over financial reporting as set forth in the 2013 version of the 1992 COSO Framework; b) the Company did not form an audit committee until the first quarter of 2016; and c) the Company did not have an adequate system and policy of supervisory review and approval of all accounting source documentation, including valuation reports, invoices, payroll reports and other accounting documents during the first quarter of 2016.

Remediation efforts to address these material weaknesses in evaluation and implementation of internal controls over financial reporting, include the following: a) we have dedicated resources to, and anticipate final adoption and implementation of the 2013 version of the 1992 COSO Framework by the end of 2016; and b) on March 16, 2016, the Company adopted an audit committee charter and formed an audit committee and the first audit committee meeting was held on April 12, 2016; c) we have implemented a new system and policy of supervisory review and approval of all accounting source documentation, including valuation reports, invoices, payroll reports and other accounting documents; and d) in addition, the Company is recruiting additional, full-time, qualified personnel to further develop and implement policies and procedures that require proper segregation of duties and internal controls over financial reporting.

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the Company’s internal controls.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting identified with our evaluation that occurred during the fiscal quarter ended March 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On April 23, 2014, Tanya Sallustro filed a purported class action complaint (the “Complaint”) in the Southern District of New York (the “Court”) alleging securities fraud and related claims against the Company and certain of its officers and directors and seeking compensatory damages including litigation costs. Ms. Sallustro alleges that between March 18-31, 2014, she purchased 325 shares of the Company’s common stock for a total investment of \$15,791. The Complaint refers to Current Reports on Form 8-K and Current Reports on Form 8-K/A filings made by the Company on April 3, 2014 and April 14, 2014, in which the Company amended previously disclosed sales (sales originally stated at \$1,275,000 were restated to \$1,082,375 - reduction of \$192,625) and restated goodwill as \$1,855,512 (previously reported at net zero). Additionally, the Complaint states after the filing of the Company’s Current Report on Form 8-K on April 3, 2014 and the following press release, the Company’s stock price “fell \$7.30 per share, or more than 20%, to close at \$25.30 per share.” Subsequent to the filing of the Complaint, six different individuals filed a motion asking to be designated the lead plaintiff in the litigation. On March 19, 2015, the Court issued a ruling appointing Steve Schuck as lead plaintiff. Counsel for Mr. Schuck filed a “consolidated amended complaint” on September 14, 2015. On December 11, 2015, the Company filed a motion to dismiss the consolidated amended complaint. After requesting several extensions, counsel for Mr. Schuck filed an opposition to the motion to dismiss on March 21, 2016. The Company’s reply brief was filed on April 25, 2016. No hearing date has been set by the Court at this time. Management intends to vigorously defend the allegations and an estimate of possible loss cannot be made at this time.

On March 17, 2015, stockholder Michael Ruth filed a shareholder derivative suit in Nevada District Court alleging two causes of action: 1) Breach of Fiduciary Duty, and 2) “Gross Mismanagement.” The claims are premised on the same event as the already-pending securities class action case in New York discussed above – it is alleged that the Form 8-K filings misstated goodwill and sales of the Company, which when corrected, lead to a significant drop in stock price. The Company filed a motion to dismiss the suit on June 29, 2015. Instead of opposing the Company’s motion, Mr. Ruth filed an amended complaint on July 20, 2015. Thereafter, Mr. Ruth and the Company agreed to stay the action pending the outcome of the securities class action case in New York discussed above. Management intends to vigorously defend the allegations. Since no discovery has been conducted and the case remains stayed, an estimate of the possible loss or recovery cannot be made at this time.

Item 1a. RISK FACTORS

Not applicable to a “smaller reporting company” as defined in Item 10(f)(1) of Regulation S-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UNDER SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURE

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit No.	Description of Exhibit
2.1(1)	Agreement and Plan of Merger, dated as of July 25, 2013, by and between CannaVEST Corp., a Texas corporation, and CannaVEST Corp., a Delaware corporation.
2.1(2)	Agreement and Plan of Reorganization by and among CannaVEST Corp., CannaVEST Merger Sub, Inc., CANNAVEST Acquisition LLC, CanX, Inc. and the Starwood Trust, as the Shareholder Representative.
3.1(1)	Certificate of Incorporation of CannaVEST Corp., as filed on January 26, 2013.
3.2(1)	Bylaws of CannaVEST Corp., dated as of January 26, 2013.
3.3(3)	Certificate of Amendment to Certificate of Incorporation of CannaVest Corp., as filed on January 4, 2016.
3.4*	Certificate of Incorporation of the Company, as amended.
3.5*	Bylaws of the Company, as amended.
4.1 (4)	CannaVEST Corp. Specimen Stock Certificate
10.1 (5)	Promissory Note, dated January 29, 2016, issued by the Company to Wiltshire, LLC.
10.2 (5)	Common Stock Purchase Warrant, dated January 29, 2016, issued by the Company to Wiltshire, LLC.
31.1*	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS	XBRL Instance Document**
101 SCH	XBRL Schema Document**
101 CAL	XBRL Calculation Linkbase Document**
101 LAB	XBRL Labels Linkbase Document**
101 PRE	XBRL Presentation Linkbase Document**
101 DEF	XBRL Definition Linkbase Document**

* Filed herewith.

** The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

+ Portions of this exhibit have been omitted pursuant to a request for confidential treatment and the non-public information has been filed separately with the Commission.

- (1) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on August 13, 2013.
- (2) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on January 4, 2016.
- (3) Incorporated by reference from an exhibit to our Annual Report on Form 10-K filed on April 14, 2016.
- (4) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on July 31, 2013.
- (5) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on February 3, 2016.

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,

CV SCIENCES, INC.
(Registrant)

By /s/ Michael Mona, Jr.
Michael Mona, Jr.
President and Chief Executive Officer
(Principal Executive Officer)
Dated May 16, 2016

By /s/ Joseph D. Dowling
Joseph D. Dowling
Chief Financial Officer (Principal Financial Officer)
Dated May 16, 2016

**CERTIFICATE OF INCORPORATION
OF
CV SCIENCES, INC.**

The undersigned, a natural person (the “Sole Incorporator”), for the purpose of organizing a corporation to conduct the business and promote the purposes hereunder stated, under the provisions and subject to the requirements of the laws of the State of Delaware, hereby certifies that:

ARTICLE I.

The name of the corporation is CV Sciences, Inc. (the “Corporation”).

ARTICLE II.

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, County of New Castle, and the name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

ARTICLE III.

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of Delaware (“DGCL”).

ARTICLE IV.

The Corporation is authorized to issue two classes of shares of stock to be designated as “Common Stock” and “Preferred Stock.” The total number of shares that the Corporation shall have the authority to issue is Two Hundred Million (200,000,000). The total number of shares of Common Stock shall be One Hundred Ninety Million (190,000,000), and each such share shall have a par value of \$0.0001; and the total number of shares of Preferred Stock shall be Ten Million (10,000,000), and each such share shall have a par value of \$0.0001.

(a) Common Stock. The Corporation is authorized to issue shares of Common Stock from time to time, which shall have all of the rights normally associated with shares of common stock under the DGCL.

(b) Preferred Stock. The Corporation is authorized to issue shares of Preferred Stock from time to time in one or more series or classes, each such share or class to have such distinctive designation or title as may be fixed by resolution of the Board of Directors of the Corporation (the “Board”), duly adopted prior to the issuance of any shares thereof. Each such series or class shall have such voting powers, if any, and such preferences and/or other special rights, with such qualifications, limitations or restrictions of such preferences and/or rights as shall be stated in the resolution or resolutions providing for the issuance of such series or class of shares of Preferred Stock.

ARTICLE V.

The Board is authorized to make, adopt, amend, alter or repeal the Bylaws of the Corporation (the “Bylaws”). The stockholders shall also have power to make, adopt, amend, alter or repeal the Bylaws.

ARTICLE VI.

The business and affairs of the Corporation shall be managed by or under the direction of the Board. In addition to the powers and authority expressly conferred upon them by statute or by this Certificate of Incorporation or the Bylaws, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation. Election of directors need not be by written ballot, unless the Bylaws so provide.

ARTICLE VII.

The name and mailing address of the Sole Incorporator are as follows:

Jessica Swift
Procopio, Cory, Hargreaves & Savitch LLP
525 B Street, Suite 2200
San Diego, CA 92101

ARTICLE VIII.

A. To the fullest extent permitted by applicable law, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

B. The Corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director or officer of the Corporation or any predecessor of the Corporation, or serves or served at any other enterprise as a director or officer at the request of the Corporation or any predecessor to the Corporation.

C. Neither any amendment nor repeal of this Article VIII nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article VIII, shall eliminate or reduce the effect of this Article VIII in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VIII, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE IX.

The Corporation reserves the right to amend or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon a stockholder herein are granted subject to this reservation.

IN WITNESS WHEREOF, this Certificate of Incorporation has been executed by the President of the Corporation this 4th day of January, 2016.

/s/ Michael Mona, Jr.
Michael Mona, Jr., President

BYLAWS
OF
CV SCIENCES, INC.
(a Delaware corporation)

TABLE OF CONTENTS

	Page
ARTICLE I CORPORATE OFFICES	1
1.1 Registered Office.	1
1.2 Other Offices.	1
ARTICLE II MEETINGS OF STOCKHOLDERS	1
2.1 Place of Meetings.	1
2.2 Annual Meeting.	1
2.3 Special Meeting.	1
2.4 Notice of Stockholders' Meetings.	2
2.5 Manner of Giving Notice; Affidavit of Notice.	2
2.6 Quorum.	2
2.7 Adjourned Meeting; Notice.	2
2.8 Organization; Conduct of Business.	2
2.9 Voting.	3
2.10 Waiver of Notice.	3
2.11 Stockholder Action By Written Consent Without A Meeting.	3
2.12 Record Date for Stockholder Notice; Voting; Giving Consents.	4
2.13 Proxies.	4
ARTICLE III DIRECTORS	4
3.1 Powers.	4
3.2 Number of Directors.	5
3.3 Election, Qualification and Term of Office of Directors.	5
3.4 Resignation and Vacancies.	5
3.5 Place of Meetings; Meetings by Telephone.	6
3.6 Regular Meetings.	6
3.7 Special Meetings; Notice.	6
3.8 Quorum.	7
3.9 Waiver of Notice.	7
3.10 Board Action By Written Consent Without A Meeting.	7
3.11 Fees and Compensation of Directors.	7
3.12 Approval of Loans to Officers.	7
3.13 Removal of Directors.	8
3.14 Chairman of the Board of Directors.	8
3.15 Conduct of Business.	8
ARTICLE IV COMMITTEES	8
4.1 Committees of Directors.	8
4.2 Committee Minutes.	9
4.3 Meetings and Action of Committees.	9
4.4 Subcommittees.	9
ARTICLE V OFFICERS	9
5.1 Officers.	9
5.2 Appointment of Officers.	9
5.3 Subordinate Officers.	9
5.4 Removal and Resignation of Officers.	9
5.5 Vacancies in Offices.	10
5.6 Chief Executive Officer.	10
5.7 President.	10
5.8 Vice Presidents.	10
5.9 Secretary and Assistant Secretary.	10
5.10 Chief Financial Officer.	11
5.11 Representation of Shares of Other Corporations.	11
5.12 Authority and Duties of Officers.	11

ARTICLE VI INDEMNIFICATION OF DIRECTORS AND OFFICERS	12
6.1 Right to Indemnification.	12
6.2 Right of Claimant to Bring Action Against the Corporation.	12
6.3 Non-Exclusivity.	13
6.4 Indemnification Contracts.	13
6.5 Insurance.	13
6.6 Survival of Indemnification.	13
6.7 Effect of Amendment.	13
6.8 Saving Clause.	13
ARTICLE VII RECORDS AND REPORTS	13
7.1 Maintenance and Inspection of Records.	13
7.2 Inspection by Directors.	14
ARTICLE VIII GENERAL MATTERS	14
8.1 Checks.	14
8.2 Execution of Corporate Contracts and Instruments.	14
8.3 Stock Certificates; Partly Paid Shares.	15
8.4 Special Designation on Certificates.	15
8.5 Lost Certificates.	15
8.6 Construction; Definitions.	15
8.7 Dividends.	15
8.8 Fiscal Year.	16
8.9 Seal.	16
8.10 Transfer of Stock.	16
8.11 Stock Transfer Agreements.	16
8.12 Registered Stockholders.	16
8.13 Facsimile Signature	16
ARTICLE IX AMENDMENTS	16

**BYLAWS
OF
CV SCIENCES, INC.**

ARTICLE I

CORPORATE OFFICES

1.1 Registered Office.

The registered office of the corporation shall be in the City of Wilmington County of New Castle, State of Delaware. The name of the registered agent of the corporation at such location is Corporation Service Company.

1.2 Other Offices.

The Board of Directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

2.1 Place of Meetings.

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board of Directors. In the absence of any such designation, stockholders' meetings shall be held at the registered office of the corporation.

2.2 Annual Meeting.

The annual meeting of stockholders shall be held on such date, time and place, either within or without the State of Delaware, as may be designated by resolution of the Board of Directors each year. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 Special Meeting.

A special meeting of the stockholders may be called at any time by the Board of Directors, the chairman of the Board of Directors, the chief executive officer, the president or by one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes at that meeting, as well as in the manner set forth in Article III, Section 3.4(b)(ii) for the purpose set forth therein.

If a special meeting is called by any person or persons other than the Board of Directors, the president, chief executive officer or the chairman of the Board of Directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the Board of Directors, the president, the chief executive officer, any vice president, or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting. If the notice is not given within sixty (60) days after the receipt of the request, the person or persons requesting the meeting may set the time and place of the meeting and give the notice. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

2.4 Notice of Stockholders' Meetings.

All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place (if any), date and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 Manner of Giving Notice; Affidavit of Notice.

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders may be given by electronic mail or other electronic transmission, in the manner provided in Section 232 of the Delaware General Corporation Law. An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.6 Quorum.

The holders of a majority of the shares of stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (a) the chairman of the meeting or (b) holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, shall have power to adjourn the meeting to another place (if any), date or time.

2.7 Adjourned Meeting; Notice.

When a meeting is adjourned to another place (if any), date or time, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place (if any), thereof and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the place (if any), date and time of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.8 Organization; Conduct of Business.

(a) Such person as the Board of Directors may have designated or, in the absence of such a person, the President of the corporation or, in his or her absence, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as chairman of the meeting. The secretary of the corporation shall act as secretary of the meeting, but in the absence of the secretary of the corporation, the secretary of the meeting shall be such person as the chairman of the meeting appoints.

(b) The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including the manner of voting and the conduct of business. The date and time of opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

2.9 Voting.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. All elections shall be determined by a plurality of the votes cast, and except as otherwise required by the certificate of incorporation or otherwise by law, all other matters shall be determined by a majority of the votes cast affirmatively or negatively.

2.10 Waiver of Notice.

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, or waiver by electronic mail or other electronic transmission by such person, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice, or any waiver of notice by electronic transmission, unless so required by the certificate of incorporation or these bylaws.

2.11 Stockholder Action By Written Consent Without A Meeting.

Unless otherwise provided in the certificate of incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action that may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, is (i) signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, and (ii) delivered to the corporation in accordance with Section 228(a) of the Delaware General Corporation Law.

Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date the earliest dated consent is delivered to the corporation, a written consent or consents signed by a sufficient number of holders to take action are delivered to the corporation in the manner prescribed in this Section. A telegram, cablegram, electronic mail or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, or by a person or persons authorized to act for a stockholder or proxyholder, shall be deemed to be written, signed and dated for purposes of this Section to the extent permitted by law. Any such consent shall be delivered in accordance with Section 228(d)(1) of the Delaware General Corporation Law.

Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing (including by electronic mail or other electronic transmission as permitted by law). If the action which is consented to is such as would have required the filing of a certificate under any section of the General Corporation Law of Delaware if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written notice and written consent have been given as provided in Section 228 of the General Corporation Law of Delaware.

2.12 Record Date for Stockholder Notice; Voting; Giving Consents.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is accepted by the Board of Directors and which record date:

(a) in the case of determination of stockholders entitled to notice of or to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty nor less than ten days before the date of such meeting;

(b) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors; and

(c) in the case of determination of stockholders for any other action, shall not be more than 60 days prior to such other action.

If the Board of Directors does not so fix a record date:

(d) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(e) The record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent (including consent by electronic mail or other electronic transmission as permitted by law) is delivered to the corporation.

(f) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, if such adjournment is for thirty (30) days or less; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.13 Proxies.

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by an instrument in writing or by an electronic transmission permitted by law filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, facsimile, electronic or telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

ARTICLE III

DIRECTORS

3.1 Powers.

Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

3.2 Number of Directors.

Upon the adoption of these bylaws, the number of directors constituting the entire Board of Directors shall be four (4). Thereafter, this number may be changed by a resolution of the Board of Directors or of the stockholders, subject to the certificate of incorporation and Section 3.4 of these bylaws. No reduction of the authorized number of directors shall have the effect of removing any director before such director's term of office expires.

3.3 Election, Qualification and Term of Office of Directors.

(a) Except as provided in Section 3.4 of these bylaws, and unless otherwise provided in the certificate of incorporation, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws, wherein other qualifications for directors may be prescribed. Each director, including a director elected to fill a vacancy, shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Unless otherwise specified in the certificate of incorporation, elections of directors need not be by written ballot.

(b) No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the corporation is subject to Section 2115(b) of the California General Corporation Law ("CGCL").

(c) During such time or times that the corporation is subject to Section 2115(b) of the CGCL, every stockholder entitled to vote at an election for directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder thinks fit. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (a) the names of such candidate or candidates have been placed in nomination prior to the voting and (b) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

3.4 Resignation and Vacancies.

Any director may resign at any time upon written notice to the attention of the Secretary of the corporation. A resignation that is conditioned on the director failing to receive a specified vote for re-election as a director may provide that it is irrevocable. When one or more directors so resigns and the resignation is effective at a future date, subject to the certificate of incorporation, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(a) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole Board of Directors (as constituted immediately prior to any such increase), then either:

(i) the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable, or

(ii) if at such time the corporation is subject to Section 2115(b) of the CGCL, any holder or holders of an aggregate of five percent (5%) or more of the total number of shares at the time outstanding having the right to vote for those directors may call a special meeting of stockholders, or the Superior Court of the proper county of California shall, upon application of such stockholder or stockholders, summarily order a special meeting of the stockholders, to be held to elect the entire Board of Directors, all in accordance with Section 305(c) of the CGCL, and the term of office of any director shall terminate upon that election of a successor.

3.5 Place of Meetings; Meetings by Telephone.

The Board of Directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 Regular Meetings.

Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

3.7 Special Meetings; Notice.

Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairman of the Board of Directors, the chief executive officer, the president, the secretary or any two directors at such time as the Board is constituted with two or more directors. If the Board of Directors is constituted of one director, special meetings may also be called by the sole director.

Notice of the time and place of special meetings shall be delivered personally, by hand, by courier, or by telephone to each director or sent by first-class mail, facsimile, electronic transmission, or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. If the notice is delivered personally, by hand, by courier or by facsimile, electronic transmission, telephone or telegram, it shall be delivered at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting. The notice need not specify the place of the meeting, if the meeting is to be held at the principal executive office of the corporation. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

3.8 Quorum.

At all meetings of the Board of Directors, a majority of the total number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the Board of Directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or at a meeting of a committee which authorizes a particular contract or transaction.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 Waiver of Notice.

Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, or waiver by electronic mail or other electronic transmission by such person, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 Board Action By Written Consent Without A Meeting.

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

3.11 Fees and Compensation of Directors.

Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board of Directors shall have the authority to fix the compensation of directors. No such compensation shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

3.12 Approval of Loans to Officers.

To the extent permitted by law, the corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.13 Removal of Directors.

(a) Subject to any limitations imposed by applicable law (and assuming the corporation is not subject to Section 2115 of the CGCL), the Board of Directors or any director may be removed from office at any time (i) with cause by the affirmative vote of the holders of a majority of the shares then entitled to vote at an election of directors or (ii) without cause by the affirmative vote of the holders of sixty-six and two-thirds percent (66-2/3%) of the shares then entitled to vote at an election of directors.

(b) During such time or times that the corporation is subject to Section 2115(b) of the CGCL, the Board of Directors or any individual director may be removed from office at any time without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such removal; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

(c) Whenever the holders of any class or series are entitled to elect one or more directors by the certificate of incorporation, the applicable provision of (a) or (b) above shall apply to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole.

3.14 Chairman of the Board of Directors.

The corporation may have, at the discretion of the Board of Directors, a chairman of the Board of Directors who may or may not be considered an officer of the corporation, at the election of the Board of Directors.

3.15 Conduct of Business.

Meetings of the Board of Directors shall be presided over by the chairman of the Board of Directors, if any, or in his absence by a chairperson designated by the Board of Directors, or in the absence of such designation by a chairperson chosen at the meeting. The Secretary of the corporation shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

ARTICLE IV

COMMITTEES

4.1 Committees of Directors.

The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in these bylaws, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to the following matters: (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the General Corporate Law of Delaware to be submitted to stockholders for approval or (ii) adopting, amending or repealing any bylaw of the corporation.

4.2 Committee Minutes.

Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

4.3 Meetings and Action of Committees.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (action without a meeting) of these bylaws, with such changes in the context of such provisions as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board of Directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the governance of any committee not inconsistent with the provisions of these bylaws.

4.4 Subcommittees.

Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the Board designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE V

OFFICERS

5.1 Officers.

The officers of the corporation shall be a chief executive officer (who shall, unless another officer is appointed as such, also be the corporation's president), a president, a secretary, a treasurer and a chief financial officer. The corporation may also have, at the discretion of the Board of Directors, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 Appointment of Officers.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these bylaws, shall be appointed by the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

5.3 Subordinate Officers.

The Board of Directors may appoint, or empower the chief executive officer or the president to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board of Directors may from time to time determine.

5.4 Removal and Resignation of Officers.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board of Directors at any regular or special meeting of the Board of Directors or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom the power of removal is conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 Vacancies in Offices.

Any vacancy occurring in any office of the corporation shall be filled by the Board of Directors.

5.6 Chief Executive Officer.

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the Board of Directors, if any, the chief executive officer of the corporation (if such an officer is appointed) shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the Board of Directors, at all meetings of the Board of Directors and shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these bylaws.

5.7 President.

Should the Board of Directors designate an officer other than the chief executive officer as the president of the corporation, subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the Board of Directors (if any) or the chief executive officer, the president shall have general supervision, direction, and control of the business and other officers of the corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation and such other powers and duties as may be prescribed by the Board of Directors or these bylaws.

5.8 Vice Presidents.

In the absence or disability of the chief executive officer and president, the vice presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a vice president designated by the Board of Directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these bylaws, the chief executive officer, the president or the chairman of the Board of Directors.

5.9 Secretary and Assistant Secretary.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required to be given by law or by these bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these bylaws. In the absence or disability of the Secretary, the Assistant Secretaries, if any, in order of their rank as fixed by the Board of Directors, or if not ranked, in the order of their election, shall perform all the duties of the Secretary and when so acting shall have all the powers of, and be subject to all the restrictions upon, the Secretary. The Assistant Secretaries shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these bylaws, the chief executive officer, the president, the chairman of the Board of Directors, or the Secretary.

5.10 Chief Financial Officer.

Unless otherwise designated by the Board of Directors, the chief financial officer shall be the corporation's treasurer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. He or she shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the president, the chief executive officer, or the directors, upon request, an account of all his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the bylaws.

5.11 Representation of Shares of Other Corporations.

The chairman of the Board of Directors, the chief executive officer, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this corporation, or any other person authorized by the Board of Directors or the chief executive officer or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by the person having such authority.

5.12 Authority and Duties of Officers.

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the Board of Directors or the stockholders.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS AND OFFICERS

6.1 Right to Indemnification.

Each person who was or is a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether by or in the right of the corporation or otherwise (a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee, partner (limited or general) or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise, including service with respect to an employee benefit plan, shall be (and shall be deemed to have a contractual right to be) indemnified and held harmless by the corporation (and any successor to the corporation by merger or otherwise) to the fullest extent authorized by, and subject to the conditions and (except as provided herein) procedures set forth in the Delaware General Corporation Law (or such other applicable law), as such applicable law exists or may hereafter be amended (but any such amendment shall not be deemed to limit or prohibit the rights of indemnification hereunder for past acts or omissions of any such person insofar as such amendment limits or prohibits the indemnification rights that said law permitted the corporation to provide prior to such amendment), against all expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA taxes or penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection therewith if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation (or in accordance with such other standard as may be required for such indemnification under applicable law), and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful; provided, however, that the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person (except for a suit or action pursuant to Section 6.2 hereof) only if such proceeding (or part thereof) was authorized by the Board of Directors or otherwise provided by applicable law. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful. Persons who are not directors or officers of the corporation and are not so serving at the request of the corporation may be similarly indemnified in respect of such service to the extent authorized at any time by the Board of Directors. The indemnification conferred in this Section 6.1 also shall include, if permitted by applicable law, the right to be paid by the corporation (and such successor) the expenses (including attorneys' fees) incurred in the defense of or other involvement in any such proceeding in advance of its final disposition; provided, however, that, if and to the extent the Delaware General Corporation Law or such other applicable law requires, the payment of such expenses (including attorneys' fees) incurred by a director or officer in advance of the final disposition of a proceeding shall be made only upon delivery to the corporation of an undertaking by or on behalf of such director or officer to repay all amounts so paid in advance if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section 6.1 or otherwise; and provided further, that such expenses incurred by other employees and agents may be so paid in advance upon such terms and conditions, if any, as the Board deems appropriate. To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in this Section 6.1, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by such person in connection therewith.

6.2 Right of Claimant to Bring Action Against the Corporation.

If a claim under Section 6.1 is not paid in full by the corporation within 60 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring an action against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such action. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in connection with any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law (or any other applicable law) for the corporation to indemnify the claimant for the amount claimed or is otherwise not entitled to indemnification under Section 6.1, but the burden of proving such defense shall be on the corporation. The failure of the corporation to have made a determination (in the manner provided under the Delaware General Corporation Law or any other applicable law) prior to or after the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law (or any other applicable law) shall not be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct. Unless otherwise specified in an agreement with the claimant, an actual determination by the corporation (in the manner provided under the Delaware General Corporation Law or any other applicable law) after the commencement of such action that the claimant has not met such applicable standard of conduct shall not be a defense to the action.

6.3 Non-Exclusivity.

The rights to indemnification and advance payment of expenses provided by Section 6.1 hereof shall not be deemed exclusive of any other rights to which those seeking indemnification and advance payment of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

6.4 Indemnification Contracts.

The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the corporation, or any person serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VI to the fullest extent not prohibited by the Delaware General Corporation Law or any other applicable law.

6.5 Insurance.

The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, partner (limited or general) or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise, against any liability asserted against such person or incurred by such person in any such capacity, or arising out of such person's status as such, and related expenses, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of the Delaware General Corporation Law or any other applicable law.

6.6 Survival of Indemnification.

The indemnification and advance payment of expenses and rights thereto provided by, or granted pursuant to, Section 6.1 hereof shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, partner or agent and shall inure to the benefit of the personal representatives, heirs, executors and administrators of such person.

6.7 Effect of Amendment.

Any amendment, repeal or modification of any provision of this Article VI by the stockholders and the directors of the corporation shall not adversely affect any right or protection of a director or officer of the corporation existing at the time of such amendment, repeal or modification.

6.8 Saving Clause.

If this Article VI, or any portion hereof, shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nonetheless indemnify each director and officer to the full extent not prohibited by any applicable portion of this Article VI that shall not have been invalidated, or by any other applicable law. If this Article VI shall be invalid due to the application of the indemnification provisions of the corporations code of another jurisdiction than the State of Delaware, then the corporation shall indemnify each director and officer to the full extent permitted under the law of such jurisdiction.

ARTICLE VII

RECORDS AND REPORTS

7.1 Maintenance and Inspection of Records.

The corporation shall, either at its principal executive offices or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing the address of each such stockholder and the number of shares registered in each such stockholder's name, shall be open to the examination of any such stockholder for a period of at least ten (10) days prior to the meeting in the manner provided by law. The stock list shall also be open to the examination of any stockholder during the whole time of the meeting as provided by law. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

If at such time the corporation is subject to Section 2115(b) of the CGCL, the Board of Directors shall cause an annual report to be sent to the stockholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. Such report shall be sent at least fifteen (15) days (or, if sent by third-class mail, thirty-five (35) days) before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in these bylaws or otherwise permitted by law for giving notice to stockholders of the corporation. The annual report shall contain (i) a balance sheet as of the end of the fiscal year, (ii) an income statement, (iii) a statement of cash flows for the fiscal year, and (iv) any report of independent accountants or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation. The foregoing requirement of an annual report shall be waived so long as the shares of the corporation are held by fewer than one hundred (100) holders of record.

7.2 Inspection by Directors.

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VIII

GENERAL MATTERS

8.1 Checks.

From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 Execution of Corporate Contracts and Instruments.

The Board of Directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 Stock Certificates; Partly Paid Shares.

The shares of the corporation shall be represented by certificates, provided that the Board of Directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the Board of Directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 Special Designation on Certificates.

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 Lost Certificates.

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or the owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 Construction; Definitions.

Unless the context requires otherwise, the general provisions, rules of construction and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws, except that if Section 2115(b) of the CGCL applies, the general provision rules of construction and definitions of the CGCL applicable pursuant to Section 2115(b) shall govern the construction of the affected section of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.7 Dividends.

The directors of the corporation, subject to any restrictions contained in (a) the General Corporation Law of Delaware or, if Section 2115(b) of the CGCL applies, the CGCL or (b) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

8.8 Fiscal Year.

The fiscal year of the corporation shall be fixed by resolution of the Board of Directors and may be changed by the Board of Directors.

8.9 Seal.

The corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof, to be impressed or affixed or in any other manner reproduced.

8.10 Transfer of Stock.

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

8.11 Stock Transfer Agreements.

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the General Corporation Law of Delaware.

8.12 Registered Stockholders.

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

8.13 Facsimile Signature

In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these bylaws, facsimile signatures of any officer or officers of the corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

ARTICLE IX

AMENDMENTS

The bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

**CERTIFICATE OF ADOPTION OF BYLAWS
OF
CV SCIENCES, INC.**

The undersigned hereby certifies that he is the duly elected, qualified and acting Secretary of CV Sciences, Inc, a Delaware corporation (the "Corporation"), and that the foregoing Bylaws, comprising twenty-two (22) pages, were adopted as the Bylaws of the Corporation as of January 4, 2016 by unanimous written consent of the Board of Directors of the Corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 4th day of January, 2016.

/s/ Joseph Dowling
Joseph Dowling, Secretary

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael J. Mona, Jr., President and Chief Executive Officer of CV Sciences, Inc. (the "Company") certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;
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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 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: May 16, 2016

By: /s/ Michael J. Mona, Jr.
Michael J. Mona, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph D. Dowling, Chief Financial Officer of CV Sciences, Inc. (the "Company") certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;
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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 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: May 16, 2016

By: /s/ Joseph D. Dowling
Joseph D. Dowling
Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER 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 CV Sciences, Inc. (the "Registrant") on Form 10-Q for the three months ended March 31, 2016 (the "Report"), I, Michael J. Mona, Jr., President and Chief Executive Officer of the Registrant, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report, as filed with the Securities and Exchange Commission, 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 Registrant.

Dated: May 16, 2016

By: /s/ Michael J. Mona, Jr.

Michael J. Mona, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER 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 CV Sciences, Inc. (the "Registrant") on Form 10-Q for the three months ended March 31, 2016 (the "Report"), I, Joseph D. Dowling, Chief Financial Officer of the Registrant, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report, as filed with the Securities and Exchange Commission, 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 Registrant.

Dated: May 16, 2016

By: /s/ Joseph D. Dowling
Joseph D. Dowling
Chief Financial Officer (Principal Financial Officer)