

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, 2017
- 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 3, 2017, the issuer had 88,951,086 shares of issued and outstanding common stock, par value \$0.0001.

DOCUMENTS INCORPORATED BY REFERENCE. None

CV SCIENCES, INC.
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2017
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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 “anticipate”, “estimate”, “plan”, “project”, “continuing”, “ongoing”, “expect”, “believe”, “intend”, “may”, “will”, “should”, “could”, 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 OTC: QB; 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)	(Audited)
	March 31,	December 31,
	2017	2016
Assets		
Current assets		
Cash (Note 2)	\$ 663,378	\$ 781,857
Restricted cash (Note 2)	1,117,115	275,611
Accounts receivable, net (Note 2)	871,048	360,475
Inventory (Note 3)	2,867,387	2,851,772
Prepaid expenses and other current assets	661,773	551,395
Total current assets	<u>6,180,701</u>	<u>4,821,110</u>
Accounts receivable (Note 2)	371,723	389,723
Inventory, net (Note 3)	5,775,345	6,478,727
Property & equipment, net (Note 2)	195,177	242,702
Intangibles, net (Note 5)	3,862,750	3,871,600
Goodwill	2,788,300	2,788,300
Total other assets	<u>12,993,295</u>	<u>13,771,052</u>
Total assets	<u>\$ 19,173,996</u>	<u>\$ 18,592,162</u>
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 496,370	\$ 523,581
Accrued expenses (Note 4)	2,920,691	378,218
Secured convertible promissory notes payable, net (Note 7)	901,533	1,897,976
Unsecured note payable, net (Note 7)	718,595	–
Unsecured note payable (Note 7)	73,402	125,964
Derivative liabilities (Note 7)	41,500	222,800
Total current liabilities	<u>5,152,091</u>	<u>3,148,539</u>
Non-current liabilities		
Secured convertible promissory notes payable, net (Note 7)	730,942	–
Unsecured note payable, net (Note 7)	–	679,174
Deferred tax liability	1,556,300	1,556,300
Total liabilities	<u>7,439,333</u>	<u>5,384,013</u>
Commitments and contingencies (Note 10)		
Stockholders' equity (Notes 8 and 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; 62,146,773 and 57,617,545 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	6,215	5,762
Additional paid-in capital	45,644,014	43,333,176
Accumulated deficit	(33,915,566)	(30,130,789)
Total stockholders' equity	<u>11,734,663</u>	<u>13,208,149</u>
Total liabilities and stockholders' equity	<u>\$ 19,173,996</u>	<u>\$ 18,592,162</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,	
	2017	2016
Product sales, net	\$ 3,764,191	\$ 2,422,678
Cost of goods sold	1,331,188	797,043
Gross Profit	2,433,003	1,625,635
Operating Expenses:		
Selling, general and administrative	(3,676,710)	(2,689,245)
Research and development	(188,716)	(141,813)
	(3,865,426)	(2,831,058)
Gain on changes in derivative liabilities	210,600	–
Royalty buy-out	(2,432,000)	–
	(6,086,826)	(2,831,058)
Operating Loss	(3,653,823)	(1,205,423)
Other (expense) income:		
Interest income	–	27,655
Interest expense	(130,954)	(355,349)
Total Other (Expense) Income	(130,954)	(327,694)
Loss before provision for income taxes	(3,784,777)	(1,533,117)
Provision for income taxes	–	–
Net Loss	\$ (3,784,777)	\$ (1,533,117)
Weighted average common shares outstanding		
Basic & diluted	60,098,648	49,931,919
Net loss per common share		
Basic & diluted	\$ (0.06)	\$ (0.03)

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, 2017
UNAUDITED

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance - December 31, 2016	57,617,545	\$ 5,762	\$ 43,333,176	\$ (30,130,789)	\$ 13,208,149
Shares issued pursuant to conversion of senior convertible promissory notes and accrued interest (Notes 7 and 8)	4,131,175	413	1,049,587	-	1,050,000
Stock redemptions (Notes 7 and 8)	398,053	40	74,960	-	75,000
Stock-based compensation (Note 9)	-	-	1,186,291	-	1,186,291
Net loss	-	-	-	(3,784,777)	(3,784,777)
Balance - March 31, 2017	<u>62,146,773</u>	<u>\$ 6,215</u>	<u>\$ 45,644,014</u>	<u>\$ (33,915,566)</u>	<u>\$ 11,734,663</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,	
	2017	2016
OPERATING ACTIVITIES		
Net loss	\$ (3,784,777)	\$ (1,533,117)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	56,375	263,375
Amortization of debt issuance costs	59,312	126,086
Amortization of beneficial conversion feature of convertible debts	–	38,392
Amortization of derivative liability discounts	3,663	–
Common stock issued for professional services	–	175,000
Stock-based compensation	1,186,291	405,151
Royalty buy-out	2,432,000	–
Accrued interest payable	40,245	–
Gain on changes in derivative liabilities	(210,600)	–
Change in operating assets and liabilities:		
Accounts receivable	(492,573)	2,133
Inventory	687,767	321,293
Prepaid expenses and other current assets	(110,378)	(15,508)
Accounts payable and accrued expenses	158,262	104,937
Net cash provided by (used in) operating activities	<u>25,587</u>	<u>(112,258)</u>
INVESTING ACTIVITIES		
Net cash flows provided by investing activities	<u>–</u>	<u>–</u>
FINANCING ACTIVITIES		
Borrowings from secured convertible debt, net of costs	750,000	–
Borrowing from issuance of unsecured note payable, net of costs	–	801,430
Repayment of convertible debt	–	(612,000)
Repayment of unsecured notes payable	(52,562)	(59,493)
Net cash flows provided by financing activities	<u>697,438</u>	<u>129,937</u>
Net increase in cash and restricted cash	723,025	17,679
Cash and restricted cash, beginning of period	1,057,468	518,462
Cash and restricted cash, end of period	<u>\$ 1,780,493</u>	<u>\$ 536,141</u>
Supplemental disclosures of non-cash transactions:		
Conversion of convertible promissory notes and accrued interest to common stock	\$ 1,050,000	\$ 408,000
Value of warrants issued with unsecured promissory note	–	266,800
Inventory returned in satisfaction of note receivable	–	61,897
Value of embedded derivative at inception	29,300	–
Stock redemptions	75,000	–
Supplemental cash flow disclosures:		
Interest paid	\$ 27,735	\$ 259,934
Taxes paid	–	–

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 (the “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 “January 2016 8-K”). On June 8, 2016, the Company announced that the Financial Industry Regulatory Authority (“FINRA”) had approved a change in the trading symbol for the Company’s common stock to “CVSI.” The Company’s common stock formerly traded under the symbol “CANV.”

The Company operates two distinct business segments: a consumer product segment in manufacturing, marketing and selling plant-based Cannabidiol (“CBD”) products to a range of market sectors; and, a specialty pharmaceutical segment focused on developing and commercializing novel therapeutics utilizing synthetic CBD. The specialty pharmaceutical segment began development activities during the second quarter of 2016.

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 for its current business model 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. On January 20, 2017, the Company filed for dissolution of CannaVest Europe, GmbH, an entity that prior to dissolution, the Company had a 70% interest in, with the District Court, Dusseldorf Germany, effective December 31, 2016. None of US Hemp Oil, LLC, CannaVest Laboratories, LLC, or CannaVest Europe, GmbH entities had any assets or liabilities at the time of their respective dissolutions.

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, 2016, filed with the SEC on the Company’s Annual Report on Form 10-K filed on March 31, 2017. The results for the three months ended March 31, 2017, are not necessarily indicative of the results to be expected for the full year ending December 31, 2017.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no impact on net sales, operating loss, net loss or net loss per share.

Liquidity – For the three months ended March 31, 2017 and 2016, the Company had net losses of \$3,784,777 and \$1,533,117, respectively. In addition, for the three months ended March 31, 2017, the Company had positive cash flows from operations of \$25,587 compared with negative cash flows from operations of \$112,258 for the three months ended March 31, 2016. 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 the next 12 month period through May 9, 2018, 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 2017 crop and/or 2018 crop. 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.

Derivative Financial Instruments – Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value on a quarter-end reporting basis. Changes in the fair value of derivative financial instruments are recognized as a gain or loss in the Company’s Condensed Consolidated Statements of Operations.

Business Combinations – We apply the provisions of the Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations* (“ASC 805”), in the accounting for our acquisitions, including without limitation, the CanX Acquisition. 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, 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 in our condensed 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 flows 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 Topic 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 a reporting unit’s goodwill to its carrying amount. In calculating the implied fair value of a reporting unit’s 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 to their estimated residual values, 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. This method of amortization approximates the expected future cash flow generated from their use. During the three months ended March 31, 2017 and 2016, there were no impairments.

Use of Estimates – The Company’s condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed 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 derivative financial instruments, inputs for valuing warrants, inputs for valuing notes payable beneficial conversion features and stock-based compensation, valuation of inventory, classification of current and non-current receivables, classification of current and non-current inventory amounts and the allowance for doubtful accounts.

Reportable Segments – The Company has two business segments; consumer products and specialty pharmaceutical. 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 specialty pharmaceutical segment is newly established to develop a variety of drug candidates which use synthetic CBD as a primary active ingredient. The specialty pharmaceutical segment began development activities during the second quarter of 2016.

Cash and Cash Equivalents – For purposes of the condensed 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, 2017 and December 31, 2016, the Company had no cash equivalents.

Restricted Cash – The Company’s current and past arrangements with its credit card processors require that its credit card processors withhold a cash reserve balance from the Company’s credit card receipt transactions for a period of time not to exceed 270 days, for which the credit card processors will refund the Company the entire amounts withheld at its sole discretion. As of March 31, 2017, the Company had \$1,117,115 in restricted cash withheld by its current and past credit card processors. The following table provides a reconciliation of cash and restricted cash reported within the condensed consolidated balance sheets to the total of the same amounts shown in the statement of cash flows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cash	\$ 663,378	\$ 781,857
Restricted cash	1,117,115	275,611
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 1,780,493</u>	<u>\$ 1,057,468</u>

Concentrations of Credit Risk – As of March 31, 2017, 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 \$308,399 as of March 31, 2017.

One customer represented 35% and 58% of our accounts receivable balance as of March 31, 2017 and December 31, 2016, respectively.

Accounts Receivable – Generally, the Company requires payment prior to shipment. However, in certain circumstances, the Company extends 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 by substantially all assets of the customer. 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, 2017 and December 31, 2016, respectively, the Company maintained 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 the carrier and the rights of ownership have transferred from the Company to the customer.

In the normal course of business, the Company may offer discounts or promotions for various products to incentivize sales growth and brand awareness. Such discounts or promotions are recorded as a reduction to sales revenue.

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. Such taxes are accounted for on a net basis, and not included in revenues.

Shipping and Handling - Shipping and handling costs totaled \$157,359 and \$86,291 for the three months ended March 31, 2017 and 2016, respectively, and are recorded in cost of goods sold.

Returns - Finished Products - Within ten (10) days of a customer's receipt of the Company's finished products, the customer may return (i) finished products that do not conform to the Company's product specifications or, (ii) finished products which are defective, provided that notice of condition is given within five (5) days of the customer's receipt of the finished products. The failure to comply with the foregoing time requirements shall be deemed a waiver of 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 the Company does not accept returns under any circumstances.

There was no allowance for customer returns as of March 31, 2017 or December 31, 2016 due to insignificant return amounts experienced during the three months ended March 31, 2017 and the year ended December 31, 2016, respectively.

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, restricted stock awards, restricted stock units, stock bonus awards and performance-based 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. Performance-based stock options vest once the applicable performance condition is satisfied. Restricted stock awards generally vest 100% at the grant date.

The Company recognizes stock-based compensation for equity awards granted to employees, officers, directors and consultants as compensation and benefits expense in 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. 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. For performance-based stock options, compensation is recognized once the applicable performance condition is satisfied.

The Company recognizes stock-based compensation for equity awards granted to consultants as selling, general and administrative expense in 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 net realizable value, with cost being determined on an average cost basis. As of March 31, 2017, the Company had \$680,515 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, 2017 and December 31, 2016 were as follows:

	<u>Useful Lives</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Office furniture and equipment	3 years	\$ 340,472	\$ 340,472
Laboratory and other equipment	5 years	321,071	321,071
Tenant improvements	14 to 39 months	<u>70,592</u>	<u>70,592</u>
		732,135	732,135
Less: accumulated depreciation		<u>(536,958)</u>	<u>(489,433)</u>
		<u>\$ 195,177</u>	<u>\$ 242,702</u>

Depreciation expense for the three months ended March 31, 2017 and 2016 was \$47,525 and \$49,025, 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 16,475,222 stock options and restricted stock units ("RSU's") outstanding that were anti-dilutive as of March 31, 2017. Subsequent to March 31, 2017, the Company issued 21,400,000 in restricted common stock to the former shareholders of CanX (See Note 8) and an aggregate of 2,000,000 stock options to two members of senior management (See Note 12). In addition, the Company may be required to issue 16,000,000 shares of common stock related to certain performance-based stock options outstanding. As of March 31, 2017, the Company may also be required to issue 4,000,000 shares of restricted stock units for performance-based consulting services. As of March 31, 2017, there were also warrants outstanding to purchase up to 2,100,000 shares of common stock. Furthermore, the Company may be required to issue a variable amount of shares of common stock related to the potential conversion features of the Iliad Notes (as defined below) (See Note 7).

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. Research and development expense for the consumer products segment was \$49,033 and \$141,813 for the three months ended March 31, 2017 and 2016, respectively. Research and development expense for the specialty pharmaceutical segment was \$139,683 and \$0 for the three months ended March 31, 2017 and 2016, respectively.

Advertising – The Company supports its products with advertising to build brand awareness of the Company’s various products in addition to other marketing programs executed by the Company’s marketing team. The Company believes the continual investment in advertising is critical to the development and sale of its *PlusCBD*[™] brand products. Advertising costs of \$66,900 and \$67,821 were expensed as incurred during the three months ended March 31, 2017 and 2016, respectively.

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, 2017 and December 31, 2016, 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 2013.

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”), as amended by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-08, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606)*, ASU 2016-12, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, 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, 2018 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 but does not expect it to have a significant impact.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory* (“ASU 2015-11”), 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 or 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 periods. Early application is permitted. The Company implemented ASU 2015-11 for the interim and annual reporting periods of 2017.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”) which requires that deferred tax liabilities be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016 and for interim periods within such periods. Early application is permitted. The Company implemented ASU 2015-17 during the annual reporting period 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. ASU 2016-02 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 ASU 2016-02 on the Company’s consolidated financial statements and does expect it to potentially have a significant impact on the Company’s future consolidated balance sheets depending on the terms and duration of the Company’s future lease agreements. As such, the Company currently does not intend on early adoption of this update for the benefit of investor comparison analysis.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation* (“ASU 2015-09”), 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 implemented ASU 2015-09 for the interim and annual reporting periods of 2017.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the FASB Emerging Issues Task Force)* (“ASU 2016-15”), which provides amendments to specific statement of cash flows classification issues. ASU 2016-15 is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the potential impact of ASU 2016-15 on the Company’s consolidated financial statements but does not expect it to have a significant impact.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. In addition, ASU 2016-18 should be applied using a retrospective transition method to each period presented. The Company implemented ASU 2016-18 during the annual reporting period of 2016.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which revises the definition of a business. ASU 2017-01 requires that for an acquisition to be considered a business, the business would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 also narrows the definition of the term “outputs,” which are now considered the result of inputs and substantive processes that provide goods and services to customers, other revenue, or investment income, such as dividends and interest. ASU 2017-01 is effective for public companies for annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the potential impact of ASU 2017-01 on the Company’s consolidated financial statements but does not expect it to have a significant impact.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should then recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 requires the entity to apply these amendments on a prospective basis for which it is required to disclose the nature of and reason for the change in accounting upon transition. This disclosure shall be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments. The Company shall adopt these amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company implemented ASU 2017-04 for the interim and annual reporting periods of 2017.

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. INVENTORY

Inventory as of March 31, 2017 and December 31, 2016 was comprised of the following:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 7,217,545	\$ 7,699,057
Finished goods	1,425,187	1,631,442
	<u>\$ 8,642,732</u>	<u>\$ 9,330,499</u>

4. ACCRUED EXPENSES

Accrued expenses as of March 31, 2017 and December 31, 2016 were as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Royalty buy-out	\$ 2,432,000	\$ –
Accrued payroll expenses	266,090	208,126
Other accrued liabilities	222,601	170,092
	<u>\$ 2,920,691</u>	<u>\$ 378,218</u>

5. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following at March 31, 2017 and December 31, 2016:

	<u>Original Fair Market Value</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Useful Life (Years)</u>
Balance - March 31, 2017:				
In-process research and development	\$ 3,730,000	\$ —	\$ 3,730,000	—
Trade names	100,000	25,000	75,000	5
Non-compete agreements	77,000	19,250	57,750	5
	<u>\$ 3,907,000</u>	<u>\$ 44,250</u>	<u>\$ 3,862,750</u>	
Balance - December 31, 2016:				
In-process research and development	\$ 3,730,000	\$ —	\$ 3,730,000	-
Trade names	100,000	20,000	80,000	5
Non-compete agreements	77,000	15,400	61,600	5
	<u>\$ 3,907,000</u>	<u>\$ 35,400</u>	<u>\$ 3,871,600</u>	

Amortization expense for the three months ended March 31, 2017 and 2016 totaled \$8,850 and \$214,350, respectively.

6. RELATED PARTIES

During the three months ended March 31, 2017 and 2016, the Company paid \$9,060 and \$2,977, respectively, to a stockholder of the Company who is a supplier of hemp oil and hemp to the Company.

7. NOTES PAYABLE

Iliad Secured Convertible Promissory Notes Payable

On May 25, 2016 (the "Purchase Price Date"), the Company entered into a Securities Purchase Agreement ("Iliad SPA") with Iliad Research and Trading, L.P. (the "Lender" or "Iliad") pursuant to which the Lender loaned the Company \$2,000,000. On the Purchase Price Date, the Company issued to Lender a Secured Convertible Promissory Note (the "Iliad Note") in the principal amount of \$2,055,000 in exchange for payment by Lender of \$2,000,000. The principal sum of the Iliad Note reflects the amount invested, plus a 2.25% "Original Issue Discount" ("OID") and a \$10,000 reimbursement of Lender's legal fees. Out of the proceeds from the Iliad Note, the Company paid the sum of \$25,000 to its placement agent, Myers & Associates, L.P., which is a registered broker-dealer. The Company received net proceeds of \$1,975,000 in exchange for the Iliad Note. The Iliad Note requires the repayment of all principal and any interest, fees, charges and late fees on the date that is thirteen months after the Purchase Price Date (the "Maturity Date"). Interest is to be paid on the outstanding balance at a rate of ten percent (10%) per annum from the Purchase Price Date until the Iliad Note is paid in full. Interest is accrued during the term of the Iliad Note and all interest calculations shall be computed on the basis of a 360-day year comprised of twelve (12) thirty (30)-day months and shall compound daily. Subject to adjustment as set forth in the Iliad Note, the conversion price for each Lender conversion shall be \$0.50 (the "Lender Conversion Price"), convertible into shares of fully paid and non-assessable common stock. Beginning on the date that is six months after the Purchase Price Date and continuing until the Maturity Date, Iliad shall have the right to redeem a portion of the Iliad Note in any amount up to the Maximum Monthly Redemption Amount (\$275,000, which is the maximum aggregate redemption amount that may be redeemed in any calendar month), for which payments may be made in cash or by converting the redemption amount into shares of Company common stock at a conversion price which is the lesser of (a) the Lender Conversion Price of \$0.50 and (b) the Market Price, defined as 70% ("the Conversion Factor"), subject to adjustment as follows: if at any time (1) the average of the three lowest closing bid prices in the previous twenty (20) trading days is below \$0.25 per share then the Conversion Factor will be reduced by 10%, (2) the Company is not Deposit/Withdrawal At Custodian eligible, then the Conversion Factor will be reduced by an additional 5%, or (3) there has occurred a "Major Default" then the Conversion Factor will be reduced by an additional 5%. The Company may prepay the Iliad Note at any time by payment to Lender of 125% of the principal, interest and other amounts then due under the Note. The Company may prepay the Iliad Note notwithstanding an earlier notice of conversion from the Lender, provided that in such event the Lender may convert an amount not to exceed \$300,000 under the Iliad Note. In connection with the Iliad Note, as set forth above, the Company incurred an original issue discount of \$45,000 and \$35,000 of other debt issuance costs, which will be amortized over the Iliad Note term. The Iliad Note is securitized by the Company's accounts receivable, inventory and equipment.

In November 2016, the Company entered into an Amendment to the Iliad Note (the "Iliad Amendment"), whereby the Lender and the Company agreed that the Maximum Monthly Redemption Amount for the period from November 2016 to January 2017 (the "Reduction Period") be reduced from \$275,000 to \$166,667 (the "Reduced Maximum Monthly Redemption Amount"). In addition, if the Lender fails to convert the full Reduced Maximum Monthly Redemption Amount during any month in the Reduction Period, then any such unconverted amount shall increase the Reduced Maximum Monthly Redemption Amount in the following month or months. Furthermore, the Company shall not be allowed to pay any of the Reduced Maximum Monthly Reduction Amounts in cash. As such, all amounts converted must be converted into Redemption Conversion Shares of the Company's common stock. Also, as part of the Iliad Amendment, the Lender agrees that, with respect to any Redemption Conversion Shares received during the Reduction Period, in any given calendar week its Net Sales of such Redemption Conversion Shares shall not exceed the greater of (a) 10% of the Company's weekly dollar trading volume in such week or (b) \$50,000 (the "Volume Limitation"). However, if the Lender's Net Sales are less than the Volume Limitation for any given week, then in the following week or weeks, the Lender shall be allowed to sell an additional amount of Redemption Conversion Shares equal to the difference between the amount the Lender was allowed to sell and the amount the Lender actually sold. For the purpose of the Iliad Amendment, Net Sales is defined as the gross proceeds from sales of the Redemption Conversion Shares sold in a calendar week during the Reduction Period minus any trading commissions or costs associated with clearing and selling such Redemption Conversion Shares minus the purchase price paid for any shares of the Company's common stock purchased in the open market during such week. The Lender and the Company both agree that in the event the Lender breaches the Volume Limitation where its Net Sales of Redemption Conversion Shares during any week during the Reduction Period exceeds the dollar volume the Lender is permitted to sell during such week pursuant to the Volume Limitation (the "Excess Sales"), then the Company's sole and exclusive remedy for such breach shall be the reduction of the outstanding balance of the Iliad Note by an amount equal to 200% of the Excess Sales upon delivery of written notice to the Lender setting forth its basis for such reduction.

In January 2017, the Company entered into Amendment #2 to the Iliad Note (the "Iliad Amendment 2"). In accordance with the Iliad Amendment 2, during the period between January 27, 2017 and February 24, 2017, the Company agreed to allow the Lender to convert up to \$500,000 (the "Additional Redemption Amount") in Redemption Conversions under the Note, provided that the Lender shall not effectuate a Redemption Conversion of any Maximum Monthly Redemption Amount between January 27, 2017 and March 1, 2017. During this time period, the Company was not allowed to pay any of the Additional Redemption Amount in cash and all such amounts had to be converted into Redemption Conversion Shares of the Company's common stock. In addition, the Lender agreed that the sale of any Redemption Conversion Shares between January 27, 2017 and April 30, 2017 (the "Limitation Period") was subject to the Volume Limitation. Immediately following the expiration of the Volume Period, the Volume Limitation will be cancelled.

In March 2017, the Company entered into Amendment #3 to the Iliad Note (the "Iliad Amendment 3"). In accordance with the Iliad Amendment 3, during the period from March 1, 2017 to March 31, 2017, the Company agreed to allow the Lender to convert up to \$500,000 (the "Additional Redemption Amount 2") in Redemption (the "Additional Redemption Amount 2") in Redemption Conversions under the Note, provided that the Lender not effectuate a Redemption Conversion of any Maximum Monthly Redemption Amount from March 1, 2017 until April 1, 2017. During this time period, the Company was not allowed to pay any of the Additional Redemption Amount 2 in cash and all such amounts had to be converted into Redemption Conversion Shares of the Company's common stock. In addition, the Lender agreed that the sale of any Redemption Conversion Shares between March 1, 2017 and May 31, 2017 (the "Limitation Period 2") shall be subject to the Volume Limitation. Immediately following the expiration of the Volume Period, the Volume Limitation will be cancelled.

During the three months ended March 31, 2017, the Company issued 4,131,175 shares of its common stock to Iliad in connection with the conversions of the Iliad Note in the aggregate principal amount of \$1,014,060 and \$35,940 of accrued interest. The total of \$1,050,000 was allocated to common stock and additional paid-in capital.

The Company's borrowings and conversions under the Iliad SPA for the three months ended March 31, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	<u>Maturity</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate</u>
Secured promissory note payable	June 24, 2017	\$ 2,055,000	\$ 2,055,000	10%
Interest accrued		163,406	128,311	
Unamortized original issue discount and debt issuance costs		(16,873)	(35,335)	
Conversion of convertible promissory notes and accrued interest to common stock		(1,300,000)	(175,000)	
Conversion of convertible promissory notes and accrued interest to accrued liabilities		<u>—</u>	<u>(75,000)</u>	
Net carrying amount of debt		901,533	1,897,976	
Less current portion		<u>(901,533)</u>	<u>(1,897,976)</u>	
Long-term borrowings - net of current portion		<u>\$ —</u>	<u>\$ —</u>	

On the Purchase Price Date, the Company recorded a beneficial conversion feature of \$370,000 (the "Iliad Instrument"), which was originally recorded in additional paid-in capital ("APIC") and was scheduled for amortization over six months. The Company determined in 2016 that the Iliad Instrument qualifies for derivative accounting treatment. The \$370,000 fair value of the Iliad Instrument at the Purchase Price Date is unchanged as a result of the change in derivative accounting treatment, however, in 2016 we reclassified the Iliad Instrument from APIC to a liability in accordance with derivative accounting treatment. During the three months ended March 31, 2017, the Company recorded a gain of \$206,500 for the change in fair value of the Iliad Instrument as part of a separate line item in the Company's Condensed Consolidated Statement of Operations. The assumptions used by the Company for calculating the fair value of the Iliad Instrument at the Purchase Price Date using the Binomial Lattice valuation model were: (i) Volatility of 74.0%; (ii) Risk-Free Interest Rate of 0.44%; and (iii) Expected Term of five months; and at March 31, 2017 were (i) Volatility of 61%, (ii) Risk-Free Interest Rate of 0.74%; and (iii) Expected Term of 1 month.

In March 2017, the Company entered into another Securities Purchase Agreement ("Iliad SPA 2") with Iliad pursuant to which the Lender loaned the Company \$750,000. On March 1, 2017 (the "Subsequent Purchase Price Date"), the Company issued to Lender a Secured Convertible Promissory Note (the "Iliad Note 2") in the principal amount of \$770,000 in exchange for payment by Lender of \$750,000. The principal sum of the Iliad Note reflects the amount invested, plus a \$15,000 OID and a \$5,000 reimbursement of Lender's legal fees. The Company received net proceeds of \$750,000 in exchange for the Iliad Note 2. The Iliad Note 2 requires the repayment of all principal and any interest, fees, charges and late fees on the date that is fourteen months after the Subsequent Purchase Price Date (the "Maturity Date"). Interest is to be paid on the outstanding balance at a rate of eight percent (8%) per annum from the Subsequent Purchase Price Date until the Iliad Note 2 is paid in full. Interest is accrued during the term of the Iliad Note 2 and all interest calculations shall be computed on the basis of a 360-day year comprised of twelve (12) thirty (30)-day months and shall compound daily. Subject to adjustment as set forth in the Iliad Note 2, the conversion price for each Lender conversion shall be the Lender Conversion Price, convertible into shares of fully paid and non-assessable common stock. Beginning on the date that is six months after the Subsequent Purchase Price Date and continuing until the Maturity Date, Iliad shall have the right to redeem a portion of the Iliad Note 2 in an amount not to exceed \$100,000. Provided the Company has not suffered an "Event of Default" and is in compliance with certain "Equity Conditions" (unless waived by Iliad, in either case), the Company may make payments on such redemptions in cash or by converting the redemption amount into shares of Company common stock at a conversion price which is the lesser of (a) \$0.50 per share and (b) 70% ("the Conversion Factor") of the average of the three (3) lowest closing bid prices in the previous 20 trading days, subject to adjustment as follows: if at any time (1) the average of the three lowest closing bid prices in the previous twenty (20) trading days is below \$0.25 per share then the Conversion Factor will be reduced by 10%, (2) the Company is not Deposit/Withdrawal At Custodian eligible, then the Conversion Factor will be reduced by 5%, (3) the Company is not DTC eligible, then the Conversion Factor will be reduced by an additional 5% or (4) there has occurred a "Major Default" then the Conversion Factor will be reduced by an additional 5% for each of the first three Major Defaults that occur after the effective date. The Company may prepay the Iliad Note 2 at any time by payment to Lender of 125% of the principal, interest and other amounts then due under the Note. The Company may prepay the Iliad Note notwithstanding an earlier notice of conversion from the Lender, provided that in such event the Lender may convert an amount not to exceed \$200,000 under the Iliad Note 2. In connection with the Iliad Note 2, as set forth above, the Company incurred an original issue discount of \$15,000 and \$5,000 of other debt issuance costs, which will be amortized over the Iliad Note 2 term. The Iliad Note 2 is securitized by the Company's accounts receivable, inventory and equipment.

The Company's borrowings under the Iliad SPA 2 for the three months ended March 31, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	<u>Maturity</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate</u>
Secured promissory note payable	April 30, 2018	\$ 770,000	\$ —	8%
Interest accrued		5,150	—	
Unamortized original issue discount and debt issuance costs		(18,571)	—	
Unamortized discount - embedded derivative		(25,637)	—	
Net carrying amount of debt		730,942	—	
Less current portion		—	—	
Long-term borrowings - net of current portion		<u>\$ 730,942</u>	<u>\$ —</u>	

On the Subsequent Purchase Price Date, the Company recorded a derivative liability of \$29,300 which is scheduled for amortization over 8 months. During the three months ended March 31, 2017, the Company recorded a gain of \$4,100 for the change in fair value of the derivative liability as part of a separate line item in the Company's Condensed Consolidated Statement of Operations. The assumptions used by the Company for calculating the fair value of the derivative liability at the Subsequent Purchase Price Date and at March 31, 2017 using the Binomial Lattice valuation model were: (i) Volatility of 85.0%; (ii) Risk-Free Interest Rate of 0.84%; and (iii) Expected Term of 8 months; and at March 31, 2017 were (i) Volatility of 84.0%, (ii) Risk-Free Interest Rate of 0.93%; and (iii) Expected Term of 7 months.

Redwood 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 (collectively, the "Notes", and individually, "Note 1", "Note 2", "Note 3", and "Note 4") 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.

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 Note 2; (ii) repaid \$357,000 of the aggregate principal amount of 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 Note 3; and, (iii) repaid the entire principal amount of Note 4 in the amount of \$255,000 plus interest in the amount of \$93,075 in cash to the Investors.

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

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

Current Unsecured Note Payable

In November 2016, the Company entered into a Commercial Premium Finance Agreement with First Insurance Funding in order to fund a portion of the Company's insurance policies. The amount financed was \$161,351 and bears interest at a rate of 4.5%. The Company is required to make nine payments of \$18,266 a month to satisfy this current unsecured note payable. As of March 31, 2017 and December 31, 2016, the outstanding balance was \$73,402 and \$125,964, respectively.

Unsecured Note Payable

On January 29, 2016, the Company issued an unsecured promissory note to Wiltshire, LLC in the principal amount of \$850,000 (the "Promissory Note") in consideration of a loan provided to the Company by Wiltshire, LLC. 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, for which the interest-only payments obligation commenced on 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. 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, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	<u>Maturity</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate</u>
Unsecured promissory note payable	February 1, 2018	\$ 850,000	\$ 850,000	12%
Unamortized original issue discount and debt issuance costs		(20,238)	(26,309)	
Unamortized debt discount - fair value of warrants		<u>(111,167)</u>	<u>(144,517)</u>	
Net carrying amount of debt		718,595	679,174	
Less current portion		<u>(718,595)</u>	<u>—</u>	
Long-term borrowings - net of current portion		<u>\$ —</u>	<u>\$ 679,174</u>	

Pursuant to the terms of the Promissory Note, the Company issued to Wiltshire, LLC a common stock purchase warrant providing Wiltshire, LLC 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 each of March 31, 2017 and 2016, the Company recorded interest expense of \$33,350 and \$22,233, respectively, for the amortization of the Warrant fair value. The assumptions used by the Company for calculating the fair value of the Warrant at inception 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.

8. 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, 2017 and December 31, 2016, the Company had 62,146,773 and 57,617,545 shares of common stock issued and outstanding, respectively.

In March 2017, the Company entered into an amendment to the principal agreement for the CanX Acquisition (the "Amendment"), as more fully set forth in our Current Report on Form 8-K filed with the SEC on March 22, 2017 (the "March 2017 8-K"). Pursuant to such Amendment, which was approved by the disinterested members of the Board of Directors of the Company, the Company agreed to issue the remaining 15,000,000 shares of contingent consideration to the former CanX shareholders, without the Company having yet achieved any of the remaining post-closing milestones.

Additionally, pursuant to such Amendment, the parties agreed to revise the Company's buy-out option of the royalties payable to the CanX shareholders in the future, to allow the Company to buy-out the future royalty payments by the issuance of 6,400,000 shares of the Company's restricted common stock (the "Royalty Buy-Out Shares") to the former CanX shareholders. The Company concurrently exercised the buy-out option, as so revised.

In the aggregate, pursuant to the Amendment, the Company agreed to issue to the former CanX shareholders a total of 21,400,000 shares of restricted common stock (See Note 12). As previously disclosed in the January 2016 8-K, James McNulty, a member of the Board, is a former shareholder of CanX and thereby received his pro rata portion of the consideration paid to the former CanX shareholders. During the three months ended March 31, 2017, the Company recorded an expense of \$2,432,000 for the value of the Royalty Buy-Out Shares as a separate line item in the Company's Condensed Consolidated Statement of Operations.

Furthermore, during the three months ended March 31, 2017, the Company issued 4,529,228 shares of common stock in connection with the conversion of the Iliad Note and its required stock redemptions.

Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of \$0.0001 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, 2017 and December 31, 2016, there was no preferred stock issued and outstanding.

Options/Warrants/RSU's

On July 23, 2014, Company stockholders approved the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan (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 each of December 21, 2015 and October 24, 2016, the Company's stockholders approved an amendment to the Amended 2013 Plan to increase the number of shares that may be issued under the Amended 2013 Plan. There are currently 20,000,000 shares of common stock authorized for issuance under the Amended 2013 Plan. This plan serves as the successor to the 2013 Equity Incentive Plan. There were no option awards under the 2013 Equity Incentive Plan prior to it being amended and restated.

In March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board approved the grant of 5,000,000 performance-based stock options (the "Mona Performance Options") to purchase shares of the Company's common stock to one senior management member of the Company. The Mona Performance Options are contingent and vest only upon the Company achieving three specific milestones related to the success of the Company's drug development program and were granted outside of the Company's Amended 2013 Plan. Vesting of such options accelerates upon a sale of the Company or change in control.

In March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board approved a grant of an aggregate of 400,000 fully-vested stock options to purchase shares of the Company's common stock to three senior management members of the Company (including the two management members of the Board) pursuant to the bonus plan set forth in the Employment Agreements for fiscal year 2016 performance.

Also in March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board, as the administrator of the Amended 2013 Plan, approved the amendment to certain stock options granted to employees of the Company, including certain options granted to three senior management members of the Company, to reduce the exercise price of such stock options. As a result of the amendment to the stock option grants, each of the covered stock options, including those issued to three senior management members of the Company, have been amended to provide for a strike price equal to \$0.38 per share, which represents 100% of the fair market value of the Company's common stock as of the date of the amendment to these stock option grants.

In addition, in March 2017, the Company issued 5,000,000 RSU's to a consultant in exchange for consulting services. The restricted stock units vest as follows: 1,000,000 vest immediately and 4,000,000 vest according to future performance-based criteria.

9. STOCK-BASED COMPENSATION

The Company's Amended 2013 Plan provides for the granting of stock options, restricted stock awards, RSU's, stock bonus awards and performance-based awards. As of March 31, 2017, the Company had 4,524,778 of authorized unissued shares reserved and available for issuance upon exercise and conversion of outstanding awards under the Amended 2013 Plan.

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 Company recognized Selling, General and Administration expenses of \$1,186,291 and \$405,151, relating to stock options and RSU's issued to employees, officers, directors and consultants for the three months ended March 31, 2017 and 2016, respectively. The Company also recognized expense of \$0 and \$175,000 relating to common stock issued to employees, officers, directors and consultants during the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to employees, officers, and directors was \$2,416,360, which is expected to be recognized over a weighted-average period of 1.75 years.

The following table summarizes stock option activity for the Amended 2013 Plan during the three months ended March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding - December 31, 2016	12,841,000	\$ 1.57	8.54	\$ 415,135
Granted	8,747,000	0.38	-	-
Exercised	-	-	-	-
Cancelled/Forfeited (1)	(6,100,278)	2.64	-	-
Expired	(12,500)	0.73	-	-
Outstanding - March 31, 2017	<u>15,475,222</u>	0.48	8.58	500,675
Total exercisable - March 31, 2017	<u>10,105,687</u>	0.52	8.14	307,602
Total unvested - March 31, 2017	<u>5,369,535</u>	0.40	9.41	193,073
Total vested or expected to vest - March 31, 2017	<u>15,475,222</u>	0.48	8.58	500,675

(1) The number of options cancelled/forfeited includes options cancelled in connection with the Exchange Program (see below).

In March 2017, the Company completed an offer to exchange certain employee stock options under the Company's amended 2013 Plan (the "Exchange Program"). Certain previously granted options were exchanged for new options with a lower exercise price granted on a one-for-one basis. Options for an aggregate of 6,090,000 shares were exchanged. Options granted pursuant to the Exchange Program have an exercise price of \$0.38 per share, the closing price of the Company's common stock on the date of the exchange grant. The Exchange Program resulted in a modification charge of \$403,479 which is being recognized over the vesting period of the new options which range from zero months to approximately two years.

The following table summarizes unvested stock options as of March 31, 2017:

	Number of Shares	Weighted Average Fair Value Per Share on Grant Date
Unvested stock options - December 31, 2016	3,724,233	\$ 0.63
Granted	8,747,000	0.14
Vested	(1,001,420)	0.32
Cancellations	(6,100,278)	0.48
Unvested stock options - March 31, 2017	<u>5,369,535</u>	0.45

The following table summarizes stock option activity outside of the Amended 2013 Plan during the three months ended March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding - December 31, 2016	2,750,000	\$ 0.37	9.77	\$ 170,500
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding - March 31, 2017	<u>2,750,000</u>	0.37	9.52	88,000
Total exercisable - March 31, 2017	<u>2,750,000</u>	0.37	9.52	88,000
Total unvested - March 31, 2017	-	-	-	-
Total vested or expected to vest - March 31, 2017	<u>2,750,000</u>	0.37	9.52	88,000

There was no unvested stock option activity outside of the Amended 2013 Plan during the three months ended March 31, 2017.

The following table summarizes RSU activity outside of the Amended 2013 Plan during the three months ended March 31, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding - December 31, 2016	-	\$ -	-	\$ -
Granted	1,000,000	-	-	400,000
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding - March 31, 2017	<u>1,000,000</u>	-	-	399,500
Total exercisable - March 31, 2017	<u>1,000,000</u>	-	-	399,500
Total unvested - March 31, 2017	<u>1,000,000</u>	-	-	399,500
Total vested or expected to vest - March 31, 2017	<u>1,000,000</u>	-	-	399,500

The following table summarizes RSU activity outside of the Amended 2013 Plan as of March 31, 2017:

	Number of Shares	Weighted Average Fair Value Per Share on Grant Date
Unvested RSU's - December 31, 2016	-	\$ -
Granted	1,000,000	0.40
Vested	(1,000,000)	0.40
Cancellations	-	-
Unvested RSU's - March 31, 2017	<u>-</u>	-

10. 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, 2017:

	Total Operating Leases
For the year ending December 31,	
2017	\$ 268,511

The Company incurred rent expense of \$130,884 and \$139,382 for the three months ended March 31, 2017 and 2016, respectively.

The Company has two supply arrangements in place with European farmers to supply raw material in future years, for which the Company has contractual rights for the growth and processing of hemp oil for delivery through October 2018 under both contracts. During the three months ended March 31, 2017 and 2016, the Company purchased \$9,060 and \$2,977, respectively, in relation to these supply agreements. We do not intend to purchase any inventory under these supply agreements from the 2017 crop and/or 2018 crop.

Also in March 2017, the Board amended the Employment Agreements for two members of senior management, such that upon a Liquidity Event (as defined below), Mr. Mona shall receive four percent (4%) and Mr. Mona III shall receive two percent (2%) of the Gross Closing Proceeds (as defined below), subject to an aggregate cap of \$750,000,000. A "Liquidity Event" means and include (A) a licensing of the CBD Drug Product or any other intellectual property asset of the Company, or (B) (i) the direct or indirect sale or transfer, in a single transaction or a series of related transactions, by the stockholders of the Company of voting securities, in which the holders of the outstanding voting securities of the Company immediately prior to such transaction or series of transactions hold, as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than twenty percent (20%) of the total combined voting power all outstanding voting securities of the Company or of the acquiring entity immediately after such transaction or series of related transactions, (ii) a merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation, (iii) a reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger, or (iv) the sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s). "Gross Closing Proceeds" means and include all cash sums payable to the Company or its stockholders in connection with a Liquidity Event at the closing of a transaction constituting a Liquidity Event, and not including any deferred payments, earnouts, ongoing royalty payments or other contingent or deferred compensation.

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. Defendant Stuart Titus was served with the Summons & Complaint in the case and he has recently completed briefing his motion to dismiss, through separate counsel. No hearing date has been set by the Court at this time with respect to the motions to dismiss. 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.

On October 21, 2016, Dun Agro B.V. ("Dun Agro") filed a complaint against the Company in the District Court of the North Netherlands, location Groningen, The Netherlands (the "District Court"), alleging non-performance under a contract, seeking compensatory damages of approximately 2,050,000 euros, excluding interest and costs. The plaintiff alleges that the Company was obligated to perform under that certain supply agreement between the Company and Dun Agro dated December 19, 2013, and to purchase 1,000,000 kilograms of harvested raw material related to the 2016 crop. The Company filed a reply to the complaint on March 29, 2017 which is now under review by the District Court. Management intends to vigorously defend the complaint allegations and an estimate of possible loss cannot be made at this time.

In the normal course of business, the Company is a party to a variety of agreements pursuant to which they may be obligated to indemnify the other party. It is not possible to predict the maximum potential amount of future payments under these types of agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these types of agreements have not had a material effect on our business, condensed consolidated results of operations or financial condition.

11. SEGMENT INFORMATION

The Company operates in two distinct business segments: a consumer product segment in manufacturing, marketing and selling plant-based CBD products to a range of market sectors; and, a specialty pharmaceutical segment focused on developing and commercializing novel therapeutics utilizing synthetic CBD. The Company's segments maintain separate financial information for which operating results are evaluated on a regular basis by the Company's senior management in deciding how to allocate resources and in assessing performance. The Company evaluates its consumer product segment based on net product sales, gross profit and operating income or loss. The Company currently evaluates its specialty pharmaceutical segment based on the progress of its clinical development programs.

The following table presents information by reportable operating segment for the three months ended March 31, 2017:

	Consumer Products Segment	Specialty Pharmaceutical Segment	Consolidated Totals
Three Months Ended			
March 31, 2017:			
Product sales, net	\$ 3,764,191	\$ –	\$ 3,764,191
Gross profit	2,433,003	–	2,433,003
Gain on change in derivative liability	210,600	–	210,600
Royalty buy-out	–	(2,432,000)	(2,432,000)
Selling, general and administrative	(3,605,177)	(71,533)	(3,676,710)
Research and development	(49,033)	(139,683)	(188,716)
Operating loss	<u>\$ (1,010,607)</u>	<u>\$ (2,643,216)</u>	<u>\$ (3,653,823)</u>

12. SUBSEQUENT EVENTS

In April 2017, the disinterested members of the Board approved a grant of an aggregate of 2,000,000 performance-based stock options to purchase shares of the Company's common stock to two senior management members of the Company (including one management member of the Board). The performance-based stock options are contingent and vest only upon the Company achieving three specific milestones related to the success of the Company's drug development program and were granted outside of the Company's Amended 2013 Plan. Vesting of such options accelerates upon a sale of the Company or change in control.

In April 2017, the Company issued an aggregate of 21,400,000 shares of restricted stock to the former CanX shareholders (see Note 8).

On April 17, 2017, a redemption notice of \$100,000 was received for the conversion of 404,313 shares of common stock issued under the Iliad Amendment #3.

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 three months ended March 31, 2017 and 2016, respectively, 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 segment is focused on developing and commercializing novel therapeutics utilizing synthetic Cannabidiol ("CBD"). Our consumer product segment is focused on manufacturing, marketing and selling plant-based CBD products to a range of market sectors. On June 8, 2016, the Company changed its trading symbol from "CANV" to "CVSI", and continues to be traded on the OTC: QB.

Our specialty pharmaceutical business segment is 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 either through the issuance of equity and/or the issuance of debt. Given the small size of our company and the development stage of our specialty 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 they will be available to us.

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 by us as EBITDA (net income (loss) minus interest 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. As such, we do not believe stock-based compensation expense is a key measure of our operating performance;
- because we do not believe changes in our derivative liabilities are a key measure of operating performance; and
- revenues and expenses associated with acquisitions, dispositions, equity issuances 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 (loss) 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 that company's definition of Adjusted EBITDA, strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and 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, 2017 and 2016 is detailed below:

	For the three months ended March 31,	
	2017	2016
Net loss	\$ (3,784,777)	\$ (1,533,117)
Interest income	–	(27,655)
Interest expense	130,954	355,349
Amortization of purchased intangible assets	8,850	214,350
Depreciation of property & equipment	47,525	49,025
EBITDA	(3,597,448)	(942,048)
EBITDA Adjustments:		
Stock-based compensation expense (1)	1,186,291	405,151
Gain on changes in derivative liabilities (2)	(210,600)	–
Royalty buy-out (3)	2,432,000	–
Total EBITDA Adjustments	3,407,691	405,151
Adjusted EBITDA	\$ (189,757)	\$ (536,897)

- (1) Represents stock-based compensation expense related to stock options and RSU's awarded to employees, consultants and non-executive directors based on the grant date fair value under the Black-Scholes valuation model (See Note 9 of the Company's condensed consolidated financial statements).
- (2) Represents the gain on changes in derivative liabilities associated with the Iliad Notes (See Note 7 of the Company's condensed consolidated financial statements).
- (3) Represents the share-based royalty buy-out associated with the CanX acquisition (See Note 8 of the Company's condensed consolidated financial statements).

As illustrated above, our \$347,140 improvement in our Adjusted EBITDA for the three months ended March 31, 2017 compared with the same period in 2016 is primarily due to decreases in our interest expense and amortization of purchased intangible assets combined with the increasing impact on our net loss due to our stock-based compensation expenses primarily attributable to our stock option grants and RSU awards (See Note 9 of the Company's condensed consolidated financial statements), and our share-based royalty buy-out expense (See Note 8 of the Company's condensed consolidated financial statements).

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 2016 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 2016 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.

Recent Accounting Pronouncements

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

Results of Operations

Three months ended March 31, 2017 and 2016

Revenues and gross profit - We had sales of \$3,764,191 and gross profit of \$2,433,003 representing a gross profit percentage of 64.6% for the three months ended March 31, 2017 compared to 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. The sales increase of \$1,341,513 for the three months ended March 31, 2017 compared with 2016 is primarily due to an increase in customer awareness and demand for our *PlusCBD*TM products, as we continue to expand and maintain our core customer base.

For the three months ended March 31, 2017 compared with 2016, our gross margin percentage decrease is primarily due to sales promotions we offered on certain *PlusCBD*TM products as we continue to adapt our products to our growing customer base.

Selling, general and administrative expenses - For the three months ended March 31, 2017 and 2016, we incurred selling, general and administrative (the “SG&A”) expenses in the amount of \$3,676,710 and \$2,689,245, respectively. SG&A expense includes non-cash expenses of \$1,186,291 and \$405,151 of stock-based compensation, \$47,525 and \$49,025 of depreciation expense, and \$8,850 and \$214,350 of amortization expense of intangible assets, for the three months ended March 31, 2017 and 2016, respectively. After adjusting for non-cash stock-based compensation, depreciation, and amortization of intangible assets for the three months ended March 31, 2017 and 2016, SG&A expenses increased by \$413,325 during the three months ended March 31, 2017 compared with the three months ended March 31, 2016. Part of this increase resulted from \$71,533 and \$0 of expense related to our specialty pharmaceutical segment during the three months ended March 31, 2017 and 2016, respectively, and increased headcount, commissions and marketing.

Research and development expenses - For the three months ended March 31, 2017 and 2016, the Company incurred research and development (“R&D”) expenses of \$188,716 and \$141,813, respectively. These expenses are related to our cost of process development, rental of our laboratory facility, payroll expenses, laboratory supplies, product development and testing, outsourced research personnel, and R&D expenses related to our specialty pharmaceutical segment. During the three months ended March 31, 2017, we incurred \$139,683 of R&D expenses related to our specialty pharmaceutical segment compared with \$0 in the three months ended March 31, 2016. After adjusting for the specialty pharmaceutical R&D expense, R&D costs related to our consumer products segment decreased by \$92,780. The decrease for the three months ended March 31, 2017 compared with 2016 relates primarily to the Company transitioning R&D activities into the development of its specialty pharmaceutical segment rather than the production of inventory products.

Gain on changes in derivative liabilities - Gain on changes in derivative liabilities of \$210,600 and \$0 during the three months ended March 31, 2017 and 2016, respectively relates to the change in the derivative liability from December 31, 2016 on the Iliad Note and the change in the derivative liability from inception for the Iliad Note 2 (See Note 7 of the Company’s condensed consolidated financial statements). The gain results primarily from the reduction in the expected term of the derivative liabilities.

Royalty buy-out - Royalty buy-out of \$2,432,000 and \$0 during the three months ended March 31, 2017 and 2016, respectively relates to the Company’s share-based royalty buy-out associated with the CanX acquisition (See Note 8 of the Company’s condensed consolidated financial statements).

Interest income/expense - Interest income was \$0 and \$27,655 for the three months ended March 31, 2017 and 2016, respectively, with the decrease primarily due to the elimination of interest income associated with our previously settled related party notes receivables during the year ended December 31, 2016.

Interest expense was \$130,954 and \$355,349 for the three months ended March 31, 2017 and 2016, respectively. When adjusting for the economic benefit of our non-cash embedded derivative liabilities and the impact of our non-cash amortizations of debt issuance discounts, we paid cash interest amounts of \$27,735 and \$259,934, for the three months ended March 31, 2017 and 2016, respectively. The decrease in cash payments during the interim period of 2017 when compared with the interim period of 2016 was due to the repayment of accrued interest amounts during the three months ended March 31, 2016, which did not occur during the three months ended March 31, 2017.

Liquidity and Capital Resources

A summary of our changes in cash flows for the three months ended March 31, 2017 and 2016 is provided below:

	<u>For the three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net cash flows provided by (used in):		
Operating activities	\$ 25,587	\$ (112,258)
Investing activities	—	—
Financing activities	697,438	129,937
Net increase in cash and restricted cash	<u>723,025</u>	<u>17,679</u>
Cash and restricted cash, beginning of period	1,057,468	518,462
Cash and restricted cash, end of period	<u>\$ 1,780,493</u>	<u>\$ 536,141</u>

Operating Activities

Net cash provided by or used in operating activities includes our net loss adjusted for non-cash expenses such as depreciation and amortization, bad debt expense, amortizations of debt issuance costs, gains or losses on our derivative liabilities, stock-based compensation and accrued interest expense. 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 provided by operating activities for the three months ended March 31, 2017 totaled \$25,587 compared with cash used in operating activities of \$112,258 for the three months ended March 31, 2016. Cash provided by the sale of inventory was \$687,767 for the three months ended March 31, 2017 compared with cash provided by the sale of inventory of \$321,293 for the three months ended March 31, 2016. Cash financed by accounts receivable was \$492,573 for the three months ended March 31, 2017 compared to \$2,133 in cash received by accounts receivable for the three months ended March 31, 2016. Cash provided by accounts payable and accrued expenses was \$158,262 for the three months ended March 31, 2017 compared to cash provided by accounts payable and accrued expenses of \$104,937 for the three months ended March 31, 2016. Cash used in the purchase of prepaid expenses was \$110,378 during the three months ended March 31, 2017 compared with cash used in the purchase of prepaid expenses of \$15,508 during the three months ended March 31, 2016. Amortization of debt issuance costs, derivative liability discounts and a beneficial conversion feature of convertible debt totaled \$62,975 for the three months ended March 31, 2017 compared with \$164,478 for the three months ended March 31, 2016. Stock-based compensation totaled an aggregate of \$1,186,291 for the three months ended March 31, 2017, compared with \$580,151 for the three months ended March 31, 2016. Depreciation and amortization totaled \$56,375 for the three months ended March 31, 2017 compared with \$263,375 for the three months ended March 31, 2016. Accrued interest payable was \$40,245, the royalty buy-out was \$2,432,000 and the gain on changes in derivative liabilities was \$210,600 for the three months ended March 31, 2017.

Investing Activities

The Company had \$0 provided by or used in investing activities for the three months ended March 31, 2017 and 2016, respectively.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2017 and 2016 totaled \$697,438 and \$129,937, respectively. Cash flows provided by financing activities for the three months ended March 31, 2017 consisted of \$750,000 in borrowing net proceeds from the issuance of secured convertible debt and \$52,562 of repayments on an unsecured note payable. 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 an unsecured note payable.

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, 2017 and 2016, the Company had net losses of \$3,784,777 and \$1,533,117, respectively. In addition, for the three months ended March 31, 2017, the Company had positive cash flows from operations of \$25,587 compared with negative cash flows from operations of \$112,258 for the three months ended March 31, 2016. 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 2017, 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 2017 crop and/or 2018 crop.

The Company's pharmaceutical business segment will require additional financing over the next 12 months through May 9, 2018. 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 and/or equity.

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. While we have contractual rights for the growth and processing of hemp oil for delivery through October 2018 under both contracts, we do not intend to purchase raw inventory from our supply chain arrangements from the 2017 crop and/or 2018 crop.

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 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, 2017. 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").

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, 2017, 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. Defendant Stuart Titus was served with the Summons & Complaint in the case and he has recently completed briefing his motion to dismiss, through separate counsel. No hearing date has been set by the Court at this time with respect to the motions to dismiss. 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.

On October 21, 2016, Dun Agro B.V. (“Dun Agro”) filed a complaint against the Company in the District Court of the North Netherlands, location Groningen, The Netherlands (the “District Court”), alleging non-performance under a contract, seeking compensatory damages of approximately 2,050,000 euros, excluding interest and costs. The plaintiff alleges that the Company was obligated to perform under that certain supply agreement between the Company and Dun Agro dated December 19, 2013, and to purchase 1,000,000 kilograms of harvested raw material related to the 2016 crop. The Company filed a reply to the complaint on March 29, 2017 which is now under review by the District Court. Management intends to vigorously defend the complaint allegations and an estimate of possible loss 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

The Company's Board of Directors has established the date of the Company's 2017 Annual Meeting of Stockholders (the "2017 Annual Meeting") as July 14, 2017 and May 24, 2017 as the record date for determining stockholders entitled to notice of, and to vote at, the 2017 Annual Meeting.

The 2017 Annual Meeting has changed by more than 30 days from the anniversary of the date of the Company's 2016 Annual Meeting of Stockholders (the "2016 Annual Meeting"), which was held on October 24, 2016. As a result, the deadline for any shareholder proposal or shareholder nomination under the rules of the Securities and Exchange Commission (the "SEC") listed in the Company's Proxy Statement on Schedule 14A, as filed with the SEC on September 13, 2016 (the "2016 Proxy Statement"), is no longer applicable. Stockholders of the Company who wish to have a proposal or nomination considered for inclusion in the Company's proxy materials for the 2017 Annual Meeting (including a proposal made pursuant to Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, and any notice on Schedule 14N), must ensure that such proposal or nomination is received by the Company's Secretary at CV Sciences, Inc., 2688 South Rainbow Boulevard, Suite B, Las Vegas, Nevada 89146, Attn: Secretary on or before the close of business on May 15, 2017, which the Company has determined to be a reasonable time before it expects to begin to print and send its proxy materials as the Company will be sending its proxy materials in accordance with the "notice and access" model pursuant to Rule 14a-16 under the Exchange Act. The May 15, 2017 deadline will also apply in determining whether notice of a stockholder proposal or nomination is timely for purposes of exercising discretionary voting authority with respect to proxies under Rule 14a-4(c) of the Exchange Act. Any such stockholder proposal or nomination must comply with applicable Delaware law, the rules and regulations promulgated by the Securities and Exchange Commission, and the Company's Bylaws, as amended, in order to be eligible for inclusion in the proxy materials for the 2017 Annual Meeting.

The Company had previously disclosed in the 2016 Proxy Statement that stockholders' proposals and nominations were required to be received by the Company no later than May 17, 2017 in connection with the 2017 Annual Meeting. The Company has not yet received any such proposals and/or nominations.

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 (4)	Certificate of Incorporation of the Company, as amended.
3.5 (5)	Amendment to the Bylaws of the Company, as amended.
3.6*	Bylaws of the Company, as amended.
4.1 (6)	CannaVEST Corp. Specimen Stock Certificate
10.1 (7)	Form of Securities Purchase Agreement, dated March 1, 2017, by and between the Company and Iliad Research and Trading, L.P.
10.2 (7)	Form of Secured Convertible Promissory Note, issued by the Company on March 1, 2017, to Iliad Research and Trading, L.P.
10.3 (7)	Security Agreement, dated March 1, 2017, by and between the Company and Iliad Research and Trading, L.P.
10.4*	Amendment No. 1 dated March 16, 2017, to the Agreement and Plan of Reorganization by and among the Company, CANNAVEST Merger Sub, Inc., CANNAVEST Acquisition LLC, CanX, Inc. and the Starwood Trust.
10.5*	Amendment dated March 16, 2017, to Employment Agreement by and between the Company and Michael Mona, Jr.
10.6*	Amendment dated March 16, 2017, to Employment Agreement by and between the Company and Michael Mona, III.
10.7*	Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Michael Mona, Jr.
10.8*	Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Joseph Dowling.
10.9*	Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Michael Mona, III.
10.10*	Non-Qualified Stock Option Agreement, dated March 16, 2017, by and between the Company and Michael Mona, Jr.
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 Quarterly Report on Form 10-Q filed on May 16, 2016.
- (5) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on March 22, 2017.
- (6) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on July 31, 2013.
- (7) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on March 7, 2017.

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 9, 2017

By /s/ Joseph D. Dowling
Joseph D. Dowling
Chief Financial Officer (Principal Financial Officer)
Dated May 9, 2017

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

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**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 five (5) and no more than seven (7). 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, as amended, comprising twenty-two (22) pages, were adopted as the Bylaws of the Corporation as of March 16, 2017 by unanimous written consent of the Board of Directors of the Corporation.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 16th day of March 2017.

/s/ Joseph Dowling
Joseph Dowling, Secretary

**AMENDMENT NO. 1
TO
AGREEMENT AND PLAN OF REORGANIZATION**

This Amendment No. 1 to Agreement and Plan of Reorganization (this “**Amendment**”) is entered into as of March 16, 2017 (the “**Effective Date**”), by and between (i) CV SCIENCES, INC., a Delaware corporation (the “**Company**”), (ii) CANNAVEST Acquisition LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (“**LLC**”), and (iii) The Starwood Trust, as the Shareholder Representative (the “**Shareholder Representative**”) (the Company, LLC and the Shareholder Representative are collectively referred to herein as, the “**Parties**”). Capitalized terms not defined herein shall have their respective meanings as set forth in the Agreement (defined below).

RECITALS

A. On December 30, 2015, the Parties entered into that certain Agreement and Plan of Reorganization (the “**Agreement**”), pursuant to which CanX, Inc., a Florida corporation (“**CanX**”), merged with and into LLC with LLC surviving such merger, and CanX ceased to exist and all property, rights, privileges, powers and franchises of CanX vested in LLC (the “**Merger**”).

B. Pursuant to Section 2.6 of the Agreement, the former shareholders of CanX are eligible to receive Contingent Consideration including 15,000,000 shares of the Company’s common stock upon achievement of certain milestones, as more particularly defined as the Milestone 2 Contingent Stock Consideration Condition Precedent, Milestone 3 Contingent Stock Consideration Condition Precedent and Milestone 4 Contingent Stock Consideration Condition Precedent (the “**Milestone Shares**”).

C. Pursuant to Sections 2.6(a)(xii) and (xiv) of the Agreement, the former shareholders of CanX are eligible to receive the Milestone 5A Contingent Payment Consideration and the Milestone 5B Contingent Payment Consideration upon the Company’s commercial release of the CBD Drug Products developed by the Company or any of its Affiliates (the “**Drug Release Milestones**”).

D. The Agreement provides a “Buyout Option” in favor of the Company which allows the Company to satisfy, and otherwise buyout, the Milestone 5A Contingent Payment Consideration and the Milestone 5B Contingent Payment Consideration (the “**Buyout Option**”).

E. The Parties desire to amend the Agreement, to (i) modify the Buyout Option, (ii) confirm and acknowledge the Company’s exercise of the Buyout Option, as amended, and (iii) accelerate the issuance of the Milestone Shares.

F. Pursuant to Section 9.3(b) of the Agreement, the Agreement may be amended by written agreement of the Company, LLC and the Shareholder Representative.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

1. **Milestone Shares.** Sections 2.6(a)(vi), (viii) and (x) of the Agreement shall be amended to provide that all conditions precedent to the issuance of the Milestone Shares, totaling 15,000,000 shares in the aggregate, have been waived by the Company and that the Milestone Shares shall be, as of the date of this Amendment, eligible for issuance to the former shareholders of CanX.

2. **Buyout Option.** Section 3 of Schedule 2.6(a)(xi) shall be amended to provide that the Buy-Out Option (as defined therein) may be exercised by the Company by the issuance of 6,400,000 shares of the Company’s restricted common stock to the former shareholders of CanX, and upon such issuance the Milestone 5A Contingent Payment Consideration and the Milestone 5B Contingent Payment Consideration shall be deemed paid in full. By its execution of this Amendment, the Company hereby provides its written notice to exercise the Buyout Option.

3. **Conflict.** If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

THE STARWOOD TRUST

By: /s/ Donnie O. Williams
Name: Donnie O. Williams
Its: Trustee

CV SCIENCES, INC.

By: /s/ Michael Mona, Jr.
Name: Michael Mona, Jr.
Its: Chief Executive Officer

CANNAVEST ACQUISITION LLC

By: CV SCIENCES, INC.
Its: Sole Member and Manager

By: /s/ Michael Mona, Jr.
Name: Michael Mona, Jr.
Title: Chief Executive Officer

**AMENDMENT
TO
EMPLOYMENT AGREEMENT**

This Amendment to Employment Agreement (this “Amendment”) is entered into by and between MICHAEL MONA, JR., an individual (“Executive”), and CV SCIENCES, INC., a Delaware corporation (the “Company”) as of March 16, 2017 (the “Effective Date”), with reference to the following facts:

RECITALS

- A. On July 6, 2016 Executive and the Company entered into that certain Employment Agreement (the “Agreement”), a copy of which is attached hereto and incorporated herein by this reference as Exhibit A;
- B. Each of the parties hereto desires to enter into this Amendment to amend the Agreement as set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Bonus Compensation.** A new subsection (c) of Section 2.2 is added to the Agreement, as follows:

“(c) **Additional Bonus Compensation.** Upon the closing of a Liquidity Event, the Company shall pay (or arrange for the payment) to Executive in cash the sum equal to four percent (4%) of the Gross Closing Proceeds (the “Liquidity Bonus”), subject to a cumulative cap of \$750 million for payment of the Liquidity Bonus and any liquidity bonus payable to Michael Mona, Jr..

(i) “Liquidity Event” shall mean and include (A) a licensing of the CBD Drug Product or any other intellectual property asset of the Company, or (B) (i) the direct or indirect sale or transfer, in a single transaction or a series of related transactions, by the stockholders of the Company of voting securities, in which the holders of the outstanding voting securities of the Company immediately prior to such transaction or series of transactions hold securities possessing less than twenty percent (20%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such transaction or series of related transactions, (ii) a merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation, (iii) a reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger, or (iv) the sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s). A “CBD Drug Product” means an FDA-approved drug utilizing Cannabidiol as the active pharmaceutical ingredient.

(ii) "Gross Closing Proceeds" shall mean shall mean and include all cash sums payable to the Company or its stockholders in connection with a Liquidity Event at the closing of a transaction constituting a Liquidity Event, and not including any deferred payments, earnouts, ongoing royalty payments or other contingent or deferred compensation.

(iii) If any payments to Executive in connection with a Liquidity Event would be subject to the excise tax under Sections 280G or 4999 of the Internal Revenue Code on excess parachute payments, the Company will "gross up" Executive's compensation to offset the excise tax, except that (a) if the aggregate parachute payments that would otherwise be made to Executive do not exceed 110% of the maximum amount of parachute payments that can be made without triggering the excise tax, the parachute payments will be reduced to the extent necessary to avoid the imposition of the excise tax and no "gross up" will be paid, and (b) if the aggregate parachute payments that would otherwise be made to Executive exceed 110% of the maximum amount of parachute payments that can be made without triggering the excise tax, the full amount of those parachute payments will be made, and Executive will individually bear fifty percent (50%) of the excise tax and the Company will "gross up" Executive's compensation to account for the remaining fifty percent (50%) of the excise tax.

As an example, if the amount that would be payable to Executive in connection with a Liquidity Event without triggering the excise tax is \$900,000, and the actual amount payable pursuant to this Agreement is \$975,000, then pursuant to subsection (a) above, the Company may reduce the payment by \$75,000 so that the payment made to Executive does not trigger the excise tax. The Company may take this action because the amount payable to Executive is less than 110% of the amount that may be paid without triggering the excise tax (which is \$990,000). If, on the other hand, the amount payable pursuant to this Agreement is \$1 million, then because such amount exceeds 110% of the maximum amount that could be paid without triggering the excise tax, the Company may not reduce the payment. In such event, and pursuant to subsection (b), above, Executive shall be responsible for the full amount of the excise tax but the Company shall "gross up" his compensation equal to fifty percent (50%) of the excise tax imposed upon Executive."

2. **Definition of "Cause"**. A final sentence of Section 4.3 shall be added as follows:

"Notwithstanding the foregoing, it is agreed that any termination of Executive's employment, or change in Executive's position with the Company in connection with the action by the Securities and Exchange Commission that is currently under review by the SEC shall not constitute Cause for any purposes under the Agreement, and shall be deemed a voluntary termination with Good Reason.

3. **Voluntary Termination by Executive Without Good Reason**. All references in the Agreement to Section 4.5, which contemplates Executive's voluntary termination without Good Reason, shall have the same effect as if Executive voluntarily terminated his employment or other engagement with the Company for Good Reason. As a matter of clarity, all references to the effect of Executive's compensation or other rights in the event of a voluntary termination without Good Reason shall have the same effect as if such termination were for Good Reason, as set forth in Section 4.6.

4. **Liquidity Bonus on Termination**. A new subsection 4.7(c) shall be added as follows:

"Subsequent to termination of Executive's employment with the Company for any reason other than for Cause (as defined herein), Executive shall be entitled to receive the Liquidity Bonus regardless of whether Executive continues to be engaged by the Company in any capacity at the time of the Liquidity Event."

5. **Conflict**. If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman, Compensation Committee

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

Exhibit A

EMPLOYMENT AGREEMENT

[see attached]

**AMENDMENT
TO
EMPLOYMENT AGREEMENT**

This Amendment to Employment Agreement (this “Amendment”) is entered into by and between MICHAEL MONA III, an individual (“Executive”), and CV SCIENCES, INC., a Delaware corporation (the “Company”) as of March 16, 2017 (the “Effective Date”), with reference to the following facts:

RECITALS

- A. On July 6, 2016 Executive and the Company entered into that certain Employment Agreement (the “Agreement”), a copy of which is attached hereto and incorporated herein by this reference as Exhibit A;
- B. Each of the parties hereto desires to enter into this Amendment to amend the Agreement as set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Bonus Compensation.** A new subsection (c) of Section 2.2 is added to the Agreement, as follows:

“(c) **Additional Bonus Compensation.** Upon the closing of a Liquidity Event, the Company shall pay (or arrange for the payment) to Executive in cash the sum equal to two percent (2%) of the Gross Closing Proceeds (the “Liquidity Bonus”), subject to a cumulative cap of \$750 million for payment of the Liquidity Bonus and any liquidity bonus payable to Michael Mona, III.

(i) “Liquidity Event” shall mean and include (A) a licensing of the CBD Drug Product or any other intellectual property asset of the Company, or (B) (i) the direct or indirect sale or transfer, in a single transaction or a series of related transactions, by the stockholders of the Company of voting securities, in which the holders of the outstanding voting securities of the Company immediately prior to such transaction or series of transactions hold securities possessing less than twenty percent (20%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such transaction or series of related transactions, (ii) a merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation, (iii) a reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger, or (iv) the sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s). A “CBD Drug Product” means an FDA-approved drug utilizing Cannabidiol as the active pharmaceutical ingredient.

(ii) "Gross Closing Proceeds" shall mean shall mean and include all cash sums payable to the Company or its stockholders in connection with a Liquidity Event at the closing of a transaction constituting a Liquidity Event, and not including any deferred payments, earnouts, ongoing royalty payments or other contingent or deferred compensation.

(iii) If any payments to Executive in connection with a Liquidity Event would be subject to the excise tax under Sections 280G or 4999 of the Internal Revenue Code on excess parachute payments, the Company will "gross up" Executive's compensation to offset the excise tax, except that (a) if the aggregate parachute payments that would otherwise be made to Executive do not exceed 110% of the maximum amount of parachute payments that can be made without triggering the excise tax, the parachute payments will be reduced to the extent necessary to avoid the imposition of the excise tax and no "gross up" will be paid, and (b) if the aggregate parachute payments that would otherwise be made to Executive exceed 110% of the maximum amount of parachute payments that can be made without triggering the excise tax, the full amount of those parachute payments will be made, and Executive will individually bear fifty percent (50%) of the excise tax and the Company will "gross up" Executive's compensation to account for the remaining fifty percent (50%) of the excise tax.

As an example, if the amount that would be payable to Executive in connection with a Liquidity Event without triggering the excise tax is \$900,000, and the actual amount payable pursuant to this Agreement is \$975,000, then pursuant to subsection (a) above, the Company may reduce the payment by \$75,000 so that the payment made to Executive does not trigger the excise tax. The Company may take this action because the amount payable to Executive is less than 110% of the amount that may be paid without triggering the excise tax (which is \$990,000). If, on the other hand, the amount payable pursuant to this Agreement is \$1 million, then because such amount exceeds 110% of the maximum amount that could be paid without triggering the excise tax, the Company may not reduce the payment. In such event, and pursuant to subsection (b), above, Executive shall be responsible for the full amount of the excise tax but the Company shall "gross up" his compensation equal to fifty percent (50%) of the excise tax imposed upon Executive."

2. **Liquidity Bonus on Termination**. A new subsection 4.7(c) shall be added as follows:

"Subsequent to termination of Executive's employment with the Company for any reason other than for Cause (as defined herein), Executive shall be entitled to receive the Liquidity Bonus regardless of whether Executive continues to be engaged by the Company in any capacity at the time of the Liquidity Event."

3. **Conflict**. If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman, Compensation Committee

/s/ Michael Mona III
Michael Mona III

Exhibit A

EMPLOYMENT AGREEMENT

[see attached]

**AMENDMENT
TO
STOCK OPTION AGREEMENT**

This Amendment to Stock Option Agreement (this "Amendment") is entered into by and between MICHAEL MONA, JR., an individual ("Executive"), and CV SCIENCES, INC., a Delaware corporation (the "Company") as of March 16, 2017 (the "Effective Date"), with reference to the following facts:

RECITALS

- A. On July 6, 2016 Executive and the Company entered into that certain Non-Qualified Stock Option Agreement (the "Agreement"), a copy of which is attached hereto and incorporated herein by this reference as Exhibit A;
- B. Each of the parties hereto desires to enter into this Amendment to amend the Agreement as set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Vesting Agreement.** Subparagraphs (a)(i) through (iii) are superseded and replaced as follows, as related to the Options not yet vested as of the Effective Date:

- (i) "Thirty-four percent (34%) when the Company has final meeting minutes from a pre-investigational new drug application ("IND") meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;
- (ii) Thirty-three percent (33%) when the Company is granted an IND; and
- (iii) Thirty-three percent (33%) when the Company commences its first human dosing under the IND."

2. **Vesting Acceleration.** Section 2(b) of the Agreement is amended and restated as follows:

"(b) Notwithstanding the foregoing, the right to exercise the Option shall accelerate automatically and vest in full (notwithstanding the provisions above) effective as of immediately upon Optionee's Involuntary Termination or prior to the consummation of the "Change in Control" (as defined below) unless this Option is to be assumed by the acquiring or successor entity (or parent thereof) or a new option or New Incentives (as defined below) are to be issued in exchange therefor, as provided in subsection (c) below."

3. **Definition of “Misconduct”**. A final sentence of Section 2(f) is added, as follows:

“It is agreed that any termination of Optionee’s employment, or change in Optionee’s position with the Company in connection with the current action by the Securities and Exchange Commission shall not constitute Misconduct for any purposes under the is Agreement, and shall be deemed an Involuntary Termination unless Optionee is found to have committed willful fraud as determined by a court of competent jurisdiction by final and non-appealable adjudication, in which case termination shall be deemed for Misconduct.”

4. **Termination of Employment or Services**. Section 8(a) of the Agreement is superseded and replaced, as follows:

“If the Optionee's employment is terminated for any reason other than Cause (as defined below), death or Disability (as defined below), then the Options shall immediately vest notwithstanding the termination of Optionee’s employment in accordance with paragraph 2(a), above. If the Company terminates the Optionee's employment or service for Cause, then the Optionee may at any time within ninety (90) days after the effective date of termination of employment or service exercise the vested portion of the Option to the extent that the Optionee was entitled to exercise the Option at the date of termination.”

A final sentence to Section 8(d) of the Agreement is added as follows:

“It is agreed that any termination of Optionee’s employment, or change in Optionee’s position with the Company in connection with the current action by the Securities and Exchange Commission shall not constitute Cause for any purposes under the is Agreement, and shall be deemed an Involuntary Termination unless Optionee is found to have committed willful fraud as determined by a court of competent jurisdiction by final and non-appealable adjudication, in which case termination shall be deemed for Misconduct.”

5. **Conflict**. If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman, Compensation Committee

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

Exhibit A

NON-QUALIFIED STOCK OPTION AGREEMENT

[see attached]

**AMENDMENT
TO
STOCK OPTION AGREEMENT**

This Amendment to Stock Option Agreement (this "Amendment") is entered into by and between JOSEPH DOWLING, an individual ("Executive"), and CV SCIENCES, INC., a Delaware corporation (the "Company") as of March 16, 2017 (the "Effective Date"), with reference to the following facts:

RECITALS

- A. On July 6, 2016 Executive and the Company entered into that certain Non-Qualified Stock Option Agreement (the "Agreement"), a copy of which is attached hereto and incorporated herein by this reference as Exhibit A;
- B. Each of the parties hereto desires to enter into this Amendment to amend the Agreement as set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Vesting Agreement.** Subparagraphs (a)(i) through (iii) are superseded and replaced as follows, as related to the Options not yet vested as of the Effective Date:

- (i) "Thirty-four percent (34%) when the Company has final meeting minutes from a pre-investigational new drug application ("IND") meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;
- (ii) Thirty-three percent (33%) when the Company is granted an IND; and
- (iii) Thirty-three percent (33%) when the Company commences its first human dosing under the IND."

2. **Conflict.** If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman, Compensation Committee

/s/ Joseph Dowling
Joseph Dowling

Exhibit A

NON-QUALIFIED STOCK OPTION AGREEMENT

[see attached]

**AMENDMENT
TO
STOCK OPTION AGREEMENT**

This Amendment to Stock Option Agreement (this “Amendment”) is entered into by and between MICHAEL MONA, III, an individual (“Executive”), and CV SCIENCES, INC., a Delaware corporation (the “Company”) as of March 16, 2017 (the “Effective Date”), with reference to the following facts:

RECITALS

- A. On July 6, 2016 Executive and the Company entered into that certain Non-Qualified Stock Option Agreement (the “Agreement”), a copy of which is attached hereto and incorporated herein by this reference as Exhibit A;
- B. Each of the parties hereto desires to enter into this Amendment to amend the Agreement as set forth herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Vesting Agreement.** Subparagraphs (a)(i) through (iii) are superseded and replaced as follows, as related to the Options not yet vested as of the Effective Date:

- (i) “Thirty-four percent (34%) when the Company has final meeting minutes from a pre-investigational new drug application (“IND”) meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;
- (ii) Thirty-three percent (33%) when the Company is granted an IND; and
- (iii) Thirty-three percent (33%) when the Company commences its first human dosing under the IND.”

2. **Conflict.** If there is a conflict between the terms and conditions of this Amendment and the terms and conditions of the Agreement, the terms and conditions of this Amendment shall control. Except as modified by this Amendment, the terms and conditions of the Agreement shall remain in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman, Compensation Committee

/s/ Michael Mona, III
Michael Mona, III

Exhibit A

NON-QUALIFIED STOCK OPTION AGREEMENT

[see attached]

CV SCIENCES, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

This NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into as of March 15, 2017, by and between CV Sciences, Inc., a Delaware corporation (the "Company") and Michael Mona, Jr. ("Optionee").

RECITALS

A. The Company granted options to Optionee pursuant to the resolutions of the Board of Directors dated March 15, 2017 ("Grant Date") to provide an incentive to Optionee to focus on the long-term growth of the Company.

B. The parties wish to memorialize the grant and in consideration of the mutual covenants hereinafter set forth, and for other good and valuable consideration, the parties agree as follows:

AGREEMENT

1. Grant of Option. The Company hereby grants to Optionee the right and option (the "Option") to purchase an aggregate of 5,000,000 shares of the common stock of the Company (the "Stock") (such number being subject to adjustment as set forth herein) on the terms and conditions herein set forth. This Option may be exercised in whole or in part and from time to time as hereinafter provided. The Option granted under this Agreement is not intended to be an "incentive stock option" as set forth in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Vesting of Option.

(a) Subject to the provisions set forth in this Agreement, the Option shall vest and become exercisable in accordance with the following schedule:

- (i) 1,250,000 when the Company has final meeting minutes from a pre-investigational new drug application ("IND") meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;
- (ii) 1,250,000 when the Company is granted an IND; and
- (iii) 2,500,000 when the Company commences its first human dosing under the IND.

Notwithstanding the foregoing, vesting shall accelerate upon a Disposition Event as defined under the Agreement and Plan of Reorganization dated December 30, 2015 by and among CannaVest Corp., CannaVest Merger Sub, Inc. CannaVest Acquisition LLC, CanX, Inc. and The Starwood Trust, as Shareholder Representative.

(b) Notwithstanding the foregoing, the right to exercise the Option shall accelerate automatically and vest in full (notwithstanding the provisions above) effective as of immediately upon Optionee's Involuntary Termination or prior to the consummation of the "Change in Control" (as defined below) unless this Option is to be assumed by the acquiring or successor entity (or parent thereof) or a new option or New Incentives (as defined below) are to be issued in exchange therefor, as provided in subsection (c) below.

(c) The vesting of the Option shall not accelerate if and to the extent that: (i) the Option (including the unvested portion thereof) is to be assumed by the acquiring or successor entity (or parent thereof) or a new option of comparable value is to be issued in exchange therefor pursuant to the terms of the Change in Control transaction, or (ii) the Option (including the unvested portion thereof) is to be replaced by the acquiring or successor entity (or parent thereof) with other incentives of comparable value under a new incentive program (“New Incentives”) containing such terms and provisions as the Company’s Board of Directors in its discretion may consider equitable. If the Option is assumed, or if a new option of comparable value is issued in exchange therefor, then the Option or the new option shall be appropriately adjusted, concurrently with the Change in Control, to apply to the number and class of securities or other property that the Optionee would have received pursuant to the Change in Control transaction in exchange for the shares issuable upon exercise of the Option had the Option been exercised immediately prior to the Change in Control, and appropriate adjustment also shall be made to the Purchase Price such that the aggregate Purchase Price of this Option or the new option shall remain the same as nearly as practicable.

(d) If the provisions of subsection (c) above apply, then the Option, the new option or the New Incentives shall continue to vest as provided above for the remainder of the term of the Option in accordance with the terms hereof. However, in the event of an Involuntary Termination (as defined below) of Optionee’s service with the Company or the acquiring or successor entity (or parent thereof) within twelve (12) months following such Change in Control, then vesting of this Option, the new option or the New Incentives shall accelerate in full automatically effective upon such Involuntary Termination.

(e) “Involuntary Termination” shall mean a termination of service by reason of: (i) Optionee’s involuntary dismissal or discharge by the Company, or by the acquiring or successor entity (or parent or any subsidiary thereof employing the Optionee) for reasons other than Misconduct (as defined below), or (ii) Optionee’s voluntary resignation following (x) a reduction in Optionee’s compensation by more than ten percent (10%), or (y) a relocation of Optionee’s principal place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected without Optionee’s written consent.

(f) “Misconduct” shall mean (i) the commission of any act of fraud, embezzlement or dishonesty by Optionee which affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (ii) any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iii) the refusal or omission by the Optionee to perform any duties required of him if such duties are consistent with duties customary for the position held with the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iv) any act or omission by the Optionee involving malfeasance or gross negligence in the performance of Optionee’s duties to, or material deviation from any of the policies or directives of, the Company or the acquiring or successor entity (or parent or any subsidiary thereof), (v) conduct on the part of Optionee which constitutes the breach of any statutory or common law duty of loyalty to the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or (vi) any illegal act by Optionee which materially and adversely affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or any felony committed by Optionee, as evidenced by conviction thereof. The provisions of this paragraph shall not limit the grounds for the dismissal or discharge of Optionee or any other individual in the service of the Company, the acquiring or successor entity (or parent or any subsidiary thereof). It is agreed that any termination of Optionee’s employment, or change in Optionee’s position with the Company in connection with the current action by the Securities and Exchange Commission shall not constitute Misconduct for any purposes under the is Agreement, and shall be deemed an Involuntary Termination unless Optionee is found to have committed willful fraud as determined by a court of competent jurisdiction by final and non-appealable adjudication, in which case termination shall be deemed for Misconduct.

(g) "Change in Control" shall mean:

(i) The direct or indirect sale or transfer, in a single transaction or a series of related transactions, by the stockholders of the Company of voting securities, in which the holders of the outstanding voting securities of the Company immediately prior to such transaction or series of transactions hold, as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than twenty percent (20%) of the total combined voting power all outstanding voting securities of the Company or of the acquiring entity immediately after such transaction or series of related transactions;

(ii) A merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation;

(iii) A reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger; or

(iv) The sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s).

3. Purchase Price. The price at which Optionee shall be entitled to purchase the Stock covered by the Option shall be \$0.38 per share, which is the closing price of the Company's common stock on the Over The Counter Bulletin Board on March 15, 2017. the Board has determined to be the Fair Market Value (as defined herein) as of the Grant Date, which is the "Fair Market Value in accordance with the requirements set forth in Treasury Regulation Section 1.409A-1(b)(5)(iv)(B) or any successor provision thereof.

4. Term of Option. The Option granted under this Agreement shall expire, unless otherwise exercised, ten (10) years from the Grant Date ("Expiration Date"), subject to earlier termination as provided in paragraph 8 hereof.

5. Exercise of Option. The Option may be exercised by Optionee as to all or any part of the Stock then vested by delivery to the Company of written notice of exercise in the form attached hereto as Exhibit A ("Exercise Notice") and payment of the purchase price as provided in paragraphs 6 and 7 hereof.

6. Method of Exercising Option. Subject to the terms and conditions of this Agreement, the Option may be exercised by timely delivery of written notice to the Company or such other person as the Board shall designate, which notice shall be effective on the date received by the Company or such other person ("Effective Date"). The notice shall state Optionee's election to exercise the Option, the number of shares in respect of which an election to exercise has been made, the method of payment elected (see paragraph 7 hereof), the exact name or names in which the shares will be registered and the Social Security number of Optionee. Such notice shall be signed by Optionee and shall be accompanied by payment of the purchase price of such shares. In the event the Option shall be exercised by a person or persons other than Optionee pursuant to paragraph 8 and 14 hereof, such notice shall be signed by such other person or persons and shall be accompanied by proof acceptable to the Company of the legal right of such person or persons to exercise the Option. All shares delivered by the Company upon exercise of the Option shall be fully paid and nonassessable upon delivery. In the event the Stock purchasable pursuant to the exercise of the Option has not been registered under the Securities Act of 1933, as amended, at the time the Option is exercised, the Optionee shall, if requested by the Company, concurrently with the exercise of all or any portion of the Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as Exhibit B.

7. Method of Payment for Options. Payment for shares purchased upon the exercise of the Option shall be made by Optionee in cash, previously-acquired Stock held for more than six (6) months, promissory note net issuance, property (including broker-assisted arrangements) or other forms of payment permitted by the Board and communicated to Optionee in writing prior to the date Optionee exercises all or any portion of the Option.

8. Termination of Employment or Service.

(a) General. If the Optionee's employment is terminated for any reason other than Cause (as defined below), death or Disability (defined below), then the Options shall immediately vest notwithstanding the termination of Optionee's employment in accordance with paragraph 2(a), above. If the Company terminates the Optionee's employment or service for Cause, then the Optionee may at any time within ninety (90) days after the effective date of termination of employment or service exercise the vested portion of the Option to the extent that the Optionee was entitled to exercise the Option at the date of termination.

(b) Death or Disability of Optionee. In the event of the death or Disability of Optionee within a period during which the Option, or any part thereof, could have been exercised by Optionee, including ninety (90) days after termination of employment or service (the "Option Period"), the Option shall, as of the date of death or Disability, immediately vest and become exercisable by Optionee or his estate at any time within 90 days after Optionee's death or Disability.

(c) Definition of Disability. "Disability" or "Disabled" shall mean a physical or mental condition, verified by a physician designated by the Company, which prevents Optionee from carrying out one or more of the material aspects of his assigned duties for at least ninety (90) consecutive days, or for a total of ninety (90) days in any six (6) month period.

(d) Definition of Cause. "Cause" shall mean:

(i) Optionee shall have committed an act of fraud, embezzlement or theft with respect to the property or business of the Company, in any such event in such a manner as to cause material loss, damage or injury to the Company;

(ii) Optionee shall have materially breached his Employment Agreement as determined by the Board and such breach shall have continued for a period of twenty (20) days after receipt of written notice from the Board specifying such breach;

(iii) Optionee shall have been grossly negligent in the performance of his duties hereunder, intentionally not performed or mis-performed any of such duties, or refused to abide by or comply with the reasonable and lawful directives of the Board, in each case as reasonably determined by the Board, which action shall have continued for a period of twenty (20) days after receipt of written notice from the Board demanding such action cease or be cured; or

(iv) Optionee shall have been found guilty of, or has plead *nolo contendere* to, the commission of a felony offense or other crime involving moral turpitude.

It is agreed that any termination of Optionee's employment, or change in Optionee's position with the Company in connection with the current action by the Securities and Exchange Commission shall not constitute Cause for any purposes under the is Agreement, and shall be deemed an Involuntary Termination unless Optionee is found to have committed willful fraud as determined by a court of competent jurisdiction by final and non-appealable adjudication, in which case termination shall be deemed for Misconduct.

9. Nontransferability. The Option granted by this Agreement shall be exercisable only during the term of the Option provided in paragraph 4 hereof and, except as provided in paragraph 8 and 13, only by Optionee during his lifetime and while in the employment or service of the Company. Except set forth in paragraph 8 and as otherwise provided by the Board, this Option shall not be transferable by Optionee or any other person claiming through Optionee, either voluntarily or involuntarily, except by will or the laws of descent and distribution or such other circumstances as the Board deems acceptable.

10. Adjustments in Number of Shares and Option Price. In the event of a stock dividend or in the event the stock shall be changed into or exchanged for a different number or class of shares of stock of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, the Board has the authority to substitute for each such remaining share of stock then subject to this Option the number and class of shares of stock into which each outstanding share of stock shall be so exchanged, all without any change in the aggregate purchase price for the shares then subject to the Option. Any substitution made pursuant to this paragraph shall be made in such a manner that is consistent with the requirements of Section 409A of the Internal Revenue Code.

11. Delivery of Shares. No shares shall be delivered upon exercise of the Option until (i) the purchase price shall have been paid in full in the manner herein provided (unless a net issuance strategy is implemented); (ii) applicable taxes required to be withheld have been paid or withheld in full; and (iii) approval of any governmental authority required in connection with the Option, or the issuance of shares thereunder, has been received by the Company.

12. Administration. The Board shall have the sole and complete discretion with respect to all matters reserved to it by this Agreement, and decisions of the Board with respect to this Agreement shall be final and binding upon Optionee and the Company. Notwithstanding any other provision of this Agreement, the Board shall administer this Agreement, and exercise all authority and discretion under this Agreement, to satisfy the requirement of Internal Revenue Code Section 409A or any exemption thereto.

13. Stock Certificates. All stock certificates delivered pursuant to this Agreement are subject to any stop-transfer orders and other restrictions as the Board deems necessary or advisable to comply with federal or state securities laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the stock is listed, quoted, or traded. The Board may place legends on any stock certificate to reference restrictions applicable to the stock.

14. Continuation of Employment or Service. THE OPTIONEE ACKNOWLEDGES AND AGREES THAT, EXCEPT AS SET FORTH HEREIN, THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF OPTIONEE'S CONTINUOUS SERVICE OR EMPLOYMENT, AS APPLICABLE, (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT SHALL CONFER UPON THE OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF OPTIONEE'S CONTINUOUS SERVICE OR EMPLOYMENT, NOR SHALL IT INTERFERE IN ANY WAY WITH THE OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S CONTINUOUS SERVICE OR EMPLOYMENT, WITH OR WITHOUT CAUSE.

15. Obligation to Exercise. Optionee shall have no obligation to exercise any option granted by this Agreement.

16. Governing Law. This Agreement shall be interpreted and administered under the laws of the State of Delaware.

17. Amendments. This Agreement may be amended only by a written agreement executed by the Company and Optionee. In addition, except as otherwise provided in paragraph 10, the terms of this Agreement may not be amended to reduce the exercise price of the Option or to cancel the Option in exchange for cash, other Options with an exercise price that is less than the exercise price of the original Option without stockholder approval.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its duly authorized representative and Optionee has signed this Agreement as of the date first written above.

CV SCIENCES, INC.

By: /s/ James McNulty
Name: James McNulty
Its: Chairman of Compensation Committee

ACCEPTED AND AGREED TO:

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

EXHIBIT A

CV SCIENCES, INC.

EXERCISE NOTICE

CV Sciences, Inc.
2688 South Rainbow Boulevard, Suite B
Las Vegas, Nevada 89146
Attention: Secretary

Effective as of today, _____, ___ the undersigned (the "Optionee") hereby elects to exercise the Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of CV Sciences, Inc. (the "Company") under and pursuant to the Non-Qualified Stock Option Award Agreement (the "Option Agreement") dated March 15, 2017.

Representations of the Optionee. The Optionee acknowledges that the Optionee has received, read and understood the Option Agreement and agrees to abide by and be bound by their terms and conditions.

Rights as Stockholder. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Option Agreement.

Delivery of Payment. The Optionee herewith delivers to the Company the full Exercise Price for the Shares in the form(s) provided for in the Option Agreement, or, if approved, the Shares shall be delivered pursuant to a net issuance.

Tax Consultation. The Optionee understands that the Optionee may suffer adverse tax consequences as a result of the Optionee's purchase or disposition of the Shares. The Optionee represents that the Optionee has consulted with any tax consultants the Optionee deems advisable in connection with the purchase or disposition of the Shares and that the Optionee is not relying on the Company for any tax advice.

Taxes. The Optionee agrees to satisfy all applicable foreign, federal, state and local income and employment tax withholding obligations and herewith delivers to the Company the full amount of such obligations or has made arrangements acceptable to the Company to satisfy such obligations.

Restrictive Legends. The Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon the Optionee and his or her heirs, executors, administrators, successors and assigns.

Headings. The captions used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this agreement for construction or interpretation.

Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by the Optionee or by the Company forthwith to the Board, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board shall be final and binding on all persons.

Governing Law; Severability. This Exercise Notice is to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of this Exercise Notice be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this agreement.

Entire Agreement. The Option Agreement is incorporated herein by reference and together with this Exercise Notice constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee.

SUBMITTED BY:

Michael Mona, Jr.

Address:

ACCEPTED BY:

CV SCIENCES, INC.

By: _____
Name: _____
Its: _____

Address:

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

EXHIBIT B

CV SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE: Michael Mona, Jr.
COMPANY: CV Sciences, Inc.
SECURITY: Common Stock
AMOUNT: 5,000,000
Date: March 15, 2017

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon among other things, the bona fide nature of Optionee's investment intent as expressed herein. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel satisfactory to the Company.

Optionee further understands that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Optionee represents that he is a resident of the state of _____.

OPTIONEE:

Name (print): Michael Mona, Jr.

Date: March 15, 2017

**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 9, 2017

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 9, 2017

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, 2017 (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 9, 2017

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, 2017 (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 9, 2017

By: /s/ Joseph D. Dowling

Joseph D. Dowling
Chief Financial Officer (Principal Financial Officer)