

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 September 30, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth 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 November 7, 2017, the issuer had 90,512,565 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 SEPTEMBER 30, 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 OTCQB; 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**

	<b>(Unaudited) September 30, 2017</b>	<b>(Audited) December 31, 2016</b>
<b>Assets</b>		
Current assets		
Cash (Note 2)	\$ 1,572,125	\$ 781,857
Restricted cash (Note 2)	750,185	275,611
Accounts receivable, net (Note 2)	1,124,236	360,475
Inventory (Note 3)	3,364,266	2,851,772
Prepaid expenses and other current assets	1,324,962	551,395
<b>Total current assets</b>	<b>8,135,774</b>	<b>4,821,110</b>
Accounts receivable (Note 2)	–	389,723
Inventory, net (Note 3)	5,110,004	6,478,727
Other asset	400,000	–
Property & equipment, net (Note 2)	131,368	242,702
Intangibles, net (Note 5)	3,845,050	3,871,600
Goodwill (Note 2)	2,788,300	2,788,300
<b>Total other assets</b>	<b>12,274,722</b>	<b>13,771,052</b>
<b>Total assets</b>	<b>\$ 20,410,496</b>	<b>\$ 18,592,162</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 1,053,794	\$ 523,581
Accrued expenses (Note 4)	583,622	378,218
Secured convertible promissory notes payable, net (Note 7)	1,138,691	1,897,976
Unsecured note payable (Note 7)	–	125,964
Unsecured note payable, net (Note 7)	797,437	–
Derivative liabilities (Note 7)	3,225	222,800
<b>Total current liabilities</b>	<b>3,576,769</b>	<b>3,148,539</b>
Non-current liabilities		
Unsecured note payable, net (Note 7)	–	679,174
Deferred tax liability	1,556,300	1,556,300
<b>Total liabilities</b>	<b>5,133,069</b>	<b>5,384,013</b>
Commitments and contingencies (Note 10)		
<b>Stockholders' equity (Notes 8 and 9)</b>		
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; 89,418,427 and 57,617,545 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	8,942	5,762
Additional paid-in capital	50,766,220	43,333,176
Accumulated deficit	(35,497,735)	(30,130,789)
<b>Total stockholders' equity</b>	<b>15,277,427</b>	<b>13,208,149</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 20,410,496</b>	<b>\$ 18,592,162</b>

See accompanying notes to the condensed consolidated financial statements.

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

	<u>For the three months ended</u> <u>September 30,</u>		<u>For the nine months ended</u> <u>September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Product sales, net	\$ 5,591,210	\$ 2,939,997	\$ 13,437,233	\$ 7,850,430
Cost of goods sold	<u>1,593,561</u>	<u>1,051,048</u>	<u>4,162,122</u>	<u>2,671,519</u>
<b>Gross Profit</b>	<b>3,997,649</b>	<b>1,888,949</b>	<b>9,275,111</b>	<b>5,178,911</b>
<b>Operating Expenses:</b>				
Selling, general and administrative	(4,311,078)	(3,072,441)	(11,513,560)	(9,147,411)
Research and development	<u>(179,338)</u>	<u>(396,238)</u>	<u>(573,701)</u>	<u>(879,598)</u>
	<u>(4,490,416)</u>	<u>(3,468,679)</u>	<u>(12,087,261)</u>	<u>(10,027,009)</u>
Gain on changes in derivative liabilities	10,987	–	248,875	–
Royalty buy-out	<u>–</u>	<u>–</u>	<u>(2,432,000)</u>	<u>–</u>
	<u>(4,479,429)</u>	<u>(3,468,679)</u>	<u>(14,270,386)</u>	<u>(10,027,009)</u>
<b>Operating Loss</b>	<b>(481,780)</b>	<b>(1,579,730)</b>	<b>(4,995,275)</b>	<b>(4,848,098)</b>
<b>Other (expense) income:</b>				
Interest income	–	–	7	27,658
Interest expense	<u>(108,203)</u>	<u>(321,006)</u>	<u>(371,678)</u>	<u>(840,315)</u>
<b>Total Other (Expense) Income</b>	<b><u>(108,203)</u></b>	<b><u>(321,006)</u></b>	<b><u>(371,671)</u></b>	<b><u>(812,657)</u></b>
Loss before provision for income taxes	(589,983)	(1,900,736)	(5,366,946)	(5,660,755)
Provision for income taxes	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net Loss</b>	<b><u>\$ (589,983)</u></b>	<b><u>\$ (1,900,736)</u></b>	<b><u>\$ (5,366,946)</u></b>	<b><u>\$ (5,660,755)</u></b>
<b>Weighted average common shares outstanding</b>				
Basic & diluted	88,114,604	52,218,272	77,126,737	51,362,444
<b>Net loss per common share</b>				
Basic & diluted	\$ (0.01)	\$ (0.04)	\$ (0.07)	\$ (0.11)

**See accompanying notes to the condensed consolidated financial statements.**

**CV SCIENCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the nine months ended September 30, 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)	7,502,829	750	1,654,250	-	1,655,000
Stock redemptions (Notes 7 and 8)	398,053	40	74,960	-	75,000
Shares issued to settle restricted stocks units	2,000,000	200	(200)	-	-
Shares issued pursuant to CanX Acquisition	15,000,000	1,500	(1,500)	-	-
Shares issued pursuant to CanX Royalty Buyout	6,400,000	640	2,431,360	-	2,432,000
Shares issued in exchange for professional services	500,000	50	201,950	-	202,000
Stock-based compensation (Note 9)	-	-	3,072,224	-	3,072,224
Net loss	-	-	-	(5,366,946)	(5,366,946)
Balance - September 30, 2017	<u>89,418,427</u>	<u>\$ 8,942</u>	<u>\$50,766,220</u>	<u>\$ (35,497,735)</u>	<u>\$15,277,427</u>

See accompanying notes to the condensed consolidated financial statements

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

	For the nine months ended September 30,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (5,366,946)	\$ (5,660,755)
Adjustments to reconcile net loss to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	144,294	789,742
Amortization of debt issuance costs	163,599	231,131
Amortization of beneficial conversion feature of convertible debts	26,076	300,973
Common stock issued in exchange for professional services	–	541,126
Stock-based compensation	3,072,224	1,357,684
Royalty buy-out	2,432,000	–
Bad debt expense	400,435	59,143
Accrued interest payable	103,603	73,779
Gain on changes in derivative liabilities	(248,875)	–
Change in operating assets and liabilities:		
Accounts receivable	(774,473)	67,796
Inventory	856,229	995,944
Prepaid expenses and other assets	(971,567)	(45,713)
Accounts payable and accrued expenses	810,617	(140,127)
Net cash provided by (used in) operating activities	<u>647,216</u>	<u>(1,429,277)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	<u>(6,410)</u>	<u>(17,207)</u>
<b>FINANCING ACTIVITIES</b>		
Borrowings from secured convertible debt, net of costs	–	801,430
Borrowing from issuance of unsecured note payable, net of costs	750,000	1,975,000
Payment of contingent consideration	–	(250,000)
Repayment of convertible debt	–	(612,000)
Repayment of unsecured notes payable	(125,964)	(138,975)
Net cash flows provided by financing activities	<u>624,036</u>	<u>1,775,455</u>
Net increase in cash and restricted cash	1,264,842	328,971
Cash and restricted cash, beginning of period	1,057,468	518,462
Cash and restricted cash, end of period	<u>\$ 2,322,310</u>	<u>\$ 847,433</u>
<b>Supplemental disclosures of non-cash transactions:</b>		
Conversion of convertible promissory notes and accrued interest to common stock	\$ 1,655,000	\$ 408,000
Value of warrants issued with unsecured promissory note	–	266,800
Inventory returned in satisfaction of note receivable	–	68,112
Value of embedded derivative at inception	29,300	370,000
Equity consideration for royalty buyout	1,500	–
Stock redemptions	75,000	–
Issuance of common stock to settle restricted stock units	200	–
Shares issued in exchange for purchase of inventory	202,000	–
<b>Supplemental cash flow disclosures:</b>		
Interest paid	\$ 78,397	\$ 311,359
Taxes paid	39,584	21,583

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 products 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 with the Secretary of State of Nevada for its wholly-owned subsidiaries US Hemp Oil, LLC and CannaVEST Laboratories, LLC, 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 interim period ended September 30, 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 September 30, 2017 and 2016, the Company had net losses of \$589,983 and \$1,900,736, respectively. For the nine months ended September 30, 2017 and 2016, the Company had net losses of \$5,366,946 and \$5,660,755, respectively. In addition, for the nine months ended September 30, 2017, the Company had cash flows provided by operations of \$647,216 compared with cash flows used in operations of \$1,429,277 for the nine months ended September 30, 2016. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations through at least November 7, 2018, 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 November 7, 2018. In addition, we do not intend to purchase raw inventory from our supply chain arrangements from the 2017 crop and/or 2018 crop. Management also believes that it will be able to obtain financing as needed 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 as needed, the Company will 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 is measured. The impairment loss would be calculated by comparing the fair value of a reporting unit’s goodwill to its carrying amount. In calculating the 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 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 and nine months ended September 30, 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. As of September 30, 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 September 30, 2017, the Company had \$750,185 in restricted cash held in reserve 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>September 30, 2017</u>	<u>December 31, 2016</u>
Cash	\$ 1,572,125	\$ 781,857
Restricted cash	750,185	275,611
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 2,322,310</u>	<u>\$ 1,057,468</u>

**Concentrations of Credit Risk** – As of September 30, 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 \$1,038,331 as of September 30, 2017.

One customer represented 28% and 58% of our accounts receivable balance as of September 30, 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 September 30, 2017, and December 31, 2016, respectively, the Company maintained an allowance for doubtful accounts receivable in the amount of \$500,000 and \$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 \$265,685 and \$115,990 for the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 totaled \$589,687 and \$313,498, respectively. Shipping and handling costs 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 September 30, 2017 or December 31, 2016 due to insignificant return amounts experienced during the nine months ended September 30, 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, recorded 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. 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 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 September 30, 2017, the Company had \$703,882 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 recorded to other income (expense).

Property and equipment, net, as of September 30, 2017 and December 31, 2016 were as follows:

	<u>Useful Lives</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Office furniture and equipment	3 years	\$ 346,682	\$ 340,472
Laboratory and other equipment	5 years	321,071	321,071
Tenant improvements	14 to 39 months	70,792	70,592
		<u>738,545</u>	<u>732,135</u>
Less: accumulated depreciation		(607,177)	(489,433)
		<u>\$ 131,368</u>	<u>\$ 242,702</u>

Depreciation expense for the three months ended September 30, 2017 and 2016 was \$30,897 and \$48,977, respectively, and for the nine months ended September 30, 2017 and 2016 was \$117,744 and \$146,692, 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 17,668,000 stock options and restricted stock units (“RSU’s”) outstanding that were anti-dilutive as of September 30, 2017. In addition, the Company may be required to issue 10,750,000 shares of common stock related to certain performance-based stock options outstanding. As of September 30, 2017, the Company may also be required to issue 3,000,000 shares of restricted stock units for performance- based consulting services. As of September 30, 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 \$76,520 and \$292,738 for the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 was \$181,509 and \$658,817, respectively. Research and development expense for the specialty pharmaceutical segment was \$102,818 and \$103,500 for the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 was \$392,192 and \$220,781, 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 \$152,687 and \$62,912 were expensed as incurred during the three months ended September 30, 2017 and 2016, respectively, and for the nine months ended September 30, 2017 and 2016 were \$261,442 and \$210,877, 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 September 30, 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.

#### **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 to early adopt 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.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. ASU 2017-09 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 2017-09 on the Company’s consolidated financial statements, but does not expect it to have a significant impact.

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 September 30, 2017 and December 31, 2016 was comprised of the following:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 6,641,917	\$ 7,699,057
Finished goods	1,832,353	1,631,442
	<u>\$ 8,474,270</u>	<u>\$ 9,330,499</u>

### 4. ACCRUED EXPENSES

Accrued expenses as of September 30, 2017 and December 31, 2016 were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Accrued payroll expenses	\$ 351,000	\$ 208,126
Other accrued liabilities	232,622	170,092
	<u>\$ 583,622</u>	<u>\$ 378,218</u>

### 5. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following at September 30, 2017 and December 31, 2016:

	<u>Original Fair Market Value</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Useful Life (Years)</u>
Balance - September 30, 2017				
In-process research and development	\$ 3,730,000	\$ –	\$ 3,730,000	–
Trade names	100,000	35,000	65,000	5
Non-compete agreements	77,000	26,950	50,050	5
	<u>\$ 3,907,000</u>	<u>\$ 61,950</u>	<u>\$ 3,845,050</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 September 30, 2017 and 2016 totaled \$8,850 and \$214,350, respectively, and for the nine months ended September 30, 2017 and 2016 totaled \$26,550 and \$643,050, respectively.

## 6. RELATED PARTIES

During the three months ended September 30, 2017 and 2016, the Company paid \$0 and \$149,531, respectively, to a stockholder of the Company who is a supplier of hemp oil and hemp to the Company. During the nine months ended September 30, 2017 and 2016, the Company paid the same stockholder \$9,060 and \$252,509, respectively.

During the three months ended September 30, 2017 and 2016, the Company paid \$5,250 and \$0, respectively, to a company partially owned by a Company director that provides quality control and quality assurance consulting to the Company. During the nine months ended September 30, 2017 and 2016, the Company paid the same company \$15,750 and \$0, respectively.

## 7. NOTES PAYABLE

The Company's outstanding borrowings under secured convertible promissory notes payable as of September 30, 2017 and December 31, 2016 were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Iliad Note (defined below)	\$ 344,596	\$ 1,897,976
Iliad Note 2 (defined below)	794,095	-
	<u>\$ 1,138,691</u>	<u>\$ 1,897,976</u>

### *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 (13) 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 ("DWAC") 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) ten percent (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 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.

In August 2017, the Company entered into Amendment #4 to the Iliad Note (the "Iliad Amendment 4"), whereby the Lender and the Company agreed to extend the Maturity Date of the Iliad Note to April 1, 2018. In addition, the parties agreed to amend the Volume Limitation in the Iliad Note, with respect to any Conversion Shares, such that in any given calendar week the Lender's Net Sales of such Conversion Shares shall not exceed the greater of (a) fifteen percent (15%) 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 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 4, Net Sales is defined as the gross proceeds from sales of the Conversion Shares sold in a calendar week minus any trading commissions or costs associated with clearing and selling such 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 Conversion Shares during any week 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 connection with the Iliad Amendment 4, Lender confirmed that no Events of Default or other material breaches exist under the Iliad Note and related Transaction Documents (as defined in the Iliad SPA).

During the nine months ended September 30, 2017, the Company issued 7,903,822 shares of its common stock to Iliad in connection with the conversions of the Iliad Note in the aggregate principal amount of \$1,585,801 and \$69,199 of accrued interest. The total aggregate principal and accrued interest of \$1,655,000 was allocated to common stock and additional paid-in capital.

The Company's borrowings and conversions under the Iliad SPA for the nine months ended September 30, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	<u>Maturity</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate</u>
Secured promissory note payable	April 1, 2018	\$ 2,055,000	\$ 2,055,000	10%
Interest accrued		194,596	128,311	
Unamortized original issue discount and debt issuance costs		–	(35,335)	
Conversion of convertible promissory notes and accrued interest to common stock		(1,905,000)	(175,000)	
Conversion of convertible promissory notes and accrued interest to accrued liabilities		–	(75,000)	
Net carrying amount of debt		344,596	1,897,976	
Less current portion		(344,596)	(1,897,976)	
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 and nine months ended September 30, 2017, the Company recorded a gain of \$0 and \$222,800 respectively, 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 September 30, 2017 were (i) Volatility of 61.0%, (ii) Risk-Free Interest Rate of 0.74%; and (iii) Expected Term of zero months.

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 (14) 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 twenty (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 DWAC 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 secured by the Company's accounts receivable, inventory and equipment.

The Company's borrowings under the Iliad SPA 2 for the nine months ended September 30, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	<u>Maturity</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>Interest Rate</u>
Secured promissory note payable	April 30, 2018	\$ 770,000	\$ —	8%
Interest accrued		37,319	—	
Unamortized original issue discount and debt issuance costs		(9,999)	—	
Unamortized discount - embedded derivative		<u>(3,225)</u>	<u>—</u>	
Net carrying amount of debt		794,095	—	
Less current portion		<u>(794,095)</u>	<u>—</u>	
Long-term borrowings - net of current portion		<u>\$ —</u>	<u>\$ —</u>	

On the Subsequent Purchase Price Date, the Company recorded a derivative liability of \$29,300 which is scheduled for amortization over eight months. During the three and nine months ended September 30, 2017, the Company recorded a gain of \$10,987 and \$26,075, respectively, 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 September 30, 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 eight months; and at September 30, 2016 were (i) Volatility of 84.0%, (ii) Risk-Free Interest Rate of 0.93%; and (iii) Expected Term of four 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 nine months ended September 30, 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:

	Maturity	2016 Balance	Interest Rate
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		\$ —	

#### 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 September 30, 2017, and December 31, 2016, the outstanding balance was \$0 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 twelve percent (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 nine months ended September 30, 2017 and for the year ended December 31, 2016 is summarized in the table below:

	Maturity	September 30, 2017	December 31, 2016	Interest Rate
Unsecured promissory note payable	February 1, 2018	\$ 850,000	\$ 850,000	12%
Unamortized original issue discount and debt issuance costs		(8,096)	(26,309)	
Unamortized debt discount - fair value of warrants		(44,467)	(144,517)	
Net carrying amount of debt		797,437	679,174	
Less current portion		(797,437)	—	
Long-term borrowings - net of current portion		\$ —	\$ 679,174	

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 September 30, 2017 and 2016, the Company recorded interest expense of \$33,350 and \$33,350, respectively, for the amortization of the Warrant fair value. During the nine months ended each of September 30, 2017 and 2016, the Company recorded interest expense of \$100,500 and \$88,933, 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 per share. As of September 30, 2017, and December 31, 2016, the Company had 89,418,427 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 which were issued in April 2017. 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 nine months ended September 30, 2017, the Company recorded an expense of \$2,432,000 for the value of all the Royalty Buy-Out Shares as a separate line item in the Company's Condensed Consolidated Statement of Operations.

As of December 31, 2016, the Company had received notice from the Iliad convertible debt holders requesting to convert \$75,000 of convertible debt to common stock. The Company reclassified \$75,000 from convertible debt to accrued liabilities as of December 31, 2016 as a result of this conversion notice being received. During the nine months ended September 30, 2017, the Company converted the \$75,000 of accrued liabilities with the issuance of 398,053 shares of common stock. For the nine months ended September 30, 2017, the Company also issued an additional 7,502,929 in common stock for the satisfaction of \$1,655,000 of additional Iliad Note debt.

### ***Preferred Stock***

The Company is authorized to issue up to 10,000,000 shares of preferred stock, \$0.0001 par value per share 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 September 30, 2017, and December 31, 2016, there were no shares of 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, October 24, 2016 and July 14, 2017 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 25,000,000 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 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 March 2017, as further set forth in the March 22, 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 22, 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 22, 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, as further set forth in the March 22, 2017 8-K, 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 September 30, 2017, the Company had 9,332,000 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 \$1,328,096 and \$539,976, relating to stock options and RSU's issued to employees, officers, directors and consultants for the three months ended September 30, 2017 and 2016, respectively. The Company recognized Selling, General and Administration expenses of \$3,072,224 and \$1,357,684, relating to stock options and RSU's issued to employees, officers, directors and consultants for the nine months ended September 30, 2017 and 2016, respectively. The Company recognized expenses of \$0 and \$108,001 relating to common stock issued to employees, officers, directors and consultants during the three months ended September 30, 2017 and 2016, respectively. The Company recognized expenses of \$0 and \$541,126 relating to common stock issued to employees, officers, directors and consultants during the nine months ended September 30, 2017 and 2016, respectively.

As of September 30, 2017, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to employees, officers, and directors was \$1,445,272, which is expected to be recognized over a weighted-average period of 1.61 years.

The following table summarizes stock option activity for the Amended 2013 Plan during the nine months ended September 30, 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	10,002,000	0.37	-	-
Exercised	-	-	-	-
Cancelled/Forfeited (1)	(6,921,253)	2.38	-	-
Expired	(253,747)	0.46	-	-
Outstanding - September 30, 2017	<u>15,668,000</u>	0.47	8.15	146,417
Total exercisable - September 30, 2017	<u>11,648,174</u>	0.51	7.81	108,026
Total unvested - September 30, 2017	<u>4,019,826</u>	0.36	9.16	38,390
Total vested or expected to vest - September 30, 2017	<u>15,668,000</u>	0.47	8.15	146,417

(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 total modification expense of of \$417,598 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 for the Amended 2013 Plan during the nine months ended September 30, 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	10,002,000	0.15
Vested	(2,785,154)	0.34
Cancellations	(6,921,253)	0.32
Unvested stock options - September 30, 2017	<u>4,019,826</u>	0.39

The following table summarizes stock option activity outside of the Amended 2013 Plan during the nine months ended September 30, 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	4,500,000	0.37	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding - September 30, 2017	<u>7,250,000</u>	0.37	9.04	-
Total exercisable - September 30, 2017	<u>7,250,000</u>	0.37	9.04	-
Total unvested -September 30, 2017	<u>-</u>	-	-	-
Total vested or expected to vest - September 30, 2017	<u>7,250,000</u>	0.37	9.04	-

The following table summarizes RSU activity outside of the Amended 2013 Plan during the nine months ended September 30, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding - December 31, 2016	–	\$ –	–	\$ –
Granted and vested	2,000,000	–	–	700,000
Forfeited	–	–	–	–
Outstanding - September 30, 2017	<u>2,000,000</u>	–	–	699,000
Total exercisable - September 30, 2017	<u>2,000,000</u>	–	–	699,000
Total unvested - September 30, 2017	<u>2,000,000</u>	–	–	699,000
Total vested or expected to vest - September 30, 2017	<u>2,000,000</u>	–	–	699,000

The following table summarizes RSU activity outside of the Amended 2013 Plan during the nine months ended September 30, 2017:

	Number of Shares	Weighted Average Fair Value Per Share on Grant Date
Unvested RSU's - December 31, 2016	–	\$ –
Granted	2,000,000	0.40
Vested	(2,000,000)	0.30
Cancellations	–	–
Unvested RSU's - September 30, 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 September 30, 2017:

#### **For the year ending December 31,**

2017	\$ 520,640
2018	491,345
2019	666,275
2020	686,218
2021	706,818
Thereafter	2,977,147
	<u>\$ 6,048,443</u>

Included in the schedule of future minimum payments above is an eight-year lease commitment that was executed in June 2017 for the Company's future San Diego facility with an anticipated lease commencement date of December 1, 2017. Future minimum payments for this lease commitment are \$53,760, \$491,345, \$666,275, \$686,218, \$706,818 and \$2,977,147 for the years 2017, 2018, 2019, 2020, 2021 and thereafter, respectively.

The Company incurred rent expense of \$110,938 and \$120,162 for the three months ended September 30, 2017 and 2016, respectively, and incurred rent expense of \$353,555 and \$348,051 for the nine months ended September 30, 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. 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.

On June 15, 2017, the SEC filed an enforcement action against the Company and its Chief Executive Officer. We have cooperated with the SEC's investigation and believe the claims made in the SEC's complaint are without merit. We believe the allegations in the complaint mischaracterize the actions of the Company and our Chief Executive Officer in connection with the matters related to our quarterly results in fiscal year 2013. The complaint seeks disgorgement of a \$10,000 bonus paid to our Chief Executive Officer as well as other incentive-based and equity-based compensation, and payment of unspecified monetary penalties by the Company and our Chief Executive Officer pursuant to Section 304 of the Sarbanes Oxley Act of 2002 and Section 21(d)(3) of the Exchange Act. Further, the complaint seeks to permanently bar our Chief Executive Officer from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act. We intend to vigorously contest the allegations in the complaint.

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 and nine months ended September 30, 2017:

	<u>Consumer Products Segment</u>	<u>Specialty Pharmaceutical Segment</u>	<u>Consolidated Totals</u>
<b>Three Months Ended</b>			
September 30, 2017:			
Product sales, net	\$ 5,591,210	\$ —	\$ 5,591,210
Gross profit	3,997,649	—	3,997,649
Gain on change in derivative liability	10,987	—	10,987
Royalty buy-out	—	—	—
Selling, general and administrative	(4,259,725)	(51,353)	(4,311,078)
Research and development	(76,520)	(102,818)	(179,338)
Operating loss	<u>\$ (327,609)</u>	<u>\$ (154,171)</u>	<u>\$ (481,780)</u>
<b>Three Months Ended</b>			
September 30, 2016:			
Product sales, net	\$ 2,939,997	\$ —	\$ 2,939,997
Gross profit	1,888,949	—	1,888,949
Selling, general and administrative	(2,952,533)	(119,908)	(3,072,441)
Research and development	(292,738)	(103,500)	(396,238)
Operating loss	<u>\$ (1,356,322)</u>	<u>\$ (223,408)</u>	<u>\$ (1,579,730)</u>
<b>Nine Months Ended</b>			
September 30, 2017:			
Product sales, net	\$ 13,437,233	\$ —	\$ 13,437,233
Gross profit	9,275,111	—	9,275,111
Gain on change in derivative liability	248,875	—	248,875
Royalty buy-out	—	(2,432,000)	(2,432,000)
Selling, general and administrative	(11,312,687)	(200,873)	(11,513,560)
Research and development	(181,509)	(392,192)	(573,701)
Operating loss	<u>\$ (1,970,210)</u>	<u>\$ (3,025,065)</u>	<u>\$ (4,995,275)</u>
<b>Nine Months Ended</b>			
September 30, 2016:			
Product sales, net	\$ 7,850,430	\$ —	\$ 7,850,430
Gross profit	5,178,911	—	5,178,911
Selling, general and administrative	(8,904,694)	(242,717)	(9,147,411)
Research and development	(658,817)	(220,781)	(879,598)
Operating loss	<u>\$ (4,384,600)</u>	<u>\$ (463,498)</u>	<u>\$ (4,848,098)</u>

## **12. SUBSEQUENT EVENTS**

On October 12, 2017, the Company received a redemption notice for the conversion of \$75,000 under the Iliad Note into shares of the Company's common stock. The Company issued 469,239 shares of common stock pursuant to the notice.

On October 13, 2017 pursuant to its rights under the Iliad Note, the Company repaid with cash the total sum of \$340,645, which represented all outstanding amounts due under the Iliad Note. As a result, the Company has satisfied all of its obligations under the Iliad Note, and the Iliad Note has been satisfied, repaid, retired and terminated.

On November 3, 2017, the Company received a redemption notice for the conversion of \$75,000 under the Iliad Note 2 into shares of the Company's common stock. The Company issued 624,897 shares of common stock pursuant to the notice.

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

The following discussion of our financial condition and results of operations for the interim period ended September 30, 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 OTCQB.

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*<sup>™</sup> 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:

- 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;
- we do not believe changes in our derivative liabilities are a key measure of operating performance; and
- revenues and expenses associated with acquisitions, dispositions, and capital raising activities 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 and nine months ended September 30, 2017 and 2016 is detailed below:

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net loss	\$ (589,983)	\$ (1,900,736)	\$ (5,366,946)	\$ (5,660,755)
Interest income	–		7	(27,658)
Interest expense	108,203	321,006	371,678	840,315
Amortization of purchased intangible assets	8,850	214,350	26,550	643,050
Depreciation of property & equipment	30,897	48,977	117,744	146,692
EBITDA	<u>(442,033)</u>	<u>(1,316,403)</u>	<u>(4,850,967)</u>	<u>(4,058,356)</u>
EBITDA Adjustments:				
Stock-based compensation expense (1)	1,328,096	647,977	3,072,224	1,898,810
Gain on changes in derivative liabilities (2)	(10,987)	–	(248,875)	–
Royalty buy-out (3)	–	–	2,432,000	–
Total EBITDA Adjustments	<u>1,317,109</u>	<u>647,977</u>	<u>5,255,349</u>	<u>1,898,810</u>
Adjusted EBITDA	<u>\$ 875,076</u>	<u>\$ (668,426)</u>	<u>\$ 404,382</u>	<u>\$ (2,159,546)</u>

- (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 \$1,543,502 and \$2,563,928 improvement in our Adjusted EBITDA for the three and nine months ended September 30, 2017 compared with the same period in 2016 is primarily due to increased sales and operating margins and decreases in our interest expense and amortization of purchased intangible assets.

### 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 and nine months ended September 30, 2017 and 2016

**Revenues and gross profit** - We had sales of \$5,591,210 and gross profit of \$3,997,649 representing a gross profit percentage of 71.5% for the three months ended September 30, 2017 compared to sales of \$2,939,997 and gross profit of \$1,888,949 representing a gross profit percentage of 64.3% for the three months ended September 30, 2016. The sales increase of \$2,651,213 for the three months ended September 30, 2017 compared with the three months ended September 30, 2016 is primarily due to an increase in distribution and demand for our *PlusCBD*<sup>TM</sup> products, as we continue to maintain and expand our core customer base.

For the three months ended September 30, 2017 compared with 2016, our gross margin percentage increase is due to lower cost of goods sold as we continue to adapt our products to our growing customer base.

For the nine months ended September 30, 2017, we had sales of \$13,437,233 and gross profit of \$9,275,111, representing a gross profit percentage of 69.0% compared with sales of \$7,850,430 and gross profit of \$5,178,911, representing a gross profit of 66.0% for the nine months ended September 30, 2016. The same factors impacting the second quarter of 2017 discussed above - increase in customer distribution as we continue to maintain and expand our core customer base - contributed to the \$5,586,803 increase in sales for the nine months ended September 30, 2017 compared to 2016.

Similarly, the gross margin increase for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016, is due to lower cost of goods sold as we continue to adapt our products to a growing customer base.

**Selling, general and administrative expenses** - For the three months ended September 30, 2017 and 2016, we incurred selling, general and administrative (the "SG&A") expenses in the amount of \$4,311,078 and \$3,072,441, respectively. SG&A expense includes non-cash expenses of \$1,328,096 and \$647,977 of stock-based compensation, \$30,897 and \$48,977 of depreciation expense, and \$8,850 and \$214,350 of amortization expense of intangible assets for the three months ended September 30, 2017 and 2016, respectively. After adjusting for non-cash stock-based compensation, depreciation, and amortization of intangible assets for the three months ended September 30, 2017 and 2016, SG&A expenses increased by \$737,098 during the three months ended September 30, 2017 compared with the three months ended September 30, 2016. Part of this increase resulted from \$51,353 and \$119,908 of expense related to our specialty pharmaceutical segment during the three months ended September 30, 2017 and 2016, respectively, and increased headcount, commissions and marketing.

For the nine months ended September 30, 2017 and 2016, we incurred SG&A expenses in the amount of \$11,513,560 and \$9,147,411, respectively. SG&A expense includes non-cash expenses of \$3,072,224 and \$1,898,810 of stock-based compensation, \$117,744 and \$146,692 of depreciation expense, and \$26,550 and \$643,050 of amortization expense of intangible assets, for the nine months ended September 30, 2017 and 2016, respectively. After adjusting for non-cash stock-based compensation, depreciation, and amortization of intangible assets for the nine months ended September 30, 2017 and 2016, SG&A expenses increased by \$1,538,183 during the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016. Part of this increase resulted from \$200,873 and \$242,717 of expense related to our specialty pharmaceutical segment during the nine months ended September 30, 2017 and 2016, respectively, and increased headcount, commissions and marketing.

**Research and development expenses** - For the three months ended September 30, 2017 and 2016, the Company incurred research and development ("R&D") expenses of \$179,338 and \$396,238, 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 September 30, 2017, we incurred \$102,818 of R&D expenses related to our specialty pharmaceutical segment compared with \$103,500 in the three months ended September 30, 2016. After adjusting for the specialty pharmaceutical R&D expense, R&D costs related to our consumer products segment decreased by \$216,218. The decrease for the three months ended September 30, 2017 compared with the three months ended September 30, 2016 relates primarily to the Company transitioning R&D activities into the development of its specialty pharmaceutical segment rather than the production of consumer products.

For the nine months ended September 30, 2017 and 2016, the Company incurred R&D expenses of \$573,701 and \$879,598, respectively. These expenses are related to the same costs incurred during the nine months ended September 30, 2017 and 2016, respectively. During the nine months ended September 30, 2017, we incurred \$392,192 of R&D expenses related to our specialty pharmaceutical segment compared with \$220,781 in the nine months ended September 30, 2016. After adjusting for the specialty pharmaceutical R&D expense, R&D costs related to our consumer products segment decreased by \$477,308. The decrease for the nine months ended September 30, 2017 compared with the nine months ended September 30, 2016 relates primarily to the Company transitioning R&D activities into the development of its specialty pharmaceutical segment rather than the production of consumer products.

**Gain on changes in derivative liabilities** - Gain on changes in derivative liabilities of \$10,987 and \$0 during the three months ended September 30, 2017 and 2016, respectively, relates to the change in the derivative liability from March 31, 2017 on the Iliad Notes (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.

Gain on changes in derivative liabilities of \$248,875 and \$0 during the nine months ended September 30, 2017 and 2016, respectively, relates to the change in the derivative liability from December 31, 2016 on the Iliad Notes (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 nine months ended September 30, 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 insignificant for the three months ended September 30, 2017 and 2016, respectively.

Interest income was \$7 and \$27,658 for the nine months ended September 30, 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 \$108,203 and \$321,006 for the three months ended September 30, 2017 and 2016, respectively. Interest expense was \$371,678 and \$840,315 for the nine months ended September 30, 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 \$78,397 and \$25,568, for the nine months ended September 30, 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 nine months ended September 30, 2016, which did not occur during the nine months ended September 30, 2017.

## Liquidity and Capital Resources

A summary of our changes in cash flows for the nine months ended September 30, 2017 and 2016 is provided below:

	For the nine months ended September 30,	
	2017	2016
Net cash flows provided by (used in):		
Operating activities	\$ 647,216	\$ (1,429,277)
Investing activities	(6,410)	(17,207)
Financing activities	624,036	1,775,455
Net increase in cash and restricted cash	1,264,842	328,971
Cash and restricted cash, beginning of period	1,057,468	518,462
Cash and restricted cash, end of period	<u>\$ 2,322,310</u>	<u>\$ 847,433</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, royalty buy out, 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 nine months ended September 30, 2017 totaled \$647,216 compared with cash used in operating activities of \$1,429,277 for the nine months ended September 30, 2016. Cash provided by the sale of inventory was \$856,229 for the nine months ended September 30, 2017 compared with cash provided by the sale of inventory of \$995,944 for the nine months ended September 30, 2016. Cash used by in accounts receivable was \$774,473 for the nine months ended September 30, 2017 compared with cash provided by in accounts receivable of \$67,796 for the nine months ended September 30, 2016. Cash provided by accounts payable and accrued expenses was \$810,617 for the nine months ended September 30, 2017 compared to cash used by accounts payable and accrued expenses of \$140,127 for the nine months ended September 30, 2016. Cash used in the increase of prepaid expenses was \$971,567 during the nine months ended September 30, 2017 compared with cash used by the expensing of prepaid expenses of \$45,713 during the nine months ended September 30, 2016. Depreciation and amortization totaled \$144,294 for the nine months ended September 30, 2017 compared with \$789,742 for the nine months ended September 30, 2016. Amortization of debt issuance costs, derivative liability discounts and a beneficial conversion feature of convertible debt totaled \$189,675 for the nine months ended September 30, 2017 compared with \$532,104 for the nine months ended September 30, 2016. Stock-based compensation totaled an aggregate of \$3,072,224 for the nine months ended September 30, 2017, compared with \$1,357,684 for the nine months ended September 30, 2016. Bad debt expense was \$400,435 for the nine months ended September 30, 2017 compared with \$59,143 for the nine months ended September 30, 2016. Accrued interest payable was \$103,603 for the nine months ended September 30, 2017 compared with \$73,779 for the nine months ended September 30, 2016. The royalty buy-out was \$2,432,000 and the gain on changes in derivative liabilities was \$248,875 for the nine months ended September 30, 2017.

#### ***Investing Activities***

The Company purchased equipment of \$6,410 and \$17,207, which is reflected as used in investing activities for the nine months ended September 30, 2017 and 2016, respectively.

#### ***Financing Activities***

Net cash provided by financing activities for the nine months ended September 30, 2017 and 2016 totaled \$624,036 and \$1,775,455, respectively. Cash flows provided by financing activities for the nine months ended September 30, 2017 consisted of \$0 in borrowing net proceeds from the issuance of secured convertible debt and \$125,964 of repayments on an unsecured note payable. Cash flows provided by financing activities for the nine months ended September 30, 2017 and 2016 consisted of \$750,000 and \$2,776,430 respectively, in borrowing net proceeds from the issuance of notes payable, \$250,000 payment of contingent consideration, \$612,000 of repayments on convertible notes payable and \$138,975 of repayments on a 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 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 September 30, 2017 and 2016, the Company had net losses of \$589,983 and \$1,900,736, respectively. For the nine months ended September 30, 2017 and 2016, the Company had net losses of \$5,366,946 and \$5,660,755, respectively. In addition, for the nine months ended September 30, 2017, the Company had cash flows provided from operations of \$647,216 compared with cash flows used in operations of \$1,429,277 for the nine months ended September 30, 2016. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations through at least November 7, 2018, 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 November 7, 2018. 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 November 7, 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 will 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.

The company actively pursues new product development for its Consumer Product Segment 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 September 30, 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 September 30, 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.

On June 15, 2017, the SEC filed an enforcement action against the Company and its Chief Executive Officer. We have cooperated with the SEC’s investigation and believe the claims made in the SEC’s complaint are without merit. We believe the allegations in the complaint mischaracterize the actions of the Company and our Chief Executive Officer in connection with the matters related to our quarterly results in fiscal year 2013. The complaint seeks disgorgement of a \$10,000 bonus paid to our Chief Executive Officer as well as other incentive-based and equity-based compensation, and payment of unspecified monetary penalties by the Company and our Chief Executive Officer pursuant to Section 304 of the Sarbanes Oxley Act of 2002 and Section 21(d)(3) of the Exchange Act. Further, the complaint seeks to permanently bar our Chief Executive Officer from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act. We intend to vigorously contest the allegations in the complaint.

### Item 1a. RISK FACTORS

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

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

None.

**Item 3. DEFAULTS UNDER SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURE**

Not applicable.

**Item 5. OTHER INFORMATION**

None

**Item 6. EXHIBITS**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
31.1*	<a href="#"><u>Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>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.</u></a>
32.2*	<a href="#"><u>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.</u></a>
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.

## 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: November 7, 2017

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

Dated: November 7, 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: November 7, 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: November 7, 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 interim period ended September 30, 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: November 7, 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 interim period ended September 30, 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: November 7, 2017

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