

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

FORM 10-K

- Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2017
- Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number: 000-54677

CV Sciences, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

80-0944870

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

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

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

Registrants telephone number, including area code 866-290-2157

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.0001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Emerging growth company

Accelerated filer

Smaller reporting company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrants most recently completed second fiscal quarter. As of June 30, 2017, the aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the issuer was \$21,974,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of March 26, 2018, the issuer had 90,512,563 shares of issued and outstanding common stock, par value \$0.0001.**

DOCUMENTS INCORPORATED BY REFERENCE. None

CV SCIENCES, INC.
FORM 10-K
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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 Annual Report on Form 10-K, 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 OTC Markets; 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

ITEM 1. BUSINESS

Overview

CV Sciences, Inc. (the “Company,” “CV Sciences,” “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 with the Secretary of State of the State of Delaware, 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.

Current Operations

Consumer Products

We manufacture, market and sell consumer products containing plant-based CBD under our *PlusCBD*[™] brand in a range of market sectors including nutraceutical, beauty care, specialty foods and vape. We currently manufacture and distribute more than 50 stock-keeping units and we expect to continue to add new products to our *PlusCBD*[™] portfolio to enhance our line of CBD and hemp-related consumer products. We also expect to develop and launch new brands to more effectively market and sell certain products. We also sell raw materials acquired through our supply relationships in Europe to various customers that produce products for resale into the market.

We seek to take advantage of an emerging worldwide trend to re-energize the production of industrial hemp and to foster its many uses for consumers. Historically cultivated for industrial and practical purposes, hemp is used today for textiles, paper, auto parts, biofuel, cosmetics, animal feed, nutritional supplements, and much more. The market for hemp-derived products is expected to increase substantially over the next five years, and we believe CV Sciences is well positioned to be a significant player in the hemp industry.

Hemp-derived CBD is one of at least 80 cannabinoids found in hemp, and is non-psychoactive. Our U.S. based operations oversee our raw material supply chain, raw material processing, product development and manufacturing, and sales and marketing. We will continue to scale-up our processing capability to accommodate new products in our pipeline.

We expect to realize revenue to fund our working capital needs through the sale of finished products and raw materials to third parties. However, in order to fund our drug development efforts, we will need to raise additional capital either through the issuance of equity and/or the issuance of debt. In the event we are unable to raise sufficient additional capital to fund our drug development efforts, we may need to curtail or delay such activity.

Specialty Pharmaceuticals

Our specialty pharmaceutical segment is developing synthetic cannabinoids to treat a range of medical conditions. Cannabinoids are compounds derived from the *Cannabis sativa* plant, which contain two primary cannabinoids, CBD, and Δ 9-tetrahydrocannabinol (“THC”). Clinical and preclinical data suggest that CBD has promising results in treating a range of medical indications. We acquired two product candidates in the CanX Acquisition, each utilizing synthetic CBD as the active pharmaceutical ingredient.

The Company’s first patent-pending product candidate, CVSI-007, combines CBD and nicotine in treatment of smokeless tobacco use and addiction. There are currently no drugs approved by the U.S. Food & Drug Administration (“FDA”) for treatment of smokeless tobacco use and addiction. We believe this product candidate will provide treatment options for this significant unmet medical need. The Company is hopeful to be in a position to file an Investigational New Drug Application (“IND”) with the FDA in the next 12 months. We completed a pre-IND meeting with the FDA in June 2017 and obtained guidance on this development program. CVSI-007 is based on proprietary formulations, processes and technology that we believe are patent-protectable. In May 2016, we filed a patent application for these formulations and processes with the U.S. Patent and Trademark Office.

We currently contract with qualified parties and contract research organizations for our preclinical research and IND preparation and development. Commercialization of future specialty pharmaceutical products in the United States and other territories may rely on licensing and co-promotion agreements with strategic partners. If we choose to build a commercial infrastructure to support marketing in the United States, such commercial infrastructure could include a sales organization, internal sales support, an internal marketing group and distribution support.

Description of our Subsidiaries

The Company owns 100% of the issued and outstanding membership interests of two subsidiaries: Plus CBD, LLC (formerly, “Global Hemp Source, LLC”) (“Plus CBD”), and CANNAVEST Acquisition, LLC, a Delaware limited liability company formed in connection with the CanX Acquisition. The Company previously owned a 70% interest in CannaVest Europe, GmbH. On January 20, 2017, the Company filed for dissolution of CannaVest Europe, GmbH, with the District Court, Dusseldorf Germany, effective December 31, 2016. CannaVest Europe GmbH did not have any assets or liabilities at the time of its dissolution.

Inventory and Sales

Based on expected increasing demand, we have invested significant capital to develop and maintain relationships with growers on a global scale to ensure access to raw materials to support anticipated revenue growth. We have historically sourced our raw materials from well-established and well-recognized hemp growers in Europe. We have maintained access to these growers for their raw material supply, and continue to explore and develop other relationships to ensure that we can meet the expected demand for bulk hemp products well into the future. However, our current inventory levels are sufficient to support sales through 2019, resulting in reduced cash outflow for inventory purchases. In addition, we do not intend to purchase raw inventory from our supply chain arrangements from the 2017 and 2018 crop. During the year ended December 31, 2016, we recorded an impairment of inventory expense of \$3.6 million (See Note 3 of the Company’s consolidated financial statements). No impairment of inventory expense was recorded for the year ended December 31, 2017.

Subject to applicable law, discussed further below we have initiated hemp research and development studies in the U.S. in Kentucky through partnerships with the Kentucky State Department of Agriculture and several universities, on a pilot scale.

Changes in the Law and Development Programs

For the first time since 1937, industrial hemp has been decriminalized at the federal level and can be grown legally in the United States, but on a limited basis. A landmark provision passed in the Agricultural Act of 2014 recognizes hemp as distinct from its genetic cousin, marijuana. Federal law now exempts industrial hemp from U.S. drug laws to allow for crop research by universities, colleges and state agriculture departments. The new Federal law allows for agricultural pilot programs for industrial hemp “in states that permit the growth or cultivation of hemp.”

Under the jurisdiction of the Agricultural Act of 2014, we entered into two separate agreements during 2015. We entered an agreement with the Kentucky State Department of Agriculture to complete research under pilot studies with farmers and processors of CBD. In addition, we entered into an agreement with the University of Kentucky to fund research regarding cultivation techniques to increase CBD production. We are also evaluating opportunities within Kentucky to invest in processing facilities and equipment in support of our consumer products business segment.

Market, Customers and Distribution Methods

The market, customers and distribution methods for hemp-based products are large and diverse. These markets range from hemp-based bio plastics to textiles. This is an ever-evolving distribution system that today includes early adopter retailers and ecommerce entities, and product development companies that use our *PlusCBD*[™] brand oil to develop consumer products for distribution. The number of “mainstream” commercial and retail stores that currently stock and sell our products is increasing primarily through customer awareness. We believe that as awareness grows for the “green”, environmentally-friendly products derived from hemp/cannabis, the consumer market will adapt its current product lines to integrate them with hemp-based additives or replace harmful components in their existing products with the components of hemp.

Our target customers for our consumer product segment are first and foremost end consumers via internet sales, direct-to-consumer health and wellness stores, collectives, cooperatives, affiliate sales and master distributors. Secondly, we are targeting manufacturers of products that can readily replace their raw base materials for our base materials, making the products more environmentally friendly and sustainable. In the future, we intend to target national and regional broker networks and major distribution companies who have preexisting relationships with major retail chain stores. In addition, we are directly pursuing distribution opportunities with national retailers. As we continue to develop our business, these markets may change, be re-prioritized or eliminated as management responds to consumer and regulatory developments.

Competition

There are several companies developing cannabinoid therapeutics for a range of medical indications. The cannabinoid therapeutic area currently includes formulated extracts of the *Cannabis* plant and synthetic formulations. These formulations include CBD and THC, or a combination of CBD/THC as the active pharmaceutical ingredient. Certain companies such as GW Pharmaceuticals, PLC have focused on plant-based CBD formulations; while other companies such as Zynerba Pharmaceuticals Inc. and Insys Therapeutics Inc. have focused on synthetic CBD formulations.

The CBD-based consumer product industry is highly fragmented with numerous companies, many of which are under-capitalized. We routinely evaluate internal and external opportunities to optimize value for shareholders through new product development or by asset acquisitions or sales. There are also large, well-funded companies that currently do not offer hemp-based consumer products but may do so in the future.

Intellectual Property

We have filed trademark applications on our brands, logos and marks including, but not limited to *CV Sciences* and *Plus CBD*. On January 30, 2016, we received a Notice of Allowance from the U.S. Patent and Trademark Office for our utility patent application number 14/791,184, Novel Process for Generating Hemp Oil with a High CBD Content. This patent covers our solvent-free and highly repeatable process for producing hemp oil with higher concentrations of CBD and expires in 2033.

We have a pending patent application for our product candidate CVSI-007 in the United States that will expire in 2036.

We review our intellectual property portfolio on a periodic basis and we will continue to broaden our portfolio in a fiscally prudent manner. We intend to file for patent protection on our pharmaceutical products based on proprietary formulations, processes and technology.

Research and Development

Our research and development costs have consisted primarily of salaries and related personnel expense, facilities and equipment expense and other costs related to both our consumer product and drug development business segments. We charge all research and development expenses to operations as incurred in the ongoing development of new consumer products and in development of our drug candidate CVSI-007. We incurred research and development expenses of \$0.7 million and \$1.2 million, respectively, for the years ended December 31, 2017 and 2016.

Source and Availability of Raw Materials

The Company has historically sourced raw materials from well-established and well-recognized hemp growers in Europe. We have maintained access to these growers for their raw material supply, and continue to explore and develop other relationships to ensure that we can meet the expected demand for bulk hemp products well into the future. Our current inventory levels are sufficient to support sales through 2019, resulting in reduced cash outflow for inventory purchases. The Company had two supply arrangements in place with European farmers to supply raw material through 2018, which have since been terminated. As such, we recorded an impairment expense of \$2.7 million during the year ended December 31, 2016, related to acquired goodwill and intangible assets from PhytoSPHERE Systems LLC (“PhytoSPHERE”) (See Note 6 of the Company’s consolidated financial statements). In addition, during the year ended December 31, 2016, we recorded a \$3.6 million impairment of certain raw material inventory (See Note 3 of the Company’s consolidated financial statements).

Environmental Matters

Compliance with federal, state and local requirements regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, have not had, nor are they expected to have, any material effect on the capital expenditures, earnings or competitive position of the Company.

Employees

As of March 26, 2018, we had a total of 52 full-time employees. In addition to our full-time employees, we contract with third-parties for the conduct of certain preclinical, clinical and manufacturing activities related to drug development efforts. We do not currently have any part-time employees. We have no collective bargaining agreements with our employees and none are represented by labor unions. Management believes the Company has good relationships with its employees.

ITEM 1A. RISK FACTORS

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

As of December 31, 2017, our primary facility consists of approximately 24,000 square feet of leased office, laboratory and warehouse space located in San Diego, California, which is leased through January 2026 and used by both of our business segments. We lease one facility in Las Vegas, Nevada and one additional facility in San Diego related to our distribution activities that cover an aggregate of approximately 2,500 square feet of warehouse and office space. We believe that our existing facilities are suitable but we may require additional space to accommodate our growing organization. We believe such space will be available on commercially reasonable terms. (See Note 11 of the Company’s consolidated financial statements).

ITEM 3. 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 subsequently 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, 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 its reply to the complaint by March 29, 2017. 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.

The Company is a plaintiff in two litigation matters involving former credit card processors of the Company. On September 10, 2017, the Company filed a complaint against one such credit card processor, PayToo Merchant Services Corporation (“Pay Too”), a Florida corporation, in the Circuit Court in Broward County, Florida, asserting breach of contract claims for PayToo’s failure to remit approximately \$250,000 to the Company for credit card sales processed by PayToo from January 2017 to February 2017. On December 11, 2017, the Company filed a complaint against the other credit card processor, T1 Payments, LLC (“T1”), a Nevada corporation, in District Court, Clark County, Nevada, asserting breach of contract claims for T1’s failure to remit approximately \$500,000 to the Company for credit card sales processed by T1 from February 2017 to October 2017.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the OTC:QB under the symbol CVSI. Trading of securities on the OTC:QB is often sporadic and investors may have difficulty buying and selling or obtaining market quotations.

The following table sets forth the reported high and low closing bid prices for our common stock as reported on the OTC:QB for the following periods. These prices reflect inter-dealer prices, do not include retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions.

Fiscal Year Ended December 31, 2017

| | High | | Low | |
|----------------|------|------|-----|------|
| First Quarter | \$ | 0.59 | \$ | 0.36 |
| Second Quarter | | 0.41 | | 0.22 |
| Third Quarter | | 0.36 | | 0.21 |
| Fourth Quarter | | 0.68 | | 0.14 |

Fiscal Year Ended December 31, 2016

| | High | | Low | |
|----------------|------|------|-----|------|
| First Quarter | \$ | 1.00 | \$ | 0.11 |
| Second Quarter | | 0.62 | | 0.36 |
| Third Quarter | | 0.38 | | 0.20 |
| Fourth Quarter | | 0.93 | | 0.26 |

No cash dividends have been paid on our common stock for the 2017 and 2016 fiscal years and the Board has not considered any change in this practice, and has no intentions of considering any such change in the foreseeable future.

The payment of cash dividends in the future will be determined by our Board of Directors (the "Board"), in light of conditions then existing, including our earnings, financial requirements, and opportunities for reinvesting earnings, business conditions, and other factors. There are otherwise no restrictions on the payment of dividends. There were more than 18,000 individual participants in securities positions listings of our common stock on March 26, 2018.

We did not repurchase any shares of our common stock during the fiscal year covered by this Annual Report on Form 10-K. However, during 2015, the Company was issued a \$600,000 secured promissory note in connection with a litigation settlement (the "Settlement Note") with MJNA, HempMeds PX, LLC, Kannaway, LLC, General Hemp, LLC, HDDC Holdings, LLC, Rabbit Hole Technologies, Inc., Hemp Deposit and Distribution Corporation and MJNA Holdings, LLC (collectively, the "MJNA Parties"). The collateral under the Settlement Note was Company common stock held by the issuer of the Settlement Note. The Company received \$305,271 in payments on the Settlement Note before the issuer of the Settlement Note defaulted for failure to timely pay the fourth installment obligation in the amount of \$101,757. On December 3, 2015, the Company foreclosed on the unpaid balance of the Settlement Note in exchange for 624,600 shares of Company common stock held by the issuer of the Settlement Note. As of December 31, 2015, the Company had received 500,000 shares of Company common stock in partial settlement of the unpaid balance under the Settlement Note. The Settlement Note balance of \$60,351 as of December 31, 2015 represents the fair value at the foreclosure date of the remaining 124,600 shares. In December 2016, the Company obtained the remaining 124,600 shares of Company common stock held as collateral from the MJNA Parties pursuant to the terms of the Settlement Note, which were immediately cancelled upon receipt.

See the Equity Compensation Plan Information table in Item 12 of this Annual Report on Form 10-K.

Recent Sales of Unregistered Securities

On March 30, 2017, the Company agreed to issue 500,000 shares of its common stock to Hemp Consult valued at \$.404 per share on such date in exchange for hemp oil. The issuance of these shares of common stock was exempt from registration under the Securities Act of 1933, as amended (the "Act"), in reliance on exemptions from the registration requirements of the Act in transactions not involved in a public offering pursuant to Section 4(a)(2) under the Act.

ITEM 6. SELECTED FINANCIAL DATA

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

ITEM 7. 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 years ended December 31, 2017 and December 31, 2016 should be read in conjunction with the financial statements and the notes to those statements that are included elsewhere in this Annual Report on Form 10-K. 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 CBD. Our consumer product segment is focused on manufacturing, marketing and selling plant-based CBD products to a range of market sectors. On June 8, 2016, the Company changed its trading symbol from CANV to CVSI, and continues to be traded on the OTC:QB.

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

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

We expect to realize revenue from our consumer products business segment to fund 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. In the event we are unable to fund our drug development efforts, we may need to curtail or delay such activity.

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

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

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

We use Adjusted EBITDA:

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

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

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

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and
- Adjusted EBITDA can differ significantly from company to company depending on strategic decisions regarding capital structure, the tax jurisdictions in which companies operate 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 years ended December 31, 2017 and 2016 is detailed below:

| | For the years ended December 31, | |
|--|---|-----------------------|
| | 2017 | 2016 |
| Net loss | \$ (4,897,139) | \$ (14,141,298) |
| Interest income | (2) | (27,658) |
| Interest expense | 506,384 | 1,086,793 |
| Amortization of purchased intangible assets | 35,400 | 857,400 |
| Depreciation of property & equipment | 147,395 | 195,167 |
| EBITDA | <u>(4,207,962)</u> | <u>(12,029,596)</u> |
| EBITDA Adjustments: | | |
| Stock-based compensation expense (1) | 3,419,799 | 3,274,034 |
| Gain on collection of notes receivable (2) | – | (379,486) |
| Loss on extinguishment of debt (3) | 188,822 | – |
| Gain on derivative liability (4) | (248,875) | (147,200) |
| Royalty buy-out (5) | 2,432,000 | – |
| Impairment of inventory (6) | – | 3,562,459 |
| Impairment of PhytoSPHERE goodwill and intangible assets (7) | – | 2,746,512 |
| Bad debt expense (8) | 483,407 | – |
| Total EBITDA Adjustments | <u>6,275,153</u> | <u>9,056,319</u> |
| Adjusted EBITDA | <u>\$ 2,067,191</u> | <u>\$ (2,973,277)</u> |

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

(2) Represents gain on collection of note receivable.

(3) Represents loss on extinguishment of debt

(4) Represents gain on change in derivative liability associated with the Iliad Note (See Note 7 of the Company's consolidated financial statements).

(5) Represents the share-based royalty buy-out associated with the CanX acquisition (See Note 5 of the Company's consolidated financial statements).

(6) Represents the impairment expense of certain raw material inventory (See Note 3 of the Company's consolidated financial statements).

(7) Represents the impairment expense associated with acquired goodwill and intangible assets from PhytoSPHERE (See Note 6 of the Company's consolidated financial statements).

(8) Recognition of the write-off of certain of the Company's accounts receivable during 2017 that are not considered normal write offs.

Critical Accounting Policies

The preparation of these financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis management evaluates its critical accounting policies and estimates.

A “critical accounting policy” is one which is both important to the understanding of the financial condition and results of operations of the Company and requires management’s most difficult, subjective, or complex judgments, and often requires management to make estimates about the effect of matters that are inherently uncertain. Management believes the following accounting policies fit this definition:

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 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.

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

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

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

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, our long-term strategy for using the asset, any laws or regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their useful lives to their estimated residual values, generally five years. IPR&D has an indefinite life and is not amortized until completion and development of the project, at which time the IPR&D becomes an amortizable asset. If the related project is not completed in a timely manner or the project is terminated or abandoned, the Company may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value. This method of amortization approximates the expected future cash flow generated from their use. During the year ended December 31, 2016, an impairment expense of \$2.7 million was recorded related to the PhytoSPHERE acquired goodwill and intangible assets (See Note 6 of the Company's consolidated financial statements). No impairments were noted during the year ended December 31, 2017.

Accounts receivable - The Company extends credit to certain customers and distributors located throughout the U.S. Accounts receivable consists of trade accounts arising in the normal course of business. 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 each of December 31, 2017 and 2016, we maintained an allowance for doubtful accounts related to our accounts receivable in the amount of \$200,000 and \$100,000, respectively.

Inventory - Inventory is stated at lower of cost or net realizable value, with cost being determined on an average cost basis. During the year ended December 31, 2016, the Company recorded an impairment of inventory expense of \$3.6 million (See Note 3 of the Company's consolidated financial statements). No impairment of inventory expense was recorded for the year ended December 31, 2017.

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

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.

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.

Stock-Based Compensation - Certain employees, officers, directors and consultants of the Company participate in various long-term incentive plans that provide for the granting of 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, and directors as compensation and benefits expense on the consolidated statements of operations. The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant. The fair value of restricted stock awards is equal to the closing price of the Company's stock on the date of grant. Stock-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period. For performance-based stock options, compensation is recognized once the applicable performance condition is satisfied.

The Company recognizes stock-based compensation for equity awards granted to consultants as selling, general and administrative expense on the consolidated statements of operations.

The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant and unvested shares 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.

Recent Accounting Pronouncements

Refer to Note 2 of our consolidated financial statements for a discussion of recent accounting standards and pronouncements.

Results of Operations

Comparison of the Years ended December 31, 2017 vs. December 31, 2016

Revenues and gross profit - We had sales of \$20.7 million and gross profit of \$14.5 million, representing a gross profit percentage of 70.0% in 2017 compared with sales of \$11.1 million and gross profit of \$7.0 million, representing a gross profit percentage of 63.3% in 2016. The Company increased sales by \$9.6 million or 87% in 2017 when compared to 2016 results.

The sales increase in 2017 compared with 2016 is primarily due to an increase in distribution, customer awareness and demand for our branded *PlusCBD*TM products, particularly during the second half of 2017, as we continued to expand and maintain our core customer base which further supports our decision to change our sales strategy from primarily bulk oil sales during 2015 to primarily branded consumer products in 2016.

The gross profit increase in 2017 compared with 2016 is the result of our change in sales mix and the inventory impairment recorded in 2016 which resulted in lower raw material unit costs.

Selling, general and administrative expenses - Selling, general and administrative ("SG&A") expenses increased to \$16.3 million in 2017 compared with \$13.1 million in 2016. SG&A expenses include non-cash expenses of \$4.1 million and \$4.3 million in 2017 and 2016, respectively, which consisted primarily of stock-based compensation, amortization of intangible assets, depreciation of fixed assets and bad debt expense. After adjusting for these non-cash expenses, SG&A expenses increased by \$3.4 million in 2017 compared to 2016, an approximate 38% increase in 2017 compared to 2016. This increase relates primarily to increased employee headcount and higher commissions, both directly related to our 87% increase in sales in 2017 compared to 2016.

Research and development expenses - Research and development (“R&D”) expense decreased to \$0.7 million in 2017 compared with \$1.2 million in 2016. 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. We incurred \$0.4 million and \$0.3 million of R&D expenses related to our specialty pharmaceutical segment in 2017 and 2016, respectively. After adjusting for the specialty pharmaceutical R&D expense, R&D costs related to our consumer products segment decreased by \$0.6 million in 2017. This decrease resulted primarily from decreased headcount, product research and scientific studies related to our consumer products business segment.

Royalty buy-out – Royalty buyout of \$2.4 million in 2017 relates to the Company’s share-based royalty buy-out associated with the CanX Acquisition (See Note 5 of the Company’s consolidated financial statements).

Impairment of Inventory - Impairment of inventory of \$3.6 million in 2016 relates to the write-off of certain raw material inventory (See Note 3 of the Company’s consolidated financial statements).

Impairment of PhytoSPHERE goodwill and intangible assets - Impairment of PhytoSPHERE goodwill and intangible assets of \$2.7 million in 2016 relates to the write-off of goodwill and intangible assets associated with the PhytoSPHERE acquisition (See Note 6 of the Company’s consolidated financial statements).

Interest expense - Interest expense decreased to \$0.5 million in 2017 compared with \$1.1 million in 2016. The decrease in interest expense was due to lower borrowings, accrued interest and the amortization of debt discounts and the derivative liability.

Liquidity and Capital Resources

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

| | For the years ended December 31, | |
|---|---|---------------------|
| | 2017 | 2016 |
| Net cash flows provided by (used in): | | |
| Operating activities | \$ 3,615,004 | \$ (2,053,740) |
| Investing activities | (2,000,395) | 852,678 |
| Financing activities | 119,467 | 1,740,068 |
| Net increase (decrease) in cash and restricted cash | 1,734,076 | 539,006 |
| Cash and restricted cash, beginning of period | 1,057,468 | 518,462 |
| Cash and restricted cash, end of period | <u>\$ 2,791,544</u> | <u>\$ 1,057,468</u> |

Cash requirements and liquidity needs are primarily funded through operating cash flows and proceeds from selling Company stock and debt issuance.

Operating Activities

Net cash provided by or used in operating activities includes net loss adjusted for non-cash expenses such as depreciation and amortization, bad debt expense, amortizations of debt issuance costs and beneficial conversion features, 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 in operating activities increased to \$3.6 million in 2017 compared to net cash used in operating activities of \$2.1 million in 2016, an improvement of \$5.7 million. The primary reason for this change is the reduction in our net loss to \$4.9 million in 2017 compared to \$14.1 million in 2016, a \$9.2 million improvement. Our increased sales, gross margins, and ability to convert our inventory investment into cash are the primary contributors to this improvement.

Investing Activities

Net cash used in investing activities increased to \$2.0 million in 2017 compared with \$0.9 million of cash provided by investing activities for 2016. Net cash used in investing activity in 2017 consisted of tenant improvements of \$1.5 million to our new corporate facility, and \$0.5 million in equipment purchases. Net cash provided by investing activities were \$0.9 million in 2016 consisting primarily of cash received in connection with the collection of the related parties notes receivable and cash received from the sale of fixed assets.

Financing Activities

Net cash provided by financing activities decreased to \$0.1 million in 2017 compared with \$1.7 million for 2016. The primary reason for the decrease is the Company's ability to operate and expand from current operating cash flow, lowering the need for external financing. Cash flows provided by financing activities in 2017 consisted of new external convertible debt financing of \$0.8 million, repayment of convertible debt financing of \$0.5 million and insurance financing of \$0.2 million, compared with \$2.8 million of external financing and \$0.8 million of convertible debt repayment in 2016.

Liquidity

The Company's net loss decreased to \$4.9 million in 2017 compared with \$14.1 million in 2016. In addition, we had positive cash flow from operations of \$3.6 million in 2017 compared \$2.1 million of negative cash flow from operations in 2016. The decrease in net loss and improvement in cash flow from operations is primarily due to increased sales and gross margin. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations over the next year solely from current revenues and cash flow due to increased sales and because our current raw material inventory levels are sufficient to support sales through 2019, resulting in reduced cash outflow for raw material inventory purchases. In addition, we do not intend to purchase raw material inventory from our supply chain arrangements from the 2017 or 2018 crop. The Company's pharmaceutical business segment may require additional capital over the next 12 months. Management believes that it will be able to fund our drug development efforts in 2018 either through current cash flow, or, through external 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 generate sufficient cash flow or raise additional capital, the Company would likely be forced to curtail pharmaceutical development.

Off-Balance Sheet Arrangements

The Company previously had two supply arrangements with European farmers to supply raw inventory material through October 2018. Both agreements have been terminated and we do not intend to purchase raw inventory material from the 2017 or 2018 crop.

ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The full text of the Company's audited consolidated financial statements for the fiscal years ended December 31, 2017 and 2016, begins on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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.

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company’s internal control system is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company’s internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 December 31, 2017. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in its Internal Control-Integrated Framework (2013). Based on that evaluation, the Company’s management concluded that the Company’s internal controls over financial reporting were effective.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, wherein non-accelerated filers are exempt from Sarbanes-Oxley internal control audit requirements.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting identified in connection with our evaluation that occurred during the fourth quarter of the fiscal year ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The Directors and Executive Officers of the Company

Our executive officers, key employees and directors are listed in the below table. There are no arrangements, agreements or understandings between non-management security holders and management under which non-management security holders may directly or indirectly participate in or influence the management of our affairs. There are no arrangements or understandings between any director and any other person pursuant to which any director or executive officer was or is to be selected as a director or executive officer, as applicable. There currently are no legal proceedings, and, except for the SEC enforcement actions discussed in Item 3 “Legal Proceedings” above and judgment against Mr. Mona, Jr. in 2012 in connection with the lawsuit filed by Far West Industries, as previously reported by the Company in its Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2014, and other filings made by the Company pursuant to the Exchange Act and the Securities Act, during the past ten years there have been no legal proceedings that are material to the evaluation of the ability or integrity of any of our directors or director nominees.

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Director since the below date (1)</u> |
|-----------------------|------------|---|--|
| Michael Mona, Jr. (2) | 63 | Director, President and Chief Executive Officer | January 28, 2013 |
| Joseph Dowling (3) | 60 | Chief Financial Officer and Secretary | |
| Michael Mona, III (4) | 32 | Director, Chief Operating Officer | May 24, 2016 |
| Larry Raskin | 61 | Director | May 7, 2014 |
| James McNulty | 67 | Director | January 4, 2016 |
| Gary Sligar | 66 | Director | June 2, 2016 |
| Stephen M. Schmitz | 61 | Director | May 10, 2017 |
| Larry Raskin (5) | 62 | Director | May 7, 2014 |
| Bart Mackay (6) | 61 | Director | March 14, 2013 |

- (1) Each director serves until the next annual meeting of stockholders.
- (2) Elected as President and Chief Executive Officer on November 16, 2012.
- (3) Appointed as Chief Financial Officer on June 16, 2014 and Secretary on August 25, 2014.
- (4) Appointed as Chief Operating Officer on March 15, 2017.
- (5) Resigned on May 5, 2017.
- (6) Resigned on June 1, 2016.

Michael Mona, Jr. Mr. Mona, Jr. is the founder of CV Sciences and possesses more than 30 years of senior management experience in a range of industries including real estate/construction, industrial farming operations, chemical processing and consumer products. Mr. Mona, Jr. is a recognized industry leader in hemp farming operations and chemical extraction, and has established a global supply chain of hemp based products for the Company. Prior to founding CV Sciences, Mr. Mona, Jr. was an entrepreneur, founding two successful real estate/construction companies, M&M Development, Inc., where he has served as the President since 1994, and Mona Co. Development. As our President and Chief Executive Officer, Mr. Mona, Jr. is specially qualified to serve on the Board because of his detailed knowledge of our global operations and supply chain, and the end-consumer market sectors that we serve.

Joseph Dowling. Mr. Dowling was appointed as Chief Financial Officer (“CFO”) of the Company on June 16, 2014 and was appointed Secretary on August 25, 2014. Prior to his appointment as CFO, Mr. Dowling held numerous senior positions including serving as President and CFO of MediVas, LLC, a biotechnology company focused on drug formulation and delivery from 2005 to 2013 where he led day-to-day operations, drug research and development, product development and commercialization and strategic alliance building including license agreements with Pfizer, Merck, Wyeth, DSM, Guidant and Boston Scientific. Mr. Dowling served as a Managing Director in the mergers and acquisitions group at Citigroup from 2005 to 2013. Earlier in his career, Mr. Dowling served in various finance and accounting roles in both public accounting and in the banking industry. Mr. Dowling graduated from University of California, Los Angeles in Economics and is a Certified Public Accountant.

Michael Mona, III. Mr. Mona, III was appointed as Vice President of Operations on July 31, 2013 and has been instrumental in developing the worldwide supply chain for our hemp products. Mr. Mona, III was appointed as Chief Operating Officer in March 2016 and as a director of the Company on May 24, 2016. Mr. Mona, III's expertise in hemp farming, processing, testing and product development has greatly aided the Company in developing new markets for hemp-based products. Mr. Mona, III heads our consumer product business segment and also leads our efforts to bring hemp, as a viable economic crop, back to the United States through our affiliation with the Kentucky State Department of Agriculture. Prior to joining CV Sciences, Mr. Mona, III held various management positions in the real estate/construction industry including serving as a managing member of Mona Co. Development from 2009-2013. Mr. Mona, III graduated from the University of San Diego in Business Administration.

Larry Raskin. Mr. Raskin was initially appointed as a director of the Company on May 7, 2014 and resigned from this position on May 5, 2017. Mr. Raskin has been the Global Vice President of Leadership Development of ACN Inc., a telecommunications company, since 2012. Mr. Raskin joined ACN Inc. in 1994 and has held various positions in the company, including Vice President of Sales North America from 2001 to 2006 and Senior Vice President in 2012 prior to his current position. Prior to joining ACN Inc., Mr. Raskin was National Marketing Director at National Safety Associates of Memphis, Tennessee from 1988 to 1994. Mr. Raskin's extensive business background makes him a valuable member of the Board.

James McNulty. Mr. McNulty was initially appointed as a director of the Company on January 4, 2016. Mr. McNulty has served as CFO of Hopkins Capital Group, an affiliation of limited liability companies which engage in venture activities primarily in the development of pharmaceuticals, since 2000. Mr. McNulty currently serves as CEO of MYMD Pharmaceuticals, is a Director of Quantum Sciences Technology, Inc., and is CFO of Defender Pharmaceuticals, Inc., all of which are privately-held companies. Mr. McNulty was CFO of Biodelivery Sciences International, Inc. (NASDAQ: BDSI) ("BDSI") from 2000 until his retirement from BDSI in December 2014. BDSI is a specialty pharmaceutical company that is leveraging its novel and proprietary patented drug delivery technologies to develop and commercialize, either on its own or in partnerships with third parties, new applications of proven therapeutics. The development strategy focuses on utilization of the FDA's 505(b)(2) approval process to potentially obtain timely and efficient approval of new formulations of previously approved therapeutics which incorporate the company's licensed drug delivery technologies. Mr. McNulty has performed accounting and consulting services, including expert testimony as a Certified Public Accountant since 1975. Mr. McNulty chairs the Company's audit committee which was formally chartered on March 16, 2016. Mr. McNulty's knowledge of the pharmaceutical industry and technical accounting issues as well as extensive business background makes him a valuable addition to the Board.

Gary Sligar. Mr. Sligar was initially appointed as a director of the Company on June 2, 2016. Mr. Sligar's career spans 35 years in the commercial real estate industry including appraisal, commercial mortgage, property/asset management, leasing, construction and development. Since 2000, Mr. Sligar has co-owned and managed Paradise Properties LLC, a Florida-based real estate investment/development company focusing on office, retail, hotel, restaurant and multifamily properties in Southwest Florida. In 2008, Mr. Sligar founded TRECAP Partners, LLC which was subsequently acquired by Hunt Investment Management, an SEC-registered investment advisor and a subsidiary of the Hunt Companies, Inc. Mr. Sligar served as President of Hunt Investment Management until 2012 and a consultant to Hunt Investment Management from 2012 to 2014. Mr. Sligar also served on the Board of Directors of Hunt Investment Management from 2011 to 2013. Prior to Paradise Properties, LLC, Mr. Sligar was the founder and Chief Executive Officer of Compass Management and Leasing, Inc. from 1989 until its sale to Lasalle Partners in 1999. Before the formation of Compass Management and Leasing, Inc., Mr. Sligar was the Executive Vice President responsible for the New York office asset management operations for Equitable Real Estate from 1986 to 1989. Mr. Sligar is a graduate of Tulsa University and has completed certain graduate studies at the University of Houston. Mr. Sligar's extensive business background makes him a valuable member of the Board.

Stephen M. Schmitz, MD, MPH, was initially appointed as a director of the Company on May 10, 2017. Dr. Schmitz is a board certified physician with nearly 20 years of experience in the pharmaceutical industry with extensive experience in drug safety, dietary supplement safety, clinical development and regulatory affairs. He has worked for several major pharmaceutical companies in the Boston area, in the therapeutic areas of neurosciences, ophthalmology, medical devices and orphan (rare) diseases. While the focus of his pharma career has been in drug safety, he has also worked in clinical development and served as the medical monitor for numerous studies. Before entering the pharmaceutical industry, Dr. Schmitz worked in preventive medicine, and practiced family medicine and occupational medicine. Dr. Schmitz earned his B.S. in Biology from Fairfield University, an M.D. from Rutgers Medical School, and his M.P.H. from the Boston University School of Public Health. Since 2012, Dr. Schmitz has worked in drug safety for Shire, a global pharmaceutical company. Dr. Schmitz' knowledge of the pharmaceutical industry as well as extensive business background makes him a valuable addition to the Board.

Bart P. Mackay. Mr. Mackay was initially appointed as a director of the Company on March 14, 2013 and resigned as a director of the Company on June 1, 2016. Mr. Mackay is an attorney licensed since 1984 with emphasis in corporate finance, technology and entrepreneurial legal matters. Mr. Mackay has been a principal of Mackay Ventures LLC (formerly Mackay Ventures, Inc.) since 2001. Mr. Mackay has extensive experience in establishing and developing new enterprises both from management and operational aspects, including the formation and growth of several of his own ventures. Mr. Mackay's extensive business background made him a valuable member of the Board.

CORPORATE GOVERNANCE

General

We believe that good corporate governance is important to ensure that the Company is managed for the long-term benefit of our stockholders. This section describes key corporate governance practices that we have adopted.

Board of Directors Meetings and Attendance

The Board has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The primary responsibility of the Board is to oversee the management of the Company and, in doing so, serve the best interests of the Company and its stockholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. The Board also participates in decisions that have a potential major economic impact on the Company. Management keeps the directors informed of Company activity through regular communication, including written reports and presentations at Board and committee meetings.

Committees of the Board of Directors

The Company has formal Compensation and Audit Committees. All other functions of the Board, including those functions performed by a Nominating Committee, are being undertaken by the Board of Directors as a whole.

The Compensation Committee consists of all three independent Board members, James McNulty, Gary Sligar and Stephen M. Schmitz, and has established a charter that requires all members of the Compensation Committee to be “non-employee directors” for purposes of Rule 16b-3 of the Exchange Act, and satisfy the requirements of an “outside director” for purposes of Section 16(m) of the Internal Revenue Code. The Compensation Committee is responsible for overseeing and, as appropriate, making recommendations to the Board of Directors regarding the annual salaries and other compensation of our executive officers, our general employee compensation and other policies and providing assistance and recommendations with respect to our compensation policies and practices. The Compensation Committee is authorized to carry out these activities and other actions reasonably related to the Compensation Committee's purposes or assigned by the Board of Directors from time to time. The Compensation Committee's specific responsibilities are delineated in its charter.

The Audit Committee consists of James McNulty, Gary Sligar and Stephen M. Schmitz, and has established a charter that requires all members of the Audit Committee to be independent in accordance with applicable listing standards. Our securities are quoted on the OTC:QB, which does not have any director independence requirements. Further, companies with securities only listed on the OTC:QB are not required to comply with the independence standards set forth in Rule 10A-3(b)(1) of the Exchange Act. Our Board of Directors has also determined that Mr. McNulty is an “audit committee financial expert” as defined in Item 407(d) of Regulation S-K.

The Audit Committees responsibilities include: a) selecting and evaluating the performance of our independent auditors; b) reviewing the scope of the audit to be conducted by our independent auditors, as well as the result of their audit, and approving audit and non-audit services to be provided; c) reviewing and assessing our financial reporting activities and disclosure, including our earnings press releases and periodic reports, and the accounting standards and principles followed; d) reviewing the scope, adequacy and effectiveness of our internal control over financial reporting; e) reviewing management's assessment of our compliance with our disclosure controls and procedures; f) reviewing our public disclosure policies and procedures; g) reviewing our guidelines and policies regarding risk assessment and management, our tax strategy and our investment policy; h) reviewing and approving related-party transactions; and i) reviewing threatened or pending litigation matters and investigating matters brought to the committees attention that are within the scope of its duties.

We do not have a formal policy regarding the consideration of any director candidates which may be recommended by our stockholders, including the minimum qualifications for director candidates, nor has our Board established a process for identifying and evaluating director nominees, nor do we have a policy regarding director diversity. We have not adopted a policy regarding the handling of any potential recommendation of director candidates by our stockholders, including the procedures to be followed. Our Board has not considered or adopted any of these policies as we have never received a recommendation from any stockholder for any candidate to serve on our Board. We do not know if any of our stockholders will make a recommendation for any candidate to serve on our Board given the relatively small size of our company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common shares and other equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% stockholders are required by the SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based on our review of the copies of such forms received by us, and to the best of our knowledge, all executive officers, directors and persons holding greater than 10% of our issued and outstanding stock have filed the required reports in a timely manner during fiscal year 2017 with the exception of: (i) one late Form 4 filed by each of Gary Sligar, Stephen Schmitz, James McNulty, Joseph Dowling, Michael J. Mona Jr., and Michael Mona, III; and (ii) one late Form 3 filed by Stephen Schmitz. Each of the abovementioned reports contained one transaction except for one Form 4 filed by each of Mr. Mona, Jr., Mr. Dowling, Mr. Mona, III, Mr. McNulty and Dr. Schmitz, which contained two transactions.

Other Directorships

Other than as disclosed above, during the last 5 years, none of our directors held any other directorships in any company with a class of securities registered pursuant to section 12 of the Exchange Act or subject to the requirements of section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940.

Code of Ethics

We have adopted a corporate code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the code is attached as Exhibit 14.1 to this Annual Report on Form 10-K.

Family Relationships

Our Chief Operating Officer, Michael Mona, III, is the son of our President, Chief Executive Officer and Director, Michael Mona, Jr.

Compensation of Directors

We have an informal plan for compensating our directors for their services, whereby each director, other than Board members who are also Company management, receives \$500 per meeting of the Board of Directors attended in person. Each of our directors are expected in the future to receive stock grants as further compensation for their services.

| Name of Directors * indicates Independent Director | Fiscal Year | Fees earned or paid in cash (\$) | Stock Awards (\$) | Option Awards (\$) | All other Compensation \$(6) | Total (\$) |
|--|-------------|---|----------------------|--------------------------|------------------------------------|---------------|
| Bart Mackay (1) | 2017 | \$ – | \$ – | \$ – | \$ – | \$ – |
| | 2016 | \$ 500 | \$ 10,625 | \$ – | \$ 30,831 | \$ 41,956 |
| Larry Raskin (2) | 2017 | \$ 500 | \$ – | \$ – | \$ – | \$ 500 |
| | 2016 | \$ 500 | \$ – | \$ 64,138 | \$ – | \$ 64,638 |
| James McNulty (3) | 2017 | \$ 500 | \$ – | \$ 25,816 | \$ – | \$ 26,316 |
| | 2016 | \$ 1,000 | \$ – | \$ 64,138 | \$ – | \$ 65,138 |
| Gary Sligar (4) | 2017 | \$ 500 | \$ – | \$ 42,796 | \$ – | \$ 43,296 |
| | 2016 | \$ 500 | \$ – | \$ 64,138 | \$ – | \$ 64,638 |
| Stephen M. Schmitz(5) | 2017 | \$ 500 | \$ – | \$ 26,094 | \$ – | \$ 26,594 |
| | 2016 | \$ – | \$ – | \$ – | \$ – | \$ – |

(1) Resigned on June 1, 2016.

(2) Resigned on May 5, 2017.

(3) Appointed on January 4, 2016.

(4) Appointed on June 2, 2016.

(5) Appointed on May 10, 2017.

(6) Represents the Black-Scholes value for the issuance of a warrant of 100,000 shares to Bart Mackay on July 6, 2016 in recognition of his valuable service to the Company and in connection with his resignation as previously reported in the July 2016 8-K (defined below).

On June 2, 2016, the Board of Directors of the Company approved an award of 25,000 shares of common stock to Bart Mackay with a value equal to the fair market value of the Company's common stock at the time of grant. On July 6, 2016, the Board of Directors of the Company approved the issuance of a warrant for 100,000 shares to Bart Mackay. The warrant has a term of ten (10) years, was 100% vested as of the date of issuance and was issued with an exercise price equal to the fair market value of the Company's common stock at the time of issuance.

On July 6, 2016, the Board of Directors approved the grant of 200,000 stock options to each of Larry Raskin, James McNulty and Gary Sligar in recognition of such individual's respective Board service. The stock options have a term of ten (10) years, are durational-based, vesting in twenty-four (24) equal monthly installments measured from the date of grant and were granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 166,666 option shares have vested with respect to each such grant to Mr. McNulty and Mr. Sligar. On July 6, 2016, the Board of Directors of the Company approved the grant of 50,000 stock options to Larry Raskin, James McNulty and Gary Sligar. The stock options have a term of ten (10) years, are 100% vested as of the date of grant and were granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. None of the recipients has exercised any of the foregoing stock options and all of Mr. Raskin's options terminated 60 days following the date of his resignation from the Board.

Conflicts of Interest

Our directors and officers are not obligated to commit their full time and attention to our business and, accordingly, they may encounter a conflict of interest in allocating their time between our operations and those of other businesses. In the course of their other business activities, they may become aware of investment and business opportunities which may be appropriate for presentation to us as well as other entities to which they owe a fiduciary duty. As a result, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. They may in the future become affiliated with entities that are engaged in business activities similar to those we intend to conduct.

In general, officers and directors of a corporation are required to present business opportunities to the corporation if:

- the corporation could financially undertake the opportunity;
- the opportunity is within the corporation's line of business; and
- it would be unfair to the corporation and its stockholders not to bring the opportunity to the attention of the corporation.

We have adopted a code of ethics that obligates our directors, officers and employees to disclose potential conflicts of interest and prohibits those persons from engaging in such transactions without our consent.

ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes all compensation recorded by us in each of the last two completed fiscal years for our Chief Executive Officer and the two next most highly compensated officers. The value attributable to any option awards is computed in accordance with Financial Standards Accounting Board ASC Topic 718 *Share-Based-Payment* (“ASC 718”).

Summary Compensation

| Name and Principal Position | Fiscal Year | Salary (\$) | Bonus (\$) | Option Awards (\$)(1) | Non-Equity Incentive Plan Compensation (\$)(2) | All other Compensation (\$)(3) | Total (\$) |
|---|-------------|-------------|------------|-----------------------|--|--------------------------------|-------------|
| Michael Mona, Jr. <i>Chairman and CEO</i> | 2017 | \$330,000 | \$390,456 | \$313,200 | \$ 403,387 | \$ 30,736 | \$1,467,779 |
| | 2016 | \$314,808 | \$ 20,000 | \$ – | \$ 485,442 | \$ 47,560 | \$ 867,810 |
| Joseph Dowling <i>Chief Financial Officer</i> | 2017 | \$275,000 | \$175,000 | \$ 92,421 | \$ 74,071 | \$ 18,000 | \$ 634,492 |
| | 2016 | \$262,340 | \$ 20,000 | \$ – | \$ 98,745 | \$ 10,500 | \$ 391,585 |
| Michael Mona, III <i>Chief Operating Officer</i> | 2017 | \$225,000 | \$175,000 | \$107,120 | \$ 182,601 | \$ 15,793 | \$ 705,514 |
| | 2016 | \$202,212 | \$ 20,000 | \$ – | \$ 314,710 | \$ 37,915 | \$ 574,837 |

- (1) These amounts reflect the grant date fair value of stock options as determined under ASC Topic 718 and using the Black-Scholes model. The underlying valuation assumptions for stock option awards made are further disclosed in Note 10 to our consolidated financial statements filed with our Annual Reports on Form 10-K for the year ended December 31, 2017.
- (2) These amounts reflect the vesting date fair value of performance-based stock options as determined under ASC Topic 718 and using the Black-Scholes model. As further discussed below, on July 6, 2016, each of the executives was granted a performance-based option to purchase shares of the Company’s Common Stock which vest and become exercisable upon the completion of each of four defined option performance conditions. On October 5, 2016, the first performance criteria was met. On July 14, 2017, the second performance criteria was met.
- (3) These amounts reflect \$12,482 related to an auto lease and \$17,894 related to life insurance premiums paid by the Company on behalf of Michael Mona Jr, \$15,793 related to an auto lease paid by the Company on behalf of Michael Mona III and \$18,000 related to an auto allowance provided to Joseph Dowling during the year ended December 31, 2017. These amounts reflect \$36,824 related to an auto lease and \$10,736 related to a life insurance premiums paid by the Company on behalf of Michael Mona, Jr., \$37,915 related to an auto lease paid by the Company on behalf of Michael Mona III and \$10,500 related to an auto allowance provided to Joseph Dowling during the year ended December 31, 2016.

Compensation Arrangements

The Board of Directors approved a salary of \$330,000 for our President and Chief Executive Officer on July 6, 2016 in connection with the entry of the Company into an Employment Agreement with Mr. Mona, Jr. on the same date (the “Mona Employment Agreement”), as previously discussed in the Current Report on Form 8-K filed by the Company with the SEC on July 11, 2016 (the “July 2016 8-K”). During fiscal year 2017, Mr. Mona, Jr.’s total compensation was \$1,467,779. During fiscal year 2016, Mr. Mona, Jr.’s total compensation was \$867,810. On December 8, 2014, the Compensation Committee approved the grant of 4,000,000 stock options to Mr. Mona, Jr. (the “December 2014 Option”). The stock option has a term of ten (10) years, is durational based, with 67% vested as of the date of grant, and the remainder vesting in twelve (12) equal monthly installments measured from January 31, 2015, and was granted with an exercise price equal to the fair market value of the Company’s common stock at the time of the grant. On September 23, 2015, the Compensation Committee approved the grant of 1,470,000 stock options to Mr. Mona, Jr. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company’s common stock at the time of the grant. On December 28, 2015, the Compensation Committee approved the grant of 530,000 stock options to Mr. Mona, Jr. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company’s common stock at the time of grant. As previously discussed in the July 2016 8-K, on July 6, 2016, the Compensation Committee approved the grant of 6,000,000 standalone stock options to Mr. Mona, Jr. which were not granted under the Company’s Amended and Restated 2013 Equity Incentive Plan (the “Amended 2013 Plan”). As set forth in the Current Report on Form 8-K filed with the SEC on March 22, 2017 (the “March 2017 8-K”), the terms of the option were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of four defined option performance conditions. As previously reported by the Company in the March 2017 8-K, on March 15, 2017, the Board approved an amendment to the Mona Employment Agreement to provide eligibility for a cash bonus upon the occurrence of certain liquidity events of the Company as more particularly set forth in the March 2017 8-K and approved the re-pricing of the exercise price of the December 2014 Option to \$0.38 per share, which represents the fair market value of the Company’s common stock as of such date. Section 162(m) of the Internal Revenue Code of 1986, as amended, denies a deduction to any publicly-held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1.0 million, subject to certain exceptions. It is possible that compensation attributable to the standalone option awards granted to Mr. Mona, Jr. and Mr. Dowling and Mr. Mona, III, as further discussed below, when combined with all other types of compensation received by such individuals from the Company, may cause this limitation to be exceeded in any particular year. Also, as previously reported by the Company in the March 2017 8-K, on March 15, 2017, the disinterested members of the Board approved the grant of 200,000 stock options to Mr. Mona, Jr. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company’s common stock at the time of grant. Also, on March 15, 2017, as previously reported by the Company in the March 2017 8-K, the disinterested members of the Board approved the grant of 5,000,000 standalone stock options to Mr. Mona, Jr., which were not granted under the Amended 2013 Plan. The grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions.

The Board of Directors approved a salary of \$275,000 for our Chief Financial Officer on July 6, 2016 in connection with the entry of the Company into an Employment Agreement with Mr. Dowling on the same date, as previously discussed in the July 2016 8-K. During fiscal year 2017, Mr. Dowling's total compensation was \$634,492. During the fiscal year 2016, Mr. Dowling's total compensation was \$391,585. On June 16, 2014, the Compensation Committee approved the grant of 600,000 stock options to Mr. Dowling (the "Dowling October 2014 Option"). The stock option is durational-based, with 25% vested on June 16, 2015, and the remaining options vesting in 36 equal monthly installments measured from June 16, 2015, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. On May 13, 2015, the Compensation Committee approved a grant of 100,000 stock options to Mr. Dowling (the "May 2015 Option"). The stock option is durational-based, with 25% vested on May 13, 2016, and the remaining options vesting in 36 equal monthly installments. On September 23, 2015, the Compensation Committee approved the grant of 200,000 stock options to Mr. Dowling. The stock option has a term of ten (10) years, is durational based, with 50% vesting on the one-year anniversary date of grant, and the remainder vesting in twelve (12) equal monthly installments measured from September 23, 2016, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. On December 28, 2015, the Compensation Committee approved the grant of 150,000 stock options to Mr. Dowling. The stock option is durational-based, with 50% of the shares subject to the option vested on September 23, 2016 and the remaining options vesting in twelve (12) successive equal monthly installments measured from September 23, 2016, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As previously discussed in the July 2016 8-K, on July 6, 2016, the Compensation Committee approved the grant of 1,000,000 standalone stock options to Mr. Dowling which were not granted under the Amended 2013 Plan. As set forth in the March 2017 8-K, the terms of the options were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of four defined option performance conditions. As previously reported by the Company in the March 2017 8-K, on March 15, 2017, the Board approved the re-pricing of the exercise price of the Dowling October 2014 Option and May 2015 Option to \$0.38 per share, which represents the fair market value of the Company's common stock as of such date. Also, as previously reported by the Company in the March 2017 8-K, on March 15, 2017, the Board approved the grant of 100,000 stock options to Mr. Dowling. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. As previously discussed in the Current Report on Form 8-K filed with the SEC on April 12, 2017 (the "April 2017 8-K"), on April 7, 2017, the Compensation Committee approved the grant of 1,000,000 standalone stock options to Mr. Dowling which were not granted under the Amended 2013 Plan. As set forth in the April 2017 8-K, the terms of the options were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions.

The Board of Directors approved a salary of \$225,000 for our Chief Operating Officer on July 6, 2016 in connection with the entry of the Company into an Employment Agreement with Mr. Mona, III on the same date (the "Mona III Employment Agreement") as previously discussed in the July 2016 8-K. During fiscal year 2017, Mr. Mona, III's total compensation was \$705,514. During fiscal year 2016, Mr. Mona, III's total compensation was \$574,837. On October 1, 2014, the Compensation Committee approved the grant of 500,000 stock options to Mr. Mona, III (the "Mona III October 2014 Option"). The stock option has a term of ten (10) years, is durational-based, with 125,000 option shares vested on June 16, 2015, and the remaining option shares vesting in thirty-six (36) equal monthly installments measured from June 16, 2015, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. On January 2, 2015, the Compensation Committee approved the award of 250,000 shares of common stock to the Company's Vice President of Operations, Michael Mona, III, with a value equal to the fair market value of the Company's common stock at the time of the award. On September 23, 2015, the Compensation Committee approved the grant of 343,000 stock options to Mr. Mona, III. The stock option has a term of ten (10) years, is durational based, with 50% vesting on the one-year anniversary date of grant, and the remainder vesting in twelve (12) equal monthly installments measured from September 23, 2016, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As previously discussed in the July 2016 8-K, on July 6, 2016, the Compensation Committee approved the grant of 4,000,000 standalone stock options to Mr. Mona, III which were not granted under the Amended 2013 Plan. As set forth in the March 2017 8-K, the terms of the options were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of four defined option performance conditions. As previously reported by the Company in the March 2017 8-K, on March 15, 2017, the Board approved an amendment to the Mona III Employment Agreement to provide eligibility for a cash bonus upon the occurrence of certain liquidity events of the Company as more particularly set forth in the March 2017 8-K and approved the re-pricing of the exercise price of the Mona III October 2014 Option to \$0.38 per share, which represents the fair market value of the Company's common stock as of such date. Also, as previously reported by the Company in the March 2017 8-K, on March 15, 2017, the disinterested members of the Board approved the grant of 100,000 stock options to Mr. Mona, III. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. As previously discussed in the April 2017 8-K, on April 7, 2017, the Compensation Committee approved the grant of 1,000,000 standalone stock options to Mr. Mona, III which were not granted under the Amended 2013 Plan. As set forth in the April 2017 8-K, the terms of the options were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions.

Option Grants

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. As of December 31, 2017, the Company had 9,176,723 of authorized unissued shares reserved and available for issuance under the Amended 2013 Plan.

Outstanding Equity Awards at Fiscal Year End

The following table provides a summary of all outstanding equity awards for Named Executive Officers at the end of fiscal year 2017.

| Name | Award Grant and Commencement of Vesting Date | Option Awards | | Option exercise price (\$) | Option Expiration Date |
|---|--|--|--|----------------------------|------------------------|
| | | Number of securities underlying unexercised option (#) exercisable | Number of securities underlying unexercised option (#) unexercisable | | |
| Michael Mona, Jr. <i>Chairman, CEO</i> | 12/8/2014 | 4,000,000 | – | \$ 0.38 | 12/8/2024 |
| | 9/23/2015 | 1,470,000 | – | \$ 0.73 | 9/23/2025 |
| | 10/28/2015 | 530,000 | – | \$ 0.16 | 10/28/2025 |
| | 10/5/2016 | 1,500,000 | – | \$ 0.37 | 7/5/2026 |
| | 3/15/2017 | 200,000 | – | \$ 0.38 | 3/15/2027 |
| | 7/14/2017 | 1,500,000 | – | \$ 0.37 | 7/5/2026 |
| | 7/14/2017 | 1,250,000 | – | \$ 0.38 | 3/15/2027 |
| Joseph Dowling <i>Chief Financial Officer</i> | 10/1/2014 | 524,940 | 75,060 | \$ 0.38 | 10/1/2024 |
| | 5/21/2015 | 64,577 | 35,423 | \$ 0.38 | 5/21/2025 |
| | 9/23/2015 | 200,000 | – | \$ 0.73 | 9/23/2025 |
| | 12/28/2015 | 150,000 | – | \$ 0.16 | 12/28/2025 |
| | 10/5/2016 | 250,000 | – | \$ 0.37 | 7/5/2026 |
| | 3/15/2017 | 100,000 | – | \$ 0.38 | 3/15/2027 |
| | 7/14/2017 | 250,000 | – | \$ 0.37 | 7/5/2026 |
| 7/14/2017 | 250,000 | – | \$ 0.38 | 3/15/2027 | |
| Michael Mona, III <i>Chief Operating Officer</i> | 10/1/2014 | 500,000 | – | \$ 0.38 | 10/1/2024 |
| | 9/23/2015 | 343,000 | – | \$ 0.73 | 9/23/2025 |
| | 10/5/2016 | 1,000,000 | – | \$ 0.37 | 7/5/2026 |
| | 3/15/2017 | 100,000 | – | \$ 0.38 | 3/15/2027 |
| | 7/14/2017 | 1,000,000 | – | \$ 0.37 | 7/5/2026 |
| | 7/14/2017 | 250,000 | – | \$ 0.38 | 3/15/2027 |

Pension, Retirement or Similar Benefit Plans

There are no arrangements or plans in which we provide pension, retirement or similar benefits to our directors or executive officers. We have no material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers, except that stock options may be granted at the discretion of the Board or a committee thereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership of Directors, Officers and 5% Stockholders

Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or become exercisable within 60 days are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. The following table sets forth, as of March 29, 2018, certain information as to shares of our common stock owned by (i) each person known to beneficially own more than five percent of our outstanding common stock or preferred stock, (ii) each of our directors, and executive officers named in our summary compensation table, and (iii) all of our executive officers and directors as a group. Unless otherwise indicated, the address of each named beneficial owner is the same as that of our principal executive offices located at 2688 South Rainbow Boulevard, Suite B, Las Vegas, NV 89146.

| Name and Address of Beneficial Owner (1) | Number of Shares of Common Stock Beneficially Owned (2) | Percent of Common Stock Beneficially Owned |
|---|---|---|
| Mai Dun Limited (3) | 5,463,162 | 6.0% |
| Mackay Ventures, LLC (4) | 6,027,094 | 6.7% |
| Michael Mona III (5) | 4,912,583 | 5.3% |
| Joseph Dowling (6) | 1,658,332 | 1.7% |
| Michael Mona, Jr (7) | 10,450,000 | 10.3% |
| Bart Mackay (8) | 6,256,726 | 7.0% |
| James McNulty (9) | 1,778,831 | 2.0% |
| Gary Sligar (10) | 333,331 | * |
| Stephen Schmitz (11) | 1,175,998 | 1.3* |
| All executive officers and directors as a group (six persons) | 20,309,075 | 19.2% |

*Less than 1%

- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Pursuant to the rules of the SEC, shares of our common stock that each named person and group has the right to acquire within 60 days pursuant to options, warrants, or other rights, are deemed outstanding for purposes of computing shares beneficially owned by the percentage ownership of each such person and group. Applicable percentages are based on 90,512,653 shares of our common stock outstanding on March 29, 2018, and are calculated as required by rules promulgated by the SEC.
- (2) Unless otherwise noted, all shares listed are owned of record and the record owner has sole voting and investment power, subject to community property laws where applicable.
- (3) Representing Mai Dun Limited, LLC's direct ownership of 5,463,162 shares. The address of Mai Dun Limited, LLC is 6325 S. Jones Blvd., Suite 500, Las Vegas, Nevada 89118.
- (4) Beneficial ownership of Mackay Ventures LLC is reported based upon its direct ownership of 618,564 shares and its 99% ownership in Mai Dun Limited, LLC. The address of Mackay Ventures LLC is 6325 S. Jones Blvd., Suite 500, Las Vegas, Nevada 89118.

- (5) Michael Mona, III owns 980,000 shares of record, is a beneficial owner and beneficiary of Mik Nik Trust, which owns 750,000 shares, and on October 1, 2014 was granted a stock option to purchase 500,000 shares of common stock. The stock option has a term of ten (10) years, is durational-based, with 125,000 option shares vested as of June 16, 2015, and the remaining option shares vesting in thirty-six (36) equal monthly increments (such vesting schedule was modified from the original vesting schedule in connection with the re-pricing of the exercise price of such option as set forth in the March 2017 8-K). As of March 29, 2018, 468,750 of the option shares have vested and 20,833 will vest within 60 days. In September 2015, the Compensation Committee approved the grant of 343,000 stock options to Mr. Mona, III. The stock option has a term of ten (10) years, is durational based, with 50% vesting on the one year anniversary date of grant, and the remainder vesting in twelve (12) equal monthly installments measured from September 23, 2016, and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As of March 29, 2018, 100% of the option shares have vested. On July 6, 2016, Mr. Mona, III was granted a standalone option to purchase 4,000,000 shares of the Company's common stock, which was not granted under the Amended 2013 Plan. The option is performance-based, and vests and becomes exercisable upon the completion of each of four defined option performance conditions. On October 5, 2016, the first performance criterion was met resulting in vesting of the option as to 1,000,000 shares. On July 14, 2017, the second performance criterion was met resulting in vesting of the option as to 1,000,000 shares. On March 15, 2017, Mr. Mona III was granted a stock option to purchase 100,000 shares of common stock. The stock option has a term of ten (10) years, is durational-based, was fully-vested on the grant date and has an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 100% of the option shares have vested. In April 2017, the disinterested members of the Board approved a grant of 1,000,000 performance-based stock options to purchase shares of the Company's common stock to Mr. Mona, III, which were not granted under the Amended 2013 Plan. The option is performance-based, and vests and becomes exercisable upon the completion of each of three defined option performance conditions. On July 14, 2017, the first performance criterion was met resulting in vesting of the option as to 250,000 shares. As of March 29, 2018, 250,000 shares have vested.
- (6) On October 16, 2014, the Compensation Committee approved the grant of 600,000 stock options to Mr. Dowling. The stock option is durational-based, with 25% vested on June 16, 2015, and the remaining options vesting in 36 equal monthly installments. As of March 29, 2018, 562,500 option shares have vested and another 25,000 shares will vest within 60 days. On May 13, 2015, the Compensation Committee approved a grant of 100,000 stock options to Mr. Dowling. The stock option is durational-based, with 25% vested on May 13, 2016, and the remaining options vesting in 36 equal monthly installments. As of March 29, 2018, 66,666 option shares have vested and 4,166 option shares will vest within 60 days. In December 2015, the Compensation Committee approved the grant of 150,000 stock options to Mr. Dowling. The stock option is durational-based, with 50% of the shares subject to the option vested on September 23, 2016 and the remaining options vesting in twelve (12) successive equal monthly installments measured from September 23, 2016. As of March 29, 2018, 100% of the option shares have vested. On July 6, 2016, Mr. Dowling was granted a standalone option to purchase 1,000,000 shares of the Company's common stock, which was not granted under the Amended 2013 Plan. The option is performance-based, and vests and becomes exercisable upon the completion of each of four defined option performance conditions. On October 5, 2016, the first performance criterion was met resulting in vesting of the option as to 250,000 shares. On July 14, 2017, the second performance criterion was met resulting in vesting of the option as to 250,000 shares. On March 15, 2017, Mr. Dowling was granted a stock option to purchase 100,000 shares of common stock. The stock option has a term of ten (10) years, is durational-based, was fully-vested on the grant date and has an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 100% of the option shares have vested. In April 2017, the disinterested members of the Board approved a grant of 1,000,000 performance-based stock options to purchase shares of the Company's common stock to Mr. Dowling, which were not granted under the Amended 2013 Plan. The option is performance-based, and vests and becomes exercisable upon the completion of each of three defined option performance conditions. On July 14, 2017, the first performance criterion was met resulting in vesting of the option as to 250,000 shares. As of March 29, 2018, 250,000 shares have vested.
- (7) On December 8, 2014, the Compensation Committee approved the grant of 4,000,000 stock options to Michael Mona, Jr., the Company's President and Chief Executive Officer (the "December 2014 Option"). The stock option is durational-based, with 67% vested as of the date of grant and the remainder vesting in twelve (12) equal monthly installments measured from January 31, 2015. In September 2015, the Compensation Committee approved the grant of 1,470,000 stock options to Mr. Mona. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As of March 29, 2018, both grants were fully vested and 5,470,000 option shares have vested under both grants. In December 2015, the Compensation Committee approved the grant of 530,000 stock options to Mr. Mona. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 530,000 option shares have vested. Pursuant to the Decree issued by the Court, the Court awarded 3,000,000 shares of the December 2014 Option to Ms. Rhonda Mona, the ex-wife of Mr. Mona. Pursuant to the Amended 2013 Plan, the stock options to purchase shares of common stock granted under the Amended 2013 Plan may not be transferred, however, pursuant to the Decree. Mr. Mona believes that Ms. Mona has shared beneficial ownership of 3,000,000 of the shares of the Company's common stock that would be acquired upon exercise of the option. On July 6, 2016, Mr. Mona, Jr. was granted a standalone option to purchase 6,000,000 shares of the Company's common stock, which was not granted under the Amended 2013 Plan. The option is performance-based, and vests and becomes exercisable upon the completion of each of four defined option performance conditions. On October 5, 2016, the first performance criterion was met resulting in vesting of the option as to 1,500,000 shares. On July 14, 2017, the second performance criterion was met resulting in vesting of the option as to 1,500,000 shares. On March 15, 2017, Mr. Mona, Jr. was granted a stock option to purchase 200,000 shares of common stock. The stock option has a term of ten (10) years, is durational-based, was fully-vested on the grant date and has an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 100% of the option shares have vested. Also, on March 15, 2017, the disinterested members of the Board approved the grant of 5,000,000 standalone stock options to Mr. Mona, Jr., which were not granted under the Amended 2013 Plan. The grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions. On July 14, 2017, the first performance criterion was met resulting in vesting of the option as to 1,250,000 shares. As of March

29, 2018, 1,250,000 shares have vested.

- (8) Beneficial ownership of Bart Mackay is reported based upon his direct ownership of 75,000 shares, his 100% ownership in Mackay Ventures, LLC and his 1% interest in Mai Dun Limited, LLC. Bart Mackay is deemed to have shared voting and investment power over the shares of the Company's common stock owned by each of Mai Dun Limited, LLC and Mackay Ventures LLC. On July 6, 2016, the Board approved the issuance of a common stock purchase warrant to Mr. Mackay with the right to purchase up to 100,000 shares of the Issuer's Common Stock (the "Warrant"). The Warrant was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, all 100,000 warrant shares have vested. The address of Bart Mackay is 6325 S. Jones Blvd., Suite 500, Las Vegas, Nevada 89118.
- (9) Mr. McNulty acquired 50,000 shares pursuant to the CanX purchase agreement at the closing of the transactions contemplated thereby and 45,000 shares subsequently in October 2016 upon achievement of the first milestone as contemplated by the Purchase Agreement. Mr. McNulty was a shareholder of CanX, and acquired his shares of the Company in exchange pursuant to the merger transaction. On July 6, 2016, the Board approved the grant of 50,000 stock options to Mr. McNulty. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As of March 29, 2018, all 50,000 option shares have vested, and Mr. McNulty has not exercised any stock options. On July 6, 2016, the Board approved a grant of 200,000 stock options to Mr. McNulty. The stock option has a term of ten (10) years, is durational-based vesting in twenty-four (24) equal monthly installments measured from July 6, 2016 and an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 166,665 shares have vested and another 16,666 will vest within 60 days, and Mr. McNulty has not exercised any stock options. On April 12, 2017, Mr. McNulty acquired 1,450,500 shares of common stock of the Company pursuant to the Purchase Agreement Amendment and an agreement regarding share allocation amongst the former CanX shareholders. Mr. McNulty was a shareholder of CanX and acquired these shares pursuant to the issuance of the additional contingent consideration by the Company without the Company having achieved the remaining post-closing milestones and the revisions to the buy-out option of the Company for the royalty payments otherwise due to the former shareholders of CanX.
- (10) On July 6, 2016, the Board approved the grant of 50,000 stock options to Mr. Sligar. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As of March 29, 2018, all 50,000 option shares have vested, and Mr. Sligar has not exercised any stock options. On July 6, 2016, the Board approved a grant of 200,000 stock options to Mr. Sligar. The stock option has a term of ten (10) years, is durational-based vesting in twenty-four (24) equal monthly installments measured from July 6, 2016 and an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 166,665 shares have vested and another 16,666 will vest within 60 days, and Mr. Sligar has not exercised any stock options. On July 14, 2017, the Board approved a grant of 100,000 stock options to Mr. Sligar. The stock option has a term of ten (10) years, was 100% vested as of the date of grant and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant. As of March 29, 2018, all 100,000 shares have vested and Mr. Sligar has not exercised any stock options.
- (11) Beneficial ownership of Stephen Schmitz is reported based upon his direct ownership of 920,000 shares and his indirect ownership of 56,000 shares which are held in the name of his adult son who resides part-time with Dr. Schmitz. Dr. Schmitz disclaims beneficial ownership of the shares held by his son as such shares are in a custodial account for which Dr. Schmitz ex-wife serves as the custodian. On May 16, 2017, the Board approved the grant of 250,000 stock options to Dr. Schmitz. The stock option has a term of ten (10) years and was granted with an exercise price equal to the fair market value of the Company's common stock at the time of the grant, with 50,000 option shares vested as of the date of grant, and the remaining 200,000 shares vesting in twenty-four (24) equal monthly installments measured from May 16, 2017. As of March 29, 2018, 133,333 shares have vested and another 16,666 will vest within 60 days. On December 1, 2017, the Board approved the grant of 200,000 stock options to Dr. Schmitz. The stock option has a term of ten (10) years, is durational-based vesting in twenty-four (24) equal monthly installments measured from November 13, 2017 and an exercise price equal to the fair market value of the Company's common stock at the time of grant. As of March 29, 2018, 33,333 shares have vested and another 16,666 will vest within 60 days, and Dr. Schmitz has not exercised any stock options.

EQUITY COMPENSATION PLAN INFORMATION

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. The information set forth in the table below is provided as of December 31, 2017. As previously discussed in the July 2016 8-K and above, on July 6, 2016, the Compensation Committee approved the grant of 6,000,000 standalone stock options to Mr. Mona, Jr., 4,000,000 standalone stock options to Mr. Mona, III, and 1,000,000 standalone options to Mr. Dowling, which were not granted under the Amended 2013 Plan. As set forth in the March 2017 8-K, the terms of the options were subsequently amended and each grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of four defined option performance conditions. Additionally on March 15, 2017, the disinterested members of the Board approved the grant of 5,000,000 standalone stock options to Mr. Mona, Jr., which were not granted under the Amended 2013 Plan. The grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions. As previously discussed in the April 2017 8-K, on April 7, 2017, the Compensation Committee approved the grant of 1,000,000 standalone stock options to each of Mr. Dowling and Mr. Mona, III which were not granted under the Amended 2013 Plan. As set forth in the April 2017 8-K, the terms of the options were subsequently amended and the stock grant has a term of ten (10) years, is performance-based, with the option shares vesting upon the completion of each of three defined option performance conditions.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrant and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column) |
|--|---|--|---|
| Equity compensation plans approved by security holders | 12,084,662 | \$ 0.50 | 12,915,338 |
| Equity compensation plans not approved by security holders | 7,250,000 | 0.37 | – |
| | <u>19,334,662</u> | <u>\$ 0.45</u> | <u>12,915,338</u> |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Except for the transactions described below, none of our directors, officers or principal shareholders, nor any associate or affiliate of the foregoing, have any interest, direct or indirect, in any transaction or in any proposed transaction since January 1, 2017 which materially affects the Company or has affected the Company.

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 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 in exchange for 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 a portion of the consideration paid to the former CanX shareholders pursuant to the Amendment and an agreement regarding share allocation amongst the former CanX shareholders. During the year ended December 31, 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 Consolidated Statement of Operations.

In March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board approved the grant of 5,000,000 performance-based stock options (the "Mona Performance Options") to purchase shares of the Company's common stock to the Company's CEO and member of the Board, Mr. Mona, Jr. 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. As of March 29, 2018, 1,250,000 shares have vested.

In March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board approved a grant of an aggregate of 200,000 fully-vested stock options to purchase shares of the Company's common stock to Mr. Mona, Jr., 100,000 to Mr. Dowling and 100,000 to Mr. Mona, III pursuant to the bonus plan set forth in the executives Employment Agreements for fiscal year 2016 performance.

Also, in March 2017, as further set forth in the March 2017 8-K, the disinterested members of the Board, as the administrator of the Amended 2013 Plan, approved the amendment to certain stock options granted to employees of the Company, including certain options granted to each of Mr. Mona, Jr., Mr. Dowling and Mr. Mona, III, 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 Mr. Mona, Jr., Mr. Dowling and Mr. Mona, III, 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 April 2017, the disinterested members of the Board approved a grant of 1,000,000 performance-based stock options to purchase shares of the Company's common stock to each of Mr. Dowling, the Company's CFO, and Mr. Mona, III, the Company's Chief Operating Officer and a 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. As of March 29, 2018, 250,000 shares of each such option have vested.

There have been no other transactions since the beginning of our last fiscal year or any currently proposed transactions in which we are, or plan to be, a participant and the amount involved exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

Director Independence

Our securities are quoted on the OTC:QB, which does not have any director independence requirements. However, the Board of Directors has determined that three members of our Board, Dr. Schmitz, Mr. McNulty and Mr. Sligar, are independent under the New York Stock Exchange Listing Manual with regards to both their service on the Board and on each of the Audit and Compensation Committees and made the same determination regarding our former Board member, Mr. Raskin (who previously served on the Compensation Committee).

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the fees, as applicable, of Tanner LLC (“Tanner”) our independent auditors for the years ended December 31, 2017 and 2016, respectively; billed to us for each of the last two fiscal years for audit services and billed to us in each of the last two years for other services:

| Fee Category | 2017 | 2016 |
|------------------------|-------------------|------------------|
| Audit Fees (1) | \$ 175,642 | \$ 82,539 |
| Audit Related Fees (2) | – | – |
| Tax Fees (3) | – | – |
| All Other Fees (4) | – | – |
| | <u>\$ 175,642</u> | <u>\$ 82,539</u> |

As set forth in the Current Report on Form 8-K filed by the Company with the SEC on February 24, 2017 (the “February 2017 8-K”), on February 23, 2017, PKF Certified Public Accountants (“PKF”), a Professional Corporation, resigned as the independent registered public accounting firm of the Company. As further set forth in the February 2017 8-K, on February 23, 2017, the Company’s Board approved the engagement of Tanner as its independent registered public accounting firm in connection with the audit for the fiscal year ended December 31, 2016. In addition to the amounts reported above as paid to Tanner, additional amounts were paid to PKF for audit and other fees in connection with the audit of the Company’s financial statements for the fiscal year ended December 31, 2016. The following table summarizes the fees, as applicable, of PKF for the years ended December 31, 2017 and 2016, respectively; billed to us for each of the last two fiscal years for audit services and billed to us in each of the last two years for other services (which are in addition to the amounts set forth above):

| Fee Category | 2017 | 2016 |
|------------------------|-------------|-------------------|
| Audit Fees (1) | \$ – | \$ 77,000 |
| Audit Related Fees (2) | – | 47,056 |
| Tax Fees (3) | – | 730 |
| All Other Fees (4) | – | 25,025 |
| | <u>\$ –</u> | <u>\$ 149,811</u> |

(1) Audit fees includes the audit of our annual financial statements, review of financial statements included in our Form 10-Q quarterly reports and services that are normally provided by the independent auditors in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

(2) Audit-related fees consist of assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees. The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC and other accounting consulting.

(3) Tax fees consist of professional fees rendered by our outside tax advisors (other than PKF or Tanner) for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical advice.

(4) All other fees consist of fees for other miscellaneous items.

Our Audit Committee has adopted a procedure for pre-approval of all fees charged by our independent auditors. Under the procedure, the Audit Committee approves the engagement letter with respect to audit and review services. Other fees are subject to pre-approval by the Audit Committee, or, in the period between meetings, by a designated member of the Board of Directors or Audit Committee. Any such approval by the designated member is disclosed to the entire Board of Directors at the next meeting. The audit fees paid to the auditors with respect to 2017 and 2016 were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Please see the Exhibit Index which follows the signature page to this annual report on Form 10-K and which is incorporated by reference herein.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
Dated March 29, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|----------------|
| <u>/s/ Michael Mona, Jr.</u> Michael Mona, Jr. | President, Chief Executive Officer and Director | March 29, 2018 |
| <u>/s/ Michael Mona, III</u> Michael Mona, III | Chief Operating Officer and Director | March 29, 2018 |
| <u>/s/ James McNulty</u> James McNulty | Director | March 29, 2018 |
| <u>/s/ Gary Sligar</u> Gary Sligar | Director | March 29, 2018 |
| <u>/s/ Stephen Schmitz</u> Stephen Schmitz | Director | March 29, 2018 |
| <u>/s/ Joseph D. Dowling</u> Joseph D. Dowling | Chief Financial Officer | March 29, 2018 |

EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
|--------------------|---|
| 2.1 (1) | Agreement and Plan of Merger, dated as of July 25, 2013, by and between CannaVest Corp., a Texas corporation, and CannaVest Corp., a Delaware corporation. |
| 3.1 (1) | Certificate of Incorporation of CannaVest Corp., as filed on January 26, 2013. |
| 3.2 (1) | Bylaws of CannaVest Corp., dated as of January 26, 2013. |
| 3.3(2) | Certificate of Amendment to Certificate of Incorporation of CannaVest Corp., as filed on January 4, 2016 |
| 3.4(3) | Certificate of Incorporation of the Company, as amended. |
| 3.5(4) | Certificate of Amendment to the Bylaws of the Company, as amended. |
| 3.6(15) | Certificate of Amendment to the Bylaws of the Company, as amended. |
| 3.7(14) | Bylaws of the Company, as amended. |
| 4.1 (6) | CannaVest Corp. Specimen Stock Certificate |
| 10.1(7) | Form of Stock Option Award Grant Notice and Form of Stock Award Agreement. |
| 10.2(8) | Agreement and Plan of Merger, dated December 30, 2015, by and among the Company, CANNAVEST Merger Sub, Inc., CANNAVEST Acquisition LLC, CanX, Inc. and The Starwood Trust. |
| 10.3(9) | Promissory Note, dated January 29, 2016, issued by the Company to Wiltshire, LLC. |
| 10.4(9) | Common Stock Purchase Warrant, dated January 29, 2016, issued by the Company to Wiltshire, LLC. |
| 10.5(10) | Form of Common Stock Purchase Warrant, issued by the Company to Bart Mackay, dated July 6, 2016. |
| 10.6(11) | Amended and Restated 2013 Equity Incentive Plan, as amended. |
| 10.7(12) | Employment Agreement, dated July 6, 2016, by and between the Company and Michael J. Mona, Jr. |
| 10.8(12) | Employment Agreement, dated July 6, 2016, by and between the Company and Joseph Dowling |
| 10.9(12) | Employment Agreement, dated July 6, 2016, by and between the Company and Michael Mona, III. |
| 10.10(12) | Non-Qualified Stock Option Agreement, by and between the Company and Michael J. Mona, Jr., dated July 6, 2016. |
| 10.11(12) | Non-Qualified Stock Option Agreement, by and between the Company and Joseph Dowling, dated July 6, 2016. |
| 10.12(12) | Non-Qualified Stock Option Agreement, by and between the Company and Michael Mona, III, dated July 6, 2016. |
| 10.13(13) | Form of Securities Purchase Agreement, dated March 1, 2017, by and between the Company and Iliad Research and Trading, L.P. |
| 10.14(13) | Form of Secured Convertible Promissory Note, issued by the Company on March 1, 2017, to Iliad Research and Trading, L.P. |
| 10.15(13) | Security Agreement, dated March 1, 2017, by and between the Company and Iliad Research and Trading, L.P. |
| 10.16(14) | Amendment No. 1 dated March 16, 2017, to the Agreement and Plan of Reorganization by and among the Company, CANNAVEST Merger Sub, Inc., CANNAVEST Acquisition LLC, CanX, Inc. and the Starwood Trust. |
| 10.17(14) | Amendment dated March 16, 2017, to Employment Agreement by and between the Company and Michael Mona, Jr. |
| 10.18(14) | Amendment dated March 16, 2017, to Employment Agreement by and between the Company and Michael Mona, III. |
| 10.19(14) | Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Michael Mona, Jr. |
| 10.20(14) | Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Joseph Dowling. |
| 10.21(14) | Amendment dated March 16, 2017, to Non-Qualified Stock Option Agreement, dated July 6, 2016, by and between the Company and Michael Mona, III. |
| 10.22(14) | Non-Qualified Stock Option Agreement, dated March 16, 2017, by and between the Company and Michael Mona, Jr. |
| 10.23* | Non-Qualified Stock Option Agreement, dated April 7, 2017, by and between the Company and Joseph Dowling. |
| 10.24* | Non-Qualified Stock Option Agreement, dated April 7, 2017, by and between the Company and Michael Mona, III. |
| 14.1(16) | CV Sciences, Inc. Code of Ethics. |
| 16.1(17) | Letter from PFK to the Securities and Exchange Commission, dated February 24, 2017 |
| 21.1* | List of Subsidiaries |
| 23.1* | Consent of Independent Registered Public Accounting Firm |
| 31.1* | Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 INS | XBRL Instance Document** |
| 101 SCH | XBRL Schema Document** |
| 101 CAL | XBRL Calculation Linkbase Document** |
| 101 LAB | XBRL Labels Linkbase Document** |
| 101 PRE | XBRL Presentation Linkbase Document** |
| 101 DEF | XBRL Definition Linkbase Document** |

* Filed herewith.

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

- (1) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on August 13, 2013.
- (2) Incorporated by reference from an exhibit to our Annual Report on Form 10-K filed on April 14, 2016.
- (3) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on May 16, 2016.
- (4) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on May 26, 2016.
- (5) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on August 12, 2016.
- (6) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on July 31, 2013.
- (7) Incorporated by reference from an exhibit to our Form S-8 filed on October 6, 2014.
- (8) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on January 4, 2016.
- (9) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on February 3, 2016.
- (10) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on July 11, 2016.
- (11) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on October 26, 2016.
- (12) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on November 1, 2016.
- (13) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on March 7, 2017.
- (14) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on May 9, 2017.
- (15) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on March 22, 2017.
- (16) Incorporated by reference from an exhibit to our Annual Report on Form 10-K filed on March 31, 2017.
- (17) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on February 24, 2017.

CV Sciences, Inc. and Subsidiaries
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
CV Sciences, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CV Sciences, Inc. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and 2016, and the results of its operations and its cash flows for each of the years in the two-years ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Tanner LLC

We have served as the Company’s auditors since 2016

March 29, 2018
Salt Lake City, Utah

CV SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | As of December 31, | |
|---|---------------------------|----------------------|
| | 2017 | 2016 |
| Assets | | |
| Current assets: | | |
| Cash (Note 2) | \$ 2,012,965 | \$ 781,857 |
| Restricted cash (Note 2) | 778,579 | 275,611 |
| Accounts receivable, net (Note 2) | 1,507,824 | 360,475 |
| Inventory (Note 3) | 2,822,585 | 2,851,772 |
| Prepaid expenses and other current assets | 813,218 | 551,395 |
| Total current assets | 7,935,171 | 4,821,110 |
| Accounts receivable (Note 2) | – | 389,723 |
| Inventory (Note 3) | 5,667,101 | 6,478,727 |
| Other assets | 400,000 | – |
| Property & equipment, net (Note 2) | 2,083,433 | 242,702 |
| Intangibles, net (Note 6) | 3,836,200 | 3,871,600 |
| Goodwill (Note 6) | 2,788,300 | 2,788,300 |
| Total other assets | 14,775,034 | 13,771,052 |
| Total assets | \$ 22,710,205 | \$ 18,592,162 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 678,271 | \$ 523,581 |
| Accrued expenses (Note 4) | 1,931,920 | 378,218 |
| Secured convertible promissory notes payable, net (Note 7) | 609,926 | 1,897,976 |
| Unsecured note payable (Note 7) | 116,370 | 125,964 |
| Derivative liability (Note 7) | – | 222,800 |
| Total current liabilities | 3,336,487 | 3,148,539 |
| Non-current liabilities: | | |
| Unsecured note payable, net (Note 7) | 850,000 | 679,174 |
| Deferred rent (Note 11) | 1,067,459 | – |
| Deferred tax liability (Notes 5 and 13) | 1,074,800 | 1,556,300 |
| Total liabilities | 6,328,746 | 5,384,013 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity (Note 9) | | |
| Preferred stock, par value \$0.0001; 10,000,000 shares authorized; no shares issued and outstanding | – | – |
| Common stock, par value \$0.0001; 190,000,000 shares authorized; 90,512,563 and 57,617,545 shares issued and outstanding as of December 31, 2017 and 2016, respectively | 9,051 | 5,762 |
| Additional paid-in capital | 51,400,336 | 43,333,176 |
| Accumulated deficit | (35,027,928) | (30,130,789) |
| Total stockholders' equity | 16,381,459 | 13,208,149 |
| Total liabilities and stockholders' equity | \$ 22,710,205 | \$ 18,592,162 |

See accompanying notes to consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | |
|---|---|------------------------|
| | 2017 | 2016 |
| Product sales, net | \$ 20,679,239 | \$ 11,060,636 |
| Cost of goods sold | 6,190,575 | 4,063,001 |
| Gross Profit | <u>14,488,664</u> | <u>6,997,635</u> |
| Operating expenses: | | |
| Selling, general and administrative | (16,252,376) | (13,129,950) |
| Research and development | (724,329) | (1,159,009) |
| | <u>(16,976,705)</u> | <u>(14,288,959)</u> |
| Royalty buy-out (Note 6) | (2,432,000) | – |
| Gain on change in derivative liability (Note 7) | 248,875 | 147,200 |
| Loss on extinguishment of debt | (188,822) | – |
| Impairment of inventory (Note 3) | – | (3,562,459) |
| Impairment of PhytoSPHERE goodwill and intangible assets (Note 6) | – | (2,746,512) |
| Gain on collection of related party notes receivable | – | 379,486 |
| | <u>(19,348,652)</u> | <u>(20,071,244)</u> |
| Operating Loss | <u>(4,859,988)</u> | <u>(13,073,609)</u> |
| Other (expense) income: | | |
| Interest income | 2 | 27,658 |
| Interest expense | (506,384) | (1,086,793) |
| Other | (12,269) | (8,554) |
| Total Other Expense | <u>(518,651)</u> | <u>(1,067,689)</u> |
| Loss before income taxes benefit | (5,378,639) | (14,141,298) |
| Income tax benefit | 481,500 | – |
| Net Loss | <u>\$ (4,897,139)</u> | <u>\$ (14,141,298)</u> |
| Weighted average common shares outstanding - Basic & diluted | 80,431,771 | 52,660,749 |
| Net loss per common share - Basic & diluted | \$ (0.06) | \$ (0.27) |

See accompanying notes to consolidated financial statements.

CV SCIENCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | <u>Common Stock</u> | | <u>Additional Paid-In</u> | <u>Accumulated</u> | <u>Total</u> |
|--|---------------------|-----------------|-------------------------------|------------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Capital</u> | <u>Deficit</u> | |
| Balance - December 31, 2015 | 45,451,389 | \$ 4,544 | \$ 39,270,911 | \$ (15,989,491) | \$ 23,285,964 |
| Shares issued for professional services (Note 9) | 1,325,000 | 133 | 540,993 | - | 541,126 |
| Shares issued pursuant to conversion of senior convertible promissory notes and accrued interest (Notes 7 & 9) | 6,465,756 | 647 | 582,353 | - | 583,000 |
| Fair value of warrants issued in connection with unsecured promissory note (Note 7) | - | - | 266,800 | - | 266,800 |
| Contingent equity consideration issued to CanX (Notes 5 & 9) | 4,500,000 | 450 | (450) | - | - |
| Shares cancelled upon foreclosure of notes receivable | (124,600) | (12) | (60,339) | - | (60,351) |
| Stock-based compensation (Note 10) | - | - | 2,732,908 | - | 2,732,908 |
| Net loss | - | - | - | (14,141,298) | (14,141,298) |
| Balance - December 31, 2016 | <u>57,617,545</u> | <u>5,762</u> | <u>43,333,176</u> | <u>(30,130,789)</u> | <u>13,208,149</u> |
| Shares issued pursuant to conversion of senior convertible promissory notes and accrued interest (Notes 7 & 9) | 8,596,965 | 859 | 1,804,141 | - | 1,805,000 |
| Stock redemptions (Note 7) | 398,053 | 40 | 74,960 | - | 75,000 |
| Shares issued to settle restricted stock units (Note 9) | 2,000,000 | 200 | (200) | - | - |
| Shares issued pursuant to CanX Acquisition (Note 9) | 15,000,000 | 1,500 | (1,500) | - | - |
| Shares issued pursuant to CanX Royalty Buyout (Note 9) | 6,400,000 | 640 | 2,431,360 | - | 2,432,000 |
| Shares issued for purchase of inventory (Notes 8 & 9) | 500,000 | 50 | 201,950 | - | 202,000 |
| Fair value of warrants issued in connection with extinguishment of unsecured note (Notes 7 and 9) | - | - | 136,650 | - | 136,650 |
| Stock-based compensation (Note 10) | - | - | 3,419,799 | - | 3,419,799 |
| Net loss | - | - | - | (4,897,139) | (4,897,139) |
| Balance - December 31, 2017 | <u>90,512,563</u> | <u>\$ 9,051</u> | <u>\$ 51,400,336</u> | <u>\$ (35,027,928)</u> | <u>\$ 16,381,459</u> |

See accompanying notes to consolidated financial statements.

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

| | For the years ended December 31, | |
|--|----------------------------------|---------------------|
| | 2017 | 2016 |
| OPERATING ACTIVITIES | | |
| Net loss | \$ (4,897,139) | \$ (14,141,298) |
| Adjustments to reconcile net loss to net cash provided by (used in) in operating activities: | | |
| Depreciation and amortization | 182,795 | 1,052,567 |
| Amortization of debt issuance costs | 220,497 | 289,014 |
| Amortization of derivative liability debt discount | 29,301 | 408,392 |
| Common stock issued for professional services | – | 541,126 |
| Stock-based compensation | 3,419,799 | 2,732,908 |
| Stock-based royalty buy-out | 2,432,000 | – |
| Bad debt expense | 483,407 | 59,143 |
| Deferred tax liability | (481,500) | – |
| Change in accrued interest payable included in convertible note payable | 189,173 | 128,311 |
| Fair value of warrant expense incurred on extinguishment of note payable | 136,650 | – |
| Loss on sale of fixed assets | 12,269 | 8,554 |
| Gain on collection of related party notes receivable | – | (379,486) |
| Gain on change in derivative liability | (248,875) | (147,200) |
| Impairment of inventory | – | 3,562,459 |
| Impairment of PhytoSPHERE goodwill and intangible assets | – | 2,746,512 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (1,241,033) | 70,429 |
| Note receivable | (25,000) | – |
| Inventory | 1,042,813 | 1,309,074 |
| Prepaid expenses and other current assets | (400,961) | 61,083 |
| Accounts payable and accrued expenses | 1,780,167 | (355,328) |
| Deferred rent | 980,641 | – |
| Net cash provided by (used in) operating activities | <u>3,615,004</u> | <u>(2,053,740)</u> |
| INVESTING ACTIVITIES | | |
| Proceeds from collection of related party notes receivable | – | 859,486 |
| Proceeds from sale of fixed assets | – | 10,399 |
| Purchase of equipment | (454,510) | (17,207) |
| Tenant improvements to leasehold real estate | (1,545,885) | – |
| Net cash flows provided by (used in) investing activities | <u>(2,000,395)</u> | <u>852,678</u> |
| FINANCING ACTIVITIES | | |
| Borrowing from issuance of unsecured note payable, net of costs | – | 801,430 |
| Borrowing from convertible debt, net of costs | 750,000 | 1,975,000 |
| Payment of contingent consideration | – | (250,000) |
| Repayment of convertible debt in cash | (471,895) | – |
| Repayment of convertible debt | – | (612,000) |
| Repayment of unsecured notes payable | (158,638) | (174,362) |
| Net cash flows provided by financing activities | <u>119,467</u> | <u>1,740,068</u> |
| Net increase in cash and restricted cash | 1,734,076 | 539,006 |
| Cash and restricted cash, beginning of period | 1,057,468 | 518,462 |
| Cash and restricted cash, end of period | <u>\$ 2,791,544</u> | <u>\$ 1,057,468</u> |
| Supplemental disclosure of non-cash transactions: | | |
| Conversion of convertible promissory notes and accrued interest to common stock | \$ 1,805,000 | \$ 583,000 |
| Value of warrants issued with unsecured promissory note | – | 266,800 |
| Value of embedded derivative at inception | 29,300 | 370,000 |
| Equity consideration for royalty buy-out | 1,500 | – |
| Accrual for required stock redemptions | 75,000 | 75,000 |
| Issuance of common stock to settle restricted stock units | 200 | – |
| Shares issued in exchange for purchase of inventory | 202,000 | – |
| Purchase of insurance through issuance of note payable | 149,044 | 161,351 |
| Inventory returned in satisfaction of note receivable | – | 68,112 |
| Contingent equity consideration issued to CanX | – | 450 |
| Shares cancelled upon foreclosure of notes receivable | – | 60,351 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$ 182,722 | \$ 338,003 |
| Taxes paid | 44,134 | 21,583 |

See accompanying notes to consolidated financial statements.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of CV Sciences, Inc. and, as applicable, its wholly-owned subsidiaries US Hemp Oil, LLC, CannaVest Laboratories, LLC, Plus CBD, LLC and CANNAVEST Acquisition, LLC; and the accounts of a 70% interest in CannaVest Europe, GmbH (collectively, the “Company”). All intercompany accounts and transactions have been eliminated in consolidation. The Company commenced commercial operations for its current business model on January 29, 2013. On May 2, 2016, the Company filed Articles of Dissolution for its wholly-owned subsidiaries US Hemp Oil, LLC and CannaVEST Laboratories, LLC, with the Secretary of State of Nevada, effective as of April 29, 2016. On January 20, 2017, the Company filed for dissolution of CannaVest Europe, GmbH, an entity that prior to dissolution, the Company had a 70% interest in, with the District Court, Dusseldorf Germany, effective December 31, 2016. None of US Hemp Oil, CannaVest Laboratories or CannaVest Europe GmbH had any assets or liabilities at the time of their dissolution.

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.

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

Liquidity – For the years ended December 31, 2017 and 2016, the Company had net losses of \$4,897,139 and \$14,141,298, respectively. In addition, for the year ended December 31, 2017, the Company had positive cash flows from operations of \$3,615,004, and for the year ended December 31, 2016, the Company had negative cash flows from operations \$2,053,740. Management believes the Company has the funds needed to continue its consumer product business segment and meet its other obligations over the next year solely from current revenues and cash flow due to increased sales and because our current inventory levels are sufficient to support sales through the end of fiscal year 2019, resulting in reduced cash outflow for inventory purchases. In addition, we do not intend to purchase raw inventory from our supply chain arrangements from the 2017 and 2018 crop.

The Company’s specialty pharmaceutical business segment will require additional capital over the next 12 months. Management believes that it will be able to obtain such capital on terms acceptable to the Company, however, there can be no assurances that the Company will be successful. If the Company is unable to raise additional capital, the Company would likely be forced to curtail pharmaceutical development.

Business Combinations - We apply the provisions of the Accounting Standards Codification (“ASC”) 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 consolidated statements of operations.

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

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

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

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

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

We classify intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, our long-term strategy for using the asset, any laws or regulations which could impact the useful life of the asset and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their useful lives to their estimated residual values, generally five years. IPR&D has an indefinite life and is not amortized until completion and development of the project, at which time the IPR&D becomes an amortizable asset. If the related project is not completed in a timely manner or the project is terminated or abandoned, the Company may have an impairment related to the IPR&D, calculated as the excess of the asset’s carrying value over its fair value. This method of amortization approximates the expected future cash flow generated from their use. During the year ended December 31, 2016, an impairment expense of \$2,746,512 was recorded related to the PhytoSPHERE Systems LLC acquired goodwill and intangible assets (See Note 7). No impairments were noted during the year ended December 31, 2017.

Use of Estimates – The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these consolidated financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities. We evaluate our estimates, including those related to contingencies, on an ongoing basis. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant estimates include the valuation of intangible assets, the amortization lives of intangible assets, valuation of contingent consideration, inputs for valuing warrants, inputs for valuing notes payable beneficial conversion features and stock-based compensation, valuation of inventory, classification of current and non-current inventory amounts, and the allowance for doubtful accounts.

Reportable Segment – 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 developing 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 consolidated statements of cash flows, the Company considers amounts held by financial institutions and short-term investments with an original maturity of three months or less when purchased to be cash and cash equivalents. At each of December 31, 2017 and 2016, the Company had no cash equivalents.

Restricted Cash – The Company’s current arrangement with its credit card processor provides the credit card processor with the right to 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 processor will refund the Company the entire amounts withheld at their sole discretion. As of December 31, 2017, the Company had \$778,559 in restricted cash withheld by former credit card processors. The following table provides a reconciliation of cash and restricted cash reported within the consolidated balance sheets to the total of the same amounts shown in the statement of cash flows as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Cash | \$ 2,012,965 | \$ 781,857 |
| Restricted cash | 778,579 | 275,611 |
| Total cash and restricted cash shown in the statement of cash flows | <u>\$ 2,791,544</u> | <u>\$ 1,057,468</u> |

Concentrations of Credit Risk – As of December 31, 2017, the Federal Deposit Insurance Corporation (“FDIC”) provided insurance coverage of up to \$250,000 per depositor per bank. The Company has not experienced any losses in such accounts and does not believe that the Company is exposed to significant risks from excess deposits. The Company’s cash balance in excess of FDIC limits totaled \$1,547,408 as of December 31, 2017.

There was no concentration of accounts receivable as of December 31, 2017. One customer represented 58% of our accounts receivable balance as of December 31, 2016. There was no significant sales concentration for the years ended December 31, 2017 and 2016.

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 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 each December 31, 2017 and 2016, the Company maintained an allowance for doubtful accounts related to accounts receivable in the amount of \$200,000 and \$100,000, respectively.

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

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 fees charged to customers are included in product sales. Shipping and handling fees charged to customers totaled \$230,213 and \$101,515 for the years ended December 31, 2017 and 2016, respectively. Total shipping and handling costs were \$854,436 and \$497,227 for the years ended December 31, 2017 and 2016, respectively, and are recorded in cost of goods sold.

Returns – Finished Products - Within ten (10) days of a customer's receipt of the Company's finished products, the customer may return (i) finished products that do not conform to the Company's product specifications or, (ii) finished products which are defective, provided that notice of condition is given within five (5) days of the customer's receipt of the finished products. The failure to comply with the foregoing time requirements shall be deemed a waiver of customer's claim for incorrect or defective shipments. In the event of the existence of one or more material defects in any finished product upon delivery to 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 customer.

Bulk Oil Products – Sales of bulk oil products are final and the Company no longer accepts returns under any circumstances. There was no allowance for customer returns as of December 31, 2017 or 2016 due to insignificant return amounts experienced during the years ended December 31, 2017 and 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, consultants and former directors as compensation and benefits expense on the consolidated statements of operations. The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant. The fair value of restricted stock awards is equal to the closing price of the Company's stock on the date of grant. Stock-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period. For performance-based stock options, compensation is recognized once the applicable performance condition is satisfied.

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

Inventory – Inventory is stated at lower of cost or net realizable value, with cost being determined on an average cost basis. As of December 31, 2017 and 2016, the Company had \$680,516 of inventory in Germany and The Netherlands. During the year ended December 31, 2016, the Company recorded an impairment of inventory expense of \$3,562,459 (See Note 4). No impairment of inventory expense was recorded for the year ended December 31, 2017.

Operating Leases – The Company leases its facilities under operating leases. For leases that contain rent escalation or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent as deferred rent liability.

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 shorter of the useful life or the remaining life of the related lease. Maintenance or repairs are charged to expense as incurred. Upon sale or disposition, the historically-recorded asset cost and accumulated depreciation are removed from the accounts and the net amount less proceeds from disposal is charged or credited to other income (expense).

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

| | <u>Useful Lives</u> | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|-------------------|
| Office furniture and equipment | 3 years | \$ 537,607 | \$ 340,472 |
| Tenant improvements | 14 to 39 months | 1,545,885 | 70,592 |
| Laboratory and other equipment | 5 years | 398,997 | 321,071 |
| | | <u>2,482,489</u> | <u>732,135</u> |
| Less: accumulated depreciation | | (399,056) | (489,433) |
| | | <u>\$ 2,083,433</u> | <u>\$ 242,702</u> |

Depreciation expense for the years ended December 31, 2017 and 2016 was \$147,395 and \$195,167 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. As of December 31, 2017 and 2016, the Company determined that long-lived assets were not impaired.

Debt Issuance Costs – Debt issuance costs have been recorded as a discount to secured convertible and unsecured 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 23,073,277 and 15,591,000 stock options outstanding that were anti-dilutive as of December 31, 2017 and 2016, respectively. In addition, the Company may be required to issue 18,000,000 shares of common stock related to certain performance-based stock options outstanding. As of December 31, 2017 and 2016, there were also warrants outstanding to purchase up to 2,850,000 and 2,100,000 respectively, shares of common stock.

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 \$251,134 and \$834,963 for the years ended December 31, 2017 and 2016, respectively. Research and development expense for the specialty pharmaceutical segment was \$473,195 and \$324,046 for the years ended December 31, 2017 and 2016, respectively.

Advertising – The Company supports its products with advertising to build brand awareness of the Company’s various products in addition to other marketing programs executed by the Company’s marketing team. The Company believes the continual investment in advertising is critical to the development and sale of its *PlusCBD*[™] brand products. Advertising costs of \$380,284 and \$311,217 were expensed as incurred during the years ending December 31, 2017 and 2016, respectively.

Income Taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized when the rate change is enacted. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In accordance with ASC Topic 740, *Income Taxes*, the Company recognizes the effect of uncertain income tax positions only if the positions are more likely than not of being sustained in an audit, based on the technical merits of the position. Recognized uncertain income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which those changes in judgment occur. The Company recognizes both interest and penalties related to uncertain tax positions as part of the income tax provision. As of December 31, 2017 and 2016 the Company did not have a liability for unrecognized tax uncertainties. The Company is subject to routine audits by taxing jurisdictions. Management believes the Company is no longer subject to tax examinations for the years prior to 2013.

Recently 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 became effective for the Company beginning January 1, 2018 and early adoption was 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 August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern* (“ASU 2014-15”) requiring management to evaluate on a regular basis whether any conditions or events have arisen that could raise substantial doubt about the entity’s ability to continue as a going concern. ASU 2014-15 (1) provides a definition for the term “substantial doubt,” (2) requires an evaluation every reporting period, interim periods included, (3) provides principles for considering the mitigating effect of management’s plans to alleviate the substantial doubt, (4) requires certain disclosures if the substantial doubt is alleviated as a result of management’s plans, (5) requires a statement in the footnotes that there is substantial doubt about the entity’s ability to continue as a going concern, as well as other disclosures, if the substantial doubt is not alleviated, and (6) requires an assessment period of one year from the date the financial statements are issued. ASU 2014-15 is effective for the Company’s reporting year beginning January 1, 2016 and early adoption was permitted. The Company implemented ASU 2014-15 during the annual reporting period of 2016.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. The Company implemented ASU 2015-03 during the annual reporting period of 2016.

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 during the annual reporting period of 2017.

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

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.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation* (“ASU 2016-09”), which involve multiple aspects of the accounting for share-based transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company implemented ASU 2016-09 during the annual reporting period 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 is currently evaluating the potential impact of ASU 2017-04 on the Company’s consolidated financial statements.

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

3. INVENTORY

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

| | 2017 | 2016 |
|----------------|---------------------|---------------------|
| Raw materials | \$ 6,648,144 | \$ 7,699,057 |
| Finished goods | 1,841,542 | 1,631,442 |
| | <u>\$ 8,489,686</u> | <u>\$ 9,330,499</u> |

During the year ended December 31, 2016, the Company recorded a 3,562,459 impairment of certain raw material inventory. No such impairments of inventory were noted during the year ended December 31, 2017.

4. ACCRUED EXPENSES

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

| | 2017 | 2016 |
|---------------------------|---------------------|-------------------|
| Accrued payroll expenses | \$ 1,037,122 | \$ 208,126 |
| Other accrued liabilities | 894,798 | 170,092 |
| | <u>\$ 1,931,920</u> | <u>\$ 378,218</u> |

5. ACQUISITIONS

On December 30, 2015, we completed the CanX Acquisition, a business combination pursuant to a merger agreement with CanX. The assets acquired include in-process research and development, trade names and non-compete agreements associated with pharmaceutical product development programs and a line of consumer products. The purchase price included \$250,000 in cash, 5,000,000 shares of Company common stock, plus contingent consideration of \$250,000 (subject to a new financing transaction with gross proceeds greater than \$750,000) and 19,500,000 shares of Company common stock based on achieving certain post-closing milestones. The CanX Acquisition positioned the Company to pursue both pharmaceutical product development and branded consumer products utilizing CBD.

The contingent consideration arrangement requires us to issue up to 19,500,000 shares of Company common stock to the selling CanX shareholders upon successful completion of the following milestones: a) 4,500,000 shares of Company common stock the first time the Company completes development of a U.S. Food & Drug Administration (the “FDA”) current good manufacturing practice grade batch of successfully synthetically formulated “ready to ship” CBD for use in drug development activities, as confirmed in writing by the third party formulating entity engaged to conduct such development; b) 5,000,000 shares of Company common stock the first time the Company files an investigational new drug application with the FDA in connection with a development program utilizing CBD as the active pharmaceutical ingredient (a CBD Drug Product); c) 5,000,000 shares of Company common stock the first time the Company commences a Phase I clinical trial as authorized by the FDA for a CBD Drug Product; and, d) 5,000,000 shares of Company common stock the first time the Company commences a Phase II clinical trial as authorized by the FDA for a CBD Drug Product.

The fair value of contingent consideration based on achievement of the milestones described above will range depending on whether the milestones are achieved and the Company's stock price at the date of issuance of the stock for payment of the milestones. The fair value of contingent consideration on the acquisition date was estimated by utilizing a discounted cash flow method and applied estimates for probabilities of achieving commercialization of potential drug candidates over the period of potential patent expiration, estimated at 20 years. The discounted cash flow measure is based on significant Level 3 inputs not observable in the market.

In connection with the CanX Acquisition, the Company acquired IPR&D totaling \$3,730,000, which is classified as an indefinite life asset and is not being amortized. In conjunction with this acquisition, the Company recognized \$2,788,300 of goodwill. However, none of the goodwill, IPR&D and other intangible assets acquired are expected to be deductible for income tax purposes. Accordingly, in conjunction with the valuation of intangible assets acquired, it was determined that a deferred income tax liability of \$1,556,300 was required to reflect the book to tax differences of the CanX Acquisition. This same amount was added to the goodwill balance.

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

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

In the aggregate, pursuant to the Amendment, the Company agreed to issue to the former CanX shareholders a total of 21,400,000 shares of restricted common stock (See Note 11). 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 year ended December 31, 2017, the Company recorded an expense of \$2,432,000 for the value of the Royalty Buy-Out Shares as a separate line item in the Company's Consolidated Statement of Operations.

The fair value of IPR&D on the acquisition date was estimated by utilizing the multiple-period excess earnings method with revenues projected to commence in 2021, is adjusted for probabilities, and used a discount rate of approximately 21%. The multiple-period excess earnings method measure is based on significant Level 3 inputs not observable in the market.

As a result of the CanX Acquisition, the Company expects to build on our reputation, experience and expertise in CBD to expand our corporate mission to include bringing the attributes of CBD to the prescription drug market. These factors, among others, contributed to a purchase price in excess of the estimated fair value of the CanX Acquisition net identifiable assets and, as a result, the Company recorded goodwill in connection with this transaction.

6. GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2017 and 2016, the Company completed its annual impairment assessments and concluded that the goodwill and its associated intangibles related to the purchase of PhytoSPHERE Systems, LLC in the first quarter of fiscal year 2013, as originally reported by the Company in that certain Current Report on Form 8-K filed with the SEC on February 12, 2013, was impaired as of December 31, 2016, due to the expiration of the Company's raw material supply arrangements as the Company does not intend to purchase any inventory under its supply agreements from the 2017 and 2018 crop. As such, a goodwill and intangible impairment expense of \$2,746,512 was recorded in the consumer products segment for the year ended December 31, 2016. No impairments were noted during the year ended December 31, 2017.

Goodwill activity for the years ended December 31, 2017 and 2016 was as follows:

| | |
|------------------------------------|----------------------------|
| Balance - December 31, 2015 | \$ 4,643,812 |
| Impairment of PhytoSPHERE goodwill | <u>(1,855,512)</u> |
| Balance - December 31, 2016 | 2,788,300 |
| Balance - December 31, 2017 | <u><u>\$ 2,788,300</u></u> |

Intangible asset activity for the years ended December 31, 2017 and 2016 was as follows:

| | Vendor Relationships | In-Process Research and Development | Trade Names | Non- compete Agreements | Total |
|---|---------------------------------|--|------------------------|--|---------------------|
| Balance - December 31, 2015 | \$ 1,170,000 | \$ 3,730,000 | \$ 330,000 | \$ 2,787,000 | \$ 8,017,000 |
| Impairment of PhytoSPHERE intangible assets | (1,170,000) | - | (230,000) | (2,710,000) | (4,110,000) |
| Balance - December 31, 2016 | - | 3,730,000 | 100,000 | 77,000 | 3,907,000 |
| Balance - December 31, 2017 | <u>\$ -</u> | <u>\$ 3,730,000</u> | <u>\$ 100,000</u> | <u>\$ 77,000</u> | <u>\$ 3,907,000</u> |

Intangible assets consist of the following as of December 31, 2017 and 2016:

| | Original Fair Market Value | Accumulated Amortization | Net | Useful Life (Years) |
|-------------------------------------|---------------------------------------|-------------------------------------|---------------------|--------------------------------|
| Balance - December 31, 2017: | | | | |
| In-process research and development | 3,730,000 | - | 3,730,000 | - |
| Trade names | 100,000 | 40,000 | 60,000 | 5 |
| Non-compete agreements | 77,000 | 30,800 | 46,200 | 5 |
| | <u>\$ 3,907,000</u> | <u>\$ 70,800</u> | <u>\$ 3,836,200</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 year ended December 31, 2017 and 2016 totaled \$35,400 and \$857,400, respectively.

Based on identified intangible assets that are subject to amortization as of December 31, 2017, we expect future amortization expense to be as follows for the years ending December 31:

| | | |
|------|-----------|----------------|
| 2018 | \$ | 35,400 |
| 2019 | | 35,400 |
| 2020 | | 35,400 |
| | <u>\$</u> | <u>106,200</u> |

7. NOTES PAYABLE

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

| | 2017 | 2016 |
|------------------------------|-------------------|---------------------|
| Iliad Note (defined below) | \$ - | \$ 1,897,976 |
| Iliad Note 2 (defined below) | 609,926 | - |
| | <u>\$ 609,926</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 months after the Purchase Price Date (the "Maturity Date"). Interest is to be paid on the outstanding balance at a rate of ten percent (10%) per annum from the Purchase Price Date until the Iliad Note is paid in full. Interest is accrued during the term of the Iliad Note and all interest calculations shall be computed on the basis of a 360-day year comprised of twelve (12) thirty (30)-day months and shall compound daily. Subject to adjustment as set forth in the Iliad Note, the conversion price for each Lender conversion shall be \$0.50 (the "Lender Conversion Price"), convertible into shares of fully paid and non-assessable common stock. Beginning on the date that is six months after the Purchase Price Date and continuing until the Maturity Date, Iliad shall have the right to redeem a portion of the Iliad Note in any amount up to the Maximum Monthly Redemption Amount (\$275,000, which is the maximum aggregate redemption amount that may be redeemed in any calendar month), for which payments may be made in cash or by converting the redemption amount into shares of Company common stock at a conversion price which is the lesser of (a) the Lender Conversion Price of \$0.50 and (b) the Market Price, defined as 70% ("the Conversion Factor"), subject to adjustment as follows: if at any time (1) the average of the three lowest closing bid prices in the previous twenty (20) trading days is below \$0.25 per share then the Conversion Factor will be reduced by 10%, (2) the Company is not Deposit/Withdrawal At Custodian eligible, then the Conversion Factor will be reduced by an additional 5%, or (3) there has occurred a "Major Default" then the Conversion Factor will be reduced by an additional 5%. The Company may prepay the Iliad Note at any time by payment to Lender of 125% of the principal, interest and other amounts then due under the Note. The Company may prepay the Iliad Note notwithstanding an earlier notice of conversion from the Lender, provided that in such event the Lender may convert an amount not to exceed \$300,000 under the Iliad Note. In connection with the Iliad Note, as set forth above, the Company incurred an original issue discount of \$45,000 and \$35,000 of other debt issuance costs, which will be amortized over the Iliad Note term. The Iliad Note is securitized by the Company's accounts receivable, inventory and equipment.

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

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

In March 2017, the Company entered into Amendment #3 to the Iliad Note (the “Iliad Amendment 3”). In accordance with the Iliad Amendment 3, during the period from March 1, 2017 to March 31, 2017, the Company agreed to allow the Lender to convert up to \$500,000 (the “Additional Redemption Amount 2”) in Redemption 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) 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 year ended December 31, 2017, the Company issued 8,370,121 shares of its common stock to Iliad in connection with the conversions of the Iliad Note in the aggregate principal amount of \$1,727,583 and \$77,417 of accrued interest. The total of \$1,805,000 was allocated to common stock and additional paid-in capital.

The Company’s borrowings and conversions under the Iliad SPA for the years ended December 31, 2017 and 2016 are summarized in the table below:

| | <u>Maturity</u> | <u>2017</u> | <u>2016</u> | <u>Interest Rate</u> |
|--|-----------------|--------------|--------------|----------------------|
| Secured promissory note payable | April 1, 2018 | \$ 1,897,976 | \$ 2,055,000 | 10% |
| Interest accrued | | 137,334 | 128,311 | |
| Unamortized original issue discount and debt issuance costs | | 35,335 | (35,335) | |
| Conversion of convertible promissory notes and accrued interest to common stock | | (1,805,000) | (175,000) | |
| Conversion of convertible promissory notes and accrued interest to accrued liabilities | | 75,000 | (75,000) | |
| Cash repayment of promissory notes and accrued interest | | (340,645) | — | |
| Net carrying amount of debt | | — | 1,897,976 | |
| Less current portion | | — | (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 year ended December 31, 2017, the Company recorded a gain of \$222,800, for the change in fair value of the Iliad Instrument as part of a separate line item in the Company’s 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 as of December 31, 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 months after the Subsequent Purchase Price Date (the “Maturity Date”). Interest is to be paid on the outstanding balance at a rate of eight percent (8%) per annum from the Subsequent Purchase Price Date until the Iliad Note 2 is paid in full. Interest is accrued during the term of the Iliad Note 2 and all interest calculations shall be computed on the basis of a 360-day year comprised of twelve (12) thirty (30)-day months and shall compound daily. Subject to adjustment as set forth in the Iliad Note 2, the conversion price for each Lender conversion shall be the Lender Conversion Price, convertible into shares of fully paid and non-assessable common stock. Beginning on the date that is six months after the Subsequent Purchase Price Date and continuing until the Maturity Date, Iliad shall have the right to redeem a portion of the Iliad Note 2 in an amount not to exceed \$100,000. Provided the Company has not suffered an “Event of Default” and is in compliance with certain “Equity Conditions” (unless waived by Iliad, in either case), the Company may make payments on such redemptions in cash or by converting the redemption amount into shares of Company common stock at a conversion price which is the lesser of (a) \$0.50 per share and (b) 70% (“the Conversion Factor”) of the average of the three (3) lowest closing bid prices in the previous 20 trading days, subject to adjustment as follows: if at any time (1) the average of the three lowest closing bid prices in the previous twenty (20) trading days is below \$0.25 per share then the Conversion Factor will be reduced by 10%, (2) the Company is not Deposit/Withdrawal At Custodian eligible, then the Conversion Factor will be reduced by 5%, (3) the Company is not DTC eligible, then the Conversion Factor will be reduced by an additional 5% or (4) there has occurred a “Major Default” then the Conversion Factor will be reduced by an additional 5% for each of the first three Major Defaults that occur after the effective date. The Company may prepay the Iliad Note 2 at any time by payment to Lender of 125% of the principal, interest and other amounts then due under the Note. The Company may prepay the Iliad Note notwithstanding an earlier notice of conversion from the Lender, provided that in such event the Lender may convert an amount not to exceed \$200,000 under the Iliad Note 2. In connection with the Iliad Note 2, as set forth above, the Company incurred an original issue discount of \$15,000 and \$5,000 of other debt issuance costs, which will be amortized over the Iliad Note 2 term. The Iliad Note 2 is securitized by the Company’s accounts receivable, inventory and equipment.

The Company’s borrowings under the Iliad SPA 2 for the years ended December 31, 2017 and 2016 are summarized in the table below:

| | <u>Maturity</u> | <u>2017</u> | <u>2016</u> | <u>Interest Rate</u> |
|--|-----------------|------------------|-------------|----------------------|
| Secured promissory note payable | April 30, 2018 | \$ 770,000 | \$ – | 8% |
| Interest accrued | | 51,890 | – | |
| Unamortized original issue discount and debt issuance costs | | (5,714) | – | |
| Conversion of convertible promissory notes and accrued interest to accrued liabilities | | (75,000) | – | |
| Cash repayment of promissory notes and accrued interest | | <u>(131,250)</u> | <u>–</u> | |
| Net carrying amount of debt | | 609,926 | – | |
| Less current portion | | <u>(609,926)</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 8 months. During the year ended December 31, 2017, the Company recorded a gain of \$29,300, for the change in fair value of the derivative liability as part of a separate line item in the Company's 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 as of December 31, 2017 using the Binomial Lattice valuation model were: (i) Volatility of 85.0%; (ii) Risk-Free Interest Rate of 0.84%; and (iii) Expected Term of 8 months; and at December 31, 2017 were (i) Volatility of 84.0%, (ii) Risk-Free Interest Rate of 0.93%; and (iii) Expected Term of 4 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 year ended December 31, 2016, the Company repaid the remaining principal and interest balance under the Notes as follows: (i) issued 3,062,535 shares of its common stock to the Investors in connection with conversion of the remaining \$255,000 principal balance of Note 2; (ii) repaid \$357,000 of the aggregate principal amount of Note 3 plus interest in the amount of \$148,944 in cash to the Investors, and issued 2,500,000 shares of its common stock to the Investors in connection with the conversion of the remaining principal amount of \$153,000 of Note 3; and, (iii) repaid the entire principal amount of Note 4 in the amount of \$255,000 plus interest in the amount of \$93,075 in cash to the Investors.

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

| | <u>Maturity</u> | <u>Balance</u> | <u>Interest Rate</u> |
|---|-----------------------|----------------|----------------------|
| Senior Secured Convertible Promissory Notes: | | | |
| 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 | <u>255,000</u> | 10% |
| Total borrowings | | 1,020,000 | |
| Convertible notes converted (Note 2) | | (255,000) | |
| Convertible notes converted/repaid (Note 3) | | (510,000) | |
| Convertible notes repaid (Note 4) | | (255,000) | |
| Net carrying amount of debt | | - | |
| Less current portion | | - | |
| Long-term borrowings - net of current portion | | <u>\$ -</u> | |

Current Unsecured Note Payable

In November 2017, 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 \$149,044 and bears interest at a rate of 4.65%. The Company is required to make nine payments of \$16,883 a month to satisfy this current unsecured note payable. As of December 31, 2017 and 2016, the Company's current unsecured note payable was \$116,370 and \$125,964, respectively.

Unsecured Note Payable

On January 29, 2016, the Company issued an unsecured promissory note to Wiltshire, LLC ("Wiltshire") in the principal amount of \$850,000 (the "Promissory Note") in consideration of a loan provided to the Company by Wiltshire. The Promissory Note bore interest at 12% per annum, and the Company was 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 was due under the Promissory Note on February 1, 2018. 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 were to be amortized over the Promissory Note term.

On November 9, 2017, the Company extinguished and replaced the Promissory Note with a new note to Wiltshire in the principal amount of \$850,000 (the "Wiltshire Note 2") in consideration of a new loan to the Company by Wiltshire. The Wiltshire Note 2 bears interest at 16% per annum, the Company is obligated to make monthly interest-only payments of \$11,333, for which the interest-only payments obligation commenced on November 9, 2017. All principal and accrued interest is due under the Wiltshire Note 2 on May 9, 2019. In connection with the Wiltshire Note 2, the Company incurred legal expenses of \$12,500.

The Company's borrowings under the Promissory Note and Wiltshire Note 2 for the years ended December 31, 2017 and 2016 are summarized in the table below:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Unsecured promissory note - principal amount (Promissory Note) | \$ 850,000 | \$ 850,000 |
| Unamortized original issue discount and debt issuance costs | - | (26,309) |
| Unamortized debt discount - fair value of warrants | - | (144,517) |
| Debt extinguishment (Promissory Note) | (850,000) | - |
| Unsecured promissory note - principal amount (Wiltshire 2) | <u>850,000</u> | <u>-</u> |
| Net carrying amount of debt | 850,000 | 679,174 |
| Less current portion | - | - |
| Long-term borrowings - net of current portion | <u>\$ 850,000</u> | <u>\$ 679,174</u> |

Pursuant to the terms of the Promissory Note, the Company issued to Wiltshire a common stock purchase warrant providing Wiltshire 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 years ended December 31, 2017 and 2016, the Company recorded interest expense of \$111,225 and \$122,283, 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.

Pursuant to the terms of the Wiltshire Note 2, the Company issued to Wiltshire a common stock purchase warrant providing Wiltshire with the right to purchase up to 750,000 shares of the Company's common stock (the "Warrant 2"). The Warrant 2 is exercisable at any time subsequent to the date of issuance on November 9, 2017, and before the date that is five years from the date of issuance at an exercise price of \$0.248 per share, subject to adjustment upon the occurrence of certain events such as stock splits and dividends. The Company used extinguishment accounting to record the repayment of the Promissory Note and Issuance of the Wiltshire Note 2. As a result, the fair value of the Warrant 2 of \$136,650 was included in the loss on extinguishment of debt amount totaling \$188,822 that was included in the Company's Consolidated Statement of Operations for the year ended December 31, 2017. The assumptions used by the Company for calculating the fair value of the Warrant 2 at inception using the Black-Scholes valuation model were: (i) Volatility of 95.9%; (ii) Risk-Free Interest Rate of 2.59%; and (iii) Expected Term of five years.

8. RELATED PARTIES

During the years ended December 31, 2017 and 2016, the Company paid \$202,000 and \$412,822, respectively, to a stockholder of the Company who is a supplier of hemp oil and hemp to the Company. In addition, during the year ended 2016, the Company issued 500,000 shares of common stock in connection with the purchase of inventory from a European supplier valued based on the closing trading price of the Company's common stock on the date of issuance.

9. STOCKHOLDERS EQUITY

Common Stock

The Company is authorized to issue up to 190,000,000 shares of common stock (par value \$0.0001). As of December 31, 2017 and 2016, the Company had 90,512,563 and 57,617,545 shares of common stock issued and outstanding, respectively.

During the year ended December 31, 2017, the Company issued 8,995,018 shares of common stock in connection with conversion of convertible debt and also issued 500,000 shares of common stock in exchange for purchase of inventory. The shares of common stock issued in connection with the purchase of inventory during the year ended December 31, 2017 were valued based on the closing trading price of the Company's common stock on the date of issuance, and had a fair value of \$202,000.

In March 2017, the Company entered into an amendment to the principal agreement in relation to the CanX Acquisition (the "Amendment"), as more fully set forth in the March 2017 8-K. Pursuant to such Amendment, which was approved by 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 equity-based milestones obligations.

Additionally, pursuant to such Amendment, the parties agreed to revise the Company's future royalties buy-out option to allow the Company to buy-out future royalty payments by the issuance of 6,400,000 shares of the Company's restricted common stock to the former CanX shareholders, with the Company concurrently exercising the buy-out option, as so revised.

In the aggregate of the milestone and future royalty payments, the Company agreed to issue to the former CanX shareholders a total of 21,400,000 shares of restricted common stock. 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 year ended December 31, 2017, the Company recorded an expense of \$2,432,000 for the value of its stock-based contingent consideration payments as a separate line item in the Company's Consolidated Statement of Operations.

During the year ended December 31, 2016, the Company issued 6,465,756 shares of common stock in connection with conversion of convertible debt and also issued 500,000 shares of common stock in connection with investment banking services. Also, the Company issued 500,000 shares of common stock in connection with consulting services from a European supplier and issued 25,000 shares of common stock to a former member of the Company's Board of Directors. In addition, the Company issued 300,000 shares of common stock in connection with investor relation services. Furthermore, the Company issued 4,500,000 shares of the Company's common stock to former CanX shareholders upon completion of the development of a U.S. Food & Drug Administration (the "FDA") current good manufacturing practice grade batch of successfully synthetically formulated "ready to ship" CBD for use in drug development activities. In December 2016, the Company obtained 124,600 shares as collateral under an outstanding note receivable which were immediately cancelled upon receipt. The common stock issued in connection with professional services during the year ended December 31, 2016 were valued based on the closing trading price of the Company's common stock on the date of issuance.

Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of \$.0001 par value preferred stock with designations, rights and preferences to be determined from time to time by the Board. 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 December 31, 2017, and 2016, there is no preferred stock issued and outstanding.

Options/Warrants/RSU's

On July 23, 2014, Company stockholders approved the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan (the "Amended 2013 Plan"), which provides for the granting of stock options, restricted stock awards, restricted stock units, stock bonus awards and performance-based awards. On each of December 21, 2015, 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 2017 8-K, the disinterested members of the Board approved the grant of 5,000,000 performance-based stock options (the "Mona Performance Options") to purchase shares of the Company's common stock to one senior management member of the Company. The Mona Performance Options are contingent and vest only upon the Company achieving three specific milestones related to the success of the Company's drug development program and were granted outside of the Company's Amended 2013 Plan. Vesting of such options accelerates upon a sale of the Company or change in control.

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

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

In addition, in March 2017, the Company issued 5,000,000 restricted stock units (RSU's) to a consultant under an agreement for consulting services. The restricted stock units were to vest as follows: 1,000,000 vested immediately and 4,000,000 vested according to future performance-based criteria. During 2017, 2,000,000 shares were issued to settle the vested RSU's. The consultant relationship was terminated in December 2017 and no further RSU's will vest or be issued under this agreement.

10. STOCK-BASED COMPENSATION

The Company's Amended 2013 Plan provides for the granting of stock options, restricted stock awards, restricted stock units, stock bonus awards and performance-based awards. As of December 31, 2017, the Company had 9,176,723 of authorized unissued shares reserved and available for issuance upon exercise and conversion of outstanding awards under the Amended 2013 Plan.

The stock options are exercisable at no less than the fair market value of the underlying shares on the date of grant, and restricted stock and restricted stock units are issued at a value not less than the fair market value of the common stock on the date of the grant. Generally, stock options awarded are vested in equal increments ranging from two to four years on the annual anniversary date on which such equity grants were awarded. The stock options generally have a maximum term of 10 years.

The Company recognized expense of \$3,419,799 and \$2,732,908 relating to stock options and warrants issued to employees, officers, directors, consultants and former directors for the years ended December 31, 2017 and 2016, respectively. The Company also recognized expenses of \$0 and \$541,126 relating to common stock issued to employees, officers, directors, consultants and former directors during the years ended December 31, 2017 and December 31, 2016, respectively. For the years ended December 31, 2017 and 2016, stock-based compensation of \$3,419,799 and \$3,274,034 and was expensed to Selling, General and Administrative. As of December 31, 2017, total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted to employees, officers, and directors was \$1,178,635 which is expected to be recognized over a weighted-average period of 1.52 years.

The following table summarizes stock option activity for the Amended 2013 Plan during the years ended December 31, 2017 and 2016:

| | <u>Number of Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contract Term (Years)</u> | <u>Aggregate Intrinsic Value</u> |
|--|-----------------------------|--|---|--------------------------------------|
| Outstanding - December 31, 2015 | 9,799,036 | \$ 1.97 | 9.20 | \$ 57,800 |
| Granted | 3,220,000 | 0.36 | - | - |
| Exercised | - | - | - | - |
| Forfeited | (74,631) | 0.55 | - | - |
| Expired | (103,405) | 2.34 | - | - |
| Outstanding - December 31, 2016 | <u>12,841,000</u> | 1.57 | 8.54 | 415,135 |
| Granted | 10,312,000 | 0.36 | - | - |
| Exercised | - | - | - | - |
| Forfeited | (6,930,976) | 2.37 | - | - |
| Expired | (398,747) | 0.43 | - | - |
| Outstanding - December 31, 2017 | <u><u>15,823,277</u></u> | 0.46 | 7.91 | 5,406,499 |
| Total exercisable - December 31, 2017 | <u>12,084,662</u> | 0.50 | 7.73 | 2,059,545 |
| Total unvested - December 31, 2017 | <u>3,738,615</u> | 0.35 | 8.48 | 2,896,954 |
| Total vested or expected to vest - December 31, 2017 | <u><u>15,823,277</u></u> | 1.57 | 8.54 | 5,406,499 |

The following table summarizes unvested stock options for the Amended 2013 Plan as of December 31, 2017 and 2016:

| | <u>Number of Shares</u> | <u>Weighted Average Fair Value Per Share on Grant Date</u> |
|--|-----------------------------|--|
| Unvested stock options - December 31, 2015 | 2,511,055 | \$ 1.37 |
| Granted | 3,220,000 | 0.27 |
| Vested | (1,932,191) | 0.96 |
| Cancellations | (74,631) | 1.35 |
| Unvested stock options - December 31, 2016 | <u>3,724,233</u> | 0.63 |
| Granted | 10,312,000 | 0.21 |
| Vested | (3,366,642) | 0.50 |
| Cancellations | (6,930,976) | 0.32 |
| Unvested stock options - December 31, 2017 | <u><u>3,738,615</u></u> | 0.36 |

The following table presents the weighted-average assumptions used by the Company for calculating the fair value of its employee, non-employee, officer and director stock options for the Amended 2013 Plan using the Black-Scholes valuation model that have been granted during the years ended December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| | Employees Weighted Average | Non-Employees Weighted Average | Employees Weighted Average | Non-Employees Weighted Average |
| Volatility | 102.58% | 95.94% | 87.63% | 90.38% |
| Risk-Free Interest Rate | 1.62% | 2.59% | 1.47% | 1.37% |
| Expected Term | 3.17 | 10.00 | 5.68 | 10.00 |
| Dividend Rate | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair Value Per Share on Grant Date | \$ 0.13 | \$ 0.33 | \$ 0.27 | \$ 0.32 |

The risk-free interest rates are based on the implied yield available on U.S. Treasury constant maturities with remaining terms equivalent to the respective expected terms of the options. The Company estimates the expected term for stock options awarded to employees, non-employees, officers and directors using the simplified method in accordance with ASC Topic 718, *Stock Compensation*, because the Company does not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for stock options awarded to employees, non-employees, officers and directors using the contractual term. Expected volatility is calculated based on the Company's peer group, consisting of five companies in the industry in which the Company does business because the Company does not have sufficient historical volatility data. The Company will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants. In the future, as the Company gains historical data for volatility of its own stock and the actual term over which stock options are held, expected volatility and the expected term may change, which could substantially change the grant-date fair value of future stock option awards, and, consequently, compensation of future grants.

The Company has established performance milestones in connection with the Company's drug development efforts for its lead drug candidate CVSI-007. In fiscal year 2016 the Company achieved the milestone of completing the development of an FDA current good manufacturing practice grade batch of successfully synthetically formulated "ready to ship" CBD for use in drug development activities, and an aggregate of 2,750,000 options vested for three members of senior management outside of the Amended 2013 Plan. During fiscal year 2017, the Company achieved the milestone of receiving the minutes from the Pre- Investigational New Drug Application meeting held with the FDA in June 2017 which resulted in an aggregate of 4,500,000 options vested for three members of senior management outside of the Amended 2013 Plan. The following table summarizes stock option activity outside of the Amended 2013 Plan during the year ended December 31, 2017:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (Years) | Aggregate Intrinsic Value |
|--|---------------------|---------------------------------------|--|------------------------------|
| Outstanding - December 31, 2016 | 2,750,000 | \$ 0.37 | 9.77 | \$ 170,500 |
| Granted | 4,500,000 | 0.37 | 8.78 | 1,813,500 |
| Exercised | — | — | — | — |
| Forfeited | — | — | — | — |
| Expired | — | — | — | — |
| Outstanding - December 31, 2017 | <u>7,250,000</u> | 0.37 | 8.78 | 1,813,500 |
| Total exercisable - December 31, 2017 | <u>7,250,000</u> | 0.37 | 8.78 | 1,813,500 |
| Total unvested - December 31, 2017 | <u>—</u> | — | — | — |
| Total vested or expected to vest - December 31, 2017 | <u>7,250,000</u> | 0.37 | 8.78 | 1,813,500 |

The following table summarizes unvested stock options outside of the Amended 2013 Plan as of December 31, 2017:

| | | | |
|--|-------------|----|----------|
| Unvested stock options - December 31, 2016 | - | \$ | - |
| Granted | 7,250,000 | | 0.37 |
| Vested | (7,250,000) | | 0.37 |
| Cancellations | - | | - |
| Unvested stock options - December 31, 2017 | <u>-</u> | | <u>-</u> |

As of December 31, 2017, there were 10,750,000 remaining unvested stock options granted outside of the Amended 2013 Plan which vest upon the completion of future performance conditions.

The following table presents the weighted-average assumptions used by the Company for calculating the fair value of its employee stock options granted outside of the Amended 2013 Plan using the Black-Scholes valuation model during the year ended December 31, 2017:

| <u>Assumptions</u> | |
|------------------------------------|---------|
| Volatility | 81.10% |
| Risk-Free Interest Rate | 1.84% |
| Expected Term | 4.63 |
| Dividend Rate | 0.00% |
| Fair Value Per Share on Grant Date | \$ 0.15 |

11. COMMITMENTS AND CONTINGENCIES

Commitments

The Company entered an 8-year lease agreement (the "Lease") consolidating its operations in approximately 24,000 square feet in San Diego, California that commenced on February 1, 2018. The Company is required to pay monthly base rent, utilities and common area maintenance expenses. The Company received a landlord rent incentive of \$1,067,459 for tenant improvements. The Lease rent incentive is recorded as a deferred benefit and is amortized over the Lease term.

The following table provides the Company's Lease commitment as of December 31, 2017:

| | <u>Operating Lease Commitment</u> |
|------------|---------------------------------------|
| 2018 | \$ 427,101 |
| 2019 | 651,112 |
| 2020 | 670,595 |
| 2021 | 690,744 |
| 2022 | 711,280 |
| Thereafter | 2,329,750 |
| | <u>\$ 5,480,582</u> |

The Company incurred rent expense of \$479,614 and \$476,430 for the years ended December 31, 2017 and 2016, respectively.

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 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, 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 its reply to the complaint before the March 29, 2017 deadline. 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.

The Company is a plaintiff in two litigation matters involving former credit card processors of the Company. On September 10, 2017, the Company filed a complaint against one such credit card processor, PayToo Merchant Services, Corporation (“Pay Too”), a Florida corporation, in the Circuit Court in Broward County, Florida, asserting breach of contract claims for PayToo’s failure to remit approximately \$250,000 to the Company for credit card sales processed by PayToo from January 2017 to February 2017. On December 11, 2017, the Company filed a complaint against the other credit card processor, T1 Payments, LLC (“T1”), a Nevada corporation, in District Court, Clark County, Nevada, asserting breach of contract claims for T1’s failure to remit approximately \$500,000 to the Company for credit card sales processed by T1 from February 2017 to October 2017.

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, consolidated results of operations or financial condition.

12. 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 years ended December 31, 2017 and 2016:

| | Consumer Products Segment | Specialty Pharmaceutical Segment | Consolidated Totals |
|--|--|---|--------------------------------|
| Years Ended | | | |
| December 31, 2017: | | | |
| Product sales, net | \$ 20,679,239 | \$ — | \$ 20,679,239 |
| Gross profit | \$ 14,488,664 | \$ — | \$ 14,488,664 |
| Loss on extinguishment of debt | (188,822) | — | (188,822) |
| Gain on change in derivative liability | 248,875 | — | 248,875 |
| Royalty buy-out | (2,432,000) | — | (2,432,000) |
| Selling, general and administrative | (16,016,615) | (235,761) | (16,252,376) |
| Research and development | (251,134) | (473,195) | (724,329) |
| Operating loss | <u>\$ (4,151,032)</u> | <u>\$ (708,956)</u> | <u>\$ (4,859,988)</u> |
| December 31, 2016: | | | |
| Product sales, net | \$ 11,060,636 | \$ — | \$ 11,060,636 |
| Gross profit | \$ 6,997,635 | \$ — | \$ 6,997,635 |
| Gain on collection of related party notes receivable | 379,486 | — | 379,486 |
| Gain on change of derivative liability | 147,200 | — | 147,200 |
| Impairment of inventory | (3,562,459) | — | (3,562,459) |
| Impairment of PhytoSPHERE goodwill and intangible assets | (2,746,512) | — | (2,746,512) |
| Selling, general and administrative | (12,741,211) | (388,739) | (13,129,950) |
| Research and development | (834,963) | (324,046) | (1,159,009) |
| Operating loss | <u>\$ (12,360,824)</u> | <u>\$ (712,785)</u> | <u>\$ (13,073,609)</u> |

13. INCOME TAXES

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible profits. As of December 31, 2017 and 2016, the Company established valuation allowances equal to the full amount of its deferred tax assets, net of certain tax liabilities, due to the uncertainty of the utilization of the net operating losses in future periods.

| | 2017 | 2016 |
|----------------------------------|-----------------------|-----------------------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 3,593,000 | \$ 5,061,830 |
| Business credit carryforwards | 100,000 | 80,551 |
| Bad debt expense | 56,000 | 39,834 |
| Intangible assets | 1,113,000 | 1,742,639 |
| Stock-based compensation | 575,000 | 579,970 |
| Unrealized capital loss | 12,000 | 16,870 |
| Inventory reserve | 997,000 | 1,419,084 |
| Deferred rent | 299,000 | — |
| Other | 59,000 | 44,410 |
| | <u>6,804,000</u> | <u>8,985,188</u> |
| Deferred tax liabilities: | | |
| Property and equipment | (331,000) | (18,052) |
| CanX intangible assets | (1,074,000) | (1,556,300) |
| | <u>(1,405,000)</u> | <u>(1,574,352)</u> |
| Valuation allowance | (6,473,000) | (8,967,136) |
| Net deferred tax liabilities | <u>\$ (1,074,000)</u> | <u>\$ (1,556,300)</u> |

The valuation allowance decreased by \$2,494,136 for the year ended December 31, 2017 and increased by \$4,837,842 for the year ended December 31, 2016.

As of December 31, 2017, the Company has Federal and state net operating loss (“NOL”) carryforwards of approximately \$12.9 million and \$13.1 million, respectively, which are available to offset future taxable income and which begin to expire in 2033. These loss carryforwards will likely be further limited pursuant to Internal Revenue Code Section 382 due to the change in control. Under Section 382 of the Internal Revenue Code, a substantial change in the Company’s ownership may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income. The Company has not completed a study to determine whether a substantial change in ownership has occurred and, if so, the effect on its ability to utilize its NOL carryforwards. A valuation allowance has been recorded to fully reserve the potential benefits of these carryforwards as of December 31, 2017 and 2016. If it is determined that a substantial change in the Company’s ownership occurred in prior years, or if a substantial change in ownership occurs in the future, the Company’s ability to utilize its net operating loss carryforwards in any fiscal year may be significantly limited and the Company may be unable to fully utilize its net operating loss carryforwards prior to their expiration dates.

On December 22, 2017, U.S. tax legislation was enacted containing a broad range of tax reform provisions including a corporate tax rate reduction. The Company has not completed its accounting for the income tax effects of U.S. tax reform. However, the Company has made a reasonable estimate of the 2017 financial statement impact. Accordingly, the Company recorded a \$481,500 net gain for the year ended December 31, 2017, to decrease deferred tax liabilities to reflect the reduction in the U.S. corporate tax rate from 34 percent to 21 percent beginning January 1, 2018. We are still analyzing certain aspects of the law and refining our calculations of basis differences as of December 31, 2017, which could affect the measurement of these balances. We will continue to update our calculations as additional required information is prepared and analyzed, interpretations and assumptions are refined, additional guidance is issued, and due to actions we may take as a result of the legislation. These updates could significantly impact the provision for income taxes, the amount of taxes payable, and the deferred tax asset and liability balances.

The differences between the expected income tax benefit and the actual recorded income tax (expense) benefit computed using a statutory federal rate of 34% as of December 31, 2017 and 34% as of December 31, 2016 is as detailed below:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|----------------|
| Income tax benefit at statutory rate | \$ (1,829,000) | \$ (4,808,041) |
| State taxes | (37,000) | (732,064) |
| Effect of change in future tax rate on deferred tax balances | 2,226,000 | – |
| Stock-based compensation | 685,000 | 553,832 |
| Change in derivative liability | (85,000) | 180,430 |
| Amortization of discount on convertible note | – | (50,048) |
| Non-deductible interest on convertible notes | 135,000 | – |
| Royalty buyout | 827,000 | – |
| Other permanent differences | 85,000 | 3,951 |
| Other | 5,500 | – |
| Change in valuation allowance | (2,494,000) | 4,851,940 |
| Total provision | <u>\$ (481,500)</u> | <u>\$ –</u> |

14. SUBSEQUENT EVENTS

The Company paid the \$100,000 installment obligations in cash under the Iliad Note 2 on January 6, 2018. On February 6, 2018, and March 5, 2018.

CV SCIENCES, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

This NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into as of April 7, 2017, by and between CV Sciences, Inc., a Delaware corporation (the "Company") and Joseph Dowling ("Optionee").

RECITALS

A. The Company granted options to Optionee pursuant to the resolutions of the Board of Directors dated April 7, 2017 ("Grant Date") to provide an incentive to Optionee to focus on the long-term growth of the Company.

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

AGREEMENT

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

2. Vesting of Option.

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

(i) 250,000 when the Company has final meeting minutes from a pre-investigational new drug application ("IND") meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;

(ii) 250,000 when the Company is granted an IND; and

(iii) 500,000 when the Company commences its first human dosing under the IND.

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

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

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

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

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

(f) "Misconduct" shall mean (i) the commission of any act of fraud, embezzlement or dishonesty by Optionee which affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (ii) any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iii) the refusal or omission by the Optionee to perform any duties required of him if such duties are consistent with duties customary for the position held with the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iv) any act or omission by the Optionee involving malfeasance or gross negligence in the performance of Optionee's duties to, or material deviation from any of the policies or directives of, the Company or the acquiring or successor entity (or parent or any subsidiary thereof), (v) conduct on the part of Optionee which constitutes the breach of any statutory or common law duty of loyalty to the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or (vi) any illegal act by Optionee which materially and adversely affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or any felony committed by Optionee, as evidenced by conviction thereof. The provisions of this paragraph shall not limit the grounds for the dismissal or discharge of Optionee or any other individual in the service of the Company, the acquiring or successor entity (or parent or any subsidiary thereof).

(g) "Change in Control" shall mean:

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

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

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

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

3 . Purchase Price. The price at which Optionee shall be entitled to purchase the Stock covered by the Option shall be \$0.365 per share, which is the closing price of the Company's common stock on the Over The Counter Bulletin Board on April 7, 2017. the Board has determined to be the Fair Market Value (as defined herein) as of the Grant Date, which is the "Fair Market Value in accordance with the requirements set forth in Treasury Regulation Section 1.409A-1(b)(5)(iv)(B) or any successor provision thereof.

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

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

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

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

8. Termination of Employment or Service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Signature Page Follows]

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

CV SCIENCES, INC.

By: /s/ Michael Mona, Jr.

Name: Michael Mona, Jr.

Its: President and Chief Executive Officer

ACCEPTED AND AGREED TO:

/s/ Joseph Dowling

Joseph Dowling

EXHIBIT A

CV SCIENCES, INC.

EXERCISE NOTICE

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

Effective as of today, _____, ___ the undersigned (the "Optionee") hereby elects to exercise the Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of CV Sciences, Inc. (the "Company") under and pursuant to the Non-Qualified Stock Option Award Agreement (the "Option Agreement") dated April 7, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUBMITTED BY:

/s/ Joseph Dowling
Joseph Dowling

Address:

ACCEPTED BY:

CV SCIENCES, INC.

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

Address:

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

EXHIBIT B

CV SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE: Joseph Dowling
COMPANY: CV Sciences, Inc.
SECURITY: Common Stock
AMOUNT: _____
Date: _____

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

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

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

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

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

OPTIONEE:

Name (print): _____

Date: _____

CV SCIENCES, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

This NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into as of April 7, 2017, by and between CV Sciences, Inc., a Delaware corporation (the "Company") and Michael Mona III ("Optionee").

RECITALS

A. The Company granted options to Optionee pursuant to the resolutions of the Board of Directors dated April 7, 2017 ("Grant Date") to provide an incentive to Optionee to focus on the long-term growth of the Company.

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

AGREEMENT

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

2. Vesting of Option.

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

(i) 250,000 when the Company has final meeting minutes from a pre-investigational new drug application ("IND") meeting as authorized by the FDA for a drug development program utilizing CBD as the active pharmaceutical ingredient;

(ii) 250,000 when the Company is granted an IND; and

(iii) 500,000 when the Company commences its first human dosing under the IND.

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

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

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

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

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

(f) "Misconduct" shall mean (i) the commission of any act of fraud, embezzlement or dishonesty by Optionee which affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (ii) any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iii) the refusal or omission by the Optionee to perform any duties required of him if such duties are consistent with duties customary for the position held with the Company, the acquiring or successor entity (or parent or any subsidiary thereof), (iv) any act or omission by the Optionee involving malfeasance or gross negligence in the performance of Optionee's duties to, or material deviation from any of the policies or directives of, the Company or the acquiring or successor entity (or parent or any subsidiary thereof), (v) conduct on the part of Optionee which constitutes the breach of any statutory or common law duty of loyalty to the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or (vi) any illegal act by Optionee which materially and adversely affects the business of the Company, the acquiring or successor entity (or parent or any subsidiary thereof), or any felony committed by Optionee, as evidenced by conviction thereof. The provisions of this paragraph shall not limit the grounds for the dismissal or discharge of Optionee or any other individual in the service of the Company, the acquiring or successor entity (or parent or any subsidiary thereof).

(g) "Change in Control" shall mean:

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

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

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

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

3 . Purchase Price. The price at which Optionee shall be entitled to purchase the Stock covered by the Option shall be \$0.365 per share, which is the closing price of the Company's common stock on the Over The Counter Bulletin Board on April 7, 2017. the Board has determined to be the Fair Market Value (as defined herein) as of the Grant Date, which is the "Fair Market Value in accordance with the requirements set forth in Treasury Regulation Section 1.409A-1(b)(5)(iv)(B) or any successor provision thereof.

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

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

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

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

8. Termination of Employment or Service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Signature Page Follows]

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

CV SCIENCES, INC.

By: /s/ Michael Mona, Jr.

Name: Michael Mona, Jr.

Its: President and Chief Executive Officer

ACCEPTED AND AGREED TO:

/s/ Michael Mona III

Michael Mona III

EXHIBIT A

CV SCIENCES, INC.

EXERCISE NOTICE

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

Effective as of today, _____, ____ the undersigned (the "Optionee") hereby elects to exercise the Optionee's option to purchase _____ shares of the Common Stock (the "Shares") of CV Sciences, Inc. (the "Company") under and pursuant to the Non-Qualified Stock Option Award Agreement (the "Option Agreement") dated April 7, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SUBMITTED BY:

/s/ Michael Mona III
Michael Mona III

Address:

ACCEPTED BY:

CV SCIENCES, INC.

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

Address:

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

EXHIBIT B

CV SCIENCES, INC.

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE: Michael Mona III
COMPANY: CV Sciences, Inc.
SECURITY: Common Stock
AMOUNT: _____
Date: _____

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

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

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

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

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

OPTIONEE:

Name (print): _____

Date: _____

List of Subsidiaries

1. Plus CBD, LLC, a Nevada limited liability company.
2. CANNAVEST Acquisition LLC, a Delaware limited liability company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of CV Sciences, Inc. and Subsidiaries

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-199173), pertaining to the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan, of our report dated March 29, 2018, relating to the consolidated financial statements of CV Sciences, Inc. and subsidiaries included in the Annual Report on Form 10-K for the year ended December 31, 2017.

/s/ Tanner LLC

Salt Lake City, Utah
March 29, 2018

**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 Annual Report on Form 10-K 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: March 29, 2018

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 Annual Report on Form 10-K 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: March 29, 2018

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 Annual Report of CV Sciences, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2017 (the "Report"), I, Michael J. Mona, Jr., President and Chief Executive Officer of the Registrant, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report, as filed with the Securities and Exchange Commission, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 29, 2018

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 Annual Report of CV Sciences, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2017 (the "Report"), I, Joseph D. Dowling, Chief Financial Officer of the Registrant, do hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report, as filed with the Securities and Exchange Commission, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 29, 2018

By: /s/ Joseph D. Dowling

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