
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2024**

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)

80-0944970

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

9530 Padgett Street, Suite 107
San Diego, CA 92126

(Address of principal executive offices)

(866) 290-2157

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class

Trading symbol(s)

Name of each exchange on which registered

None

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of August 9, 2024, the issuer had 180,650,650 shares of issued and outstanding common stock, par value \$0.0001 per share.

CV SCIENCES, INC.
FORM 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CV SCIENCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except per share data)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash	\$ 477	\$ 1,317
Accounts receivable, net	639	431
Inventory	5,206	5,655
Prepaid expenses and other	410	535
Total current assets	6,732	7,938
Property and equipment, net	666	379
Right of use assets	451	167
Intangibles, net	106	78
Goodwill	729	342
Other assets	202	296
Total assets	\$ 8,886	\$ 9,200
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,307	\$ 2,309
Accrued expenses	3,461	3,422
Operating lease liability - current	234	130
Debt	29	254
Total current liabilities	6,031	6,115
Operating lease liability - net of current portion	233	58
Deferred tax liability	19	19
Other liabilities	95	105
Total liabilities	6,378	6,297
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, par value \$0.0001; 10,000 shares authorized; 1 share issued as of June 30, 2024 and December 31, 2023; and no shares outstanding as of June 30, 2024 and December 31, 2023	—	—
Common stock, par value \$0.0001; 790,000 shares authorized as of June 30, 2024 and December 31, 2023; 180,651 and 161,678 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively	18	16
Additional paid-in capital	88,291	87,464
Accumulated deficit	(85,799)	(84,587)
Accumulated other comprehensive income (loss)	(2)	10
Total stockholders' equity	2,508	2,903
Total liabilities and stockholders' equity	\$ 8,886	\$ 9,200

See accompanying notes to the unaudited condensed consolidated financial statements.

CV SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Product sales, net	\$ 3,954	\$ 3,966	\$ 7,956	\$ 8,114
Cost of goods sold	2,094	2,248	4,243	4,614
Gross profit	1,860	1,718	3,713	3,500
Operating expenses:				
Research and development	28	36	64	71
Selling, general and administrative	2,415	2,758	4,852	4,914
Benefit from reversal of accrued payroll taxes (Note 12)	—	—	—	(6,171)
Total operating expenses	2,443	2,794	4,916	(1,186)
Operating income (loss)	(583)	(1,076)	(1,203)	4,686
Other expense, net	1	209	3	265
Income (loss) before income taxes	(584)	(1,285)	(1,206)	4,421
Income tax expense	—	3	6	3
Net income (loss)	\$ (584)	\$ (1,288)	\$ (1,212)	\$ 4,418
Weighted average common shares outstanding, basic and diluted	172,418	152,599	167,823	152,353
Net income (loss) per common share, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ 0.03

See accompanying notes to the unaudited condensed consolidated financial statements.

CV SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ (584)	\$ (1,288)	\$ (1,212)	\$ 4,418
Other comprehensive loss:				
Foreign currency translation adjustment	(7)	—	(12)	—
Total comprehensive income (loss)	<u>\$ (591)</u>	<u>\$ (1,288)</u>	<u>\$ (1,224)</u>	<u>\$ 4,418</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

CV SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehen- sive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2023	—	\$ —	161,678	\$ 16	\$ 87,464	\$ (84,587)	\$ 10	\$ 2,903
Issuance of common stock for services	—	—	1,550	—	62	—	—	62
Stock-based compensation	—	—	—	—	30	—	—	30
Foreign currency translation adjustment	—	—	—	—	—	—	(5)	(5)
Net loss	—	—	—	—	—	(628)	—	(628)
Balance at March 31, 2024	—	—	163,228	16	87,556	(85,215)	5	2,362
Issuance of common stock for acquisition	—	—	17,423	2	698	—	—	700
Stock-based compensation	—	—	—	—	37	—	—	37
Foreign currency translation adjustment	—	—	—	—	—	—	(7)	(7)
Net loss	—	—	—	—	—	(584)	—	(584)
Balance at June 30, 2024	—	\$ —	180,651	\$ 18	\$ 88,291	\$ (85,799)	\$ (2)	\$ 2,508

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehen- sive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2022	—	\$ —	152,104	\$ 15	\$ 86,897	\$ (87,689)	\$ —	\$ (777)
Stock-based compensation	—	—	—	—	118	—	—	118
Net income	—	—	—	—	—	5,706	—	5,706
Balance at March 31, 2023	—	—	152,104	15	87,015	(81,983)	—	5,047
Issuance of common stock for services	—	—	2,500	—	100	—	—	100
Stock-based compensation	—	—	—	—	35	—	—	35
Net loss	—	—	—	—	—	(1,288)	—	(1,288)
Balance at June 30, 2023	—	\$ —	154,604	\$ 15	\$ 87,150	\$ (83,271)	\$ —	\$ 3,894

See accompanying notes to the unaudited condensed consolidated financial statements.

CV SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Six Months Ended June 30,	
	2024	2023
OPERATING ACTIVITIES		
Net income (loss)	\$ (1,212)	\$ 4,418
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	139	118
Stock-based compensation	67	153
Note discount and interest expense	—	112
Non-cash lease expense	78	53
Benefit from reversal of accrued payroll tax (Note 12)	—	(6,171)
Other	158	312
Change in operating assets and liabilities:		
Accounts receivable	(200)	148
Inventory	513	727
Prepaid expenses and other	125	2,778
Accounts payable and accrued expenses	(243)	(262)
Net cash flows provided by (used in) operating activities	(575)	2,386
INVESTING ACTIVITIES		
Acquisition of business, net of cash acquired	(40)	—
Net cash flows used in investing activities	(40)	—
FINANCING ACTIVITIES		
Repayment of note payable	(50)	(1,117)
Repayment of unsecured debt	(173)	(190)
Net cash flows used in financing activities	(223)	(1,307)
Effect of exchange rate changes on cash	(2)	—
Net increase (decrease) in cash	(840)	1,079
Cash, beginning of period	1,317	611
Cash, end of period	<u>\$ 477</u>	<u>\$ 1,690</u>
Supplemental cash flow disclosure:		
Interest paid	\$ 6	\$ 4
Income taxes paid	\$ 6	\$ —
Supplemental disclosures of non-cash transactions:		
Services paid with common stock	<u>\$ 62</u>	<u>\$ 100</u>
Fair value of net assets acquired, excluding cash	\$ 447	\$ —
Goodwill on acquisition	393	—
Common stock consideration	(700)	—
Contingent consideration	(100)	—
Cash paid for acquisition	<u>\$ 40</u>	<u>\$ —</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

1. ORGANIZATION AND BUSINESS

Historical Information - CV Sciences, Inc. (the "Company") was incorporated under the name Foreclosure Solutions, Inc. in the State of Texas on December 9, 2010. The Company subsequently changed its name to CannaVest Corp. (Texas) on January 29, 2013. On July 25, 2013, the Company merged with and into its wholly-owned Delaware subsidiary, CannaVest Corp (Delaware), 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."

Description of Business - The Company develops, manufactures, markets and sells herbal supplements and hemp-based cannabidiol ("CBD"). The Company sells its products under tradenames, such as *+PlusCBD™* and *+PlusCBD™Pet*. The Company's products are sold in a variety of market sectors including nutraceutical, beauty care and specialty foods. In addition, subject to available capital, the Company is developing drug candidates which use CBD as a primary active ingredient.

On December 7, 2023, the Company acquired Cultured Foods Sp. z.o.o., a limited liability company organized under the laws of Poland ("Cultured Foods"). Cultured Foods is a leading European manufacturer and distributor of plant-based protein products. The Company's plant-based food products are sold under the Cultured Foods brand.

On May 13, 2024, the Company acquired Elevated Softgels LLC, a Delaware limited liability company ("Elevated Softgels"). Elevated Softgels is a leading manufacturer of encapsulated softgels and tinctures for the supplement and nutrition industry.

Basis of Presentation - The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all normal recurring adjustments necessary for a fair statement of the results for the interim periods. On December 7, 2023, the Company acquired Cultured Foods and on May 13, 2024, the Company acquired Elevated Softgels, both of which are now wholly owned subsidiaries of the Company. All intercompany accounts and transactions have been eliminated in consolidation. These condensed consolidated financial statements are unaudited and should be read in conjunction with the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2023, filed with the Securities and Exchange Commission on March 29, 2024. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

Liquidity Considerations - U.S. GAAP requires management to assess a company's ability to continue as a going concern for a period of one year from the financial statement issuance date and to provide related note disclosure in certain circumstances. The accompanying financial statements and notes have been prepared assuming the Company will continue as a going concern. The Company generated negative cash flows from operations of \$0.6 million for the six months ended June 30, 2024 and had an accumulated deficit of \$85.8 million as of June 30, 2024. Management anticipates that the Company will be dependent, for the near future, on additional investment capital to fund operations, growth initiatives and to continue to make and implement strategic cost reductions, including reductions in employee headcount, vendor spending, and delaying expenses related to its drug development activities. The Company intends to position itself so that it will be able to raise additional funds through the capital markets, issuance of debt, and/or securing lines of credit.

In July 2024, the Company received net proceeds of \$0.9 million under a Secured Promissory Note with Streeterville Capital, LLC, a Utah limited liability company ("Streeterville") - refer to Note 13 for more information.

The Company's financial operating results and accumulated deficit, amongst other factors, raise substantial doubt about the Company's ability to continue as a going concern. The Company will continue to pursue the actions outlined above, as well as work towards increasing revenue and operating cash flows to meet its future liquidity requirements. However, there can be no assurance that the Company will be successful in any capital-raising efforts that it may undertake, and the failure of the Company to raise additional capital could adversely affect its future operations and viability.

Use of Estimates - The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates include the valuation of intangible assets, inputs for valuing equity awards, valuation of inventory and assumptions related to revenue recognition.

CV SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Fair Value Measurements - Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The carrying values of accounts receivable, other current assets, accounts payable, and certain accrued expenses as of June 30, 2024 and December 31, 2023, approximate their fair value due to the short-term nature of these items. The Company's insurance financing balance also approximates fair value as of June 30, 2024 and December 31, 2023 and the note payable balance as of December 31, 2023 also approximates fair value, as the interest rate on the note payable and insurance financing approximates the rates available to the Company as of such dates. The accounting guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

- Level 1 - uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. The Company does not have any assets or liabilities that are valued using inputs identified under a Level 1 hierarchy as of June 30, 2024 and December 31, 2023.
- Level 2 - uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. The Company did not have any assets or liabilities that are valued using inputs identified under a Level 2 hierarchy as of June 30, 2024 and December 31, 2023.
- Level 3 - uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, and significant management judgment or estimation. Except as described below in *Note 3. Acquisitions*, the Company did not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of June 30, 2024 and December 31, 2023.

Revenues - The majority of the Company's revenue contracts represent a single performance obligation related to the fulfillment of customer orders for the purchase of its products. Net sales reflect the transaction prices for these contracts based on the Company's selling list price, which is then reduced by estimated costs for trade promotional programs, consumer incentives, and allowances and discounts used to incentivize sales growth and build brand awareness. The Company recognizes revenue at the point in time that control of the ordered product is transferred to the customer, which is typically upon shipment to the customer or other customer-designated delivery point. The Company accrues for estimated sales returns by customers based on historical sales return results. The computation of the sales return and other allowances require that management makes certain estimates and assumptions that effect the timing and amounts of revenue and liabilities recorded. Shipping and handling fees charged to customers are included in product sales. Taxes collected from customers that are remitted to governmental agencies are accounted for on a net basis and not included as revenue.

The following represents product sales by retail (B2B) and e-commerce (B2C) channels for the three and six months ended June 30, 2024 and 2023:

	Three months ended June 30, 2024		Three months ended June 30, 2023	
	Amount (in thousands)	% of product sales, net	Amount (in thousands)	% of product sales, net
Retail sales (B2B)	\$ 2,216	56.0 %	\$ 2,290	57.7 %
E-Commerce sales (B2C)	1,738	44.0 %	1,676	42.3 %
Product sales, net	<u>\$ 3,954</u>	<u>100.0 %</u>	<u>\$ 3,966</u>	<u>100.0 %</u>

	Six months ended June 30, 2024		Six months ended June 30, 2023	
	Amount (in thousands)	% of product sales, net	Amount (in thousands)	% of product sales, net
Retail sales (B2B)	\$ 4,451	55.9 %	\$ 4,729	58.3 %
E-Commerce sales (B2C)	3,505	44.1 %	3,385	41.7 %
Product sales, net	<u>\$ 7,956</u>	<u>100.0 %</u>	<u>\$ 8,114</u>	<u>100.0 %</u>

Recent Accounting Pronouncements Not Yet Adopted

In October 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative"

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(“ASU 2023-06”). This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification (“ASC”). The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of ASC Topics, allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the ASC with the SEC’s regulations. The ASU has an unusual effective date and transition requirements since it is contingent on future SEC rule setting. If the SEC fails to enact required changes by June 30, 2027, this ASU is not effective for any entities. Early adoption is not permitted.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires companies to enhance the disclosures about segment expenses. The new standard requires the disclosure of the Company’s Chief Operating Decision Maker (“CODM”), expanded incremental line-item disclosures of significant segment expenses used by the CODM for decision-making, and the inclusion of previous annual only segment disclosure requirements on a quarterly basis. This ASU should be applied retrospectively for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company’s consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Taxes Disclosures, which requires greater disaggregation of income tax disclosures. The new standard requires additional information to be disclosed with respect to the income tax rate reconciliation and income taxes paid disaggregated by jurisdiction. This ASU should be applied prospectively for fiscal years beginning after December 15, 2024, with retrospective application permitted. The Company is currently evaluating the impacts of this guidance on the Company’s consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02 “Codification Improvements – Amendments to Remove References to the Concepts Statements.” The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025. Early application of the amendments in this update is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance). If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Recent Adopted Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and subsequent amendments to the initial guidance: ASU 2018-19, ASU 2019-04 and ASU 2019-05 (collectively, “Topic 326”). Topic 326 requires measurement and recognition of expected credit losses for financial assets held. Topic 326 was to be effective for reporting periods beginning after December 15, 2019, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10, Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842) Effective Dates, which deferred the effective dates for the Company, as a smaller reporting company, until fiscal year 2023. The Company adopted this guidance as of January 1, 2023. Adoption of this guidance did not have a material impact on the Company’s consolidated financial statements or its disclosures.

2. BALANCE SHEET DETAILS

Inventory

Inventory as of June 30, 2024 and December 31, 2023 was comprised of the following (in thousands):

	June 30, 2024	December 31, 2023
Raw materials	\$ 2,780	\$ 2,892
Work in process	836	1,181
Finished goods	1,590	1,582
	<u>\$ 5,206</u>	<u>\$ 5,655</u>

CV SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Accrued expenses

Accrued expenses as of June 30, 2024 and December 31, 2023 were as follows (in thousands):

	June 30, 2024	December 31, 2023
Accrued payroll taxes (Note 12)	\$ 522	\$ 522
Accrued payroll expenses	1,432	1,388
Other accrued liabilities	1,507	1,512
	<u>\$ 3,461</u>	<u>\$ 3,422</u>

3.ACQUISITIONS

Cultured Foods

On December 7, 2023, the Company acquired all the issued and outstanding equity interests of Cultured Foods. Cultured Foods manufactures and distributes plant-based food products. Cultured Foods is based in Poland. This acquisition provided the Company with growth opportunities in both plant-based food products and distribution of CBD products into Europe.

The acquisition closed on December 7, 2023 and, accordingly, the consolidated statements of operations and comprehensive income (loss) included Cultured Foods' results of operations for the periods from December 7, 2023 through December 31, 2023, and for the three and six months ended June 30, 2024. As a result of the business combination, acquisition costs of \$0.1 million was expensed as incurred during the year ended December 31, 2023.

The following table outlines the total consideration transferred (in thousands):

Cash	\$ 192
Common shares	250
Earn-out	88
Total consideration transferred	<u>\$ 530</u>

The following table summarizes the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash	\$ 18
Accounts receivable and other receivables	11
Inventories	133
Intangible assets	78
Other current assets	17
Fixed assets	38
Goodwill	334
Total assets	629
Accounts payable and accrued liabilities	27
Current notes payable	50
Deferred tax liabilities	22
Total liabilities	99
Net assets acquired	<u>\$ 530</u>

The fair value of acquired intangible assets were determined using a forecasted cash flow and a cost approach. Acquired intangible assets consists of trade names and customer relationships. The Company assigned a 5-year useful life to the acquired intangible assets. The Company determined that Cultured Foods carrying costs approximates fair value for all other acquired assets and assumed liabilities.

Included in the purchase agreement is an earn-out provision whereby the Company agreed to pay the Cultured Foods' selling equityholder additional consideration contingent on achievement of certain annual revenue results of Cultured Foods in 2024. The Company accrued the fair value of \$88,000 for this earn-out provision and recorded this amount as additional goodwill and accrued expenses as of June 30, 2024. The valuation and purchase price allocation for the Cultured Foods acquisition remains preliminary and will be finalized no later than one year after the acquisition date. As of the date of this Quarterly Report, management is still in the process of evaluating the estimated fair value of the consideration transferred. In addition, management is still evaluating the allocation

CV SCIENCES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

of the acquisition purchase price to the tangible and intangible assets acquired, liabilities assumed, and the resulting goodwill. Management's analysis of these items has not yet been completed because of the inherent complexities of estimating fair values. Therefore, the business combination amounts presented were determined by management based on its consideration of all currently available information; however, management has not fully completed its business combination analysis and such amounts must be considered provisional amounts.

Elevated Softgels

On May 13, 2024, the Company acquired all the issued and outstanding membership interests in Elevated Softgels. Elevated Softgels manufactures encapsulated softgels and tinctures for the supplement and nutrition industry. Elevated Softgels is based in Grand Junction, Colorado. This acquisition creates opportunity to further increase the Company's sales to current and new clients. In addition, the Company intends to in-source production of certain key products.

The acquisition closed on May 13, 2024 and, accordingly, the consolidated statements of operations and comprehensive income (loss) included Elevated Softgels' results of operations for the period from May 13, 2024 through June 30, 2024. As a result of the business combination, acquisition costs of \$13,704 was expensed as incurred during the three months ended June 30, 2024.

The following table outlines the total consideration transferred (in thousands):

Cash	\$	71
Common shares		700
Earn-out		100
Total consideration transferred	\$	<u>871</u>

The following table summarizes the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash	\$	31
Inventories		66
Intangible assets		38
Other non-current assets		11
Right of use asset		362
Fixed assets		418
Goodwill		393
Total assets		1,319
Accounts payable and accrued liabilities		86
Operating lease liability		362
Total liabilities		448
Net assets acquired	\$	<u>871</u>

The fair value of acquired intangible assets were determined using a forecasted cash flow approach. Acquired intangible assets consists of customer relationships. The Company assigned a 5-year useful life to the acquired intangible assets. The Company determined that Elevated Softgels carrying costs approximates fair value for all other acquired assets and assumed liabilities.

Included in the purchase agreement is an earn-out provision whereby the Company agreed to pay the Elevated Softgels' selling equityholders additional consideration contingent on achievement of certain net revenue of Elevated Softgels for the 12-months period starting on May 13, 2024. The Company accrued the fair value of \$100,000 for this earn-out provision and recorded this amount as additional goodwill and accrued expenses as of June 30, 2024. The valuation and purchase price allocation for the Elevated Softgels acquisition remains preliminary and will be finalized no later than one year after the acquisition date. As of the date of this Quarterly Report, management is still in the process of evaluating the estimated fair value of the consideration transferred. In addition, management is still evaluating the allocation of the acquisition purchase price to the tangible and intangible assets acquired, liabilities assumed, and the resulting goodwill. Management's analysis of these items has not yet been completed because of the inherent complexities of estimating fair values. Therefore, the business combination amounts presented were determined by management based on its consideration of all currently available information; however, management has not fully completed its business combination analysis and such amounts must be considered provisional amounts.

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4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table summarizes the changes in the carrying amounts of goodwill (in thousands):

	Carrying Amount
Balance - December 31, 2023:	\$ 342
Acquisition of Elevated Softgels	393
Translation adjustment	(6)
Balance - June 30, 2024:	<u>\$ 729</u>

As of December 31, 2023, the Company performed its annual goodwill impairment analysis following the steps laid out in ASC 350-20-35-3C. The Company's annual impairment analysis included a qualitative assessment to determine if it was necessary to perform the quantitative impairment test. After performing a qualitative test, the Company concluded that it was more likely than not that the fair value of the Company exceeds its carrying value of goodwill. Accordingly, there was no indication of impairment and the qualitative impairment test was not performed. The Company did not record any goodwill impairment charges for the year ended December 31, 2023. No indicators of impairment were identified during the three and six months ended June 30, 2024. The Company's annual impairment testing date is December 31 of each year.

Intangible Assets

The following table summarizes the intangible assets and the related accumulated amortization (in thousands):

	June 30, 2024	December 31, 2023
Gross carrying amount	\$ 116	\$ 78
Accumulated amortization	(10)	(1)
Translation adjustment	—	1
Net carrying amount	<u>\$ 106</u>	<u>\$ 78</u>

Changes in the carrying amounts of intangible assets are summarized below (in thousands):

	Trade names	Customer relationships	Total
Balance - December 31, 2023:	\$ 52	\$ 26	\$ 78
Acquisition of Elevated Softgels	—	38	38
Amortization	(5)	(4)	(9)
Translation adjustments	—	(1)	(1)
Balance - June 30, 2024:	<u>\$ 47</u>	<u>\$ 59</u>	<u>\$ 106</u>

Above stated amounts are provisional amounts and subject to adjustment in future periods. The Company did not incur costs to renew or extend the term of acquired intangible assets for the three and six months ended June 30, 2024. The estimated amortization expense for the Company's intangible assets is not significant in any future individual fiscal year. No indicators of impairment were identified during the three and six months ended June 30, 2024.

5. LEASES

In April 2022, the Company entered into a new lease agreement for its main office facility. The lease is for the Company's operations, warehouse, sales, marketing and back office functions. The facility is approximately 6,000 square feet and located in San Diego, California. The lease term is three years with a total lease obligation of approximately \$0.4 million. The lease does not include an option to renew. Based on the present value of the lease payments for the remaining lease term, the Company recognized an operating lease asset of \$0.3 million and lease liabilities for operating leases of \$0.4 million, respectively, on May 1, 2022. As of June 30, 2024, the Company had an operating lease obligation and operating lease asset of \$0.1 million related to the facility.

In May 2024, the Company acquired Elevated Softgels and assumed its outstanding lease agreement (refer to Note 3). The facility of Elevated Softgels is approximately 7,200 square feet and located in Grand Junction, Colorado. The lease expires on March 31, 2025 and has options to renew the lease through March 31, 2027. Based on the present value of the lease payments, the Company recognized

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an operating lease asset and lease liability for operating leases of \$0.4 million on May 13, 2024. As of June 30, 2024, the Company had an operating lease obligation and operating lease asset of \$0.3 million related to the facility.

The Company's operating leases are included in "Right of use assets" on the Company's June 30, 2024 Condensed Consolidated Balance Sheet, and represents the Company's right to use the underlying assets for the lease term. The Company's obligation to make lease payments is included in "Operating lease liability - current" and "Operating lease liability" on the Company's June 30, 2024 Condensed Consolidated Balance Sheet. Operating lease expense is recognized on a straight-line basis over the lease term. During the three and six months ended June 30, 2024, the Company's total lease cost was \$49,638 and \$77,876, respectively. Total lease costs was mostly comprised of operating lease costs. Short-term lease costs related to short-term operating leases and variable lease costs were immaterial.

Because the rate implicit in the leases is not readily determinable, the Company uses the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. Information related to the Company's operating lease assets and related lease liabilities were as follows:

	June 30, 2024
Weighted-average remaining lease term (in months)	22.71
Weighted-average discount rate	9.23 %

Maturities of lease liabilities as of June 30, 2024 were as follows (in thousands):

Year ending December 31,	
2024 (remaining six months)	\$ 139
2025	200
2026	147
2027	37
	523
Less imputed interest	(56)
Total lease liabilities	\$ 467
Current operating lease liabilities	\$ 234
Non-current operating lease liabilities	233
Total lease liabilities	\$ 467

6.DEBT

Debt as of June 30, 2024 and December 31, 2023 was all current and was as follows (in thousands):

	June 30, 2024	December 31, 2023
Insurance financing	\$ 29	\$ 204
Cultured Foods note payable (Note 3)	—	50
Total debt	\$ 29	\$ 254

Insurance Financing

In October 2023, the Company entered into a financing agreement with First Insurance Funding in order to fund a portion of its insurance policies for the upcoming policy year. The amount financed is \$0.3 million, which incurs interest at a rate of 8.42% per annum. The Company is required to make monthly payments of \$29,781 from November 2023 through July 2024.

In November 2022, the Company entered into a finance agreement with First Insurance Funding in order to fund a portion of its insurance policies for the most recent policy year. The amount financed was \$0.2 million, which incurred interest at a rate of 6.32% per annum. The Company was required to make monthly payments of \$27,900 from November 2022 through July 2023. There was no outstanding balance as of June 30, 2024.

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Cultured Foods Notes Payable

The Company assumed the outstanding notes payable of Cultured Foods in connection with its acquisition of Cultured Foods in December 2023. The notes payable to the prior owner of Cultured Foods were due within the next 12 months from the date of acquisition. The notes carried an interest of 9% per annum. During the six months ended June 30, 2024, the Company repaid the entire outstanding amount of the notes payable including interest.

Note Payable

In August 2022, the Company entered into a note purchase agreement with Streeterville, pursuant to which the Company issued and sold to Streeterville the secured Streeterville Note in the original principal amount of \$2.0 million. The Streeterville Note carried an original issuance discount of \$400,000. The Company incurred additional debt issuance costs of \$23,000. As a result, the Company received aggregate net proceeds of approximately \$1.6 million in connection with the sale and issuance of the Streeterville Note. The Streeterville Note was scheduled to mature on May 19, 2023 and the Company was required to make weekly repayments to Streeterville on the Note in the following amounts: (a) \$40,000 for the first 8 weeks after issuance; and (b) \$56,000 thereafter until the Streeterville Note was paid in full.

No interest was to accrue on the Streeterville Note until an occurrence of an Event of Default, as defined in Section 4 of the Streeterville Note, if ever. The Streeterville Note provided for customary events of default, including, among other things, the event of nonpayment of principal, interest, fees or other amounts, a representation or warranty proving to have been incorrect when made, failure to perform or observe covenants within a specified period of time, a cross-default to certain other indebtedness of the Company, the bankruptcy or insolvency of the Company or any significant subsidiary, monetary judgment defaults of a specified amount and other defaults resulting in liability of a specified amount. In the event of an occurrence of an Event of Default by the Company, Streeterville could have declared all amounts owed under the Streeterville Note immediately due and payable. Also, a late fee and interest penalty of equal to either 22% per annum or the maximum rate allowable under law, whichever is lesser, could have been applied to any outstanding amount not paid when due or that remains outstanding while an Event of Default exists.

The unpaid amount of the Streeterville Note, any interest, fees, charges and late fees accrued was due and payable in full within three trading days of receipt by the Company of any employee retention credit funds owed to the Company under the CARES Act, provided, further, that if at least \$1.0 million in CARES Act proceeds were not remitted to Streeterville within ninety days of August 19, 2022, the outstanding balance under the Streeterville Note was to be increased by five percent (5%). The Company did not receive the CARES Act proceeds within 90 days of August 19, 2022; as a result, the outstanding balance of the Streeterville Note was increased by five percent (5%). The Streeterville Note was secured by all of the Company's assets as set forth in the Security Agreement dated August 19, 2022.

The Company made principal payments to Streeterville of \$0.4 million and \$1.1 million during the three and six months ended June 30, 2023. As a result, the Streeterville Note has been fully repaid and satisfied as of December 31, 2023, and the Company's obligations thereunder, were cancelled and terminated.

The Company entered into a new note with Streeterville subsequent to June 30, 2024 (refer to Note 13.).

7.STOCKHOLDERS' EQUITY

Common Stock

During the year ended December 31, 2022, the Company issued 5,496,000 shares of common stock to a vendor as compensation for \$0.4 million of services provided to the Company. In accordance with the agreement, the Company issued 1,549,410 additional shares of common stock to the vendor during the six months ended June 30, 2024.

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Warrants

The following represents a summary of the warrants outstanding at each of the dates identified:

Issue Date	Classification	Exercise Price	Expiration Date	Number of Shares Underlying Warrants	
				June 30, 2024	December 31, 2023
March 30, 2022	Equity	\$ 0.1000	June 6, 2025	10,000,000	10,000,000
March 30, 2022	Equity	\$ 0.0875	June 6, 2025	750,000	750,000
				10,750,000	10,750,000

8. STOCK-BASED COMPENSATION

On June 1, 2023, the Company's shareholders approved the adoption of a new 2023 Equity Incentive Plan (the "2023 Plan"), and the Company adopted the 2023 Plan. As a result, the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan (the "2013 Plan") terminated and was replaced by the 2023 Plan; future issuances of incentive instruments will be made under and governed by the 2023 Plan. Outstanding awards issued under the 2013 Plan will remain subject to the terms and conditions of the 2013 Plan, provided that to the extent that outstanding awards under the 2013 Plan are forfeited or lapse unexercised, the shares of common stock subject to such awards will no longer be available for future issuance under the 2013 Plan or any other equity incentive plan of the Company.

The 2023 Plan has a term of 10 years. The number of shares of the Company's common stock authorized for issuance under the 2023 Plan is initially 34,976,000 shares, which number shall automatically increase on January 1 of each fiscal year (for a period of ten years after adoption of the 2023 Plan) during the term of the 2023 Plan, commencing on January 1, 2024, by the lesser of (a) 4% of the total shares of the Company's common stock outstanding on December 31st of the prior year, and (b) a lesser number of the Company's common stock as determined by the Company's Board of Directors. As of December 31, 2023, the Company had 34,726,000 authorized but unissued shares reserved for issuance under the 2023 Plan. On January 1, 2024, the Company did not add any shares to the 2023 Plan.

As of June 30, 2024, total unrecognized compensation cost related to non-vested stock-based compensation arrangements was \$0.9 million, which is expected to be recognized over a weighted-average period of 2.6 years.

The following summarizes activity related to the Company's stock options (in thousands, except per share data):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding - December 31, 2023	24,435	\$ 0.32	4.4	\$ 6
Granted	14,100	0.05	—	—
Exercised	—	—	—	—
Cancelled	(11,687)	0.42	—	—
Outstanding - June 30, 2024	26,848	0.14	8.9	230
Exercisable - June 30, 2024	7,680	0.36	7.0	64
Vested or expected to vest - June 30, 2024	26,848	\$ 0.14	8.9	\$ 230

The Company has established performance milestones in connection with drug development efforts for its lead drug candidate CVSI-007. As of June 30, 2024, there were 6,750,000 unvested performance-based stock options previously granted to Michael Mona Jr.

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("Mona Jr.") outside of the 2013 Plan and 2023 Plan which are not included in the above table. These stock options vest upon the satisfaction of future performance conditions (refer to Note 12).

The following table presents the weighted average grant date fair value of stock options granted and the weighted-average assumptions used to estimate the fair value on the date of grant using the Black-Scholes valuation model:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Volatility	138.1 %	136.0 %	138.1 %	132.0 %
Risk-Free Interest Rate	4.3 %	3.5 %	4.3 %	3.8 %
Expected Term (in years)	5.75	5.04	5.75	5.77
Dividend Rate	— %	— %	— %	— %
Weighted Average Fair Value Per Share on Grant Date	\$ 0.05	\$ 0.04	\$ 0.05	\$ 0.04

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. Expected volatility is based on the historical volatility of the Company's common stock. The Company estimates the expected term for stock options awarded to 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. In the future, as the Company gains historical data for the actual term over which stock options are held, 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.

9.NET INCOME (LOSS) PER SHARE

The Company computes basic net income (loss) per share using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares plus potential common shares. The Company's stock options, including those with performance conditions, are included in the calculation of diluted net income (loss) per share using the treasury stock method when their effect is dilutive. Potential common shares are excluded from the calculation of diluted net income (loss) per share when their effect is anti-dilutive.

The following common stock equivalents were not included in the calculation of net income (loss) per diluted share because their effect were anti-dilutive (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Stock options	26,848	20,181	26,848	20,181
Performance stock options	6,750	11,000	6,750	11,000
Warrants	10,750	10,750	10,750	10,750
Total	44,348	41,931	44,348	41,931

10.COMMITMENTS AND CONTINGENCIES

On March 17, 2015, Michael Ruth filed a shareholder derivative suit in Nevada District Court alleging breach of fiduciary duty and gross mismanagement (the "Ruth Complaint"). The claims were premised on the same events that were the subject of a purported class action filed in the Southern District of New York on April 23, 2014 (the "Sallustro Case"). On July 2, 2019, the court in the Sallustro Case entered a final order dismissing the complaint with prejudice. The Company did not make any settlement payment, and at no time was there a finding of wrongdoing by the Company or any of its directors. Regarding the Ruth Complaint, the parties previously agreed to stay the action pending the conclusion of discovery in the Sallustro Case. Once the Sallustro Case was dismissed, the stay was lifted. Plaintiff's counsel later informed the Court that Mr. Ruth sold his shares of CVSI stock and thus he no longer had standing to pursue this claim. However, the Court allowed plaintiff's counsel to substitute CVSI shareholder Otilda Lamont as the named plaintiff. On September 20, 2019, defendants filed a motion to dismiss the Ruth Complaint and the court issued a ruling denying the motion to dismiss on November 24, 2020. A Third Amended Complaint was filed on December 11, 2020 substituting Otilda Lamont as plaintiff. The Company filed an answer to the Ruth complaint on January 11, 2021. The parties agreed to a settlement in principle in January 2022 whereby the Company agreed to make certain corporate governance reforms in exchange for dismissal of the lawsuit. Plaintiff filed a motion for preliminary approval of proposed settlement on June 1, 2022. The court granted preliminary approval of the proposed settlement on February 7, 2023. A hearing seeking final approval of the proposed settlement was held on May 15, 2023, and the court indicated it would likely approve the proposed settlement and reschedule the hearing with regard to plaintiff's motion for attorney's fees. On June 23, 2023, the Company received notice of a court order dated May 23, 2023 without any hearing, granting plaintiff's motion for attorney's fees and expenses of approximately \$250,000, which the Company accrued as of June 30, 2024. On or about May 1, 2024, the Company and plaintiff executed a stipulation for the payment of the plaintiff's attorney's fees and expenses over the course of approximately eighteen months subject to a confession of judgment.

On December 3, 2019, Michelene Colette and Leticia Shaw filed a putative class action complaint in the Central District of California, alleging the labeling on the Company's products violated the Food, Drug, and Cosmetic Act of 1938 (the "Colette Complaint"). On February 6, 2020, the Company filed a motion to dismiss the Colette Complaint. Instead of opposing the Company's motion, plaintiffs elected to file an amended complaint on February 25, 2020. On March 10, 2020, the Company filed a motion to dismiss the amended complaint. The court issued a ruling on May 22, 2020 that stayed this proceeding in its entirety and dismissed part of the amended complaint. The court's order stated that the portion of the proceeding that is stayed will remain stayed until the U.S. Food and Drug Administration (the "FDA") completes its rulemaking regarding the marketing, including labelling, of CBD ingestible products. However, on January 26, 2023, the FDA announced that it does not intend to pursue rulemaking allowing the use of cannabidiol products in dietary supplements or conventional foods. As a result, on February 13, 2023, Plaintiffs filed a status report with the court asking to have the stay lifted. The Company filed a written opposition. The court has taken no action since Plaintiffs filed that status report, and the case remains stayed pursuant to the court's original order.

On November 5, 2021, Mona Jr. filed a complaint against the Company for breach of contract and negligence in Nevada state court seeking to recover from the Company the amount of federal and state taxes, interest and penalties owed by Mona Jr. for taxes on income received by him upon the vesting and settlement of RSU's in 2019 - refer also to Note 12. Related Parties, for further information. On December 22, 2021, after removing the case to United States District Court for the District of Nevada, the Company filed a motion to dismiss the complaint on the grounds that Mona Jr. should have pursued these claims in a prior arbitration between the parties. On September 12, 2022, the court denied the motion to dismiss the case. On November 3, 2022, the court on its own motion ordered the case into arbitration. On December 6, 2022, Mona Jr. filed a demand for arbitration against the Company and its officers with the American Arbitration Association (the "AAA"). On January 31, 2023, the Company and management filed a case in the San Diego Superior Court for declaratory relief, seeking to enjoin the arbitration on the grounds that Mona Jr. is barred from proceeding with the arbitration under the doctrines of res judicata and judicial estoppel based on the results of the prior arbitration between the parties and the position that Mona Jr. took against the Company in the prior arbitration. On February 2, 2023, the AAA stayed the arbitration for 60 days. On February 14, 2023, the Company filed a motion for preliminary injunction to enjoin Mona Jr. from proceeding with the arbitration. The preliminary injunction motion was scheduled for hearing on October 20, 2023. On March 20, 2023, the Company sought a temporary restraining order to enjoin Mona Jr. from proceeding with the arbitration, which the court denied. After the denial of the temporary restraining order, the Company withdrew its motion for preliminary injunction. On April 5, 2023, the AAA informed the parties that the stay issued on February 2, 2023 had been lifted. On April 28, 2023, the AAA appointed an arbitrator for the matter. On June 6, 2023, the Company's officers filed a motion to dismiss the claims in the arbitration against them, arguing that they are not party to an agreement with Mona Jr. to arbitrate. On July 6, 2023, the Arbitrator issued an order scheduling the hearing on the merits for April 8 through April 12, 2024. On September 12, 2023, the Arbitrator granted in part and denied in part the motion to dismiss the Company's officers, requiring the case to proceed to a hearing on the merits. The hearing on the merits began on April 8, 2024, and the Arbitrator heard five days of testimony. The hearing resumed on May 21, 2024 and concluded on May 23, 2024. Post-hearing briefing is expected to conclude on or about November 6, 2024. A decision from the Arbitrator is expected to follow. Management believes that Mona Jr.'s

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claims lack merit. Nevertheless, an unfavorable outcome would have a material impact on the Company's financial condition and results of operations. Management intends to vigorously defend the allegations.

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, results of operations or financial condition.

11. INCOME TAXES

For the three and six months ended June 30, 2024 and 2023, the Company generated taxable losses for which no tax benefit has been recognized due to uncertainties regarding the future realization of the tax benefit. The tax effects of the taxable losses will be recognized when realization of the tax benefit becomes more likely than not or the tax effects of the previous interim losses are utilized.

12. RELATED PARTIES

During the year ended December 31, 2019, the Company's former President and Chief Executive Officer, Mona Jr., and the Company entered into a Settlement Agreement (the "Settlement Agreement"), pursuant to which the Company acknowledged that Mona Jr.'s resignation from the Company on January 22, 2019 was for Good Reason (as defined in Mona Jr.'s Employment Agreement) and agreed to extend the deadline for Mona Jr.'s exercise of his stock options for a period of five years. In exchange, Mona Jr. agreed that notwithstanding the terms of his Employment Agreement providing for acceleration of vesting of all stock options upon a Good Reason resignation, certain of his unvested stock options would not immediately vest, but rather continue to vest if, and only if, certain Company milestones are achieved related to the Company's drug development efforts. These stock options were issued in July 2016 (6,000,000 options) and March 2017 (5,000,000 options), and 6,750,000 of these stock options have not vested as of June 30, 2024. The Company and Mona Jr. also agreed to mutually release all claims arising out of and related to Mona Jr.'s resignation and separation from the Company. As a result of Mona Jr.'s Restricted Stock Unit Award Agreement, the Company recorded stock-based compensation expense related to (i) the accelerated vesting of the RSU's of \$5.1 million and (ii) due to the Settlement Agreement's modification of certain stock options of \$2.7 million during the year ended December 31, 2019. During the six months ended June 30, 2024, the Company cancelled 11,300,000 fully vested outstanding stock options of Mona Jr. with a weighted average exercise price of \$0.42 per share, as these stock options remained unexercised and the deadline to exercise these stock options lapsed.

In addition, 2,950,000 shares of stock were issued to Mona Jr. upon the vesting and settlement of the RSU's. The settlement of the RSU's by the payment of shares was treated as taxable compensation to Mona Jr. and thus subject to income tax withholdings. No amounts were withheld (either in cash or the equivalent of shares of common stock from the settlement of the RSU's) or included in the original Company's payroll tax filing. The compensation was subject to Federal and State income tax withholding and Federal Insurance Contributions Act ("FICA") taxes withholding estimated to be \$6.4 million for the employee portions. The employer portion of the FICA taxes was \$0.2 million and was recorded as a component of selling, general and administrative expenses in the statement of operations for the year ended December 31, 2019. During the year ended December 31, 2020, the Company reported the taxable compensation associated with the RSU settlement to the taxing authorities and included the amount in Mona Jr.'s W-2 for 2019. Although the primary tax liability is the responsibility of the employee, the Company is secondarily liable to the taxing authorities and thus has continued to reflect this liability on its balance sheet through December 31, 2022 in an amount of \$6.7 million, which was recorded as a component of accrued expenses. The Company initially recorded an offsetting receivable of \$6.2 million during the second quarter of 2019 for the total estimated Federal and State income taxes which should have been withheld in addition to the employee portion of the FICA payroll taxes as the primary liability is ultimately the responsibility of the employee. The receivable was recorded as a component of prepaid expense and other on the condensed balance sheet. The deadline to file and pay personal income taxes for 2019 with extensions was on October 15, 2020. To date, notwithstanding repeated requests from the Company, Mona Jr. has not provided to the Company the appropriate documentation substantiating that he properly filed and paid his taxes for 2019, and Mona Jr. has recently confirmed that he has not paid his personal income tax for 2019. As a result, the Company derecognized its previously recorded receivable of \$6.2 million during the fourth quarter of 2020. The associated liability would have been relieved once the tax amount was paid by Mona Jr. and the Company had received the required taxing authority documentation from Mona Jr. If the tax amount was not paid by Mona Jr., the Company could have been liable for such tax due.

The Company believes that the statute of limitations for federal payroll tax withholding expired on April 15, 2023. In addition, the statute of limitations for the state tax withholding expired during the three months ended March 31, 2023. As a result of the expiration of the relevant statutes of limitations, the Company believes that neither the IRS nor the State of California have the rights to assess and collect the \$6.2 million of income taxes from the Company and the Company has made a change in accounting estimate and no longer

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expects to incur a loss with respect to this matter. As a result, the Company derecognized the contingent liability of \$6.2 million during the six months ended June 30, 2023. The remaining accrued amount of \$0.5 million that the Company may still be liable for relates to employer and employee Medicare portion of FICA taxes for which the related statute of limitations has not yet expired.

13.SUBSEQUENT EVENT

In July 2024, the Company entered into a Note Purchase Agreement with Streeterville, pursuant to which the Company issued and sold to Streeterville a Secured Promissory Note in the original principal amount of \$1,188,500 (the "Note"). The Note carries an original issuance discount of \$283,500 and the Company agreed to pay \$5,000 to Streeterville to cover legal fees, each of which were deducted from the proceeds of the Note received by the Company which resulted in a purchase price received by the Company of \$900,000.

The Note is due and payable in twelve months from July 3, 2024 and the Company is required to make weekly repayments to Streeterville of \$22,856. The Company can pay all or any portion of the outstanding balance earlier than it is due without penalty. In the event the Company repays the Note in full on or before December 31, 2024, the Company will receive a \$75,000 discount from the outstanding balance. The Note is secured by all of the Company's assets pursuant to a Security Agreement entered into with Streeterville on July 3, 2024. No interest will accrue on the Note unless and until an occurrence of an Event of Default, as defined in the Note.

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

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

The following discussion of our financial condition and results of operations for the three and six months ended June 30, 2024 and 2023, respectively, should be read in conjunction with our condensed consolidated financial statements and the notes to those statements that are included elsewhere in this Quarterly Report on Form 10-Q. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

OVERVIEW

We are a consumer wellness company specializing in hemp extracts and other proven, science-backed, natural ingredients and products, which are sold through a range of sales channels from B2B to B2C.

Our *+PlusCBD™* branded products are sold at select retail locations throughout the U.S. and are the top-selling brands of hemp extracts in the natural products market, according to SPINS, the leading provider of syndicated data and insights for the natural, organic and specialty products industry. We follow all guidelines for good manufacturing practices ("GMP") and our products are processed, produced, and tested throughout the manufacturing process to confirm strict compliance with company and regulatory standards and specifications. With a commitment to science, *+PlusCBD™* product benefits in healthy people are supported by human clinical research data, in addition to three published clinical case studies available on PubMed.gov. *+PlusCBD™* was the first hemp extract supplement brand to invest in the scientific evidence necessary to receive self-affirmed "generally recognized as safe" ("GRAS") status.

In addition, on December 7, 2023, we entered into a Membership Interest Purchase Agreement, pursuant to which we purchased all of the outstanding equity interests in Cultured Foods Sp. z.o.o., resulting in Cultured Foods becoming a wholly owned subsidiary of the Company. Cultured Foods is a leading European manufacturer and distributor of plant-based protein products.

In May 2024, we acquired all outstanding membership interests of Elevated Softgels, LLC, a Delaware limited liability company, for a total purchase price of up to \$1.0 million. Elevated Softgels is a leading manufacturer of encapsulated softgels and tinctures for the supplement and nutrition industry, based in Colorado.

In August 2024, we engaged Maxim Group LLC ("Maxim") as a non-exclusive financial advisor and investment banker to provide strategic financial advisory and investment banking services. With the help of Maxim, the Company intends to continue to build an efficient and cost effective consumer products platform and continue to evaluate inbound and outbound merger, sale, acquisition or other opportunities for the Company.

We also have a drug development program focused on developing and commercializing CBD-based novel therapeutics, subject to available capital.

Our primary offices and facilities are located in San Diego, California; Grand Junction, Colorado; and Warsaw, Poland.

Our common stock is traded on the OTC:QB market under the trading symbol CVSI.

Results of Operations

Revenues and gross profit

	Three months ended				Six months ended			
	June 30,		Change		June 30,		Change	
	2024	2023	Amount	%	2024	2023	Amount	%
	(in thousands)							
Product sales, net	\$ 3,954	\$ 3,966	\$ (12)	(0)%	\$ 7,956	\$ 8,114	\$ (158)	(2)%
Cost of goods sold	2,094	2,248	(154)	(7)%	4,243	4,614	(371)	(8)%
Gross profit	\$ 1,860	\$ 1,718	\$ 142	8%	\$ 3,713	\$ 3,500	\$ 213	6%
<i>Gross margin</i>	<i>47.0%</i>	<i>43.3%</i>			<i>46.7%</i>	<i>43.1%</i>		

Second Quarter 2024 vs. 2023

	Three months ended June 30, 2024		Three months ended June 30, 2023	
	Amount (in thousands)	% of product sales, net	Amount (in thousands)	% of product sales, net
Retail sales (B2B)	\$ 2,216	56.0 %	\$ 2,290	57.7 %
E-commerce sales (B2C)	1,738	44.0 %	1,676	42.3 %
Product sales, net	<u>\$ 3,954</u>	<u>100.0 %</u>	<u>\$ 3,966</u>	<u>100.0 %</u>

We had net product sales of \$4.0 million and gross profit of \$1.9 million, representing a gross margin of 47.0%, in the second quarter of 2024, compared to net product sales of \$4.0 million and gross profit of \$1.7 million, representing a gross margin of 43.3%, in the second quarter of 2023. Our net product sales remained flat in the second quarter of 2024 when compared to the second quarter 2023. Our B2B sales declined slightly, offset by higher B2C sales. The total number of units sold during the second quarter 2024 decreased by 12.5% compared to the second quarter 2023, offset by higher average sales price per unit of 12.1%. The average sales price per unit increased due to product and channel mix. In addition, 47.7% of our net revenue for the second quarter 2024 was from new products launched since January 1, 2022. During this time, we launched 32 new products. The overall market continues to be fragmented and highly competitive, which we believe is largely due to the lack of a clear regulatory framework and a patchwork of state regulation.

Cost of goods sold consists primarily of raw materials, packaging, manufacturing overhead (including payroll, employee benefits, stock-based compensation, facilities, depreciation, supplies and quality assurance costs), merchant card fees and shipping. We were able to reduce our cost of goods sold in the second quarter of 2024 compared to the second quarter of 2023 by \$0.2 million, or 7%. The reduction is mostly due to the lower number of units sold in the second quarter of 2024. In addition, cost of goods sold in the second quarter of 2024 decreased as a percentage of revenue compared to the second quarter of 2023, mostly due to lower inventory losses and lower freight in the second quarter of 2024 compared to the prior year period. Our gross profit improved by \$0.1 million, or 8%, to \$1.9 million in the second quarter of 2024 and gross margin improved from 43.3% in the second quarter 2023 to 47.0% in the second quarter of 2024. The improvement in our gross margin is primarily due to our product and channel mix, lower inventory losses and lower freight.

First six months 2024 vs. 2023

	Six months ended June 30, 2024		Six months ended June 30, 2023	
	Amount (in thousands)	% of product sales, net	Amount (in thousands)	% of product sales, net
Retail sales (B2B)	\$ 4,451	55.9 %	\$ 4,729	58.3 %
E-commerce sales (B2C)	3,505	44.1 %	3,385	41.7 %
Product sales, net	<u>\$ 7,956</u>	<u>100.0 %</u>	<u>\$ 8,114</u>	<u>100.0 %</u>

We had net product sales of \$8.0 million and gross profit of \$3.7 million, representing a gross margin of 46.7%, in the six months ended June 30, 2024, compared to net product sales of \$8.1 million and gross profit of \$3.5 million, representing a gross margin of 43.1%, in the six months ended June 30, 2023. Our net product sales decreased by \$0.2 million, or 2%, in the first six months of 2024 when compared to first six months of 2023 results. The decline is primarily due to lower B2B sales in 2024, partially offset by higher B2C sales. The total number of units sold during the first six months of 2024 decreased by 13.6% compared to the first six months of 2023, partially offset by higher average sales price per unit of 12.0%. The average sales price per unit increased due to product and channel mix. Our B2C revenue increased by \$0.1 million compared to the first six months of 2023, mostly due to additional revenue from our subscriptions customers. In addition, 46.6% of our net revenue for the first six months 2024 was from new products launched since January 1, 2022. During this time, we launched 32 new products. The overall market continues to be fragmented and highly competitive, which we believe is largely due to the lack of a clear regulatory framework and a patchwork of state regulation.

Cost of goods sold consists primarily of raw materials, packaging, manufacturing overhead (including payroll, employee benefits, stock-based compensation, facilities, depreciation, supplies and quality assurance costs), merchant card fees and shipping. We were able to reduce our cost of goods sold in the first six months of 2024 compared to the first six months of 2023 by \$0.4 million, or 8%. The reduction is mostly due to the lower number of units sold in the first six months of 2024. In addition, cost of goods sold in the first six months of 2024 decreased as a percentage of revenue compared to the first six months of 2023, mostly due to lower inventory losses and lower freight in the first six months of 2024 compared to the prior year period. Our gross profit improved by \$0.2 million, or 6%, to \$3.7 million in the first six months of 2024 and gross margin improved from 43.1% in the first six months of 2023 to 46.7% in the first six months of 2024. The improvement in our gross margin is primarily due to our product and channel mix, lower inventory losses and lower freight.

Research and development expense

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	Change		2024	2023	Change	
	(in thousands)		Amount	%	(in thousands)		Amount	%
Research and development expense	\$ 28	\$ 36	\$ (8)	(22)%	\$ 64	\$ 71	\$ (7)	(10)%
Percentage of product sales, net	0.7%	0.9%			0.8%	0.9%		

Second Quarter 2024 vs. 2023

Research and development (“R&D”) expense remained relatively consistent and represents overall reduced R&D spend associated with new consumer products development expenses.

First Six Months 2024 vs. 2023

R&D expense remained relatively consistent and represents overall reduced R&D spend associated with new consumer products development expenses.

Selling, general and administrative expense

	Three months ended June 30,				Six months ended June 30,			
	2024	2023	Change		2024	2023	Change	
	(in thousands)		Amount	%	(in thousands)		Amount	%
Sales expense	\$ 793	\$ 732	\$ 61	8%	\$ 1,606	\$ 1,571	\$ 35	2%
Marketing expense	374	830	(456)	(55)%	996	1,487	(491)	(33)%
General & administrative expense	1,248	1,196	52	4%	2,250	1,856	394	21%
Selling, general and administrative	\$ 2,415	\$ 2,758	\$ (343)	(12)%	\$ 4,852	\$ 4,914	\$ (62)	(1)%
Percentage of product sales, net	61.1%	69.5%			61.0%	60.6%		

Second Quarter 2024 vs. 2023

Selling, general and administrative (“SG&A”) expense decreased to \$2.4 million in the second quarter of 2024 compared to \$2.8 million in the second quarter of 2023, which was primarily a result of the following:

- Sales expense increased due to higher broker commissions and payroll expense.
- Marketing expense decreased due to lower digital advertising spend, outside services, and payroll. Our reduced digital marketing expense declined due to lower advertising activity during the second quarter of 2024 and a favorable settlement of disputed invoices with an advertising agency of \$0.1 million.
- General and administrative (“G&A”) expense for the second quarter of 2024 increased from the prior year period due to additional legal fees, partially offset by lower general administrative expenses. The second quarter 2024 included professional fees of \$0.5 million associated with the legal dispute with the Company's founder. The prior year period included legal fees of \$0.3 million associated with the settlement of the Lamont legal case. For more information on the Company's legal proceedings, please see Note 10, *Commitments and Contingencies*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

First Six Months 2024 vs. 2023

SG&A expense remained flat at \$4.9 million during the first six months of 2024 compared to the first six months of 2023, and included the following:

- Sales expense slightly increased due to increases in payroll, partially offset by lower stock-based compensation.
- Marketing expense decreased due to lower digital advertising spend, outside services, and payroll. Our digital marketing expense declined due to lower advertising activity during the first six months of 2024 and a favorable settlement of disputed invoices with an advertising agency of \$0.1 million.
- G&A expense increased by \$0.3 million. The increase is mostly due to additional legal fees during the six months ended June 30, 2024. The current year period included professional fees of \$0.7 million associated with the legal dispute with the Company's founder. The prior year period included legal fees of \$0.3 million associated with the settlement of the Lamont legal case. For more information on the Company's legal proceedings, please see Note 10, *Commitments and Contingencies*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Benefit from reversal of accrued payroll taxes

We previously recorded a contingent liability for payroll taxes associated with the RSU release to our founder in 2019 of \$6.7 million. On April 15, 2023, the statute of limitations for federal payroll tax withholding expired. In addition, the statute of limitations for the state tax withholding expired during the six months ended June 30, 2023. As a result of the expiration of the relevant statutes of limitations, neither the IRS nor the State of California have the rights to assess and collect the \$6.2 million of income taxes from the Company and we have made a change in accounting estimate and no longer expect to incur a loss with respect to this matter. As a result, we derecognized the contingent liability of \$6.2 million during the six months ended June 30, 2023. For more information, please see Note 12, *Related Parties*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other expense, net

Other expense, net consists of interest expense and interest income. Other expense decreased by approximately \$0.2 million in the three month period ended June 30, 2024 as compared to the three month period ended June 30, 2023, and decreased by approximately \$0.3 million in the six month period ended June 30, 2024 as compared to the six month period ended June 30, 2023, in each case due to the repayment of our note payable to Streeterville.

Non-GAAP Financial Measures

We use Adjusted EBITDA internally to evaluate our performance and make financial and operational decisions that are presented in a manner that adjusts from their equivalent GAAP measures or that supplement the information provided by our GAAP measures. Adjusted EBITDA is defined by us as EBITDA (net income (loss) plus depreciation, interest and income tax expense, minus interest income), further adjusted to exclude certain non-cash expenses and other adjustments as set forth below. We use Adjusted EBITDA because we believe it also highlights trends in our business that may not otherwise be apparent when relying solely on GAAP financial measures, since Adjusted EBITDA eliminates from our results specific financial items that have less bearing on our core operating performance.

We use Adjusted EBITDA in communicating certain aspects of our results and performance, including in this Quarterly Report on Form 10-Q, and believe that Adjusted EBITDA, when viewed in conjunction with our GAAP results and the accompanying reconciliation, can provide investors with greater transparency and a greater understanding of factors affecting our financial condition and results of operations than GAAP measures alone. In addition, we believe the presentation of Adjusted EBITDA is useful to investors in making period-to-period comparison of results because the adjustments to GAAP are not reflective of our core business performance.

Adjusted EBITDA is not presented in accordance with, or as an alternative to, GAAP financial measures and may be different from non-GAAP measures used by other companies. We encourage investors to review the GAAP financial measures included in this Quarterly Report on Form 10-Q, including our condensed financial statements, to aid in their analysis and understanding of our performance and in making comparisons.

A reconciliation from our net income (loss) to Adjusted EBITDA, a non-GAAP measure, for the three and six months ended June 30, 2024 and 2023 is detailed below:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Net income (loss)	\$ (584)	\$ (1,288)	\$ (1,212)	\$ 4,418
Depreciation expense	71	59	130	118
Amortization expense	5	—	9	—
Interest expense	1	9	3	65
Income tax expense	—	3	6	3
EBITDA	(507)	(1,217)	(1,064)	4,604
Stock-based compensation (1)	37	35	67	153
Professional fees associated with legal dispute (2)	464	—	693	—
Benefit for reversal of accrued payroll tax (3)	—	—	—	(6,171)
Adjusted EBITDA	\$ (6)	\$ (1,182)	\$ (304)	\$ (1,414)

(1) Represents stock-based compensation expense related to stock options awarded to employees, consultants and non-executive directors based on the grant date fair value using the Black-Scholes valuation model. For more information, please see Note 8, *Stock-Based Compensation*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(2) Represents legal and other professional expenses incurred during 2024 associated with the legal dispute with founder. For more information on the Company's legal proceedings, please see Note 10, *Commitments and Contingencies*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(3) Represents benefit for reversal of accrued payroll tax associated with the RSU release to founder in 2019. For more information, please see Note 12, *Related Parties*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

During the six months ended June 30, 2024 and the year ended December 31, 2023, our primary sources of capital came from (i) cash generated from our operations, (ii) existing cash, and (iii) funds received from the IRS related to employee retention credits during the year ended December 31, 2023. As of June 30, 2024, we had approximately \$0.5 million of cash and working capital of approximately \$0.7 million.

Excluding the funds for employee retention credits, we generated negative cash flows from operations of \$0.5 million for the year ended December 31, 2023. For the six months ended June 30, 2024, the Company generated negative cash flows from operations of \$0.6 million, and we had an accumulated deficit of \$85.8 million as of June 30, 2024.

We believe that a combination of factors have adversely impacted our business operations for the six months ended June 30, 2024 and the year ended December 31, 2023. Due to a low barrier entry market with a lack of a clear regulatory framework, we face intense competition from both licensed and illicit market operators that may also sell herbal supplements and hemp-based CBD consumer products. Because we operate in a market that is rapidly evolving and expanding globally, our customers may choose to obtain CBD products from our competitors, and our success depends on our ability to attract and retain our customers from purchasing CBD products elsewhere. To remain competitive, we intend to continue to innovate new products, build brand awareness, and make significant investments in our business strategy by introducing new products into the markets in which we operate, adopt quality assurance protocols and procedures, build our market presence, and undertake further research and development. In addition, we intend to make additional acquisitions to further diversify our product offerings.

Management implemented, and continues to make and implement, strategic cost reductions, including reductions in employee headcount, vendor spending, and the delaying of certain expenses related to our drug development activities. To the extent that we feel it is necessary and in the best interest of the Company and our shareholders, we may also take further actions that alter our operations in order to ensure the success of our business.

Cultured Foods Acquisition

On December 7, 2023, the Company entered into a Membership Interest Purchase Agreement (the "Cultured Foods Purchase Agreement"), by and among the Company, Cultured Foods, Brian Carl McWhorter (the "Cultured Foods Member") and Barbara McWhorter, pursuant to which the Company purchased all of the outstanding equity interests in Cultured Foods, resulting in Cultured Foods becoming a wholly owned subsidiary of the Company (the "Cultured Foods Acquisition"). Cultured Foods is a leading European manufacturer and distributor of plant-based protein products. The Cultured Foods Acquisition closed on December 7, 2023.

In consideration for the Cultured Foods Acquisition, at closing, the Company (i) made a cash payment of \$175,000 to the Cultured Foods Member, less a \$17,500 holdback (the "Holdback Amount") and certain other adjustments provided for in the Cultured Foods Purchase Agreement (the "Cultured Foods Closing Payment"), and (ii) issued an aggregate of 7,074,270 restricted shares of Company common stock to the Cultured Foods Member, valued at \$250,000 based on the three day volume weighted average price of the Company's common stock on the three trading days prior to closing (the "Cultured Foods Closing Shares," and together with the Cultured Foods Closing Payment, the "Cultured Foods Closing Consideration"). The Cultured Foods Closing Payment is subject to adjustment, upward or downward, based on post-closing adjustments to the net working capital of Cultured Foods within 120 days of closing, as reflected in the Final Working Capital Statement (as defined in the Cultured Foods Purchase Agreement). Additionally, within 90 days following the final determination of the Final Working Capital Statement (the "Cultured Foods Receivables Date"), the Company shall be entitled to recover from the Cultured Foods Member an amount equal to the unpaid balance, as of the Cultured Foods Receivables Date, of all accounts receivable which were included in as assets in the Final Working Capital Statement.

The Company shall release the Holdback Amount, less any amounts owed to the Company by the Cultured Foods Member pursuant to the Cultured Foods Purchase Agreement, including without limitation as a result of the post-closing adjustments discussed above, to the Cultured Foods Member one year from the Closing Date.

In addition to the Cultured Foods Closing Consideration, and as further consideration for the Cultured Foods Acquisition, the Company shall make an additional cash payment to the Cultured Foods Member in the form of an earn-out (the "Cultured Foods Earnout Amount"), which shall be based on Company revenues generated in fiscal 2024 and will be calculated as follows:

- If Cultured Foods net revenue is at least \$500,000, then the Cultured Foods Earnout Amount will be \$110,000.
- If Cultured Foods net revenue is at least \$450,000 but less than \$500,000, then the Cultured Foods Earnout Amount will be \$75,000.
- If Cultured Foods net revenue is at least \$400,000 but less than \$450,000, then the Cultured Foods Earnout Amount will be \$50,000.
- If Cultured Foods net revenue is at least \$300,000 but less than \$400,000, then the Cultured Foods Earnout Amount will be \$20,000.
- If Cultured Foods net revenue (as defined in the Purchase Agreement) is less than \$300,000, then the Cultured Foods Earnout Amount will be \$0.

The Cultured Foods Earnout Payment shall be paid within 10 business days after the final determination of Cultured Foods net revenue for fiscal 2024, as determined in accordance with the Cultured Foods Purchase Agreement.

Pursuant to the Cultured Foods Purchase Agreement, the Cultured Foods Member agreed that he will not, on any single trading day sell, transfer or otherwise dispose of any Company common stock, including the Cultured Foods Closing Shares, in an aggregate amount exceeding the greater of (i) 15% of the of the Company's common stock sold in the aggregate based on the greater of the current or proceeding trading day, and (ii) \$3,000 in gross value; provided, however, that in the event that the Company enters into a leak-out agreement with any third party on terms more favorable than the foregoing, the Cultured Foods Member shall be afforded the same more favorable terms offered to such third party.

Additionally, for a period of one year following the closing date, the Cultured Foods Member and Ms. McWhorter, including their affiliates, shall be prohibited from engaging in certain competitive and/or solicitation activities within the United States and the European Union, as more particularly set forth in the Cultured Foods Purchase Agreement.

Elevated Softgels Acquisition

On May 8, 2024, the Company entered into a Membership Interest Purchase Agreement (the "Softgels Purchase Agreement"), by and among the Company, Elevated Softgels, LLC, a Delaware limited liability company ("Elevated Softgels"), Clayton J. Montgomery (a "Softgels Member"), Chris Fagan, Andrew Kester, and Timothy McGreer, pursuant to which the Company purchased all of the outstanding equity interests in Elevated Softgels, resulting in Elevated Softgels becoming a wholly owned subsidiary of the Company (the "Softgels Acquisition"). Elevated Softgels is a leading manufacturer of softgels. The Softgels Acquisition closed on May 13, 2024.

In consideration for the Softgels Acquisition, at closing, the Company (i) made a cash payment of \$100,000 to the Softgels Member, less certain transaction expenses and certain other adjustments provided for in the Softgels Purchase Agreement (the "Softgels Closing Payment"), (ii) issued an aggregate of 15,854,185 restricted shares of Company common stock to the Member valued at \$637,000, and (iii) issued an aggregate of 1,567,996 restricted shares of Company common stock to the selling broker of Elevated Softgels valued at \$63,000. The Company common stock was valued based on the thirty-day volume weighted average price of the Company's common stock on the thirty trading days prior to the date of the Softgels Purchase Agreement (the "Softgels Closing Shares," and together with the Softgels Closing Payment, the "Softgels Closing Consideration"). The Softgels Closing Payment is subject to adjustment, upward or downward, based on post-closing adjustments to the net working capital of Elevated Softgels within 120 days of closing, as reflected in the Final Working Capital Statement (as defined in the Softgels Purchase Agreement). Additionally, within 90 days following the

final determination of the Final Working Capital Statement (the “Softgels Receivables Date”), the Company shall be entitled to recover from the Softgels Member an amount equal to the unpaid balance, as of the Receivables Date, of all accounts receivable which were included in as assets in the Final Working Capital Statement.

In addition to the Softgels Closing Consideration, and as further consideration for the Softgels Acquisition, the Company shall make an additional payment in the form of an earn-out (the “Softgels Earnout Amount”), which shall be based on Company Net Revenue (as defined in the Softgels Purchase Agreement) generated during the 12-month period following the closing date and will be calculated as follows:

- If the Company’s Net Revenue is at least \$700,000, then the Softgels Earnout Amount will be \$200,000.
- If the Company’s Net Revenue is at least \$650,000 but less than \$700,000, then the Softgels Earnout Amount will be \$125,000.
- If the Company’s Net Revenue is at least \$600,000 but less than \$650,000, then the Softgels Earnout Amount will be \$50,000.
- If the Company’s Net Revenue is at least \$550,000 but less than \$600,000, then the Softgels Earnout Amount will be \$25,000.
- If the Company’s Net Revenue (as defined in the Purchase Agreement) is less than \$550,000, then the Softgels Earnout Amount will be \$0.

The Softgels Earnout Payment shall be paid within 10 business days after the final determination of the Company’s Net Revenue for the 12-month period following the closing date, as determined in accordance with the Softgels Purchase Agreement. 50% of the Softgels Earnout payment shall be paid in cash and 50% of the Softgels Earnout payment shall be in the form of restricted common stock of the Company, with the number of shares determined based upon the thirty-day volume weighted average price of the Company’s common stock as of the 12-month anniversary of the closing date.

Pursuant to the Softgels Purchase Agreement, the recipients of the Company’s common stock agreed that they will not, on any single trading day sell, transfer or otherwise dispose of any Company common stock, including the Softgels Closing Shares, in an aggregate amount exceeding the greater of (i) 15% of the of the Company’s common stock sold in the aggregate based on the greater of the current or preceding trading day, and (ii) \$3,000 in gross value; provided, however, that in the event that the Company enters into a leak-out agreement with any third party on terms more favorable than the foregoing, the Softgels Member shall be afforded the same more favorable terms offered to such third party.

Additionally, for a period of one year following the closing date, Mr. Montgomery and Mr. Fagan shall be prohibited from engaging in certain competitive and/or solicitation activities within the United States, as more particularly set forth in the Softgels Purchase Agreement.

August 2024 Streeterville Note

On July 3, 2024, we entered into a Note Purchase Agreement (the “Note Purchase Agreement”) with Streeterville Capital, LLC, a Utah limited liability company (“Streeterville”), pursuant to which we issued and sold to Streeterville a Secured Promissory Note in the original principal amount of \$1,188,500 (the “Note”). The Note carries an original issuance discount of \$283,500 and we agreed to pay \$5,000 to Streeterville to cover legal fees, each of which were deducted from the proceeds of the Note received by us, which resulted in a purchase price received by us of \$900,000 (the “Purchase Price”).

The unpaid amount of the Note, any interest, fees, charges and late fees accrued shall be due and payable in twelve months from July 3, 2024 (the “Maturity Date”). We are required to make weekly repayments to Streeterville of \$22,855.77. We can pay all or any portion of the outstanding balance earlier than it is due without penalty. In the event we repay the Note in full on or before December 31, 2024, we will receive a \$75,000 discount from the outstanding balance. The Note is secured by all of our assets pursuant to a Security Agreement entered into with Streeterville on July 3, 2024. No interest will accrue on the Note unless and until an occurrence of an Event of Default (as discussed below).

The Note provides for customary events of default (each as defined in the Note, an “Event of Default”), including, among other things, the event of nonpayment of principal, interest, fees or other amounts, a representation or warranty proving to have been incorrect when made, failure to perform or observe covenants within a specified cure period, a cross-default to certain other indebtedness and material agreements of the Company, and the occurrence of a bankruptcy, insolvency or similar event affecting the Company. Upon the occurrence of an Event of Default that is deemed a “Major Trigger Event” as defined in the Note, Streeterville may increase the outstanding balance of the Note by 20%, and upon the occurrence of an Event of Default that is deemed a “Minor Trigger Event” as defined in the Note, Streeterville may increase the outstanding balance of the Note by 5%. Upon the occurrence of an Event of Default, Streeterville may declare all amounts owed under the Note immediately due and payable. In addition, upon the occurrence of an Event of Default, upon the election of Streeterville, interest shall begin accruing on the outstanding balance of the Note from the date of the Event of Default equal to the lesser of 22% per annum and the maximum rate allowable under law.

First Insurance Funding Agreements

In November 2023, we entered into a finance agreement with First Insurance Funding in order to fund a portion of our insurance policies. The amount financed is \$0.3 million, which incurs interest at an annual rate of 8.42%. We are required to make monthly payments of \$29,781 from November 2023 through July 2024. The outstanding balance as of June 30, 2024 was \$29,781.

In November 2022, we entered into a finance agreement with First Insurance Funding in order to fund a portion of our insurance policies. The amount financed was \$0.2 million, which incurred interest at an annual rate of 6.32%. We were required to make monthly payments of \$27,900 from November 2022 through July 2023. There was no outstanding balance as of June 30, 2024.

Accrued Payroll Taxes

The Company previously recorded accrued payroll taxes associated with the RSU release to Mona Jr. in 2019. On April 15, 2023, the statute of limitations for federal payroll tax withholding expired. In addition, the statute of limitations for the state tax withholding expired during the year ended December 31, 2023. As a result of the expiration of the relevant statutes of limitations, the Company believes that neither the IRS nor the State of California have the rights to assess and collect the \$6.2 million of income taxes from CV Sciences and we have made a change in accounting estimate and no longer expect to incur a loss with respect to this matter. As a result, we derecognized the accrued payroll taxes of \$6.2 million during the year ended December 31, 2023. For more information, please see Note 12, *Related Parties*, to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

On November 5, 2021, Mona Jr. filed a complaint against the Company for breach of contract and negligence in Nevada state court seeking to recover from the Company the amount of federal and state taxes, interest and penalties owed by Mona Jr. for taxes on income received by him upon the vesting and settlement of RSU's in 2019. The hearing on the merits began on April 8, 2024, and the Arbitrator heard five days of testimony. The hearing resumed on May 21, 2024 and concluded on May 23, 2024. Post-hearing briefing is expected to conclude on November 6, 2024. A decision from the Arbitrator is expected to follow. Management believes that Mona Jr.'s claims lack merit. Nevertheless, an unfavorable outcome would have a material impact on the Company's financial condition and results of operations. For more information, please see Note 10, *Commitments and Contingencies*, to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Going Concern

U.S. GAAP requires management to assess a company's ability to continue as a going concern within one year from the financial statement issuance date and to provide related note disclosure in certain circumstances. Our consolidated financial statements and corresponding notes have been prepared assuming the Company will continue as a going concern. The Company generated negative cash flows from operations of \$0.5 million and \$0.6 million for the year ended December 31, 2023 and the six months ended June 30, 2024, respectively, and had an accumulated deficit of \$85.8 million as of June 30, 2024. Management anticipates that the Company will be dependent, for the near future, on additional investment capital to fund our operations and growth initiatives. The Company intends to position itself so that it will be able to raise additional funds through the capital markets, issuance of debt, and/or securing lines of credit in order to continue its operations. However, there can be no assurances that additional working capital will be available to us on favorable terms, or at all, which would be likely to have a material adverse effect on the Company's ability to continue its operations.

The Company's financial operating results and accumulated deficit, amongst other factors, raise substantial doubt about the Company's ability to continue as a going concern. The Company will continue to work towards increasing revenue and operating cash flows to meet its future liquidity requirements. However, there can be no assurance that the Company will be successful in any capital-raising efforts that it may undertake, and the failure of the Company to raise additional capital could adversely affect its future operations and viability.

A summary of our changes in cash flows for the three and six months ended June 30, 2024 and 2023 is provided below:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Net cash flows provided by (used in):				
Operating activities	\$ (57)	\$ 1,411	\$ (575)	\$ 2,386
Investing activities	(40)	—	(40)	—
Financing activities	(87)	(435)	(223)	(1,307)
Effect of exchange rate changes on cash	(1)	—	(2)	—
Net increase (decrease) in cash	(185)	976	(840)	1,079
Cash, beginning of period	662	714	1,317	611
Cash, end of period	<u>\$ 477</u>	<u>\$ 1,690</u>	<u>\$ 477</u>	<u>\$ 1,690</u>

Operating Activities

Net cash provided by (used in) operating activities includes net income (loss) adjusted for non-cash items such as depreciation, amortization, bad debt expense, stock-based compensation, benefit of reversal of payroll tax liability and interest expense related to our promissory notes. 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 payment behavior.

Cash used in operating activities was \$0.6 million in the six months ended June 30, 2024, compared to cash provided by operating activities of \$2.4 million in the six months ended June 30, 2023. The period over period decrease in our cash flow from operating activities by \$3.0 million was mostly due to the receipt of the ERC funds in the prior year period and the fact that we did not receive similar funds in the 2024 period. Our net loss for the six months ended June 30, 2024, adjusted for non-cash items, resulted in a net loss of \$0.7 million, compared to a net loss, adjusted for non-cash items, of \$1.0 million in the prior year period, an improvement of \$0.3 million. Changes in working capital generated \$0.1 million during the first six months of 2024, compared to cash generated of \$3.4 million during the same period of 2023, a decrease of \$3.3 million. Our changes in working capital decreased primarily due to the fact that we received the ERC funds of \$2.5 million from the IRS during the first six months of 2023 and we did not receive similar funds in the 2024 period. Our net income (loss) declined by \$5.6 million from a net income of \$4.4 million in the first six months of 2023 to a net loss of \$1.2 million in the first six months of 2024, mostly due to the benefit for the reversal of accrued payroll taxes. Non-cash adjustments decreased by \$5.9 million, as we recognized a benefit for the reversal of accrued payroll tax of \$6.2 million related to the RSU's previously issued to Mona Jr. during the six months ended June 30, 2023. Recurring non-cash adjustments consists of depreciation, amortization, interest expense and stock-based compensation.

Investing Activities

Cash used in investing activities was \$40,000 in the six months ended June 30, 2024 related to our acquisition of Elevated Softgels in May 2024. We did not use any cash in investing activities in the six month ended June 30, 2023.

Financing Activities

Net cash used in financing activities was \$0.2 million for the six months ended June 30, 2024 compared to \$1.3 million for the six months ended June 30, 2023. Our financing activities for the six months ended June 30, 2024 consisted of repayments of our insurance financing and the notes payable that we assumed in connection with the Cultured Foods acquisition. Our financing activities for the six months ended June 30, 2023 consisted of repayments of the Streeterville note payable of \$1.1 million and our insurance financing of \$0.2 million.

Inflation

We have not been affected materially by inflation during the periods presented. However, recent trends towards rising inflation may adversely impact our business and corresponding financial position and cash flow.

Known Trends or Uncertainties

There can be no assurance that the Company's business and corresponding financial performance will not be adversely affected by general economic or consumer trends. In particular, global economic conditions remain constrained, and if such conditions continue, recur or worsen, this may have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, inflation has risen, Federal Reserve interest rates increased during 2023, and the general consensus among economists suggests that we should continue to expect a higher recession risk to continue over the next year, all of which may also materially adversely our business and corresponding financial position and cash flows.

Furthermore, such economic conditions have produced downward pressure on share prices and on the availability of credit for financial institutions and corporations. If current levels of market disruption and volatility continue, the Company might experience reductions in business activity, increased funding costs and funding pressures, as applicable, a decrease in the market price of shares of our common stock, a decrease in asset values, additional write-downs and impairment charges and lower profitability. Additionally, it is possible that U.S. policy changes and uncertainty about such changes, including changes and uncertainty as a result of the upcoming U.S. presidential election, could increase market volatility.

We have seen some consolidation in our industry during economic downturns. These consolidations have not had a negative effect on our total sales; however, should consolidations and downsizing in the industry continue to occur, those events could adversely impact our revenues and earnings going forward.

There is currently a lack of a clear federal regulatory framework by the FDA regarding the development, sale and use of CBD products, which has created legislative and regulatory uncertainties. As a result, a patchwork of differing state regulations emerged and continues to emerge. Several states, including without limitation, Florida, Maryland, Minnesota, New York, Utah and Virginia, have adopted new regulations that may impact our ability to sell certain of our products in these states. There is also substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from exempted portions of the Cannabis plant and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which manufacturers of products containing cannabinoids may engage in interstate commerce. If these uncertainties continue, they may have an adverse effect on our business. Additionally, restrictive state regulations could adversely impact our revenue and earnings going forward.

Critical Accounting Estimates

We have disclosed in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2023 Annual Report, filed with the SEC March 29, 2024, those accounting policies and estimates that we consider to be significant in determining our results of operation and financial condition. There have been no material changes to those policies and estimates that we consider to be significant since the filing of our 2023 Annual Report. The accounting principles used in preparing our unaudited condensed financial statements conform in all material respects to GAAP.

Recent Accounting Pronouncements

See Note 1 in the accompanying notes to unaudited condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of June 30, 2024 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2024, we began the process of establishing additional controls designed to provide reasonable assurance regarding the financial reporting of Elevated Softgels and the associated consolidation of Elevated Softgels into our consolidated financial statements. Other than the changes related to Elevated Softgels, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fiscal quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 10, *Commitments and Contingencies*, to our condensed financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. RISK FACTORS

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

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

The Company did not sell any unregistered equity securities during the period covered by this report that were not otherwise disclosed in a Current Report on Form 8-K.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2024, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated any "Rule 10b5-1 trading arrangement" or any "non Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1	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	10-Q	000-54677	2.1	August 13, 2013	
2.2	Agreement and Plan of Reorganization by and among CannaVEST Corp., CANNAVEST Merger Sub, Inc., CANNAVEST Acquisition LLC, CanX, Inc., and The Starwood Trust, as the Shareholder Representative	8-K	000-54677	2.1	January 4, 2016	
2.3	Amendment No. 1 to the Agreement and Plan of Reorganization, dated as of March 16, 2017, by and among the Company, CANNAVEST Acquisition LLC, and the Starwood Trust, as the Shareholder Representative	10-Q	000-54677	10.4	May 9, 2017	
2.4	Membership Interest Purchase Agreement, dated December 7, 2023, by and among the Company, Cultured Foods Sp. z.o.o., Brian McWhorter and Barbara McWhorter	10-K	000-54677	2.4	March 29, 2024	
2.5	Membership Interest Purchase Agreement by and among CV Sciences, Inc., Elevated Softgels, LLC, Clayton J. Montgomery, Chris Fagan, Andrew Kester and Timothy McGreer, dated May 8, 2024					X
3.1	Certificate of Incorporation of CannaVEST Corp., as filed on July 26, 2013.	10-Q	000-54677	3.1	August 13, 2013	
3.2	Bylaws of CannaVEST Corp., dated as of June 26, 2013.	10-Q	000-54677	3.2	August 13, 2013	
3.3	Certificate of Amendment to Certificate of Incorporation of CannaVest Corp., as filed on January 4, 2016.	10-K	000-54677	3.3	April 14, 2016	
3.4	Certificate of Incorporation of the Company, as amended.	10-Q	000-54677	3.4	May 16, 2016	
3.5	Amendment to the Bylaws of the Company, as amended.	8-K	000-54677	3.1	March 22, 2017	
3.6	Bylaws of the Company, as amended.	10-Q	000-54677	3.6	May 9, 2017	
3.7	Amendment to the Bylaws of the Company, as amended	8-K	000-54677	3.1	June 14, 2021	
3.8	Certificate of Designation of Preference, Rights and Limitations of Convertible Preferred Stock.	8-K	000-54677	3.1	April 1, 2022	
3.9	Certificate of Amendment to Certificate of Incorporation of CV Sciences, Inc., as filed on June 6, 2022	10-Q	000-54677	3.9	August 15, 2022	
4.1	CannaVEST Corp. Specimen Stock Certificate	8-K	000-54677	4.1	July 31, 2013	
4.2	Form of Warrant, dated March 30, 2022	8-K	000-54677	4.1	April 1, 2022	
4.3	Form of Placement Agent Warrant, dated March 30, 2022	8-K	000-54677	4.2	April 1, 2022	
10.1†	Executive Employment Agreement, dated June 20, 2024, by and between CV Sciences, Inc. and Joseph Dowling	8-K	000-54677	10.1	June 25, 2024	

10.2†	Executive Employment Agreement, dated June 20, 2024, by and between CV Sciences, Inc. and Joerg Grasser	8-K	000-54677	10.2	June 25, 2024	
10.3	Note Purchase Agreement between the Company and Streeterville Capital, LLC dated July 3, 2024	8-K	000-54677	10.1	July 9, 2024	
10.4	Secured Promissory Note issued to Streeterville Capital, LLC dated July 3, 2024	8-K	000-54677	10.2	July 9, 2024	
10.5	Security Agreement between the Company and Streeterville Capital, LLC dated July 3, 2024	8-K	000-54677	10.3	July 9, 2024	
31.1*	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.					X
31.2*	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.					X
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.					X
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.					X
101 INS*	Inline XBRL Instance Document**					X
101 SCH*	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents**					X
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 attachments)					X

* 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.

† Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CV SCIENCES, INC.
(Registrant)

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

Dated August 13, 2024

By /s/ Joerg Grasser
Joerg Grasser
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated August 13, 2024

MEMBERSHIP INTEREST PURCHASE AGREEMENT

by and among

CV SCIENCES, INC.

ELEVATED SOFTGELS LLC,

CLAYTON J. MONTGOMERY,

CHRIS FAGAN,

ANDREW KESTER,

AND

TIMOTHY MCGREER

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MEMBERSHIP INTEREST PURCHASE AGREEMENT

THIS MEMBERSHIP PURCHASE AGREEMENT (this "Agreement"), dated as of May 8, 2024, is made and entered into by and among CV SCIENCES, INC., a Delaware corporation (the "Purchaser"), ELEVATED SOFTGELS LLC, a Delaware limited liability company (the "Company"), CLAYTON J. MONTGOMERY, an individual (a "Member"), CHRIS FAGAN, an individual (a "Member"), ANDREW KESTER, an individual (a "Member"), and TIMOTHY MCGREER, an individual (a "Member"). The Purchaser, the Company, and each of the Members are sometimes individually referred to herein as a "Party" and, collectively, as the "Parties." This Agreement is made with reference to the following facts:

WITNESSETH:

WHEREAS, the Members collectively own all of the issued and outstanding equity interests of the Company (the "Membership Interests");

WHEREAS, the Company is in the business of manufacturing softgels and tinctures (the "Business");

WHEREAS, the Parties desire to enter into this Agreement pursuant to which the Members propose to sell to the Purchaser, and the Purchaser proposes to purchase from the Members, all of the Membership Interests on the terms and subject to the conditions set forth herein (the "Acquisition");

WHEREAS, concurrently with the consummation of the transactions contemplated hereby, two of the Members have entered into a non-competition agreement attached to this Agreement as Exhibit 1.1(a) (the "Non-competition Agreement") with the Purchaser; and

WHEREAS, the Parties desire to make certain representations, warranties, indemnities and additional covenants in connection with the Acquisition, as set forth below.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants, agreements and conditions hereinafter set forth, and intending to be legally bound hereby, each Party hereby agrees:

ARTICLE 1 CONSTRUCTION; DEFINITIONS

Section 1.1 Definitions. The following terms, as used herein, have the following meanings:

"Accounting Firm" has the meaning set forth in Section 3.5(e).

"Affiliate(s)" of any specified Person means any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person.

"Balance Sheet" means the unaudited balance sheet of the Company as of December 31, 2023 included in the Financial Statements.

"Business Day" means any day except Saturday, Sunday or any day on which banks are generally not open for business in the County of San Diego, California.

"Calculation Period" means the 12-month period beginning on the Closing Date.

"Closing" means the consummation of the transactions contemplated by this Agreement as set forth in Section 8.1 of this Agreement.

“Closing Date” means the date hereof.

“Company Benefit Plan” means each Employee Benefit Plan currently sponsored or maintained or required to be sponsored or maintained by the Company or to which the Company makes, or has any obligation to make, directly or indirectly, any contributions or with respect to which the Company has, or might have, any other liabilities.

“Company Intellectual Property” means any Intellectual Property that is owned by or licensed to the Company, including the Company Registered Intellectual Property.

“Company Registered Intellectual Property” means all of the Registered Intellectual Property owned by, or filed in the name of, the Company.

“Confidential Information” means any data or information of the Company (including trade secrets) that is valuable to the operation of the Business and not generally known to the public or competitors.

“Control” means, when used with respect to any specified Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“Earn-Out Payment” means, with respect to the Calculation Period,

- (a) \$0, if the Company’s Net Revenue is less than \$550,000,
- (b) \$25,000, if the Company’s Net Revenue is at least \$550,000 but is less than \$600,000,
- (c) \$50,000, if the Company’s Net Revenue is at least \$600,000 but is less than \$650,000,
- (d) \$125,000, if the Company’s Net Revenue is at least \$650,000 but is less than \$700,000, and
- (e) \$200,000, if the Company’s Net Revenue is at least \$700,000.

“Employee Benefit Plan” means, with respect to any Person, (a) each plan, fund, program, agreement, arrangement or scheme, including each plan, fund, program, agreement, arrangement or scheme maintained or required to be maintained under applicable Law that is at any time sponsored or maintained or required to be sponsored or maintained by such Person or to which such Person makes or has made, or has or has had an obligation to make, contributions providing for employee benefits or for the remuneration, direct or indirect, of the employees, former employees, directors, managers, officers, consultants, independent contractors, contingent workers or leased employees of such Person or the dependents of any of them (whether written or oral), including each deferred compensation, bonus, incentive compensation, pension, retirement, membership interest purchase and other equity compensation plan, (b) each severance, retention or change in control plan or agreement, each plan or agreement providing health, vacation, summer hours, supplemental unemployment benefit, hospitalization insurance, medical, dental or legal benefit and (c) each other employee benefit plan, fund, program, agreement, arrangement or scheme.

“Employment Agreement” means any employment contract, consulting agreement, termination or severance agreement, salary continuation agreement, change of control agreement, non-compete agreement or any other agreement respecting the terms and conditions of employment or payment of compensation, or of a consulting or independent contractor relationship in respect to any current or former officer, employee, consultant or independent contractor.

“Environment” means any surface or ground water, drinking water supply, soil, surface or subsurface strata or medium, or the ambient air.

“Environmental Laws” means all federal, state, or local or foreign Laws relating to protection of the Environment, health and safety, including pollution control, product registration and Hazardous Materials.

“Estimated Working Capital Deficit” means the amount, if any, by which the Target Working Capital is greater than the Estimated Working Capital as set forth on the Closing Date Financial Statement.

“Estimated Working Capital Surplus” means the amount, if any, by which the Target Working Capital is less than the Estimated Working Capital as set forth on the Closing Date Financial Statement.

“Exhibit” means any exhibit attached to this Agreement.

“Final Working Capital Schedule” means the “Final Working Capital Schedule” as finally determined pursuant to Section 3.5 hereof.

“Financial Statements” means (a) the unaudited balance sheets of the Company as of December 31, 2023 and (b) the unaudited statements of income for the year ended December 31, 2023.

“GAAP” means generally accepted accounting principles in the United States of America as applied consistently with the past practices of the Company in the preparation of the year-end unaudited Financial Statements.

“Governmental Entity” means any federal, state, local or foreign government, any political subdivision thereof, or any court, administrative or regulatory agency, department, instrumentality, body or commission or other governmental authority or agency.

“Hazardous Materials” means any waste, pollutant, contaminant, hazardous substance, toxic, ignitable, reactive or corrosive substance, hazardous waste, special waste, industrial substance, by-product, process-intermediate product or waste, asbestos or asbestos-containing materials, lead-based paint, petroleum or petroleum-derived substance or waste, chemical liquids or solids, liquid or gaseous products, or any constituent of any such substance or waste, the management, use, handling or disposal of which is in any way governed by or subject to any applicable Law.

“Indebtedness” means the aggregate of all indebtedness of the Company with respect to borrowed money, including loans, deferred consideration, debts, any liabilities under acceptances, credit cards, monies due under capitalized leases or financial leases (but excluding operating leases), or for the deferred purchase price of property or services for which the Company is liable, contingently or otherwise as obligor, guarantor, or otherwise, or in respect of which the Company otherwise assures against loss, including bank debt, bank fees, shareholder debt and vendor debt, including, in each case above, any interest accrued thereon and prepayment or similar penalties and expenses which would be payable if such liability were paid in full as of the Closing Date. “Indebtedness” excludes, however, any and all amounts already included under Net Working Capital (including for purposes of determining the Estimated Working Capital Deficit/Surplus or Working Capital Deficit/Surplus), and Transaction Expenses.

“Indemnified Party” means a Purchaser Indemnified Party or a Member Indemnified Party, as applicable.

“Intellectual Property” means any or all of the following and all rights arising out of or associated therewith: (a) all patents and applications therefor and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof; (b) all inventions (whether patentable or not), invention disclosures, improvements, mask works, trade secrets, proprietary information, know-how, technology, technical data and customer lists, and all documentation relating to any of the foregoing throughout the world; (c) all works of authorship (whether copyrightable or not), all copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto throughout the world; (d) all industrial designs and any

registrations and applications therefor throughout the world; (e) all internet uniform resource locators, domain names, trade names, logos, slogans, designs, trade dress, common law trademarks and service marks, trademark and service mark and trade dress registrations and applications therefor throughout the world; (f) all databases and data collections and all rights therein throughout the world; (g) all moral and economic rights of authors and inventors, however denominated, throughout the world; and (h) any similar or equivalent rights to any of the foregoing anywhere in the world.

“Knowledge” with respect to the Members means (a) all facts known by CLAYTON J. MONTGOMERY, CHRIS FAGAN, ANDREW KESTER and/or TIMOTHY MCGREER on the date hereof after due inquiry and diligence with respect to the matters at hand, and (b) all facts that any of the foregoing Persons should have known on the date hereof with respect to the matters at hand if such Person had made due inquiry and exercised reasonable diligence.

“Laws” means all statutes, rules, codes, regulations, restrictions, ordinances, orders, decrees, approvals, directives, judgments, injunctions, writs, awards, standards, guidelines, guidance documents, policies and decrees of, or issued by, any Governmental Entity.

“Leased Real Property” means the parcels of real property of which the Company is the lessee (together with all fixtures and improvements thereon).

“Legal Dispute” means any action, suit, arbitration or proceeding between or among the Parties and their respective Affiliates arising in connection with any disagreement, dispute, controversy or claim arising out of or relating to this Agreement or any related document.

“Licenses” means all notifications, licenses, permits (including environmental, construction and operation permits), qualifications, franchises, certificates, approvals, exemptions, classifications, registrations and other similar documents and authorizations issued by any Governmental Entity, and applications therefor.

“Liens” means all mortgages, liens, pledges, security interests, charges, claims, restrictions and encumbrances of any nature whatsoever.

“Material Adverse Effect” means any state of facts, change, event, effect or occurrence (when taken together with all other states of fact, changes, events, effects or occurrences) that is or may be reasonably likely to be materially adverse to the financial condition, results of operations, prospects, properties, assets or liabilities (including contingent liabilities) of the Company or the Business.

“Member Ancillary Documents” means any certificate, agreement, document or other instrument, other than this Agreement, to be executed and delivered by the Members or any Affiliate of the Members in connection with the transactions contemplated hereby.

“Member Indemnified Parties” means the Members and its Affiliates, each of their respective officers, directors, managers, employees, agents, and representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

“Net Revenue” means the net amount of revenue attributable to the sale of the Company’s products as recognized by the Purchaser in accordance with GAAP applied in accordance with the Purchaser’s then-existing corporate policies, less product returns, royalties paid by the Purchaser to third parties, discounts (including but not limited to customer discounts), and excluding amounts invoiced for any other product, shipping, taxes, duties or similar amounts. For the avoidance of doubt, Net Revenue is recognized for the sale of the Company’s products to third parties and does not include inter-company sales from the Company to the Purchaser.

“Net Working Capital” means the Company’s current assets minus current liabilities determined in accordance with GAAP.

“Non-Compete Agreement” means an agreement entered into between the Company and Clayton J. Montgomery and Chris Fagan attached as Exhibit 1.1(a) to this Agreement.

“Ordinary Course” means the ordinary course of business of the Company consistent with past practice.

“Permitted Liens” means (a) Liens for Taxes not yet due and payable, (b) statutory Liens of landlords, (c) Liens of carriers, warehousemen, mechanics, materialmen and repairmen incurred in the Ordinary Course and not yet delinquent, and (d) in the case of the Leased Real Property, zoning, building, or other restrictions, variances, covenants, rights of way, encumbrances, easements and other minor irregularities in title, none of which, individually or in the aggregate, (i) interfere in any material respect with the present use of or occupancy of the affected parcel by the Company, (ii) have more than an immaterial effect on the value thereof or its use or (iii) would impair the ability of such parcel to be sold, leased or subleased for its present use.

“Person” means any individual, corporation, partnership, joint venture, limited liability company, trust, unincorporated organization or Governmental Entity.

“Purchase Price” means the amount equal to the Closing Cash and the Stock Consideration, as adjusted pursuant to this Agreement, plus the Earn-Out Payment.

“Purchaser Ancillary Documents” means any certificate, agreement, document or other instrument, other than this Agreement, to be executed and delivered by the Purchaser in connection with the transactions contemplated hereby.

“Purchaser Indemnified Parties” means the Purchaser and its Affiliates, each of their respective officers, directors, employees, agents and representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

“Receivables” means the Company’s accounts receivable as of the date of the Closing Date Financial Statement.

“Registered Intellectual Property” means all: (a) patents and patent applications (including provisional applications); (b) registered trademarks and service marks, applications to register trademarks and service marks, and trade dress, intent-to-use applications, or other registrations or applications related to trademarks and service marks and trade dress; (c) registered copyrights and applications for copyright registration; (d) domain name registrations; (e) registered mask works and applications for mask work registration; and (f) any other Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued, filed with, or recorded with any federal, state, local or foreign Governmental Entity or other public body.

“Release” means, with respect to any Hazardous Material, any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the Environment.

“Schedule” means any schedule attached to this Agreement.

“Suppliers” means all of the Company’s suppliers and vendors during the period beginning on January 1, 2023 through the Closing Date.

“Target Working Capital” means an amount equal to \$70,000.00.

“Tax Return” means any report, return, declaration or other information required to be supplied to a Governmental Entity in connection with Taxes, including estimated returns, amended returns, information statements and reports of every kind with respect to Taxes.

“Taxes” means all taxes, assessments, charges, duties, fees, levies and other governmental charges (including interest, penalties or additions associated therewith), including income, franchise, capital stock, real property, personal property, tangible, withholding, employment, payroll, social security, social contribution, unemployment compensation, unclaimed property escheat, disability, transfer, sales, use, excise, license, occupation, registration, stamp, premium, environmental, customs duties, alternative or add-on minimum, estimated, gross receipts, value-added and all other taxes of any kind for which the Company may have any liability imposed by any Governmental Entity, whether disputed or not, and any charges, interest or penalties imposed by any Governmental Entity.

“Transaction Expenses” means the aggregate amount of all legal, accounting, financial advisory and other third party advisory or consulting fees and expenses incurred by the Company and/or the Members in connection with the transactions contemplated by this Agreement and not paid prior to the Closing Date.

“VWAP” means the dollar volume-weighted average price for the common stock of the Purchaser during the period beginning at 9.30 a.m. New York time and ending at 4.00 p.m. New York time on a single trading day, as reported on the Purchaser principal market (OTC.QB). The VWAP will be round to 5 decimal places.

“Working Capital Deficit” means the amount, if any, by which the Estimated Working Capital is greater than the Net Working Capital, as reflected on the Final Working Capital Schedule.

“Working Capital Surplus” means the amount, if any, by which the Estimated Working Capital is less than the Net Working Capital, as reflected on the Final Working Capital Schedule.

Section 1.2[Omitted].

Section 1.3Construction. Unless the context of this Agreement clearly requires otherwise, (a) references to the plural include the singular, and references to the singular include the plural, (b) references to any gender include the other genders, (c) the words “include,” “includes” and “including” do not limit the preceding terms or words and shall be deemed to be followed by the words “without limitation”, (d) the terms “hereof”, “herein”, “hereunder”, “hereto” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement, (e) the terms “day” and “days” mean and refer to calendar day(s), (f) the terms “year” and “years” mean and refer to calendar year(s) and (g) all references in this Agreement to “dollars” or “\$” shall mean United States Dollars. Unless otherwise set forth herein, references in this Agreement to (i) any document, instrument or agreement (including this Agreement) (A) includes and incorporates all Exhibits, schedules and other attachments thereto, (B) includes all documents, instruments or agreements issued or executed in replacement thereof and (C) means such document, instrument or agreement, or replacement or predecessor thereto, as amended, modified or supplemented from time to time in accordance with its terms and in effect at any given time, and (ii) a particular Law means such Law as amended, modified, supplemented or succeeded, from time to time and in effect at any given time. All Article, Section, Exhibit and Schedule references herein are to Articles, Sections, Exhibits and Schedules of this Agreement, unless otherwise specified. References in this Agreement to the “Members” shall mean and refer to each Member and the Members collectively, unless the context of this Agreement clearly requires otherwise. This Agreement shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if all Parties had prepared it.

Section 1.4Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

**ARTICLE 2
PURCHASE AND SALE**

Section 2.1 Agreement to Purchase and Sell. Contemporaneously with the execution and delivery of this Agreement, each of the Members hereby sells, transfers and delivers to the Purchaser, and the Purchaser hereby purchases and acquires from each Member, all of the Membership Interests owned by such Member, free and clear of any and all Liens.

Section 2.2 Further Assurances. Each Party shall on the Closing Date and from time to time thereafter, at any other Party's reasonable request and without further consideration, execute and deliver to such other Party such instruments of transfer, conveyance, and assignment as shall be reasonably requested to transfer, convey, and assign the Membership Interests to the Purchaser and otherwise to effect the transactions contemplated by this Agreement.

**ARTICLE 3
PURCHASE PRICE; ADJUSTMENTS**

Section 3.1 Purchase Price. The aggregate consideration to be paid for the Membership Interests by the Purchaser at the Closing shall consist of (a)(i) \$100,000, plus (ii) the Estimated Working Capital Surplus, if any, minus (iii) the Estimated Working Capital Deficit, if any, minus (iv) Indebtedness, minus (v) Transaction Expenses (the result of (a)(i) – (a)(v) being the “Closing Cash”), and (b) 17,422,181 shares of the Purchaser's common stock, which the Parties agree represents a \$700,000 value based on the trailing thirty (30) day VWAP of such common stock as of the day prior to the Closing Date (the “Stock Consideration”). In addition, certain Members shall be eligible to receive the Earn-out Payment, subject to the terms and conditions in Section 3.7.

Section 3.2 Payment of Cash Consideration. The Closing Cash shall be paid at the Closing by wire transfer in the amounts and to the accounts of the Member Representative and the Company's broker specified on Exhibit 3.2 (the “Payment Schedule”) on behalf of the Members. The Members hereby acknowledge and agree that the payment of the Closing Cash as set forth on the Payment Schedule shall fully satisfy the Purchaser's obligations hereunder with respect to the payment of the Closing Cash.

Section 3.3 Issuance of Stock Consideration. The Stock Consideration shall be issued at the Closing as restricted common stock in the amounts and in the names of Clayton J. Montgomery (in his personal capacity) and the Company's broker as specified on the Payment Schedule, on behalf of the Members. The Company's irrevocable instructions to its transfer agent to issue certificates for the Stock Consideration shall be deemed issuance of such Stock Consideration for purposes of this Agreement. The Members acknowledge that, because the Stock Consideration constitutes restricted common stock, it is not eligible for resale until the applicable holding period under Rule 144 of the Securities Act of 1933, as amended (“Rule 144”), has expired. The certificates for the Stock Consideration shall bear restrictive legends consistent with the foregoing sale limitations. The Purchaser may require customary certifications and legal opinions from and on behalf of the holders of the Stock Consideration concerning the availability of Rule 144 as a condition to authorizing the removal of such restrictive legends from the certificates representing Stock Consideration. Further, the Members acknowledge and agree that the Stock Consideration is subject to the limitations on sale as set forth in Section 7.3 of this Agreement, and the limitations imposed by applicable securities laws generally.

Section 3.4 Closing Date Statements. Attached hereto as Exhibit 3.4 is a statement (the “Closing Date Financial Statement”), signed by the Manager of the Company (on behalf and in the name of the Company), which sets forth (i) the Company's estimate of the Net Working Capital (the “Estimated Working Capital”) at Closing, and (ii) the Estimated Working Capital Surplus, if any, or the Estimated Working Capital Deficit, if any, at Closing.

Section 3.5 Purchase Price Adjustments.

(a) Unless the Purchaser agrees that the Estimated Working Capital Surplus or the Estimated Working Capital Deficit applied at the Closing shall be final, which shall be conveyed in writing to the Members in writing no later than one hundred twenty (120) days following the Closing Date, the Purchaser shall prepare and deliver to the Members a statement (the "Working Capital Statement") setting forth the Purchaser's calculation of (a) the Net Working Capital of the Company at the Closing, and (b) the Working Capital Surplus, if any, or the Working Capital Deficit, if any, with respect to the Company at the Closing.

(b) The Member Representative shall have thirty (30) days following receipt of the Working Capital Statement during which to notify the Purchaser of any dispute of any item contained in the Working Capital Schedule, which notice shall set forth in reasonable detail the basis for such dispute.

(c) If the Member Representative does not notify the Purchaser of any such dispute within such thirty (30)-day period, the Working Capital Schedule shall be deemed to be the Final Working Capital Schedule and the amount of the Working Capital Schedule shall be final and binding on the Parties hereto for all purposes hereunder.

(d) If the Member Representative notifies the Purchaser of any such dispute within such thirty (30) day period, the Parties shall cooperate in good faith to resolve any such dispute as promptly as possible, and upon such resolution, the Final Working Capital Schedule shall be prepared.

(e) If the Parties are unable to resolve any dispute regarding the Working Capital Schedule, any Working Capital Surplus or Working Capital Deficit in the Working Capital Statement shall be finally determined by submission of such dispute to an independent accounting firm selected by the Purchaser and reasonable acceptable to the Member Representative (the "Accounting Firm").

(f) Within five (5) Business Days following the determination of the Final Working Capital Schedule in accordance with this Section 3.5, (a) to the extent there is a Working Capital Deficit the Members shall be jointly and severally obligated to pay the Purchaser in cash an amount equal to the Working Capital Deficit by wire transfer of immediately available funds to an account designated by the Purchaser, or (b) to the extent there is a Working Capital Surplus the Purchaser shall pay to the Member Representative on behalf of the Members in cash the amount equal to the Working Capital Surplus by wire transfer of immediately available funds to an account(s) designated by the Member Representative.

Section 3.6 Accounts Receivable. Within ninety (90) days following the final determination of the Final Working Capital Schedule (the "Receivables Date"), the Purchaser shall be entitled to recover from the Member Representative an amount equal to the unpaid balance, as of the Receivables Date, of all accounts receivable which were included as assets on the Final Working Capital Schedule (the "Accounts Receivable"). From and after the Closing Date, the Purchaser shall use commercially reasonable efforts to collect the Accounts Receivable; *provided, however*, that the Purchaser shall not be required to engage collection agencies or attorneys or institute legal proceedings against then current customers of the Purchaser or any of its Affiliates to satisfy its obligations under this Section 3.6.

Section 3.7 Earn-Out Payment.

(a) Within ten (10) Business Days after final determination of the Company's Net Revenue recognized in the Calculation Period pursuant to Section 3.7(c), the Earn-Out Payment, if any, shall be remitted to the Members as follows:

(i) Twenty percent (20%) of the Earn-Out Payment shall be paid to Clayton J. Montgomery and eighty percent (80%) of the Earn-Out Payment shall be paid to Chris Fagan.

(ii) Fifty percent (50%) of the Earn-Out Payment shall be paid in cash to Clayton J. Montgomery and Chris Fagan in accordance with their allocation percentage per Section 3.7(a)(i) by wire transfer of

immediately available funds in accordance with written instructions that the Members have provided to the Purchaser at least three (3) Business Days prior to the date of such payment; and

(iii) Fifty percent (50%) of the Earn-out Payment shall be in the form of restricted common stock of the Purchaser (the “Earn-out Shares”), with the number of Earn-out Shares determined based upon the thirty (30) day VWAP of the Company’s common stock as of the 12-month anniversary of the Closing Date, issuable pursuant to the written instruction by Clayton J. Montgomery and Chris Fagan in accordance with their allocation percentage per Section 3.7(a)(i). The Company’s irrevocable instructions to its transfer agent to issue certificates for the Earn-out Shares shall be deemed issuance of such Earn-out Shares for purposes of this Agreement. The Members acknowledge that, because the Earn-out Shares constitute restricted common stock, they are not eligible for resale until the applicable holding period under Rule 144 has expired. The certificates for the Earn-out Shares shall bear restrictive legends consistent with the foregoing sale limitations. The Purchaser may require customary certifications and legal opinions from and on behalf of the holders of the Earn-out Shares concerning the availability of Rule 144 as a condition to authorizing the removal of such restrictive legends from the certificates representing the Earn-out Shares. Further, the Members acknowledge and agree that the Earn-out Shares are subject to the limitations on sale as set forth in Section 7.3 of this Agreement, and the limitations imposed by applicable securities laws generally.

(b) Within forty-five (45) days after the end of the Calculation Period, the Purchaser shall prepare and deliver to the Member Representative a written statement (the “Purchaser Net Revenue Statement”) setting forth in reasonable detail the Purchaser’s calculation of the Company’s Net Revenue for such Calculation Period, and the Purchaser’s calculations of the Earn-Out Payment with respect thereto. During the thirty (30)-day period following the receipt by the Member Representative of the Purchaser Net Revenue Statement, the Member Representative and its representatives shall be permitted to review during normal business hours and make copies reasonably required of (i) the working papers of the Purchaser relating to the preparation of the Purchaser Net Revenue Statement, and (ii) any supporting schedules, supporting analyses and other supporting documentation relating to the preparation of the Purchaser Net Revenue Statement. The Purchaser Net Revenue Statement shall become final and binding upon the parties on the thirtieth (30th) day following delivery thereof, except to the extent that the Member Representative gives written notice of disagreement with the Purchaser Net Revenue Statement (the “Net Revenue Dispute Notice”) to the Purchaser prior to such date. Any Net Revenue Dispute Notice shall specify in reasonable detail the nature of any disagreement so asserted (any such disagreement to be limited to whether such calculation of the Net Revenue is mathematically correct and/or has been prepared in accordance with the definition of GAAP). If a Net Revenue Dispute Notice complying with the preceding sentence is received by the Purchaser in a timely manner, then the Purchaser Net Revenue Statement (as revised in accordance with clause (i) or (ii) below) shall become final and binding upon the parties on the earlier of (i) the date the Purchaser and the Member Representative resolve in writing any differences they have with respect to the matters specified in the Net Revenue Dispute Notice, or (ii) the date any disputed matters are finally resolved in writing by the Accounting Firm (as set forth below).

(c) During the thirty (30)-day period following the delivery of a Net Revenue Dispute Notice that complies with Section 3.7(b), the Purchaser and the Member Representative shall seek in good faith to resolve in writing any differences which they may have with respect to the matters specified in the Net Revenue Dispute Notice. During such period, the Purchaser shall be permitted to review and make copies reasonably required of (i) the working papers of the Member Representative relating to the preparation of the Net Revenue Dispute Notice, and (ii) any supporting schedules, supporting analyses and other supporting documentation relating to the preparation of the Net Revenue Dispute Notice. If, at the end of such thirty (30)-day period, the differences as specified in the Net Revenue Dispute Notice are not resolved, the Member Representative and the Purchaser shall promptly engage the Accounting Firm and submit to the Accounting Firm for review and resolution any and all matters which remain in dispute and which are properly included in the Net Revenue Dispute Notice. In resolving any disputed item, the Accounting Firm shall: (i) be bound by the provisions of this Section 3.7 and the definition of Net Revenue; (ii) limit its review to matters still in dispute as specifically set forth in the Net Revenue Dispute Notice (and only to the extent such matters are still in dispute following such thirty (30)-day period); and (iii) further limit its review solely to whether the Purchaser Net Revenue Statement has been

prepared in accordance with this Section 3.7. The Purchaser and the Member Representative shall make available to the Accounting Firm all relevant working papers, supporting schedules, supporting analyses, other supporting documentation and other items reasonably requested by the Accounting Firm. The determination of any item that is a component of the Net Revenue and is the subject of a dispute cannot, however, be in excess of, or less than, the greatest or lowest value, respectively, claimed for any particular item in the Purchaser Net Revenue Statement or the Net Revenue Dispute Notice, as applicable. The Member Representative and the Purchaser shall use reasonable best efforts to cause the Accounting Firm to render a decision resolving the matters in dispute within thirty (30) days following the submission of such matters to the Accounting Firm. The fees and expenses of the Accounting Firm in connection with the Accounting Firm's determination of the Net Revenue pursuant to this Section 3.7(c) shall be borne, in its entirety, by the party whose calculation of the Net Revenue as initially submitted to the Accounting Firm is furthest away from the Net Revenue as determined by the Accounting Firm.

(d) The Members acknowledge the absolute right of the Purchaser to operate, manage and invest in the Company in the exercise of its sole and absolute discretion and agrees that the Purchaser shall have no liability or obligation to the Members in connection with the operations and assets of the Company from and after the consummation of the Closing. Without limiting the generality of the foregoing, the Purchaser presently intends to base its decisions regarding operations of the Company, including the pricing of services and the investment and allocation of resources, on the basis of strategic objectives of the Purchaser and its Affiliates.

Section 3.8 Withholding Taxes. To the extent required by applicable Law, the Purchaser shall be entitled to deduct and withhold any Taxes required to be withheld from any payments due from the Purchaser to the Members, and to the extent that any amounts are so withheld, such amounts shall be treated for all purposes of this Agreement by the Purchaser as having been paid to the applicable Member. The Purchaser may condition the payment of any amount hereunder to a Member or other party on the receipt of an executed IRS Form W-9 (or the appropriate IRS Form W-8).

Section 3.9 Member Release. In consideration for the agreement and covenants of the Purchaser set forth in this Agreement, the Members on behalf of themselves and each of their respective Affiliates (and each of their respective officers, directors, managers, employees, agents, representatives, heirs, executors, successors and assigns) (collectively, the "Releasing Parties") hereby knowingly, voluntarily and unconditionally releases and forever discharges from and for, and covenants not to sue the Purchaser or the Company (or either of them), or any of their respective predecessors, successors, parents, subsidiaries or other Affiliates, or any of their respective current and former officers, directors, employees, agents, or representatives (collectively, the "Released Parties") for or with respect to, any and all claims, causes of action, demands, suits, proceedings, debts, obligations, liabilities, damages, losses, costs, and expenses (including attorneys' fees and costs) of every kind or nature whatsoever, known or unknown, actual or potential, suspected or unsuspected, fixed or contingent, that the Releasing Party has or may have, now or in the future, arising out of, relating to, or resulting from any acts or omissions, errors, negligence, strict liability, breach of contract, tort, violations of Law, matter or cause whatsoever from the beginning of time to the Closing Date (collectively, but excluding the Non-Released Matters (as defined below), the "Released Claims"); provided, however, that such release shall not cover any of the following (collectively, the "Non-Released Matters"): (a) any claims against the Released Parties (other than the Company) unrelated in any way to the Company, or (b) any claims against the Purchaser arising under this Agreement, any Member Ancillary Document or any Purchaser Ancillary Document. As of the Closing Date, each Member expressly waives any and all rights and benefits conferred upon it under California law by Section 1542 of the California Civil Code (or similar laws of other jurisdictions) with respect to the Released Claims, which states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

Section 3.10 Member's Representative. Clayton J. Montgomery is hereby constituted to act as the agent, proxy, attorney-in-fact and representative for the Members and their successors and assigns for all purposes under this Agreement (the "Member Representative"), and the Member Representative, by his signature below, agrees to serve in such capacity. The Member Representative shall have the power and authority to take such actions on behalf of each Member as the Member Representative, in his sole judgment, may deem to be in the best interests of the Members or otherwise appropriate on all matters related to or arising from this Agreement or any other Member Ancillary Document. Such powers shall include (a) executing and delivering any Member Ancillary Document, and any and all supplements, amendments, waivers or modifications thereto; (b) giving and receiving notices and other communications relating to this Agreement, the other Member Ancillary Documents and the transactions contemplated hereby and thereby; (c) taking or refraining from taking any actions (whether by negotiation, settlement, litigation or otherwise) to resolve or settle all matters and disputes arising out of or related to this Agreement, including matters in Article 9, the other Member Ancillary Documents and the performance or enforcement of the obligations, duties and rights pursuant to this Agreement and the other Member Ancillary Documents; and (d) taking all actions necessary or appropriate in connection with any disputes regarding the Working Capital Statement or the Earn-Out Payment or any calculation hereunder. The power of attorney appointing the Member Representative as attorney-in-fact is coupled with an interest and the death or incapacity of any Member shall not terminate or diminish the authority and agency of the Member Representative.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF THE MEMBERS

The Members, jointly and severally, hereby represent and warrant, to the Purchaser as follows:

Section 4.1 Organization.

(a) The Company is a limited liability company duly formed and validly existing under the laws of Delaware and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted. The Members have heretofore made available to the Purchaser correct and complete copies of the charter documents of the Company as currently in effect and the limited liability company agreement and record books with respect to all actions taken by its members, managers, and officers, as applicable.

Section 4.2 Authorization.

(a) The Company has the right, power, authority and capacity to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. The consummation of the transactions contemplated hereby has been duly authorized by all required limited liability company action on the part of the Company. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding agreement of the Company, enforceable against it in accordance with its terms.

(b) The Members have the right, power, authority and capacity to execute and deliver this Agreement and each Member Ancillary Document, to perform their obligations hereunder and thereunder, to consummate the transactions contemplated hereby and thereby, and specifically to bind the Purchase Price to the forfeiture and offset provisions contained herein.

(c) This Agreement and each Member Ancillary Document has been duly authorized by the Members, and have been duly executed and delivered by the Members and constitute the legal, valid and binding obligation of the Members, enforceable against the Members in accordance with their respective terms.

Section 4.3 Membership Interests.

(a) Schedule 4.3(a) accurately and completely sets forth the capital structure of the Company including the number of membership interests, or other equity interests which are authorized and which are issued and outstanding. All of the issued and outstanding membership interests, or other equity interests of the Company (a) are duly authorized, validly issued, fully paid and nonassessable, (b) are, immediately prior to the Closing, held of record by the Persons and in the amounts set forth on Schedule 4.3(a), and (c) were not issued or acquired by the holders thereof in violation of any Law, agreement or the preemptive rights of any Person. Except as set forth on Schedule 4.3(a), no membership interests, or other equity interests of the Company are reserved for issuance or are held in treasury, and (i) there are no outstanding options, warrants, rights, calls, commitments, conversion rights, rights of exchange, subscriptions, claims of any character, agreements, obligations, convertible or exchangeable securities or other plans or commitments, contingent or otherwise, relating to the membership interests of the Company; (ii) there are no outstanding contracts or other agreements of the Company, the Members, or any other Person to purchase, redeem or otherwise acquire any outstanding membership interests or other equity interests of the Company, or securities or obligations of any kind convertible into membership interests or other equity interests of the Company; (iii) there are no dividends which have accrued or been declared but are unpaid on the membership interests or other equity interests of the Company; (iv) there are no outstanding or authorized membership interests appreciation, phantom unit, equity incentive plans or similar rights with respect to the Company; (v) there are no voting agreements or other agreements relating to the management of the Company; and (vi) there are no statutory preemptive rights, and the Company has not granted any preemptive or similar rights, to purchase from the Company any of its membership interests. Except as set forth on Schedule 4.3(a), the Company has never purchased, redeemed or otherwise acquired any membership interests or other equity interests of the Company. Other than the Members, no other Person is the record holder of any membership interests or other equity interests in the Company (other than the Purchaser at Closing). No prior offer, issue, redemption, call, purchase, sale, transfer, negotiation or other transaction of any nature or kind with respect to any membership interests (including options, warrants or debt convertible into membership interests, options or warrants) of the Company or any entity that has been merged into the Company has given rise to any claim or action by any Person that is enforceable against the Company, the Members, or the Purchaser, and no fact or circumstance exists that could give rise to any such right, claim or action. All redemptions or transfers of membership interests or other equity interests of the Company are set forth on Schedule 4.3(a).

(b) The Members are, immediately prior to the Closing, the exclusive owners of, and have good and valid title to and record and beneficial ownership of, the Membership Interests of the Company set forth next to the Member's name on Schedule 4.3(a), and such Membership Interests (i) are validly issued, fully paid, and nonassessable, and (ii) are, and shall be transferred, assigned and delivered to the Purchaser at Closing, free and clear of all Liens.

(c) Other than the Membership Interests listed on Schedule 4.3(a), the Members own no membership interests of the Company or any other equity security of the Company, or any option, warrant, right, call, commitment or right of any kind to have any such equity security issued.

Section 4.4 Subsidiaries. The Company has never owned and does not currently own, directly or indirectly, any capital stock or other equities, securities or interests in any other corporation or in any limited liability company, partnership, joint venture or other entity.

Section 4.5 Absence of Restrictions and Conflicts.

(a) The execution, delivery and performance of this Agreement and the Member Ancillary Documents, the consummation of the transactions contemplated hereby and thereby, and the fulfillment of and compliance with the terms and conditions hereof and thereof, do not or will not (as the case may be), with the passing of time or the giving of notice or both, violate or conflict with, constitute a breach of or default under, result in the loss of any benefit under, permit the acceleration of any obligation under or create in any party the right to terminate, modify or cancel, (a) any term or provision of the charter documents of the Company, (b) any Company Contract (defined in Section 4.13) or any other contract, agreement, permit, franchise, license or other

instrument applicable to the Company or the Members, (c) any judgment, decree or order of any court or Governmental Entity or agency to which the Company or the Members are a party or by which the Company or the Members or any of their respective properties are bound, or (d) any Law or arbitration award applicable to the Company or the Members. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required with respect to the Company or the Members in connection with the execution, delivery or performance of this Agreement or the Member Ancillary Documents, or the consummation of the transactions contemplated hereby or thereby.

(b) The execution, delivery and performance of this Agreement and the Member Ancillary Documents, the consummation of the transactions contemplated hereby and thereby and the fulfillment of and compliance with the terms and conditions hereof and thereof do not, with the passing of time or the giving of notice or both, violate or conflict with, constitute a breach of or default under, result in the loss of any benefit under, permit the acceleration of any obligation under or create in any party the right to terminate, modify or cancel (a) any contract, agreement, permit, franchise, license or other instrument applicable to any Member, (b) any judgment, decree or order of any Governmental Entity to which any of the Members is a party or by which any of the Members or any of such Member's respective properties are bound, or (c) any Law or arbitration award applicable to any Member.

Section 4.6 Real Property.

(a) Except as set forth on Schedule 4.6(a), the Company does not own and never has owned any real property.

(b) Schedule 4.6(b) sets forth a correct and complete list of the Leased Real Property.

(c) The Company has a valid leasehold interest in its Leased Real Property, and the leases granting such interests are in full force and effect.

(d) To the Knowledge of each Member, no portion of the Leased Real Property, or any building or improvement located therein, violates any Law, including those Laws relating to zoning, building, land use, environmental, health and safety, fire, air, sanitation and noise control. Except for the Permitted Liens, no Leased Real Property is subject to (i) any decree or order of any Governmental Entity (or, to the Knowledge of the Members, threatened or proposed order) or (ii) any rights of way, building use restrictions, exceptions, variances, reservations or limitations of any nature whatsoever.

(e) The improvements and fixtures on the Leased Real Property are in good operating condition and in a state of good maintenance and repair, ordinary wear and tear excepted, and are adequate and suitable for the purposes for which they are presently being used. To the Knowledge of each of the Members, none of the buildings and improvements owned or utilized by the Company is constructed of, or contains as a component part thereof, any material that, either in its present form or as such material could reasonably be expected to change through aging and normal use and service, releases any substance, whether gaseous, liquid or solid, which is or may be, either in a single dose or through repeated and prolonged exposure, injurious or hazardous to the health of any individual who may from time to time be in or about such buildings or improvements. There is no condemnation, expropriation or similar proceeding pending or, to the Knowledge of the Members, threatened against any of the Leased Real Property or any improvement thereon. The Leased Real Property constitutes all of the real property utilized by the Company in the operation of the Business.

Section 4.7 Title to Assets; Related Matters.

(a) Except as set forth on Schedule 4.7(a), the Company has good and marketable title to all of its property and assets, free and clear of all Liens except Permitted Liens.

(b) All equipment and other items of tangible personal property and assets of the Company (i) are in good operating condition and in a state of good maintenance and repair, ordinary wear and tear excepted, (ii) were acquired and are usable in the Ordinary Course, and (iii) conform to all Laws applicable thereto. There is no defect or problem with any of such equipment, tangible personal property or assets, other than ordinary wear and tear. No Person other than the Company owns any equipment or other tangible personal property or assets situated on the premises of the Company, except for the leased items that are subject to personal property leases. Except as set forth on Schedule 4.7(b), since November 16, 2023, the Company has not sold, transferred or disposed of any assets, other than sales of inventory in the Ordinary Course. Schedule 4.7(c) sets forth a correct and complete list and general description of each item of tangible personal property of the Company (including leased personal property) having a book value of more than \$10,000.

Section 4.8 Financial Statements. The Financial Statements are attached as Schedule 4.8 hereto. Except as expressly noted on Schedule 4.8, the Financial Statements have been prepared in accordance with GAAP, in all material respects, from the books and records of the Company, and such books and records have been maintained on a basis consistent with GAAP. Each balance sheet included in the Financial Statements (including the related notes and schedules) fairly presents in all material respects the financial position of the Company as of the date of such balance sheet, and each statement of income and cash flows included in the Financial Statements (including any related notes and schedules) fairly presents in all material respects the results of operations and changes in cash flows of the Company for the periods set forth therein, in each case in accordance with GAAP (except as expressly noted therein or as disclosed on Schedule 4.8). Since November 16, 2023, there has been no change in any accounting (or tax accounting) policy, practice or procedure of the Company. The Company maintains accurate books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of annual financial statements for external purposes in accordance with GAAP.

Section 4.9 No Undisclosed Liabilities. Except as disclosed on Schedule 4.9, the Company does not have any liability (whether absolute, accrued, contingent or otherwise) of the type that are required to be disclosed on the face of a balance sheet prepared in accordance with GAAP that is not adequately reflected or provided for in the Balance Sheet, except liabilities that have been incurred since the date of the Balance Sheet in the Ordinary Course. In addition, the Company has disclosed on Schedule 4.9 all known facts which might give rise to a claim or liability in the future.

Section 4.10 Absence of Certain Changes. Since the date of the Balance Sheet and except as set forth on Schedule 4.10, there has not been (i) any Material Adverse Effect or (ii) any damage, destruction, loss or casualty to property or assets of the Company with a value in excess of \$5,000, whether or not covered by insurance. Since the date of the Balance Sheet and except as set forth on Schedule 4.10, the Company has:

(a) conducted its business in the Ordinary Course;

(b) not disposed of or permitted to lapse any right to the use of any patent, trademark, trade name, service mark, license or copyright of the Company (including any of the Company's Intellectual Property), or disposed of or disclosed to any Person, any trade secret, formula, process, technology or know-how of the Company not heretofore a matter of public knowledge;

(c) not (i) sold or transferred any asset, other than finished goods sold in the Ordinary Course, (ii) granted, created, incurred or suffered to exist any Lien on any asset of the Company, (iii) written off as uncollectable any guaranteed check, note or account receivable, except in the Ordinary Course, (iv) written down the value of any asset or investment on the books or records of the Company, except for depreciation and amortization in the Ordinary Course or (v) cancelled any debt or waived any claim or right (except as provided in Section 4.25(a) of this Agreement);

(d)not increased in any manner the base compensation of, or entered into any new bonus or incentive agreement or arrangement with, any of its employees, officers, managers or consultants other than in the Ordinary Course;

(e)not incurred any obligation or liability other than in the Ordinary Course;

(f)not entered into, amended, waived, failed to renew or terminated any contract required to be disclosed pursuant to Section 4.13 other than in the Ordinary Course;

(g)not made any change in accounting or cash management procedures, policies, practices or methods, except as required by applicable Law;

(h)not made any Tax election or changed an existing Tax election; or

(i)not entered into any contract or agreement to do any of the foregoing as set forth in clauses (b) through (h).

Section 4.11 Legal Proceedings.

(a)Except as set forth on Schedule 4.11, there is no suit, action, claim, arbitration, proceeding or investigation pending or, to the Knowledge of the Members, threatened against, relating to or involving the Company or its real or personal property before any Governmental Entity or arbitrator (a “Legal Proceeding”). None of the Legal Proceedings set forth on Schedule 4.11, if finally determined adversely, is reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. The Company is not subject to any judgment, decree, injunction, rule or order of any court or arbitration panel. No Person has filed or, to the Knowledge of the Members, has threatened to file against the Company a claim or action relating to any of the Company’s assets or businesses under any federal or state whistleblower statute, including the False Claims Act (31 U.S.C. § 3729 et seq.).

(b)There are no suits, actions, claims, proceedings or investigations pending or, to the Knowledge of the Members, threatened against, relating to or involving the Members, or either of them, which could reasonably be expected to adversely affect the Members’ ability to consummate the transactions contemplated by this Agreement or the Member Ancillary Documents.

Section 4.12 Compliance with Law. The Company is (and has been at all times during the past five (5) years) in compliance in all respects with all applicable Laws (including applicable Laws relating to zoning, environmental matters and the safety and health of employees). Except as set forth on Schedule 4.12, (i) the Company has not been charged with, nor received any written notice that it is under investigation with respect to, and the Company is not otherwise now under investigation with respect to, any violation of any applicable Law or other requirement of a Governmental Entity, (ii) the Company is not a party to, or bound by, any order, judgment, decree, injunction, ruling or award of, any Governmental Entity or arbitrator and (iii) the Company has filed all reports and has all Licenses required to be filed with any Governmental Entity on or prior to the date hereof.

Section 4.13 Company Contracts.

(a)Schedule 4.13(a) sets forth a correct and complete list of the following contracts to which the Company is a party, by which the Company or any of its property is subject, or by which the Company is otherwise bound, whether oral or written (collectively, the “Company Contracts”) (other than the Employment Agreements set forth on Schedule 4.15, the Company Benefit Plans set forth on Schedule 4.16 and the insurance policies set forth on Schedule 4.18):

(i) all bonds, debentures, notes, loans, credit or loan agreements or loan commitments, mortgages, indentures, guarantees or other contracts relating to the borrowing of money or binding upon any properties or assets (real, personal or mixed, tangible or intangible) of the Company;

(ii) all leases relating to the Leased Real Property or other leases or licenses involving any properties or assets (whether real, personal or mixed, tangible or intangible);

(iii) all contracts and agreements that (A) limit or restrict the Company or any of its officers, managers, employees, members or other equity holders, agents or representatives (in their capacity as such) from engaging in any business or other activity in any jurisdiction; (B) create or purport to create any exclusive or preferential relationship or arrangement; or (C) otherwise restrict or limit the ability of the Company to operate or expand its Business;

(iv) all contracts and agreements for capital expenditures or the acquisition or construction of fixed assets requiring the payment by the Company of an amount in excess of \$10,000, individually or in the aggregate;

(v) all contracts and agreements that provide for an increased payment or benefit, or accelerated vesting, upon the execution hereof, or the Closing, or in connection with the transactions contemplated hereby;

(vi) all contracts and agreements granting any Person a Lien on all or any part of any asset;

(vii) all contracts and agreements for the cleanup, abatement or other actions in connection with any Hazardous Materials, the remediation of any existing environmental condition or relating to the performance of any environmental audit or study;

(viii) all contracts and agreements granting to any Person an option or a first refusal, first-offer or similar preferential right to purchase or acquire any assets;

(ix) all contracts and agreements with any agent, distributor or representative that are not terminable without penalty on thirty (30) days' or less notice; and

(x) all joint venture or partnership contracts and all other contracts providing for the sharing of any profits.

Section 4.14 Tax Returns; Taxes.

(a) All returns, declarations, reports, information returns and statements, and other documents relating to Taxes (including amended returns and claims for refund) (collectively, "**Tax Returns**") required to be filed by the Company on or before the Closing Date have been timely filed. Such Tax Returns are true, correct, and complete in all respects. All Taxes due and owing by the Company (whether or not shown on any Tax Return) have been timely paid. No extensions or waivers of statutes of limitations have been given or requested with respect to any Taxes of the Company. Copies of all Tax Returns and examination reports of the Company have been delivered to Purchaser, along with statements of deficiencies assessed against, or agreed to by, the Company, for all Tax periods ending after December 15, 2021.

(b) The Company has not been a member of an affiliated, combined, consolidated, or unitary Tax group for Tax purposes. The Company has no liability for Taxes of any Person (other than the Company) under Treasury Regulations Section 1.1502-6 (or any corresponding provision of state, local, or foreign Law), as transferee or successor, by contract, or otherwise.

(c) There are no liens for Taxes (other than for current Taxes not yet due and payable) upon the assets of the Company.

(d) No Member is a “foreign person” as that term is used in Treasury Regulations Section 1.1445-2. The Company is not, nor has it been, a United States real property holding corporation (as defined in Section 897(c)(2) of the Code) during the applicable period in Section 897(c)(1)(a) of the Code.

Section 4.15 Officers and Employees. Schedule 4.15 contains a correct and complete list of (a) all of the officers of the Company, specifying their position, annual rate of compensation, work location, length of service, and other benefits provided to each of them, respectively, and (b) all of the employees (whether full-time, part-time or otherwise) and independent contractors of the Company, specifying their position, status, annual salary, hourly wages, work location, length of service, other benefits provided to each of them, respectively, consulting or other independent contractor fees, together with an appropriate notation next to the name of any officer or other employee on such list who is subject to any written Employment Agreement or any other written term sheet or other document describing the terms or conditions of employment of such employee or independent contractor or of the rendering of services by such independent contractor. Except as set forth on Schedule 4.15, the Company is not a party to or bound by any Employment Agreement. The Members have provided to the Purchaser correct and complete copies of each Employment Agreement to which the Company is a party, or by which it is otherwise bound. Each such Employment Agreement is legal, valid, binding and enforceable in accordance with its respective terms with respect to the Company. There is no existing default or breach by the Company under any Employment Agreement (or event or condition that, with notice or lapse of time or both, could constitute a default or breach) and there is no such default (or event or condition that, with notice or lapse of time or both, could constitute a default or breach) with respect to any third party to any Employment Agreement. Neither the Company nor the Members have received a claim from any Governmental Entity to the effect that the Company has improperly classified as an independent contractor any Person named on Schedule 4.15. None of the Company nor the Members have made any verbal commitments to any officer, employee, former employee, consultant or independent contractor of the Company with respect to compensation, promotion, retention, termination, severance or similar matters in connection with the transactions contemplated hereby or otherwise. Except as indicated on Schedule 4.15, all officers and employees of the Company are active on the date hereof.

Section 4.16 Company Benefit Plans.

(a) Schedule 4.16(a) contains a true and complete list of each “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974 (as amended, and including the regulations thereunder, “ERISA”), whether or not written and whether or not subject to ERISA, and each supplemental retirement, compensation, employment, consulting, profit-sharing, deferred compensation, incentive, bonus, equity, change in control, retention, severance, salary continuation, and other similar agreement, plan, policy, program, practice, or arrangement which is or has been established, maintained, sponsored, or contributed to by the Company or under which the Company has or may have any liability (each, a “Benefit Plan”).

(b) For each Benefit Plan, accurate, current, and complete copies of each of the following have been made available to Purchaser: (i) the plan document with all amendments, or if not reduced to writing, a written summary of all material plan terms; (ii) any written contracts and arrangements related to such Benefit Plan, including trust agreements or other funding arrangements, and insurance policies, certificates, and contracts; (iii) in the case of a Benefit Plan intended to be qualified under Section 401(a) of the Code, the most recent favorable determination or national office approval letter issued by the Internal Revenue Service and any legal opinions issued thereafter with respect to the Benefit Plan's continued qualification; (iv) the most recent Form 5500 filed with respect to such Benefit Plan; and (v) any material notices, audits, inquiries, or other correspondence from, or filings with, any Governmental Entity or authority relating to the Benefit Plan.

(c) Each Benefit Plan and related trust has been established, administered, and maintained in accordance with its terms and in compliance with all applicable Laws (including ERISA and Section 1445 of the Internal Revenue Code of 1986 (as amended, the “Code”). Nothing has occurred with respect to any Benefit Plan that has subjected or could subject the Company or, with respect to any period on or after the Closing Date,

Purchaser or any of its Affiliates, to a civil action, penalty, surcharge, or Tax under applicable Law or which would jeopardize the previously-determined qualified status of any Benefit Plan. All benefits, contributions, and premiums relating to each Benefit Plan have been timely paid in accordance with the terms of such Benefit Plan and all applicable Laws and accounting principles. Benefits accrued under any unfunded Benefit Plan have been paid, accrued, or adequately reserved for to the extent required by GAAP.

(d) The Company has not incurred and does not reasonably expect to incur: (i) any under Title I or Title IV of ERISA, any related provisions of the Code, or applicable Law relating to any Benefit Plan; or (ii) any liability to the Pension Benefit Guaranty Corporation. No complete or partial termination of any Benefit Plan has occurred or is expected to occur.

(e) The Company has not now or at any time within the previous six years contributed to, sponsored, or maintained: (i) any “multiemployer plan” as defined in Section 3(37) of ERISA; (ii) any “single-employer plan” as defined in Section 4001(a)(15) of ERISA; (iii) any “multiple employer plan” as defined in Section 413(c) of the Code; (iv) any “multiple employer welfare arrangement” as defined in Section 3(40) of ERISA; (v) a leveraged employee stock ownership plan described in Section 4975(e)(7) of the Code; or (vi) any other Benefit Plan subject to required minimum funding requirements.

(f) Other than as required under Sections 601 to 608 of ERISA or other applicable Law, no Benefit Plan provides post-termination or retiree welfare benefits to any individual for any reason.

(g) Neither the execution of this Agreement nor any of the transactions contemplated by this Agreement will, either alone or in combination with any other event: (i) entitle any current or former director, officer, employee, independent contractor, or consultant of the Company to any severance pay, increase in severance pay, or other payment; (ii) accelerate the time of payment, funding, or vesting, or increase the amount of compensation (including stock-based compensation) due to any such individual; (iii) limit or restrict the right of the Company to amend or terminate any Benefit Plan; (iv) increase the amount payable under any Benefit Plan; (v) result in any “excess parachute payments” within the meaning of Section 280G(b) of the Code; or (vi) require a “gross-up” or other payment to any “disqualified individual” within the meaning of Section 280G(c) of the Code.

Section 4.17[Intentionally Omitted].

Section 4.18Insurance Policies. Schedule 4.18(a) sets forth a list of all policies of insurance maintained (currently maintained or held within the last five (5) years), owned or held by the Company (collectively, the “Insurance Contracts”), including the policy limits or amounts of coverage, deductibles or self-insured retentions, and annual premiums with respect thereto; provided, however, that, notwithstanding the foregoing, with respect to any workers’ compensation Insurance Contracts maintained, owned or held by the Company, Schedule 4.18(a) sets forth a list of such workers’ compensation Insurance Contracts currently maintained or held within the last two (2) years, including the policy limits or amounts of coverage, deductibles or self-insured retentions, and annual premiums with respect thereto. Such Insurance Contracts are valid and binding in accordance with their terms, are in full force and effect, are in amounts sufficient for all requirements of Law and contracts to which the Company is a party or by which it is bound, and the Insurance Contracts will continue in effect after the Closing Date. Similar coverage to the coverage set forth in the Insurance Contracts has been maintained on a continuous basis for the last ten (10) years. Except as set forth in Schedule 4.18(b), The Company has not received written notice that (i) it has breached or defaulted under any of such Insurance Contracts, (ii) that any event has occurred that would permit termination, modification, acceleration or repudiation of such Insurance Contracts, or (iii) of termination or cancellation of any such Insurance Contract. Except as set forth in Schedule 4.18(c), the Company is not in default (including a failure to pay an insurance premium when due) in any material respect with respect to any Insurance Contract, nor has the Company failed to give any notice of any material claim under such Insurance Contract in due and timely fashion, nor has the Company ever been denied or turned down for insurance coverage. No insurer has put the Company on notice that coverage will be denied, nor has any such coverage been denied, with respect to any claim submitted to such

insurer by the Company in the last three (3) years. There are no claims by the Company pending under any of such Insurance Contracts as to which coverage has been questioned, denied or disputed by the underwriters of such Insurance Contracts or in respect of which such underwriters have reserved their rights.

Section 4.19 Environmental, Health and Safety Matters. Except as set forth on Schedule 4.19:

(a) the Company has not been alleged to be in violation of, and has not been subject to any administrative or judicial proceeding pursuant to, applicable Environmental Laws either now or any time during the past five (5) years;

(b) the Company is not subject to any claim, obligation, liability, loss, damage or expense of any kind or nature whatsoever, contingent or otherwise, incurred or imposed or based upon any provision of any Environmental Law or arising out of any act or omission of the Company, or the Company's employees, agents or representatives or arising out of the ownership, use, control or operation by the Company of any plant, facility, site, area or property (including any plant, facility, site, area or property currently or previously owned or leased by the Company) from which any Hazardous Materials were released;

(c) the Company has made available to the Purchaser correct and complete copies of all reports, correspondence, memoranda, computer data and the complete files relating to environmental matters of the Company; and the Company has not paid any fine, penalty or assessment within the prior five (5) years with respect to environmental matters; and

(d) to the Knowledge of each of the Members, no Leased Real Property, improvement or equipment of the Company contains any asbestos, polychlorinated biphenyls, underground storage tanks, open or closed pits, sumps or other containers.

Section 4.20 Intellectual Property

(a) Schedule 4.20(a) contains a list of all Company Registered Intellectual Property, which identifies each item of Company Registered Intellectual Property by serial number, registration number or other unique identifier, filing date, grant date or registration date and the relevant jurisdiction.

(b) Schedule 4.20(b) contains a list of all Company Intellectual Property other than the Company Intellectual Property set forth on Schedule 4.20(a).

(c) No Company Intellectual Property owned by the Company or product or service used by the Company related to Company Intellectual Property is subject to any proceeding or outstanding decree, order, judgment, agreement or stipulation (i) restricting in any manner the use, transfer, sale or licensing thereof by the Company or (ii) that may affect the validity, registrability, ownership, use or enforceability of the Company Intellectual Property. Each item of Company Registered Intellectual Property is valid and subsisting. The Company exclusively owns, or has valid license rights, to all Intellectual Property used by the Company in the Ordinary Course. All necessary registration, maintenance and renewal fees currently due in connection with Company Registered Intellectual Property have been made and all necessary documents, recordings and certifications in connection with such Company Registered Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purpose of maintaining the Company Registered Intellectual Property.

(d) The operations of the Company as currently conducted and as proposed to be conducted, including the Company's design, development, manufacture, marketing, distribution and sale of the products of the Company (including with respect to products currently under development), has not, does not and shall not infringe or misappropriate in any manner the Intellectual Property of any third party or constitute unfair competition or trade practices under the Laws of any jurisdiction.

(e) Neither of the Members has Knowledge of, and have not received written notice of or any other overt threat from any third party, that the operation of the Company as it is currently conducted and as proposed to be conducted, or any act, product or service of the Company, infringes or misappropriates the Intellectual Property of any third party or constitutes unfair competition or trade practices under the Laws of any jurisdiction. None of the Company Intellectual Property owned by the Company is subject to any outstanding order, ruling, decree, judgment or stipulation by or with any court, tribunal, arbitrator or other Governmental Entity, or has been the subject of any litigation within the last ten (10) years, whether or not resolved in favor of the Company.

(f) No Person has or is infringing or misappropriating any Company Intellectual Property owned by the Company.

(g) The Company has taken reasonable steps to protect and maintain the rights of the Company in the Confidential Information and any trade secret or confidential information of third parties used by the Company, and, without limiting the generality of the foregoing, the Company has enforced a policy requiring each employee and contractor to execute a proprietary information/confidentiality agreement in substantially the form provided to the Purchaser, and, except under confidentiality obligations, there has not been any disclosure by the Company of any Confidential Information or any such trade secret or confidential information of third parties.

(h) Except as set forth on Schedule 4.20(h), there are no royalties, fees, honoraria or other payments payable by the Company or the Members to any Person by reason of the ownership, development, use, license, sale or disposition of the Company's Intellectual Property, other than salaries and sales commissions paid to employees and sales agents in the Ordinary Course and end user license or subscription fees not exceeding \$5,000 on an annual basis for off-the-shelf, commercially available software programs. All royalties, license fees, charges and other amounts payable by, on behalf of, to or for the account of Company Intellectual Property are reflected in the Financial Statements.

Section 4.21 Amounts owed to Member. The Company is not obligated to pay the Members any amount, including any salary and employee benefits, accrued prior to the Closing.

Section 4.22 Supplier Relations. Schedule 4.22 contains a correct and complete list of the names and addresses of the Suppliers. The Company maintains good relations with each of its Suppliers, and no event has occurred that could materially and adversely affect the Company's relations with any Supplier. Except as set forth on Schedule 4.22, no Supplier has during the last twelve (12) months cancelled, terminated or made any threat to cancel or otherwise terminate any of its contracts with the Company or to decrease its supply of the Company's products of the Business. Each of the Members does not have any Knowledge to the effect that any current Supplier may terminate or materially alter its business relations with the Company, either as a result of the transactions contemplated hereby or otherwise.

Section 4.23 Accounts Receivable. The Members have delivered to the Purchaser a correct and complete schedule of the Receivables showing the amount of each Receivable and an aging of amounts due thereunder, which schedule is correct and complete as of that date. Except as set forth on Schedule 4.23, the debtors to whom the Receivables relate are not in or subject to a bankruptcy or insolvency proceeding and none of the Receivables have been made subject to an assignment for the benefit of creditors. Except as set forth on Schedule 4.23, all such Receivables are current and there are no disputes regarding the collectability of any such Receivables. Except as set forth on Schedule 4.23, all Accounts Receivable on the Final Working Capital Schedule (net of any reserves shown thereon) (i) are valid, existing and collectible in a manner consistent with the Company's past practice without resort to legal proceedings or collection agencies, (ii) represent monies due for goods sold and delivered or services rendered in the Ordinary Course, and (iii) are not subject to any refund

or adjustment or any defense, right of set-off, assignment, restriction, security interest or other Lien. The Company has not factored any of its Receivables.

Section 4.24 **Product Warranties and Guaranties.**

(a) Except as set forth on Schedule 4.24, the Company does not make any express warranty or guaranty as to goods sold by the Company (a “Warranty”), and there is no pending or, to the Knowledge of the Members, threatened claim alleging any breach of any Warranty. Except as set forth on Schedule 4.24, the Company does not have any exposure to, or liability under, any Warranty (i) beyond that which is typically assumed in the ordinary course of business by Persons engaged in businesses comparable in size and scope of the Company, or (ii) that would have a Material Adverse Effect.

(b) Except as set forth on Schedule 4.24, adequate reserves for any expense to be incurred by the Company as a result of any Warranty granted prior to the Closing will be reflected on the Final Working Capital Schedule.

Section 4.25 **Brokers, Finders and Investment Bankers.** Except as set forth on Schedule 4.25, neither the Company, the Members, nor any officer, manager or employee of the Company or any Affiliate of the Company, has employed any broker, finder or investment banker or incurred any liability for any investment banking fees, financial advisory fees, brokerage fees, finder’s fees or similar fees in connection with the transactions contemplated hereby.

Section 4.26 **Bank Accounts.** Schedule 4.26 sets forth a correct and complete list and description of all bank accounts used by the Company.

Section 4.27 **Member Guarantees.** Except as otherwise disclosed on Schedule 4.27, no Member has guaranteed any obligations of the Company under any guarantee, letter of credit, bid bond or performance bond.

Section 4.28 **Restrictions on Business Activities.** Except as set forth on Schedule 4.28, there is no contract, agreement, judgment, injunction, order or decree to which the Company is a party or otherwise binding upon the Company which has or could be expected to have the effect of prohibiting or impairing any practice or conduct of the Business.

Section 4.29 **Solvency.** Neither the Company, the Members, nor their respective Affiliates have stopped or suspended payment of their respective debts, become unable to pay their debts when due or otherwise become insolvent in any jurisdiction. Neither the Company, the Members, nor their respective Affiliates are the subject of any pending, rendered or, to the Knowledge of the Members, threatened solvency proceedings of any character. Neither the Company, the Members, nor their respective Affiliates has made an assignment for the benefit of creditors or taken any action with a view to or that would constitute a valid basis for the institution of any such insolvency proceedings.

Section 4.30 **Disclosure.** No representation, warranty or covenant made by the Members in this Agreement, the Schedules or the Exhibits or any Member Ancillary Document contains an untrue statement of a material fact or omits to state a material fact required to be stated herein or therein necessary to make the statements contained herein or therein not misleading.

ARTICLE 5
[INTENTIONALLY OMITTED]

ARTICLE 6
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Members as follows:

Section 6.1 Organization. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted.

Section 6.2 Authorization. The Purchaser has full company power and authority to execute and deliver this Agreement and the Purchaser Ancillary Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Purchaser Ancillary Documents by the Purchaser, the performance by the Purchaser of its obligations hereunder and thereunder, and the consummation of the transactions provided for herein and therein have been duly and validly authorized by all necessary limited liability company action on the part of the Purchaser. This Agreement and the Purchaser Ancillary Documents have been duly executed and delivered by the Purchaser and constitute the valid and binding agreements of the Purchaser, enforceable against the Purchaser in accordance with their respective terms, subject to applicable bankruptcy insolvency and other similar Laws affecting the enforceability of creditors' rights generally, general equitable principles and the discretion of course in granting equitable remedies.

Section 6.3 Absence of Restrictions and Conflicts. The execution, delivery and performance of this Agreement and the Purchaser Ancillary Documents, the consummation of the transactions contemplated hereby and thereby and the fulfillment of, and compliance with, the terms and conditions hereof and thereof do not, with the passing of time or the giving of notice or both, violate or conflict with, constitute a breach of or default under, result in the loss of any benefit under, or permit the acceleration of any obligation under, (a) any term or provision of the charter documents of the Purchaser, (b) any contract to which the Purchaser is a party, (c) any judgment, decree or order of any Governmental Entity to which the Purchaser is a party or by which the Purchaser or any of its properties is bound, or (d) any statute, law, rule or regulation applicable to the Purchaser unless, in each case, such violation, conflict, breach, default, loss of benefit or accelerated obligation would not, either individually or in the aggregate, have a material adverse impact on the ability of the Purchaser to consummate the transactions contemplated hereby, or by the Purchaser Ancillary Documents.

ARTICLE 7 CERTAIN COVENANTS AND AGREEMENTS

Section 7.1 Public Announcements. The Company and the Members shall consult with the Purchaser regarding the timing and content of all announcements regarding this Agreement or the transactions contemplated hereby to the financial community, Governmental Entities, employees, customers, suppliers or the general public and shall use reasonable efforts to agree upon the text of any such announcement prior to its release. Notwithstanding the foregoing, without the prior written consent of the Purchaser, neither the Company nor any Member shall at any time disclose to any Person the fact that this Agreement has been entered into or any of the terms of this Agreement other than to such Parties' advisors who the Company or the Members, as applicable, reasonably determine(s) needs to know such information for the purpose of advising the Company or the Members, it being understood that such advisor will be informed of the confidential nature of this Agreement and the terms of this Agreement and will be directed to treat such information as confidential in accordance with the terms of this Agreement.

Section 7.2 Tax Matters

(a) Filing of Tax Returns. The Member Representative shall control the preparation and filing of all tax returns that are required to be filed by or with respect to the Company and for pre-closing tax periods (collectively, "Seller Prepared Returns"); provided, however, if any Seller Prepared Return is to be filed after the Closing Date and the Member Representative is not authorized to execute and file such Tax Return by applicable law, Purchaser shall execute and file (or cause to be filed) such Seller Prepared Return with the appropriate taxing authority. All such Seller Prepared Returns shall be prepared and filed in a manner consistent with past practice of the Company, except as required by applicable law or unless tax advisors to the Members conclude that a tax return cannot be so prepared without incurring penalties. The Member Representative shall

provide the Purchaser with copies of completed drafts of such tax returns no later than thirty (30) days prior to the due date for filing thereof (including applicable extensions) for Purchaser's review and comment and shall consider in good faith all comments received no later than fifteen (15) days prior to the due date for filing thereof (including applicable extensions). Other than Seller Prepared Returns described above, Purchaser will prepare, or cause to be prepared, and timely file, or cause to be timely filed, all tax returns for the Company for Straddle Periods. Such tax returns shall be prepared in a manner consistent with past practice of the Company, except as otherwise required by applicable law or unless tax advisors to Purchaser conclude that a tax return cannot be so prepared without incurring penalties.

(b)Payment of Taxes. Not later than five (5) days prior to the due date for the payment of taxes on any tax return which Purchaser has the responsibility file or to cause to be filed pursuant to Section 7.2(a), the Members shall pay to Purchaser the amount of taxes, as reasonably determined by Purchaser, owed by the Members pursuant to the provisions of Section 7.2(c). Any amounts deemed due in accordance with this Section 7.2(b) shall be offset by any tax prepayments made by Company prior to the Closing Date and applicable to the tax year in question. To the extent such tax prepayments are greater than amounts deemed owed hereunder, the same shall be reimbursed to the Member Representative.

(c)Straddle Period Tax Allocation. Any liability for taxes attributable to any taxable period that begins on or before and ends after the Closing Date (a "Straddle Period") shall be apportioned between the portion of such period ending on or prior to the Closing Date and the portion beginning after the Closing Date (a) in the case of business personal property and ad valorem Taxes, by apportioning such taxes on a per diem basis and (b) in the case of all other taxes, on a closing of the books basis, provided that exemptions, allowances or deductions that are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be apportioned on a per diem basis.

(d)Tax Sharing Agreements. Any Tax sharing agreement with respect to or involving the Company has been terminated as of the date hereof and shall have no further effect for any taxable year (whether the current year, a future year, or a past year).

(e)Certain Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement shall be paid by the Members when due, and the Member Representative will, at its own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees, and, if required by applicable Law, the Purchaser will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation.

Section 7.3Stock Consideration and Earn-Out Leak-Out. Each of the Members agrees that he will not, on a combined basis, on any single trading day sell, transfer, trade or otherwise dispose of any shares of the Company's common stock in an amount exceeding the greater of (a) fifteen percent (15%) of the Company's common stock sold in the aggregate based on the greater of the preceding or current trading day, and (b) \$3,000 gross value of the shares of the Company's stock sold by any or all of the Members.

ARTICLE 8 CLOSING

Section 8.1Closing. The Closing shall occur contemporaneously with the execution and delivery of this Agreement. The Closing shall take place through the exchange of documents electronically, or at such place or in such other manner as the Parties may agree.

Section 8.2Member Closing Deliveries. Contemporaneously with the execution and delivery of this Agreement, the Members have delivered, or caused to be delivered, to the Purchaser the following:

(a) original certificate(s) (if applicable) representing the Membership Interests and accompanying powers or assignments duly executed by the Members, evidencing the transfer of the Membership Interests to the Purchaser;

(b) a certificate of good standing from the Secretary of State of the State of Delaware, dated not earlier than 10 days prior to the Closing Date, as to the good standing of the Company in Delaware, and a similar certificate of good standing issuance by the Secretary of State in each other jurisdiction where the Company is qualified to do business;

(c) written consents of or notices with respect to (or waivers with respect thereto), as applicable, the third parties to those Company Contracts listed on Exhibit 8.2(c) (and all such consents, notices and waivers shall be in full force and effect on and following the Closing);

(d) the Non-competition Agreement, executed by the Members a party thereto;

(e) the current and complete limited liability company operating agreement, organizational record books, minute books and seal of the Company;

(f) the resignation by each of the Members in such Member's capacity as an officer and manager of the Company, as applicable, in a form reasonably acceptable to the Purchaser; and

(g) all other documents required to be entered into by the Company or any Member pursuant hereto or reasonably requested by the Purchaser to convey the Membership Interests to the Purchaser or to otherwise consummate the transactions contemplated hereby.

Section 8.3 Purchaser Closing Deliveries. Contemporaneously with the execution and delivery of this Agreement, the Purchaser has delivered, or caused to be delivered, to the Members the following:

(a) the Closing Cash and the Stock Consideration to be paid and delivered at Closing pursuant to Section 3.1, paid and delivered in accordance with such Section;

(b) a certificate of good standing from the Secretary of State of the State of Delaware, dated not earlier than 10 days prior to the Closing Date, as to the good standing of the Purchaser in Delaware and (ii) a certificate by the Secretary of the Purchaser as to the effectiveness of the resolutions of the board of directors of the Purchaser authorizing the execution, delivery and performance hereof by the Purchaser passed in connection herewith and the transactions contemplated hereby;

(c) the Non-competition Agreement, executed by the Company; and

(d) all other documents required to be entered into or delivered by the Purchaser at or prior to the Closing pursuant hereto.

ARTICLE 9 INDEMNIFICATION

Section 9.1 Indemnification Obligations of the Members. Each of the Members shall, jointly and severally, indemnify, defend and hold harmless the Purchaser Indemnified Parties from, against, and in respect of any and all demands, claims, suits, proceedings, actions, liabilities, obligations, damages, losses, costs, expenses, penalties, fines, judgments and interest (whether in equity or at law, including statutory and common) whenever arising or incurred (including amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses) arising out of or relating to:

(a) any breach or inaccuracy of any representation or warranty made by the Members in this Agreement or the Member Ancillary Documents (for purposes of this Section 9.1(a), and except for the reference to "Material Adverse Effect" set forth in clause (i) of the first sentence of Section 4.10 (Absence of Certain Changes), such representations and warranties shall be read without reference to "materiality", "Material Adverse Effect" or similar monetary and non-monetary qualifications, and such representations and warranties shall be read without reference to "Knowledge" or similar qualifications);

(b) any breach of any covenant, agreement or undertaking made by the Members and/or the Company in this Agreement or the Member Ancillary Documents;

(c) claims based on violations of Law as in effect on or prior to the Closing, breach of contract, employment practices or health, safety or environmental matters, in each case arising out of or relating to events which shall have occurred, or services performed, or the operation of the Company, prior to the Closing;

(d) any Company Benefit Plan in respect of or relating to any period ending on or prior to the Closing Date;

(e) (i) any Taxes of the Company with respect to any Tax period or portion thereof ending on or before the Closing (ii) any failure of the Company to file any Tax Return and pay any Tax in accordance with any applicable Law, (iii) any inaccuracy or omission in any Tax Return of the Company, or (vi) any failure of the Company to withhold any Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member or other third party;

(f) claims by the Members or other holder(s) of equity securities in the Company as a result of the transactions contemplated by this Agreement, other than any claims (i) relating to the Purchaser's failure to pay any portion of the Purchase Price pursuant to this Agreement, (ii) against the Purchaser or any of its Affiliates (other than the Company) unrelated in any way to the Company, or (iii) against the Purchaser arising under this Agreement or any Purchaser Ancillary Document;

(g) the operations, actions or omissions of the Company prior to the Closing, other than (i) the obligations of the Company under any contracts or agreements to which the Company is a party or otherwise bound or licenses related to or utilized in connection with the conduct of the Business (to the extent such obligations were not required to be performed on or prior to the Closing Date), and (ii) current liabilities of the Company of a type, to the extent, and in the amount that is reflected on the Final Working Capital Schedule;

(h) the Indebtedness and Transaction Expenses to the extent not paid on or prior to the Closing Date or reflected as a current liability on the Final Working Capital Schedule;

(i) any and all actions, obligations, costs, damages, losses, claims made or incurred prior to the Closing Date by any party against the Company or its Members;

(j) any failure of the Company (i) to own or possess any License that is necessary to enable it to carry on its operations as presently conducted and as proposed to be conducted ("Necessary Licenses") and maintain such Necessary License as valid, binding and in full force and effect at any time prior to and including the Closing Date; or (ii) to obtain consent from, or provide notice to, any Governmental Entity in connection with the execution, delivery and performance of this Agreement with respect to any Necessary License; and

(k) any (i) adverse effect of the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby on any Necessary License; or (ii) loss or expiration of any Necessary License that was pending or, to the Knowledge of the Members, threatened or reasonably foreseeable (other than expiration upon the end of any term) as of the Closing Date.

The demands, claims, suits, proceedings, actions, liabilities, obligations, damages, losses costs, expenses, penalties, fines, judgments and interest (whether in equity or at law, including statutory and common) whenever arising or incurred (including amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses) of the Purchaser Indemnified Parties described in this Section 9.1 as to which the Purchaser Indemnified Parties are entitled to indemnification are collectively referred to as "Purchaser Losses."

Section 9.2 Indemnification Obligations of the Purchaser. The Purchaser shall indemnify, defend and hold harmless the Member Indemnified Parties from, against, and in respect of any and all demands, claims, suits, proceedings, actions, liabilities, obligations, damages, losses costs, expenses, penalties, fines, judgments and interest (whether in equity or at law, including statutory and common) whenever arising or incurred (including amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses) arising out of or relating to:

- (a) any breach or inaccuracy of any representation or warranty made by the Purchaser in this Agreement or in any Purchaser Ancillary Document; or
- (b) any breach of any covenant, agreement or undertaking made by the Purchaser in this Agreement or in any Purchaser Ancillary Document.

The demands, claims, suits, proceedings, actions, liabilities, obligations, damages, losses costs, expenses, penalties, fines, judgments and interest (whether in equity or at law, including statutory and common) whenever arising or incurred (including amounts paid in settlement, costs of investigation and reasonable attorneys' fees and expenses) of the Member Indemnified Parties described in this Section 9.2 as to which the Member Indemnified Parties are entitled to indemnification are collectively referred to as "Member Losses."

Section 9.3 Offset Rights. Notwithstanding any term or provision of this Agreement to the contrary, the Purchaser shall have the right, at its election, to offset any amount due to the Members, including without limitation any Earn-out Payment, Working Capital Surplus, or indemnifiable Member Losses otherwise due and payable for purposes of satisfying and to the extent of any Purchaser Losses hereunder (or any other amount due the Purchaser hereunder) and to withhold such amount otherwise due to the Members, including any Earn-out Payment and/or Working Capital Surplus, pending resolution of any Purchaser indemnification or other claims hereunder until such claims and/or any resulting Purchaser Losses are finally determined in accordance with the terms hereof.

ARTICLE 10 MISCELLANEOUS PROVISIONS

Section 10.1 Notices. All notices, communications and deliveries required or made hereunder must be made in writing signed by or on behalf of the Party making the same and shall be delivered personally or by a national overnight courier service or by registered or certified mail (return receipt requested), postage prepaid, as follows:

To the Purchaser:

CV Sciences, Inc.
9530 Padgett Street, Suite 107
San Diego, California 92126
Attn: Joseph D. Dowling, CEO

with a copy (which shall not constitute notice) to:

Breakwater Law Group, LLP
991 Lomas Santa Fe Drive, Suite C160
Solana Beach, CA 92075
Attn: Dalton Sprinkle

To the Members (c/o the Member Representative):

CLAYTON J. MONTGOMERY
25501 NE 74th Ct.
Battle Ground, WA 98604

or to such other representative or at such other address of a Party as such Party may furnish to the other Parties in writing. Any such notice, communication or delivery shall be deemed given or made (a) on the date of delivery, if delivered in person, or (b) one (1) Business Day after deposit with a national overnight courier service for next-day delivery, or (c) five (5) Business Day after deposit with the United States Postal Service, registered or certified mail (return receipt requested), postage prepaid.

Section 10.2 Schedules and Exhibits. The Schedules and Exhibits are hereby incorporated into this Agreement and are hereby made a part hereof as if set out in full herein.

Section 10.3 Binding Effect; Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, directly or indirectly, including by operation of law, by any Party without the prior written consent of the other Parties; provided, however, that the Purchaser may, without the consent of the Members, (a) assign any or all of its rights and interests hereunder to one or more of its Affiliates (in which case, the Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder), (b) designate one or more of its Affiliates to perform its obligations hereunder (in which case, the Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder), (c) assign this Agreement to its lenders for collateral security purposes and (d) assign this Agreement to a subsequent purchaser of all or a substantial portion of the Purchaser, the Company or the Company's assets (in which case, the Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder).

Section 10.4 Amendment; Modification. This Agreement may be amended, modified or supplemented at any time only by written agreement of all Parties hereto.

Section 10.5 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of California (regardless of the Laws that might otherwise govern under applicable principles of conflicts of laws thereof) as to all matters, including matters of validity, construction, effect, performance and remedies.

Section 10.6Captions. The titles, captions and table of contents contained herein are inserted herein only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof.

Section 10.7Consent to Jurisdiction, Etc. Each Party hereby irrevocably consents and agrees that any Legal Dispute shall be brought only to the exclusive jurisdiction of the state or federal courts of or located in San Diego County, State of California, and each Party hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding that is brought in any such court has been brought in an inconvenient forum. During the period a Legal Dispute is pending before a court, all actions, suits or proceedings with respect to such Legal Dispute or any other Legal Dispute, including any counterclaim, cross-claim or interpleader, shall be subject to the exclusive jurisdiction of such court. Each Party hereby waives, and shall not assert as a defense in any Legal Dispute, that (a) such Party is not subject thereto, (b) such action, suit or proceeding may not be brought or is not maintainable in such court, (c) such Party's property is exempt or immune from execution, (d) such action, suit or proceeding is brought in an inconvenient forum or (e) the venue of such action, suit or proceeding is improper. A final judgment in any action, suit or proceeding described in this Section 10.7 following the expiration of any period permitted for appeal and subject to any stay during appeal shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by applicable Laws.

Section 10.8Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated by this Agreement be consummated as originally contemplated to the fullest extent possible, or failing the mutual agreement of the Parties, such provisions shall be modified to be enforced to the maximum extent allowed by applicable law.

Section 10.9Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be deemed an original, and all of which together shall constitute one and the same instrument. Electronic signatures transmitted via email or through the use of an electronic signature platform such as DocuSign shall be deemed to be original signatures for the purposes of executing this Agreement. Each Party agrees that the use of electronic signatures and counterparts may be relied upon in the same manner as original signatures and counterparts. The parties further agree that, when a Party's signature is executed and transmitted through the use of DocuSign or a similar electronic signature platform, such signature shall have the same force and effect as an original signature.

Section 10.10No Third-Party Beneficiary. Nothing expressed or implied in this Agreement is intended, or shall be construed, to confer upon or give any Person other than the Parties, their successors or permitted assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, or result in such Person being deemed a third-party beneficiary of this Agreement.

Section 10.11Waiver. Any agreement on the part of a Party to any extension or waiver of any provision hereof shall be valid only if set forth in an instrument in writing signed on behalf of such Party. A waiver by a Party of the performance of any covenant, agreement, obligation, condition, representation or warranty shall not be construed as a waiver of any other covenant, agreement, obligation, condition, representation or warranty. A waiver by any Party of the performance of any act shall not constitute a waiver of the performance of any other act or an identical act required to be performed at a later time.

Section 10.12Integration. This Agreement, the Schedules and Exhibits attached hereto, and the Purchaser Ancillary Documents and the Member Ancillary Documents executed pursuant hereto supersede all

negotiations, agreements and understandings among the Parties with respect to the subject matter hereof (including that certain letter of intent dated November 16, 2023) and constitute the entire agreement among the Parties with respect hereto (and thereto).

Section 10.13 Cooperation Following the Closing. Following the Closing, each Party shall deliver to the other Parties such further information and documents and shall execute and deliver to the other Parties such further instruments and agreements as any other Party shall reasonably request to consummate or confirm the transactions provided for herein, to accomplish the purpose hereof or to assure to any other Party the benefits hereof.

Section 10.14 Transaction Costs. Except as expressly provided herein, (a) the Purchaser shall pay its own fees, costs and expenses incurred in connection herewith and the transactions contemplated hereby, including the fees, costs and expenses of its financial advisors, accountants and counsel, and (b) the fees, costs and expenses of the Company and the Members incurred in connection herewith and the transactions contemplated hereby, including the fees, costs and expenses of its financial advisors, accountants and counsel, shall be paid pursuant to Section 3.1(a)(v) hereof if the Closing occurs and by the Company (or the Member) if the Closing does not occur.

Section 10.15 Post-Close Transition. Clayton J. Montgomery, a Member of the Company, agrees to provide the following transition services to the Purchaser following the Closing without additional consideration or compensation: a) in-person transition meeting in Grand Junction on or around the Closing Date, b) proper transition of customer relationships to the Purchaser via phone calls, c) transfer of relevant know-how to the Purchaser in order to generate quotes, d) transition/training of applicable Company back-office functions, including but not limited to invoicing and procurement, and other transition activities as determined by the Purchaser (collectively, the “Transition Services”). The total time commitment of the Transition Services is expected to not exceed 60 hours and will occur over a 30 to 45-day period post-Closing. The Parties may extend the Transition Services period upon mutual agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed, as of the date first above written.

PURCHASER:
CV SCIENCES, INC.

By: _____
Name: Joseph D. Dowling
Title: Chief Executive Officer

COMPANY:
ELEVATED SOFTGELS LLC

By: _____
Name: _____
Title: _____

MEMBERS:

CLAYTON J. MONTGOMERY

CHRIS FAGAN

ANDREW KESTER

TIMOTHY MCGREER

[SIGNATURE PAGE TO MEMBERSHIP INTEREST PURCHASE AGREEMENT]

Exhibit 1.1(a)

Form of Non-Competition Agreement

[Attached]

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

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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. I have disclosed, based on my 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: August 13, 2024

By: /s/ Joseph D. Dowling

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

1. I have reviewed this Quarterly Report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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. I have disclosed, based on my 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: August 13, 2024

By: /s/ Joerg Grasser

Joerg Grasser
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CV Sciences, Inc. (the "Registrant") on Form 10-Q for the quarter ended June 30, 2024 (the "Report"), I, Joseph D. Dowling, 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: August 13, 2024

By: /s/ Joseph D. Dowling

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

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of CV Sciences, Inc. (the "Registrant") on Form 10-Q for the quarter ended June 30, 2024 (the "Report"), I, Joerg Grasser, 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: August 13, 2024

By: /s/ Joerg Grasser

Joerg Grasser
Chief Financial Officer
(Principal Financial Officer)

