

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

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2021

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.)

10070 Barnes Canyon Road

San Diego, CA 92121

(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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 11, 2021, the issuer had 107,533,054 shares of issued and outstanding common stock, par value \$0.0001.

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

Item 1. Financial Statements (unaudited)

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

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,165	\$ 4,024
Restricted cash	501	501
Accounts receivable, net	949	1,126
Inventory	9,008	8,840
Prepaid expenses and other	1,902	2,372
Total current assets	17,525	16,863
Property & equipment, net	2,688	2,877
Operating lease assets	2,912	3,057
Intangibles, net	3,730	3,730
Goodwill	2,788	2,788
Other assets	1,035	1,310
Total assets	\$ 30,678	\$ 30,625
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,083	\$ 1,677
Accrued expenses	10,243	9,805
Operating lease liability - current	670	680
Current portion of long-term debt	2,907	2,174
Total current liabilities	14,903	14,336
Operating lease liability	3,291	3,467
Debt	363	1,453
Deferred tax liability	157	157
Total liabilities	18,714	19,413
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, par value \$0.0001; 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value \$0.0001; 190,000 shares authorized; 106,791 and 100,664 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	11	10
Additional paid-in capital	79,001	75,123
Accumulated deficit	(67,048)	(63,921)
Total stockholders' equity	11,964	11,212
Total liabilities and stockholders' equity	\$ 30,678	\$ 30,625

See accompanying notes to the condensed financial statements.

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

	Three months ended March 31,	
	2021	2020
Product sales, net	\$ 4,844	\$ 8,270
Cost of goods sold	2,486	4,262
Gross Profit	2,358	4,008
Operating expenses:		
Research and development	186	1,509
Selling, general and administrative	5,285	7,819
	5,471	9,328
Operating Loss	(3,113)	(5,320)
Interest (income) expense, net	14	(10)
Income loss before income taxes	(3,127)	(5,310)
Income tax benefit	—	(158)
Net Loss	\$ (3,127)	\$ (5,152)
Weighted average common shares outstanding, basic and diluted	104,508	99,678
Net loss per common share, basic and diluted	\$ (0.03)	\$ (0.05)

See accompanying notes to the condensed financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2020	100,664	\$ 10	\$ 75,123	\$ (63,921)	\$ 11,212
Issuance of common stock under equity commitment	6,127	1	3,221	—	3,222
Stock-based compensation	—	—	657	—	657
Net loss	—	—	—	(3,127)	(3,127)
Balance at March 31, 2021	106,791	\$ 11	\$ 79,001	\$ (67,048)	\$ 11,964

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2019	99,416	\$ 10	\$ 70,774	\$ (41,637)	\$ 29,147
Issuance of common stock from exercise of stock options	436	—	161	—	161
Stock-based compensation	—	—	1,258	—	1,258
Net loss	—	—	—	(5,152)	(5,152)
Balance at March 31, 2020	99,852	\$ 10	\$ 72,193	\$ (46,789)	\$ 25,414

See accompanying notes to the condensed financial statements.

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

	Three Months Ended March 31,	
	2021	2020
OPERATING ACTIVITIES		
Net loss	\$ (3,127)	\$ (5,152)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	204	185
Stock-based compensation	657	1,258
Non-cash lease expense, net	145	287
Deferred taxes	—	(158)
Other	124	144
Change in operating assets and liabilities:		
Accounts receivable, net	133	570
Inventory	(168)	970
Prepaid expenses and other	692	1,479
Accounts payable and accrued expenses	(349)	(1,274)
Net cash used in operating activities	<u>(1,689)</u>	<u>(1,691)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(35)	(480)
Net cash flows used in investing activities	<u>(35)</u>	<u>(480)</u>
FINANCING ACTIVITIES		
Repayment of unsecured debt	(357)	—
Proceeds from issuance of common stock	3,222	—
Proceeds from exercise of stock options	—	161
Net cash flows provided by financing activities	<u>2,865</u>	<u>161</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	1,141	(2,010)
Cash, cash equivalents and restricted cash, beginning of period	4,525	9,608
Cash, cash equivalents and restricted cash, end of period	<u>\$ 5,666</u>	<u>\$ 7,598</u>
Supplemental cash flow disclosures:		
Income taxes paid	\$ —	\$ 18
Supplemental disclosures of non-cash transactions:		
Purchase of property and equipment in accounts payable and accrued expenses	\$ 7	\$ 76

See accompanying notes to the condensed 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. On July 25, 2013, CannaVest Corp., a Texas corporation ("CannaVest Texas"), merged with the Company, a wholly-owned Delaware subsidiary of CannaVest Texas, to effectuate a change in the Company's state of incorporation from Texas to Delaware. On January 4, 2016, the Company filed a Certificate of Amendment of Certificate of Incorporation reflecting its corporate name change to "CV Sciences, Inc.", effective on January 5, 2016. In addition, on January 4, 2016, the Company amended its Bylaws to reflect its corporate name change to "CV Sciences, Inc."

Description of Business - The Company has two operating segments: consumer products and specialty pharmaceutical. The consumer products segment develops, manufactures, markets and sells plant-based dietary supplements and hemp-based cannabidiol ("CBD"). The Company sells its products under tradenames, such as *PlusCBD™*, *HappyLane™*, *ProCBD™*, *CV™Acute*, and *CV™Defense*. The Company's products are sold in a variety of market sectors including nutraceutical, beauty care and specialty foods. The specialty pharmaceutical segment is developing drug candidates which use CBD as a primary active ingredient.

Basis of Presentation - The unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Use of Estimates - The preparation of the condensed financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts in the condensed 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, and assumptions related to revenue recognition.

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 March 31, 2021 and December 31, 2020, approximate their fair value due to the short-term nature of these items. The Company's notes payable balance also approximates fair value as of March 31, 2021 and December 31, 2020, as the interest rate on the notes payable approximates the rates available to the Company as of this date. 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's Level 1 assets are comprised of \$2.5 million and \$2.4 million in money market funds which are classified as cash equivalents as of March 31, 2021 and December 31, 2020, respectively. In addition, the Company's restricted cash of \$0.5 million as of March 31, 2021 and December 31, 2020 is comprised of certificates of deposit. The carrying value of the cash equivalents and restricted cash approximated the fair value as of March 31, 2021 and December 31, 2020. The Company does not have any liabilities that are valued using inputs identified under a Level 1 hierarchy as of March 31, 2021 and December 31, 2020.
- 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 March 31, 2021 and December 31, 2020.
- 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. The Company did not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of March 31, 2021 and December 31, 2020.

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

Cash, cash equivalents, and restricted cash - The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets to the total of the same amounts shown in the statement of cash flows for the three months ended March 31, 2021 and 2020 (in thousands):

	March 31, 2021	March 31, 2020
Cash and cash equivalents	\$ 5,165	\$ 7,097
Restricted cash	501	501
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 5,666</u>	<u>\$ 7,598</u>

Revenues - The following presents revenue product sales by channel, food, drug and mass ("FDM"), natural products and other, and e-commerce, for the three months ended March 31, 2021 and 2020:

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	Amount (in thousands)	% of product sales, net	Amount (in thousands)	% of product sales, net
Retail - FDM	\$ 223	4.6 %	\$ 431	5.2 %
Retail - Natural products and other	2,752	56.8 %	5,825	70.4 %
E-Commerce	1,869	38.6 %	2,014	24.4 %
Product sales, net	<u>\$ 4,844</u>	<u>100.0 %</u>	<u>\$ 8,270</u>	<u>100.0 %</u>

Liquidity Considerations - COVID-19 has spread (and continues to spread) worldwide, resulting in shutdowns of manufacturing and commerce. COVID-19 has resulted in government authorities implementing numerous measures to try to contain it, such as travel bans and restrictions, quarantine, shelter-in-place orders, and shutdowns. These measures have impacted, and may further impact, the Company's workforce and operations, the operations of our customers and our partners, and those of our respective vendors and suppliers. The Company's critical business operations, including its headquarters, and many of its key suppliers, are located in regions which have been impacted by COVID-19. The Company's customers and suppliers worldwide have also been affected and may continue to be affected by COVID-19 related restrictions and closures.

COVID-19, along with the resulting government-imposed restrictions on businesses, shelter-in place orders and temporary retail store closures had a significant impact on our results of operations for the three months ended March 31, 2021 and the year ended December 31, 2020, and the Company's management expects that it will continue to negatively impact its operations due to decreased consumer demand as well as potential production and warehouse limitations which results in an event or condition, before consideration of management's plans, that could impact our ability to meet future obligations. In response to the continuing uncertainty resulting from COVID-19, management has implemented, and as necessary will continue to make, strategic cost reductions, including reductions in employee headcount, vendor spending, and the delay of expenses related to its drug development activities.

In addition, while the extent and duration of the COVID-19 pandemic on the global economy and the Company's business in particular is difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which may reduce the Company's ability to access capital or its customers' ability to pay for past or future purchases, which could negatively affect the Company's liquidity. A recession or financial market correction resulting from the lack of containment and spread of COVID-19 could impact overall spending, adversely affecting demand for the Company's products, its business, and the value of its common stock.

On December 8, 2020, the Company entered into a common stock purchase agreement ("SPA") with Tumim Stone Capital, LLC ("Tumim"), pursuant to which Tumim committed to purchase up to \$10.0 million in shares of our common stock, from time to time, as further discussed in Note 4.

In response to the continuing uncertainty resulting from COVID-19, management has implemented, and as necessary will continue to make strategic cost reductions, including reductions in employee headcount, vendor spending, and the delay of expenses related to its drug development activities. Management believes that its cash and cash equivalents on hand together with the equity commitment with Tumim and these cost reduction measures, as needed, will provide sufficient liquidity to fund its operations for the next 12 months from the issuance of the condensed financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("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 currently plans to adopt the guidance at the beginning of fiscal 2023. The Company is currently evaluating the potential impact of Topic 326 on the Company's condensed financial statements.

Recent Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. The new standard is effective for fiscal years beginning after December 15, 2020. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company's adoption of ASU 2019-12 during the three months ended March 31, 2021, did not have a material impact on the Company's condensed financial statements.

2. BALANCE SHEET DETAILS

Inventory

Inventory as of March 31, 2021 and December 31, 2020 was comprised of the following (in thousands):

	March 31, 2021	December 31, 2020
Raw materials	\$ 4,630	\$ 4,923
Work in process	1,117	785
Finished goods	3,261	3,132
	<u>\$ 9,008</u>	<u>\$ 8,840</u>

Inventory write-downs were immaterial for the three months ended March 31, 2021 and 2020.

Intangibles, net

Intangibles, net as of March 31, 2021 and December 31, 2020 consisted of in-process research and development of \$.7 million with an indefinite life.

Accrued expenses

Accrued expenses as of March 31, 2021 and December 31, 2020 were as follows (in thousands):

	March 31, 2021	December 31, 2020
Accrued payroll expenses (1)	\$ 8,674	\$ 8,324
Other accrued liabilities	1,569	1,481
	<u>\$ 10,243</u>	<u>\$ 9,805</u>

(1) This includes a \$6.2 million tax liability associated with a related party transaction as discussed in Note 10.

3. DEBT

Debt as of March 31, 2021 and December 31, 2020 were as follows (in thousands):

	March 31, 2021	December 31, 2020
PPP loan	\$ 2,906	\$ 2,906
Insurance financing	364	721
	<u>3,270</u>	<u>3,627</u>
Less: Current portion of debt	(2,907)	(2,174)
Long-term portion of debt	<u>\$ 363</u>	<u>\$ 1,453</u>

Principal payments on the debt are as follows (in thousands):

	March 31, 2021	December 31, 2020
2021	\$ 1,817	\$ 2,174
2022	1,453	1,453
Total principal payments	<u>\$ 3,270</u>	<u>\$ 3,627</u>

Paycheck Protection Program

On April 15, 2020, the Company applied for a loan from JPMorgan Chase Bank, N.A., as lender, pursuant to the Paycheck Protection Program of the CARES Act as administered by the U.S. Small Business Administration. On April 17, 2020, the loan was approved, and the Company received proceeds in the amount of \$ 2.9 million (the “PPP Loan”).

The PPP Loan, which took the form of a promissory note, matures on April 15, 2022 and bears interest at a rate of 0.98% per annum (the “Promissory Note”). The Company did not provide any collateral or guarantees for the PPP Loan, nor did the Company pay any facility charge to obtain the PPP Loan. The Promissory Note provides for customary events of default, including, among others, those relating to failure to make payment, bankruptcy, breaches of representations and material adverse effects. The Company may prepay the principal of the PPP Loan at any time without incurring any prepayment charges.

Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, and covered utilities during the covered period of 8 weeks beginning on the date of loan approval. For purposes of the CARES Act, payroll costs exclude compensation of an individual employee in excess of \$100,000, prorated annually. Not more than 25% of the forgiven amount may be for non-payroll costs. Forgiveness is reduced if full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25%. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal.

The Paycheck Protection Program Flexibility Act of 2020 (the “PPP Flexibility Act”), enacted on June 5, 2020, amended the Paycheck Protection Program, among others, as follows: (i) extended the covered period from 8 weeks to 24 weeks from the date the PPP Loan is originated, during which PPP funds needed to be expended in order to be forgiven. A borrower may submit a loan forgiveness application any time on or before the maturity date of the loan – including before the end of the covered period – if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness. (ii) at least 60% of PPP funds must be spent on payroll costs, with the remaining 40% available to spend on other eligible expenses. (iii) payments are deferred until the date on which the amount of forgiveness determined is remitted to the lender. If a borrower fails to seek forgiveness within 10 months after the last day of its covered period, then payments will begin on the date that is 10 months after the last day of the covered period. In addition, the PPP Flexibility Act modified the CARES Act by increasing the maturity date for loans made after the effective date from two years to a minimum maturity of five years from the date on which the borrower applies for loan forgiveness. Existing PPP loans made before the new legislation retain their original two-year term, but may be renegotiated between a lender and a borrower to match the 5-year term permitted under the PPP Flexibility Act.

The Company intends to apply for loan forgiveness within the required timeframe. No assurance is provided that the Company will obtain forgiveness of the PPP Loan in whole or in part. The promissory note is classified as long-term except for the portion to be paid within twelve months of period-end, which is classified as current.

Unsecured Note Payable

In October 2020, the Company entered into a finance agreement with First Insurance Funding in order to fund a portion of its insurance policies. The amount financed is \$0.7 million and incurs interest at a rate of 3.60%. The Company will be required to make monthly payments of \$0.1 million from November 2020 through July 2021. The outstanding balance as of March 31, 2021 was \$0.4 million.

4. STOCKHOLDERS EQUITY

On December 8, 2020, the Company entered into an SPA with Tumim to issue and sell up to \$10.0 million in shares of the Company's common stock. The SPA provides, among other things, that the Company may direct, every three trading days, Tumim to purchase a number of shares not to exceed an amount determined based upon the trading volume and stock price of the Company's shares. During the three months ended March 31, 2021, the Company sold 6,127,270 shares of common stock pursuant to the SPA and recognized proceeds of \$3.2 million. As of May 13, 2021, we have sold 741,816 additional shares of common stock and recognized proceeds of \$0.3 million under the SPA since the quarter ended March 31, 2021.

5. STOCK-BASED COMPENSATION

As of December 31, 2020, there were 34,976,000 shares of Company common stock authorized for issuance under the CV Sciences, Inc. Amended and Restated 2013 Equity Incentive Plan (the "2013 Plan"). On June 11, 2019, the Company's stockholders approved an amendment to the 2013 Plan to add an automatic "evergreen" provision regarding the number of shares to be annually added to the 2013 Plan. As a result, the number of shares of common stock that will be automatically added to the 2013 Plan on January 1 of each year during the term of the plan, starting with January 1, 2020, will be the lesser of: (a) 4% of the total shares of the Company's common stock outstanding on December 31st of the prior year, (b) 4,000,000 shares of the Company's common stock, or (c) a lesser number of shares of the Company's common stock as determined by the Company's Board of Directors. On January 1, 2021, the Company added 4,000,000 shares of the Company's common stock to the 2013 Plan for a total of 38,976,000 shares authorized for issuance under the 2013 Plan as of March 31, 2021. As of March 31, 2021, the Company had 4,843,000 authorized unissued shares reserved and available for issuance upon exercise and conversion of outstanding awards under the 2013 Plan.

As of March 31, 2021, total unrecognized compensation cost related to non-vested stock-based compensation arrangements was \$0.8 million which is expected to be recognized over a weighted-average period of 1.58 years.

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

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, 2020	25,225	\$ 0.48	5.7	\$ 2,186
Granted	5,350	0.59	—	—
Exercised	—	—	—	—
Forfeited	(28)	0.61	—	—
Outstanding - March 31, 2021	<u>30,547</u>	0.50	6.3	1,991
Exercisable - March 31, 2021	<u>22,869</u>	0.46	5.1	1,883
Vested or expected to vest - March 31, 2021	<u>30,547</u>	\$ 0.50	6.3	\$ 1,991

The Company has established performance milestones in connection with the drug development efforts for its lead drug candidate CVSI-007. The above table includes 5,000,000 vested performance-based options as of March 31, 2021, which were issued outside of the 2013 Plan. As of March 31, 2021, there were 8,000,000 remaining unvested stock options granted outside of the 2013 Plan which vest upon the completion of future performance conditions, including those related to the Settlement Agreement with Mona Jr. (refer to Note 10).

The total intrinsic value of stock options exercised during the three months ended March 31, 2020 was \$0.3 million. Upon option exercise, the Company issues new shares of stock. There were no stock option exercises during the three months ended March 31, 2021.

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 March 31,	
	2021	2020
Volatility	134.1%	135.4%
Risk-Free Interest Rate	1.0%	0.6%
Expected Term (in years)	5.61	5.29
Dividend Rate	—%	—%
Fair Value Per Share on Grant Date	\$0.53	\$0.29

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, non-employees, officers and directors using the simplified method in accordance with ASC Topic 718, Stock Compensation, because the Company does not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. 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.

6. NET LOSS PER SHARE

The Company computes basic net loss per share using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is calculated by dividing net 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 loss per share using the treasury stock method when their effect is dilutive. Potential common shares are excluded from the calculation of diluted net loss per share when their effect is anti-dilutive.

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

	Three months ended March 31,	
	2021	2020
Stock options	25,547	20,535
Performance stock options	5,000	5,000
Total	30,547	25,535

The above table excludes 8,000,000 unvested performance stock options for the three months ended March 31, 2021 and 2020, which vest upon the completion of future performance conditions.

7. 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 are 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 Company and Mr. Ruth previously agreed to stay the action pending the conclusion of discovery in the Sallustro Case. Now that the Sallustro Case has been dismissed, the stay has been lifted. Plaintiff's counsel recently informed the Court that Mr. Ruth sold his shares of CVSI stock and thus he no longer has 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, the Company 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 and discovery recently commenced. The Court issued a schedule whereby discovery ends on November 19, 2021. Management intends to vigorously defend the allegations.

On August 24, 2018, David Smith filed a purported class action complaint in Nevada District Court (the "Smith Complaint") alleging certain misstatements in the Company's public filings that led to stock price fluctuations and financial harm. Several additional individuals filed similar claims, and the Smith Complaint and each of the other suits all arise out of a report published by Citron Research on Twitter on August 20, 2018, suggesting that the Company misled investors by failing to disclose that the Company's efforts to secure patent protection for CVSI-007 had been "finally rejected" by the United States Patent and Trademark Office ("USPTO"). On November 15, 2018, the court consolidated the actions and appointed Richard Ina, Trustee for the Ina Family Trust, as Lead Plaintiff for the consolidated actions. On January 4, 2019, Counsel for Lead Plaintiff Richard Ina, Trustee for the Ina Family Trust, filed a "consolidated amended complaint". On March 5, 2019, we filed a motion to dismiss the action. The Court denied the motion to dismiss on December 10, 2019, and the parties have commenced discovery in the action with a discovery cutoff date of May 24, 2021. However, on April 30, 2021, plaintiff's counsel filed a motion to extend the discovery cutoff date. At this time no hearing date has been set.

Arising out of the same facts and circumstances in the Smith Complaint, on June 11, 2020, Phillip Berry filed a derivative suit in the United States District Court for the Southern District of California alleging breaches of fiduciary duty against the Company and various defendants, and waste of corporate assets (the "Berry Complaint"). The Company accepted service of the Berry Complaint and filed a motion to dismiss, which is currently pending. In addition to the Berry Complaint, five additional shareholder derivative suits have been filed which are premised on the same event as the Smith Complaint. This includes a new shareholder derivative action filed on April 13, 2021 by David Menna in the Superior Court of the State of California, County of San Diego. Service of process has not yet been effectuated in that action. With respect to the other four shareholder derivative cases, all four actions are currently stayed. On May 19, 2020, the USPTO issued a patent pertaining to CVSI-007, which the Company believes negates and defeats any claims that the Company and the various defendants misled the market by not disclosing that the USPTO had finally rejected the patent. Management intends to vigorously defend the allegations in each of these matters as the result of the issuance of a patent and the failure of the plaintiffs' causes of action on various other grounds.

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 our

motion, plaintiffs elected to file an amended complaint on February 25, 2020. On March 11, 2020, we 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 portion of the proceeding that is stayed will remain stayed until the U.S. Food and Drug Administration promulgates rules that govern cannabidiol products (the “FDA Rules”). When such FDA Rules are promulgated, the plaintiffs will be allowed to ask the court to reopen the proceeding. Management intends to vigorously defend the allegations.

On July 22, 2020, the Company filed a complaint in the San Diego Superior Court for declaratory relief to confirm the termination of Mona Jr.’s severance and other post-termination compensation and benefits, as well as to recover amounts owed to the Company by Mona Jr. in connection with his purchase of a personal seat license for the Raiders Stadium and certain advance payments made on Mona Jr.’s behalf. The complaint also requests that Mona Jr. provides the Company with appropriate taxing authority documentation to show that he paid the tax associated with the vesting of the RSU’s. For more information refer to Note 10, Related Parties. The parties have commenced the discovery process, and the Company intends to vigorously pursue its claims.

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.

8. SEGMENT INFORMATION

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

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

The following table presents information by reportable operating segment for the three months ended March 31, 2021 and 2020 (in thousands):

	<u>Consumer Products Segment</u>	<u>Specialty Pharmaceutical Segment</u>	<u>Consolidated Totals</u>
Three months ended March 31, 2021:			
Product sales, net	\$ 4,844	\$ —	\$ 4,844
Gross profit	\$ 2,358	\$ —	\$ 2,358
Research and development expense	128	58	186
Selling, general and administrative expense	5,270	15	5,285
Operating loss	<u>\$ (3,040)</u>	<u>\$ (73)</u>	<u>\$ (3,113)</u>
Three months ended March 31, 2020:			
Product sales, net	\$ 8,270	\$ —	\$ 8,270
Gross profit	\$ 4,008	\$ —	\$ 4,008
Research and development expense	305	1,204	1,509
Selling, general and administrative expense	7,810	9	7,819
Operating loss	<u>\$ (4,107)</u>	<u>\$ (1,213)</u>	<u>\$ (5,320)</u>

The Company's specialty and pharmaceutical segment includes goodwill of \$2.8 million and intangible assets of \$3.7 million as of March 31, 2021 and December 31, 2020. All other assets are included in the consumer products segment as of March 31, 2021 and December 31, 2020. The majority of the Company's sales are to U.S. based customers.

9. INCOME TAXES

For the three months ended March 31, 2021 and 2020, the Company generated a net loss for which no tax benefit has been recognized due to uncertainties regarding the future realization of the tax benefit. The tax effects of the net loss 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.

10. RELATED PARTIES

During the year ended December 31, 2019, the Company's former President and Chief Executive Officer, Michael Mona Jr. ("Mona Jr."), and the Company entered into a Settlement Agreement (the "Settlement Agreement"), pursuant to which the Company agreed 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. As of March 31, 2021, Mona Jr. has 11,300,000 fully vested outstanding stock options with a weighted average exercise price of \$0.42 per share. In exchange, Mona Jr. agreed that notwithstanding the terms of his Employment Agreement providing for acceleration of vesting of all stock options and RSU's 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 March 31, 2021. 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 the Settlement Agreement, the Company recorded stock-based compensation expense related to the accelerated vesting of the RSU's of \$ 5.1 million and the modification of certain stock options of \$2.7 million during the year ended December 31, 2019.

As part of the Settlement Agreement, 2,950,000 vested RSU's were issued to Mona Jr. The vesting of the RSU's and payment of shares is treated as taxable compensation and thus subject to income tax withholdings. No amounts were withheld (either in

cash or the equivalent of shares of common stock from the vesting of the RSU's) or included in the original Company's payroll tax filing. The compensation is 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 is \$0.2 million and has been recorded as a component of selling, general and administrative expenses in the condensed 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 release to the taxing authorities and included the amount in Mona Jr.'s W-2 for 2019. In addition, the Company paid the employer and employee portion of the FICA taxes of \$ 0.2 million, respectively. Although the primary tax liability is the responsibility of the employee, the Company is secondarily liable and thus has recorded the liability on its condensed balance sheet as of December 31, 2020 in an amount of \$6.2 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 was on October 15, 2020. To date, Mona Jr. has not provided to the Company the appropriate documentation substantiating that he properly filed and paid his taxes 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 may be relieved once the tax amount is paid by Mona Jr. and the Company has received the required taxing authority documentation from Mona Jr. If the tax amount is not paid by Mona Jr., the Company would be liable for such withholding tax due. Additionally, the Company could be subject to penalties if the amounts are ultimately not paid. The Company does not believe that any such penalties are probable or reasonably possible as of March 31, 2021.

On July 22, 2020, the Company filed a complaint in the San Diego Superior Court for declaratory relief to confirm the termination of Mona Jr.'s severance and other post-termination compensation and benefits, and to recover amounts owed to the Company by Mona Jr. in connection with his purchase of personal seat licenses for the Raiders stadium and certain advance payments made on Mona Jr.'s behalf. The complaint also requests that Mona Jr. provides the Company with appropriate taxing authority documentation to show that he paid the tax associated with the vesting of the RSU's. The Company recorded a payable to Mona Jr. of \$0.4 million as of March 31, 2021 and December 31, 2020. The amounts are mostly related to termination benefits associated with his separation from the Company and are payable via regular payroll through June 2021. The Company has not paid any termination benefits to Mona Jr. since filing the complaint. As of March 31, 2021 and December 31, 2020, the entire amount is included in accrued expenses.

In addition, on December 31, 2019, the Company's former Chief Operating Officer and co-founder, Michael Mona III ("Mona III"), resigned from the Company. The Company recorded stock-based compensation expense related to the accelerated vesting of Mona III's unvested outstanding options of \$1.7 million during the year ended December 31, 2019 with no assumed forfeiture rate. The Company recorded a payable to Mona III of \$0.1 million and \$0.2 million as of March 31, 2021 and December 31, 2020, respectively. The amounts are mostly related to termination benefits associated with his separation from the Company and are payable via regular payroll through June 2021. The amounts are included in accrued expenses.

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, and its consolidated subsidiaries, 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 months ended March 31, 2021 and 2020, respectively, should be read in conjunction with our condensed 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 operate two distinct business segments. Our consumer products segment is focused on manufacturing, marketing and selling hemp-based CBD products to a range of market sectors. Our specialty pharmaceutical segment is focused on developing and commercializing novel therapeutics utilizing CBD. We are traded on the OTC:QB, and our trading symbol is CVSI.

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

Our specialty pharmaceutical business segment is developing cannabinoids to treat a range of medical indications. Our product candidates are based on proprietary formulations, processes and technology that we believe are patent-protectable, and we plan to vigorously pursue patent prosecution on our drug candidates. On May 19, 2020, the USPTO issued a patent pertaining to CVSI-007.

We expect to realize revenue from our consumer products business segment to fund our working capital needs. However, in order to fund our pharmaceutical product development efforts, we will need to raise additional capital either through the issuance of equity and/or the issuance of debt. In the event we are unable to fund our drug development efforts, we may need to curtail, partner or delay such activity.

Results of Operations*Revenues and gross profit*

	Three months ended March 31,		Change	
	2021	2020	Amount	%
	(in thousands)			
Product sales, net	\$ 4,844	\$ 8,270	\$ (3,426)	(41)%
Cost of goods sold	2,486	4,262	\$ (1,776)	(42)%
Gross profit	\$ 2,358	\$ 4,008	\$ (1,650)	(41)%
Gross margin	48.7 %	48.5 %		

	Three months ended March 31, 2021		Three months ended March 31, 2020	
	Amount	% of product sales, net	Amount	% of product sales, net
	(in thousands)		(in thousands)	
Retail - FDM	\$ 223	4.6 %	\$ 431	5.2 %
Retail - Natural products and other	2,752	56.8 %	5,825	70.4 %
E-Commerce	1,869	38.6 %	2,014	24.4 %
Product sales, net	\$ 4,844	100.0 %	\$ 8,270	100.0 %

We had net product sales of \$4.8 million and gross profit of \$2.4 million, representing a gross margin of 48.7% in the first quarter of 2021 compared with net product sales of \$8.3 million and gross profit of \$4.0 million, representing a gross margin of 48.5% in the first quarter of 2020. Our net product sales decreased by \$3.4 million or 41% in the first quarter of 2021 when compared to first quarter 2020 results. The decline is primarily due to lower retail sales as a result of COVID-19, which had a partial impact on the first quarter of 2020. We also experienced increased market competition, which we believe is largely due to the lack of a clear regulatory framework. As of March 31, 2021, our products were in 7,346 retail stores, of which 4,484 were with retailers in the food, drug and mass ("FDM") channel. This store count has increased from 5,799 as of March 31, 2020.

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. Cost of goods sold in the first quarter of 2021 slightly decreased as a percentage of revenue compared to the first quarter of 2020. The gross margin increase in the first quarter 2021 compared with 2020 is primarily due to favorable changes in our sales mix. Our E-Commerce sales have higher gross margins compared to our retail sales. In addition, E-Commerce sales as a percentage of total sales have increased compared to the first quarter 2020.

Research and development expense

	Three months ended March 31,		Change	
	2021	2020	Amount	%
	(in thousands)			
Research and development expense	\$ 186	\$ 1,509	\$ (1,323)	(88)%
Percentage of product sales, net	3.8 %	18.2 %		

Research and development ("R&D") expense decreased to \$0.2 million in the first quarter of 2021 compared to \$1.5 million in the first quarter of 2020. The decrease of \$1.3 million or 88% is related to reductions in R&D expenses for our specialty pharmaceutical segment of \$1.1 million and for our consumer products segment of \$0.2 million. The reduction in R&D in our specialty pharmaceutical segment is mostly related to reduced activities related to preclinical work and expenses paid to outside consultants. The reduction in R&D expense in our consumer products segment is mostly related to lower personnel cost and cost for outside services.

Selling, general and administrative expense

	Three months ended March 31,		Change	
	2021	2020	Amount	%
	(in thousands)			
Sales expense	\$ 1,257	\$ 1,565	\$ (308)	(20)%
Marketing expense	1,620	2,453	(833)	(34)%
General & administrative expense	2,408	3,801	(1,393)	(37)%
Selling, general and administrative	\$ 5,285	\$ 7,819	\$ (2,534)	(32)%
Percentage of product sales, net	109.1 %	94.5 %		

Selling, general and administrative (“SG&A”) expenses decreased to \$5.3 million in the first quarter of 2021 compared to \$7.8 million in the first quarter of 2020.

- Sales expense decreased due to sales commissions on lower retail sales primarily due to COVID-19.
- Marketing expense decreased due to lower marketing activity and third party consultant spending.
- General and administrative expense decreased primarily due to decreased payroll and outside services.

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 expense, amortization expense, interest and income tax expense, minus income tax benefit), 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, 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, including our condensed financial statements, to aid in their analysis and understanding of our performance and in making comparisons.

A reconciliation from our net loss to Adjusted EBITDA, a non-GAAP measure, for the three months ended March 31, 2021 and 2020 is detailed below:

	Three months ended March 31, 2021			Three months ended March 31, 2020		
	Consumer Products	Specialty Pharma	Total	Consumer Products	Specialty Pharma	Total
	(in thousands)					
Net loss	\$ (3,054)	\$ (73)	\$ (3,127)	\$ (3,939)	\$ (1,213)	\$ (5,152)
Depreciation	204	—	204	176	—	176
Amortization	—	—	—	—	9	9
Interest expense (income)	14	—	14	(10)	—	(10)
Income tax benefit	—	—	—	(158)	—	(158)
EBITDA	(2,836)	(73)	(2,909)	(3,931)	(1,204)	(5,135)
Stock-based compensation (1)	656	1	657	1,258	—	1,258
Adjusted EBITDA	\$ (2,180)	\$ (72)	\$ (2,252)	\$ (2,673)	\$ (1,204)	\$ (3,877)

(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.

Liquidity and Capital Resources

During the three months ended March 31, 2021 and year ended December 31, 2020, our primary sources of capital came from (i) cash flows from our operations, predominantly from the sale of our CBD products, (ii) existing cash, (iii) government loans, and (iv) proceeds from third-party financings. As of March 31, 2021, the Company's cash and cash equivalents were approximately \$5.2 million and working capital was approximately \$2.6 million. During the three month period ended March 31, 2021 and the year ended December 31, 2020, the Company experienced a net operating loss of approximately \$3.2 million and \$5.2 million, respectively.

COVID-19 has spread (and continues to spread) worldwide, resulting in shutdowns of manufacturing and commerce. COVID-19 has resulted in government authorities implementing numerous measures to try to contain it, such as travel bans and restrictions, quarantines, shelter-in-place orders, and shutdowns. These measures have impacted, and may further impact, our workforce and operations, the operations of our customers and our partners, and those of our respective vendors and suppliers. Our critical business operations, including our headquarters, and many of our key suppliers, are located in regions which have been impacted by COVID-19. Our customers and suppliers worldwide have also been affected and may continue to be affected by COVID-19 related restrictions and closures.

COVID-19, along with the resulting government-imposed restrictions on businesses, shelter-in place orders and temporary retail and grocery store closures had a significant impact on our results of operations for the three months ended March 31, 2021 and the year ended December 31, 2020, and we expect that it may continue to negatively impact our operations due to decreased consumer demand as well as potential production and warehouse limitations which results in an event or condition, before consideration of management's plans, that could impact our ability to meet future obligations. In response to the continuing uncertainty resulting from COVID-19, we have implemented, and as necessary will continue to make, strategic cost reductions, including reductions in employee headcount, vendor spending, and the delay of expenses related to our drug development activities.

In addition, while the extent and duration of the COVID-19 pandemic on the global economy and our business in particular is difficult to assess or predict, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which may reduce our ability to access capital or our customers' ability to pay us for past or future purchases, which could negatively affect our liquidity. A recession or financial market correction resulting from the lack of containment and spread of COVID-19 could impact overall spending, adversely affecting demand for our products, our business, and the value of our common stock.

On April 15, 2020, we applied for a loan from JPMorgan Chase Bank, N.A., as lender, pursuant to the Paycheck Protection Program (the "PPP") of the CARES Act as administered by the U.S. Small Business Administration (the "SBA"). On April 17, 2020, the loan was approved, and we received proceeds in the amount of \$2.9 million (the "PPP Loan").

The PPP Loan, which took the form of a promissory note, matures on April 15, 2022 and bears interest at a rate of 0.98% per annum (the "Promissory Note"). Monthly principal and interest payments, less the amount of any potential forgiveness

(discussed below), will commence on November 15, 2020. We did not provide any collateral or guarantees for the PPP Loan, nor did we pay any facility charge to obtain the PPP Loan. The Promissory Note provides for customary events of default, including, among others, those relating to failure to make payment, bankruptcy, breaches of representations and material adverse effects. We may prepay the principal of the PPP Loan at any time without incurring any prepayment charges.

Under the original rules, all or a portion of the PPP Loan may be forgiven by the SBA and lender upon application by the Company beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA's requirements.

Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, and covered utilities during the covered period of 8 weeks beginning on the date of loan approval. For purposes of the CARES Act, payroll costs exclude compensation of an individual employee in excess of \$100,000, prorated annually. Not more than 25% of the forgiven amount may be for non-payroll costs. Forgiveness is reduced if full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25%. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal.

The Paycheck Protection Program Flexibility Act of 2020 (the "PPP Flexibility Act"), enacted on June 5, 2020, amended the Paycheck Protection Program, among others, as follows: (i) extended the covered period from 8 weeks to 24 weeks from the date the PPP Loan is originated, during which PPP funds needed to be expended in order to be forgiven. A borrower may submit a loan forgiveness application any time on or before the maturity date of the loan – including before the end of the covered period – if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness. (ii) at least 60% of PPP funds must be spent on payroll costs, with the remaining 40% available to spend on other eligible expenses. (iii) payments are deferred until the date on which the amount of forgiveness determined is remitted to the lender. If a borrower fails to seek forgiveness within 10 months after the last day of its covered period, then payments will begin on the date that is 10 months after the last day of the covered period. In addition, the PPP Flexibility Act modified the CARES Act by increasing the maturity date for loans made after the effective date from two years to a minimum maturity of five years from the date on which the borrower applies for loan forgiveness. Existing PPP loans made before the new legislation retain their original two-year term, but may be renegotiated between a lender and a borrower to match the 5-year term permitted under the PPP Flexibility Act.

As of March 31, 2021, the balance due on the Promissory Note was \$2.9 million. We intend to apply for loan forgiveness within the required timeframe. No assurance is provided that we will obtain forgiveness of the PPP Loan in whole or in part.

In October 2020, we entered into a finance agreement with First Insurance Funding in order to fund a portion of our insurance policies. The amount financed is \$0.7 million and incurs interest at a rate of 3.60%. We are required to make monthly payments of \$0.1 million through July 2021. The outstanding balance as of March 31, 2021 was \$0.4 million.

On December 8, 2020, we entered into a common stock purchase agreement ("SPA") with Tumim Stone Capital, LLC ("Tumim"), pursuant to which Tumim committed to purchase up to \$10.0 million in shares of our common stock, from time to time. The SPA provides, among other things, that we may direct, every three trading days, Tumim to purchase a number of shares of our common stock not to exceed an amount determined based upon the trading volume and stock price of our shares. During the quarter ended March 31, 2021, we sold 6,127,270 shares of common stock pursuant to the SPA and recognized proceeds of \$3.2 million, and during the year ended December 31, 2021, we sold 450,000 shares of common stock pursuant to the SPA and recognized proceeds of \$0.2 million. As of May 13, 2021, we have sold 741,816 additional shares of common stock and recognized proceeds of \$0.3 million under the SPA since the quarter ended March 31, 2021.

Our sources of liquidity and cash flows are used to fund ongoing operations and for research and development projects for new products. Over the next two fiscal years, we anticipate that we will use our liquidity and cash flows from our operations to help fund our growth. In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products, and/or the development of new products. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products, businesses, and/or the research and development of new products. Such potential uses of funds may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition or investment candidates, complete acquisitions or investments, integrate acquired businesses and/or products into our current operations, expand into new markets, and/or development new products. Furthermore, we cannot provide assurances that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all.

We are dependent on cash flow from operations to satisfy our working capital requirements. No assurance can be given that cash flow from operations will be sufficient to provide for our liquidity for the next 12 months. However, we believe that our cash and cash equivalents on hand together with cash generated from our future operations, the equity commitment with Tumim

and cost reduction measures described above, as needed, will provide sufficient liquidity to fund our operations for the next 12 months from the issuance of the condensed financial statements. However, we shall continue to evaluate our capital expenditure needs based upon factors including but not limited to our cash from operations, growth rate, the timing and extent of spending to support development efforts, the expansion of our sales and marketing, the timing of new product introductions, and the continuing market acceptance of our products. Should we be unable to generate sufficient revenue in the future to achieve positive cash flow from operations or satisfy our capital requirements, additional working capital will be required, and we may open a revolving line of credit with a bank, or we may have to sell additional equity or debt securities or obtain expanded credit facilities to fund our operating expenses, pay our obligations, diversify our geographical reach, and grow our company. In the event such financing is needed in the future, there can be no assurance that such financing will be available to us, or, if available, that it will be in amounts and on terms acceptable to us. If we cannot raise additional funds when we need or want them, our prospects, financial condition and results of operations could be negatively affected. However, if cash flows from operations become insufficient to continue operations at the current level, and if no additional financing were obtained, then management would restructure the Company in a way to preserve its business while maintaining expenses within operating cash flows.

A summary of our changes in cash flows for the three months ended March 31, 2021 and 2020 is provided below:

	Three months ended March 31,	
	2021	2020
	(in thousands)	
Net cash flows provided by (used in):		
Operating activities	\$ (1,689)	\$ (1,691)
Investing activities	(35)	(480)
Financing activities	2,865	161
Net increase (decrease) in cash and restricted cash	1,141	(2,010)
Cash, cash equivalents and restricted cash, beginning of period	4,525	9,608
Cash, cash equivalents and restricted cash, end of period	\$ 5,666	\$ 7,598

Operating Activities

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

Cash used in operating activities was \$1.7 million in the three months ended March 31, 2021 and 2020. The primary reason for the cash usage during the three months ended March 31, 2021 is our net loss of \$3.1 million due to lower sales as a result of COVID-19, and increased market competition. Our net loss was partially offset by non-cash items and changes in operating assets and liabilities. Cash used in operating activities for the three months ended March 31, 2020 was mostly due to our net loss of \$5.2 million, adjusted for non-cash items and changes in working capital of \$1.7 million, respectively.

Investing Activities

Net cash used in investing activities decreased by \$0.4 million in the three months ended March 31, 2021 compared to the same period in 2020. Net cash used in investing activities during the three months ended March 31, 2020 consisted of additional technology to support our e-commerce activities and tenant improvements to our main facility. During the three months ended March 31, 2021, we did not incur any cash flow from investing activities.

Financing Activities

Net cash provided financing activities was \$2.9 million for the three months ended March 31, 2021 compared to \$0.2 million for the three months ended March 31, 2020. Our financing activities for the three months ended March 31, 2021 consisted of proceeds from issuance of common stock under our equity commitment of 3.2 million, partially offset by repayments of our insurance financing of \$0.4 million. Our financing activities for the three months ended March 31, 2020 consisted of proceeds from stock option exercises of \$0.2 million.

Inflation

We have not been affected materially by inflation during the periods presented, and no material effect is expected in the near future.

Known Trends or Uncertainties

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.

As discussed in this Quarterly Report on Form 10-Q, the world has been affected due to the COVID-19 pandemic. Until the pandemic has passed, there remains uncertainty as to the effect of COVID-19 on our business in both the short and long-term.

Critical Accounting Policies

We have disclosed in the notes to our consolidated financial statements and in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2020 Annual Report on Form 10-K, those accounting policies that we consider to be significant in determining our results of operation and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of our 2020 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

None.

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 (CEO) and the Chief Financial Officer (CFO), with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2021 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

There have been 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 March 31, 2021 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 7, 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

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit No.	Description of Exhibit
2.1 (1)	Agreement and Plan of Merger, dated as of July 25, 2013, by and between CannaVEST Corp., a Texas corporation, and CannaVEST Corp., a Delaware corporation.
2.2 (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.
3.1 (1)	Certificate of Incorporation of CannaVEST Corp., as filed on January 26, 2013.
3.2 (1)	Bylaws of CannaVEST Corp., dated as of June 26, 2013.
3.3 (3)	Certificate of Amendment to Certificate of Incorporation of CannaVest Corp., as filed on January 4, 2016.
3.4 (4)	Certificate of Incorporation of the Company, as amended.
3.5 (5)	Amendment to the Bylaws of the Company, as amended.
3.6 (6)	Bylaws of the Company, as amended.
4.1 (7)	CannaVEST Corp. Specimen Stock Certificate
10.1 † (8)	Amended and Restated 2013 Equity Incentive Plan, as amended.
31.1*	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS*	Inline XBRL Instance Document**
101 SCH*	Inline XBRL Taxonomy Extension Schema Document**
101 CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document**
101 LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document**
101 PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document**
101 DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document**
104**	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101 attachments)

* Filed herewith.

† Indicates a management contract or compensatory plan or arrangement.

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

- (1) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on August 13, 2013.
- (2) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on January 4, 2016.
- (3) Incorporated by reference from an exhibit to our Annual Report on Form 10-K filed on April 14, 2016.
- (4) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on May 16, 2016.
- (5) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on March 22, 2017.
- (6) Incorporated by reference from an exhibit to our Quarterly Report on Form 10-Q filed on May 9, 2017.
- (7) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on July 31, 2013.
- (8) Incorporated by reference from an exhibit to our Current Report on Form 8-K filed on June 17, 2019.

11/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 May 13, 2021

By /s/ Joerg Grasser
Joerg Grasser
Chief Financial Officer
(Principal Financial Officer)
Dated May 13, 2021

Exhibit 31.1

**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: May 13, 2021

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

Exhibit 31.2

**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: May 13, 2021

By: /s/ Joerg Grasser

Joerg Grasser
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of CV Sciences, Inc. (the "Registrant") on Form 10-Q for the interim period ended March 31, 2021 (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: May 13, 2021

By: /s/ Joseph D. Dowling

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

Exhibit 32.2

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

In connection with the Quarterly Report of CV Sciences, Inc. (the "Registrant") on Form 10-Q for the interim period ended March 31, 2021 (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: May 13, 2021

By: /s/ Joerg Grasser

Joerg Grasser
Chief Financial Officer
(Principal Financial Officer)