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**UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA**

_____, individually and on behalf of all
others similarly situated,

Plaintiff,

v.

CV SCIENCES, INC., MICHAEL MONA,
JR., JOSEPH D. DOWLING, MICHAEL
MONA, III,

Defendants.

Case No. _____

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

JURY TRIAL DEMANDED

Plaintiff _____ (“Plaintiff”), by and through his attorneys, alleges upon personal knowledge as to himself, and upon information and belief as to all other matters, based upon the investigation conducted by and through his attorneys, which included, among other things, a review of documents filed by Defendants (defined below) with the United States Securities and Exchange Commission (the “SEC”), news reports, press releases issued by Defendants, and other publicly available documents, as follows:

NATURE AND SUMMARY OF THE ACTION

1. This is a federal securities class action on behalf of all investors who purchased or otherwise acquired Defendant CV Sciences, Inc. (“CVSI” or the “Company”) common stock between June 19, 2017 through August 20, 2018 (the “Class Period”).

2. CVSI claims to have two business divisions: pharmaceuticals and consumer products. The pharmaceutical division develops “synthetically-formulated cannabidiol-based

1 medicine,” while the consumer products division “delivers botanical-based cannabidiol products
2 that enhance quality of life.”

3 3. The Company’s chief pharmaceutical product is identified as CVSI-007, a
4 chewing gum product that combines cannabidiol and nicotine in treatment of smokeless tobacco
5 use and addiction. The Company described CVSI-007 to the public as its “lead drug candidate”
6 with a market that has been estimated at “greater than \$2 billion,” providing an important growth
7 channel for CVSI.

8 4. On May 16, 2016, CVSI filed a patent application with the US Patent Trademark
9 Office (“USPTO”) for CVSI-007, titled “Pharmaceutical Formulations Containing Cannabidiol
10 and Nicotine For Treating Smokeless Tobacco Addiction.” On February 7, 2017, CVSI filed a
11 continuing patent application under the same title, Patent #15/426,617 (“Patent”).

12 5. On April 27, 2017, the USPTO made a non-final rejection decision on the
13 Company’s Patent and mailed CVSI a letter indicating the non-final rejection status of its Patent
14 on June 6, 2017.

15 6. On December 14, 2017, the USPTO made a *final* rejection decision on the
16 Company’s Patent and mailed CVSI a letter indicating the *final* rejection status of its Patent on
17 December 20, 2017.

18 7. The Company has never disclosed this material information to the public, neither
19 through its several SEC disclosures nor through any other forum. Since the rejection of the Patent
20 on April 27, 2017, CVSI has discussed CVSI-007 in four Form 8-K reports, four Form 10-Q
21 reports, and a Form 10-K report for fiscal 2017—*none* of which disclose or indicate the Patent’s
22 rejected status.

23 8. On August 20, 2018, Citron Research published a report exposing the Defendants’
24 failure to disclose the December 14, 2017 final rejection of the Patent.

25 9. Upon publication of the news that the Patent application of the Company’s chief
26 pharmaceutical product had been rejected, CVSI stock plunged over 63%, from \$9.20 to \$3.40.

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1 **JURISDICTION AND VENUE**

2 10. The federal law claims asserted herein arise under §§ 10(b) and 20(a) of the
3 Exchange Act, 15 U.S.C. § 78j(b) and § 78t(a), and Rule 10b-5 promulgated thereunder by the
4 SEC, 17 C.F.R. § 240.10b-5, as well as under the common law.

5 11. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C.
6 § 1331 and § 27 of the Exchange Act, 15 U.S.C. § 78aa.

7 12. This Court has jurisdiction over each Defendant named herein because each
8 Defendant is an individual or corporation who has sufficient minimum contacts with this District
9 so as to render the exercise of jurisdiction by the District Court permissible under traditional
10 notions of fair play and substantial justice.

11 13. Venue is proper in this District pursuant to § 27 of the Exchange Act, 15 U.S.C.
12 § 78aa and 28 U.S.C. § 1391(b), as CVSI has its principal executive offices located in this District
13 and conducts substantial business therein.

14 14. In connection with the acts, omissions, conduct and other wrongs in this
15 Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate
16 commerce including but not limited to the United States mail, interstate telephone
17 communications, and the facilities of the over-the-counter securities market.

18 **PARTIES**

19 15. Plaintiff _____ was a shareholder of CVSI during the Class Period, as set
20 forth in the accompanying certification, which is incorporated by reference herein. Plaintiff has
21 been damaged by the revelation of Defendants' material misrepresentations and material
22 omissions.

23 16. Defendant CV Sciences, Inc., is a Delaware Corporation with its principal place of
24 business in Las Vegas, Nevada. CVSI trades on the over-the-counter market under the ticker
25 symbol "CVSI."

26 17. Defendant Michael Mona, Jr., the Company's founder, served as President, Chief
27 Executive Officer, and a Director of the Company from January 2013 until May 2018. Since May
28 2018, Mr. Mona has served as Founder Emeritus.

1 26. First, on June 19, 2017, CVSI issued a press release specifically regarding the
2 “plan for CVSI-007, the Company’s patent-pending product for smokeless tobacco addiction
3 therapy consisting of nicotine-polacrilex chewing gum in combination with synthetic cannabidiol
4 (CBD).” Then-President and Chief Executive Officer Michael J. Mona, Jr. commented that the
5 Company had “a favorable development roadmap for this important combination drug candidate”
6 and further explained that CVSI-007 was based on the Company’s “own proprietary research.”
7 However, the press release failed to mention that the Company was mailed a non-final rejection
8 of its Patent a mere thirteen days prior.

9 27. On August 11, 2017, the Company filed Form 10-Q for Q2 of fiscal 2017, signed
10 by then-President and Chief Executive Officer Michael Mona, Jr. and Chief Financial Officer
11 Joseph D. Dowling, which covered the period of April 1, 2017 to June 30, 2017. It stated: **“The**
12 **Company’s product candidates are based on proprietary formulations, processes and**
13 **technology that we believe are patent-protectable, and we plan to vigorously pursue patent**
14 **protection.”** Although Defendants first learned that the Patent’s status changed from “petition
15 entered” to “non-final rejection” during this period, Defendants failed to disclose the material
16 change of the Patent’s status.

17 28. Furthermore, the Company released a Corporate Update to its investors on
18 September 12, 2017, in which CVSI discusses the drug development program and market
19 potential for CVSI-007. The Company describes CVSI-007 as its “lead drug candidate” with
20 **“proprietary technology (patent pending)”** but failed to alert its investors of the rejected status
21 of the Patent.

22 29. In the Company’s Form 10-Q Report for Q3 of fiscal 2017, filed on November 8,
23 2017 and signed by then-President and Chief Executive Officer Michael Mona, Jr. and Chief
24 Financial Officer Joseph D. Dowling, Defendants again failed to disclose that they had
25 knowledge of the rejected status of the Patent and stated: **“The Company’s product candidates**
26 **are based on proprietary formulations, processes and technology that we believe are patent-**
27 **protectable, and we plan to vigorously pursue patent protection.”**
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1 30. On March 30, 2018, CVSI filed Form 10-K for fiscal year 2017, signed by then-
2 President and Chief Executive Officer Michael Mona, Jr., Chief Financial Officer Joseph D.
3 Dowling, and Chief Operating Officer Michael Mona, III, which included a description of the
4 Company's current operations for the pharmaceuticals division. Once again, the Company failed
5 to disclose the Patent's failure and the Patent was instead discussed in generic terms:

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

20 Despite having knowledge of the *final* rejection status of the Patent prior to the filing, the
21 Defendants continued to wrongfully project to the public that CVSI-007 was patent-protectable.

22 31. Likewise, in Form 10-Q for Q1 of fiscal 2018, filed on May 14, 2018 and signed
23 by then-President and Chief Executive Officer Michael Mona, Jr. and Chief Financial Officer
24 Joseph D. Dowling, Defendants failed to disclose any and all information regarding the rejected
25 Patent. Once again in the 10-Q, the Defendants did not indicate that they knew CVSI-0007 had a
26 final rejection status on its Patent and only included the following language: **"The Company's
27 product candidates are based on proprietary formulations, processes and technology that
28 we believe are patent-protectable, and we plan to vigorously pursue patent protection on the
Company's two drug candidates."**

 32. On June 26, 2018, Chief Executive Officer and Chief Financial Officer Joseph D.
Dowling sent a statement to CVSI's shareholders, stating that its "patent-pending drug candidate
(CVSI-007)" has a market that has been estimated at "greater than \$2 billion and provides another
important growth channel for our Company." Mr. Dowling was eager to project growth to the

1 Company's shareholders based on the Patent that had carried a final rejected status for over six
2 months.

3 33. On August 1, 2018, the Company filed Form 10-Q for Q2 of fiscal 2018, signed by
4 Chief Executive Officer and Chief Financial Officer Joseph D. Dowling, and again failed to
5 inform its investors that Defendants knew the Patent was rejected, stating only: **"The Company's
6 product candidates are based on proprietary formulations, processes and technology that
7 we believe are patent-protectable, and we plan to vigorously pursue patent protection on the
8 Company's two drug candidates."**

9 34. Finally, on August 1, 2018, the Company issued a press release reporting second
10 quarter 2018 financial results. In the press release, Chief Executive Officer and Chief Financial
11 Officer Joseph D. Dowling stated, "Our drug development program is making steady progress in
12 advancing our **proprietary lead drug candidate – CVSI-007** – which addresses the multibillion
13 dollar smokeless tobacco use and addiction market." This press release, like each disclosure and
14 statement that came before it, failed to inform the public that the Patent for CVSI-007 was
15 rejected.

16 ***CVSI Stock Plummets 63% After the Patent's Rejection is Revealed.***

17 35. As of August 20, 2018, the Company failed to disclose USPTO's rejection of the
18 Patent to its investors.

19 36. On August 20, 2018, Citron Research published a report, via Twitter, exposing the
20 Defendant's failure to disclose the final rejection of its Patent on December 14, 2017 and the
21 mailed notice of final rejection on December 20, 2017.

22 37. Upon the Citron Research report, the stock plunged from \$9.20 to \$3.40—a loss of
23 over 63%.

24 **CLASS ACTION ALLEGATIONS**

25 38. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal
26 Rules of Civil Procedure on behalf of a Class of all persons and entities who purchased or
27 otherwise acquired CVSI common stock between June 19, 2017 and August 20, 2018. Excluded
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1 from the Class are Defendants, directors, and officers of CVSI, as well as their families and
2 affiliates.

3 39. The members of the Class are so numerous that joinder of all members is
4 impracticable. While the exact number of Class members is unknown to Plaintiff at this time and
5 can only be ascertained through appropriate discovery, Plaintiff believes there are hundreds, if not
6 thousands, of members in the proposed Class. As of August 22, 2018, the Company had
7 90,660,000 shares outstanding. The disposition of their claims in a class action will provide
8 substantial benefits to the parties and the Court.

9 40. There is a well-defined community of interest in the questions of law and fact
10 involved in this case. Questions of law and fact common to the members of the Class which
11 predominate over questions which may affect individual Class members include:

- 12 a. Whether the Exchange Act was violated by Defendants;
- 13 b. Whether Defendants omitted and/or misrepresented material facts;
- 14 c. Whether Defendants' statements omitted material facts necessary in order to make
15 the statements made, in light of the circumstances under which they were made,
16 not misleading;
- 17 d. Whether Defendants knew or recklessly disregarded that their statements were
18 false and misleading;
- 19 e. Whether the price of the Company's stock was artificially inflated; and
- 20 f. The extent of damage sustained by Class members and the appropriate measure of
21 damages.

22 41. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class
23 sustained damages from Defendants' wrongful conduct alleged herein.

24 42. Plaintiff will adequately protect the interests of the Class and has retained counsel
25 who are experienced in class action securities litigation. Plaintiff has no interests that conflict
26 with those of the Class.

27 43. A class action is superior to other available methods for the fair and efficient
28 adjudication of this controversy. As the damages suffered by individual Class members may be

1 relatively small, the expense and burden of individual litigation makes it impossible of members
2 of the Class to individually redress the wrongs done to them.

3 **FRAUD ON THE MARKET**

4 44. Plaintiff will rely upon the presumption of reliance established by the fraud-on-
5 the-market doctrine that, among other things:

- 6 a. Defendants made public misrepresentations or failed to disclose material facts
7 during the Class Period;
- 8 b. The omissions and misrepresentations were material;
- 9 c. The Company's common stock traded in efficient markets;
- 10 d. The misrepresentations alleged herein would tend to induce a reasonable investor
11 to misjudge the value of the Company's common stock; and
- 12 e. Plaintiff and other members of the Class purchased CVSI common stock between
13 the time Defendants misrepresented or failed to disclose material facts and the
14 time the true facts were disclosed, without knowledge of the misrepresented or
15 omitted facts.

16 45. At all relevant times, the markets for CVSI common stock were efficient for the
17 following reasons, among others: (i) CVSI filed periodic public reports with the SEC; and (ii)
18 CVSI regularly communicated with public investors via established market communication
19 mechanisms, including through regular disseminations of press releases on the major news wire
20 serves and through other wide-ranging public disclosures such as communications with the
21 financial press, securities analysts, and other similar reporting services. Plaintiff and the Class
22 relied on the price of CVSI common stock, which reflected all information in the market,
23 including the misstatements by Defendants.

24 **NO SAFE HARBOR**

25 46. The statutory safe harbor provided for forward-looking statements under certain
26 statements does not apply to any of the allegedly false statements pleaded in this Complaint. The
27 specific statements pleaded herein were not identified as forward-looking statements when made.
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COUNT II
Violation of § 20(a) of the Exchange Act
(Against Individual Defendants)

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53. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

54. The Individual Defendants acted as controlling persons of the Company within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions at the Company, the Individual Defendants had the power and authority to cause or prevent the Company from engaging in the wrongful conduct complained of herein. The Individual Defendants were provided with or had unlimited access to the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading both prior to and immediately after their publication, and had the ability to prevent the issuance of these materials or to cause them to be corrected so as not to be misleading.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- a. Determining that this action is a proper class action pursuant to Rule 23(a) and (b)(3) of the Federal Rules of Civil Procedure on behalf of the Class as defined herein, and a certification of Plaintiff as class representative pursuant to Rule 23 of the Federal Rules of Civil Procedure and appointment of Plaintiff's counsel as Lead Counsel;
- b. Awarding compensatory and punitive damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount proven at trial, including pre-judgment and post-judgment interest thereon;
- c. Awarding Plaintiff and other members of the Class their costs and expenses in this litigation, including reasonable attorneys' fees and experts' fees and other costs and disbursements; and

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d. Awarding Plaintiff and the other Class members such other relief as this Court may deem just and proper.

DEMAND FOR JURY TRIAL

Plaintiff hereby demands a trial by jury in this action of all issues so triable.