

22nd Century Group, Inc.  
Form 10-Q  
May 11, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the Quarterly Period Ended March 31, 2015**

**“ 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: 001-36338

**22nd Century Group, Inc.**

*(Exact name of registrant as specified in its charter)*

<b><u>Nevada</u></b>	<b><u>98-0468420</u></b>
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

**9530 Main Street, Clarence, New York 14031**

(Address of principal executive offices)

**(716) 270-1523**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller Reporting Company

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

As of May 7, 2015, there were 64,872,144 shares of common stock issued and outstanding.



**22nd CENTURY GROUP, INC.****INDEX**

	Page Number
PART I. FINANCIAL INFORMATION	1
Item 1. Financial Statements	1
<u>Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>	1
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2015 and 2014 (unaudited)</u>	2
<u>Consolidated Statement of Changes in Shareholders' Equity for the Three Months Ended March 31, 2015 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 (unaudited)</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4. <u>Controls and Procedures</u>	21
PART II. <u>OTHER INFORMATION</u>	23
Item 1. <u>Legal Proceedings</u>	23
Item 1A. <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3. <u>Default Upon Senior Securities</u>	23
Item 4. <u>Mine Safety Disclosures</u>	23
Item 5. <u>Other Information</u>	23

Item 6.	<u>Exhibits</u>	23
	<u>SIGNATURES</u>	24

**22nd CENTURY GROUP INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****March 31, 2015 with Comparative Figures at December 31, 2014**

	March 31, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$3,843,847	\$6,402,687
Accounts receivable	209,028	-
Due from related party	46,069	46,069
Inventory, net	2,563,333	2,064,796
Prepaid consulting fees	-	1,978,785
Prepaid expenses and other assets	457,847	214,469
Total current assets	7,120,124	10,706,806
 Machinery and equipment, net	 2,793,602	 2,850,615
Other assets:		
Intangible assets, net	7,165,501	7,077,759
Equity investment	1,267,354	1,318,335
Total other assets	8,432,855	8,396,094
 Total assets	 \$18,346,581	 \$21,953,515
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Demand bank loan	\$174,925	\$174,925
Current portion of note payable	320,513	320,513
Accounts payable	1,413,564	884,412
Accrued expenses	307,680	1,081,545
Accrued severance	229,477	212,012
Total current liabilities	2,446,159	2,673,407
 Long-term portion of note payable	 605,217	 605,217
Long-term portion of accrued severance	363,987	412,308
Warrant liability	2,983,633	3,042,846
Total liabilities	6,398,996	6,733,778
 Commitments and contingencies (Note 15)	 -	 -
 Shareholders' equity		

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Capital stock authorized:

10,000,000 preferred shares, \$.00001 par value

300,000,000 common shares, \$.00001 par value

Capital stock issued and outstanding:

64,622,144 common shares (64,085,042 at December 31, 2014)	646	641
Capital in excess of par value	71,588,772	70,744,190
Accumulated deficit	(59,641,833)	(55,525,094)
Total shareholders' equity	11,947,585	15,219,737
Total liabilities and shareholders' equity	\$18,346,581	\$21,953,515

See accompanying notes to consolidated financial statements

**22nd CENTURY GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Three Months Ended March 31, 2015 and 2014****(unaudited)**

	March 31, 2015	March 31, 2014
Revenue:		
Sale of products	\$ 616,138	\$ 447,535
Cost of goods sold:		
Products	632,580	177,696
Gross (loss) profit	(16,442	) 269,839
Operating expenses:		
Research and development (including stock based compensation of \$45,563 and \$60,267, respectively)	182,975	222,380
General and administrative (including stock based compensation of \$2,390,821 and \$296,417, respectively)	3,643,926	1,005,187
Pre-manufacturing facility costs	-	158,185
Sales and marketing costs (including stock based compensation of \$4,821 and \$0, respectively)	115,229	-
Amortization and depreciation	160,891	71,269
	4,103,021	1,457,021
Operating loss	(4,119,463	) (1,187,182
Other income (expense):		
Warrant liability gain (loss) - net	59,213	(4,067,270
Warrant amendment inducement expense	-	) (144,548
Gain on the sale of machinery and equipment	-	) 85,621
Loss on equity investment	(50,981	) -
Interest expense	(5,508	) (1,749
	2,724	) (4,127,946
Net loss	\$ (4,116,739	) \$ (5,315,128
Loss per common share - basic and diluted	\$ (0.06	) \$ (0.09
Common shares used in basic earnings per share calculation	64,187,656	57,647,149



See accompanying notes to consolidated financial statements

**22nd CENTURY GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****Three Months Ended March 31, 2015****(unaudited)**

	Common Shares	Par value of Common Shares	Contributed Capital	Accumulated Deficit	Shareholders' Equity (Deficit)
Balance at December 31, 2014	64,085,042	\$ 641	\$70,744,190	\$(55,525,094)	\$ 15,219,737
Stock based compensation	209,196	2	554,085	-	554,087
Stock issued in connection with satisfaction of accrued expense	377,906	4	324,996	-	325,000
Stock cancellation	(50,000 )	(1 )	(34,499 )	-	(34,500 )
Net loss	-	-	-	(4,116,739 )	(4,116,739 )
Balance at March 31, 2015	64,622,144	\$ 646	\$71,588,772	\$(59,641,833)	\$ 11,947,585

See accompanying notes to consolidated financial statements

**22nd CENTURY GROUP INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Three Months Ended March 31, 2015 and 2014****(unaudited)**

	March 31, 2015	March 31, 2014
Cash flows from operating activities:		
Net loss	\$ (4,116,739 )	\$ (5,315,128 )
Adjustments to reconcile net loss to cash used in operating activities:		
Amortization and depreciation	160,891	71,269
Amortization of license fees	24,506	-
Loss on equity investment	50,981	-
Gain on the sale of machinery and equipment	-	(85,621 )
Warrant liability (gain) loss	(59,213 )	4,067,270
Warrant amendment inducement expense	-	144,548
Equity based employee compensation expense	354,087	356,684
Equity based payments for outside services	2,087,118	-
Increase in inventory reserve	60,000	-
Increase in assets:		
Accounts receivable	(209,028 )	-
Inventory	(558,537 )	(207,617 )
Prepaid expenses and other assets	(151,711 )	(241,350 )
Increase (decrease) in liabilities:		
Accounts payable	316,746	117,975
Accrued expenses	(448,865 )	149,538
Accrued severance	(30,856 )	-
Deferred revenue	-	(179,014 )
Net cash used in operating activities	(2,520,620 )	(1,121,446 )
Cash flows from investing activities:		
Acquisition of patents and trademarks	-	(37,334 )
Acquisition machinery and equipment	(3,720 )	(46,173 )
Proceeds from the sale of machinery and equipment	-	631,484
Advance	-	(92,894 )
Net cash (used in) provided by investing activities	(3,720 )	455,083
Cash flows from financing activities:		
Net proceeds from exercise of warrants	-	167,200
Net proceeds from exercise of options	-	34,500
Stock cancellation	(34,500 )	-
Net advances from officers	-	7,471
Net cash (used in) provided by financing activities	(34,500 )	209,171