

22nd Century Group, Inc.
Form 10-Q
November 09, 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 September 30, 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)

<u>Nevada</u>	<u>98-0468420</u>
(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 November 9, 2015, there were 70,966,844 shares of common stock issued and outstanding.

22nd CENTURY GROUP, INC.

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22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2015 with Comparative Figures at December 31, 2014

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$6,741,578	\$6,402,687
Accounts receivable	225,399	-
Due from related party	46,069	46,069
Inventory, net	2,374,527	2,064,796
Prepaid consulting fees	-	1,978,785
Prepaid expenses and other assets	482,876	214,469
Total current assets	9,870,449	10,706,806
 Machinery and equipment, net	 2,646,949	 2,850,615
Other assets:		
Intangible assets, net	7,305,603	7,077,759
Equity investment	1,193,309	1,318,335
Total other assets	8,498,912	8,396,094
 Total assets	 \$21,016,310	 \$21,953,515
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand bank loan	\$174,925	\$174,925
Current portion of note payable	328,154	320,513
Accounts payable	1,238,819	884,412
Accrued expenses	1,005,228	1,081,545
Accrued severance	339,844	212,012
Total current liabilities	3,086,970	2,673,407
 Long-term portion of note payable	 615,610	 605,217
Long-term portion of accrued severance	253,620	412,308
Warrant liability	2,843,290	3,042,846
Total liabilities	6,799,490	6,733,778
 Commitments and contingencies (Note 15)	 -	 -
Shareholders' equity		
Capital stock authorized:		
10,000,000 preferred shares, \$.00001 par value		
300,000,000 common shares, \$.00001 par value		

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Capital stock issued and outstanding:		
70,866,844 common shares (64,085,042 at December 31, 2014)	709	641
Capital in excess of par value	77,908,338	70,744,190
Accumulated deficit	(63,692,227)	(55,525,094)
Total shareholders' equity	14,216,820	15,219,737
Total liabilities and shareholders' equity	\$21,016,310	\$21,953,515

See accompanying notes to consolidated financial statements.

22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30,
(unaudited)

	2015	2014
Revenue:		
Sale of products	\$2,667,506	\$64,431
Cost of goods sold:		
Royalties for licensing	-	246,434
Products	2,948,928	59,413
	2,948,928	305,847
Gross loss	(281,422)	(241,416)
Operating expenses:		
Research and development (including stock based compensation of \$37,269 and \$90,400, respectively)	529,590	349,335
General and administrative (including stock based compensation of \$358,829 and \$676,508, respectively)	1,293,003	1,810,908
Pre-manufacturing facility costs (including stock based compensation of \$0 and \$11,415, respectively)	-	269,399
Sales and marketing costs (including stock based compensation of \$16,614 and \$0, respectively)	470,621	23,415
Amortization and depreciation	172,865	130,349
	2,466,079	2,583,406
Operating loss	(2,747,501)	(2,824,822)
Other income (expense):		
Warrant liability gain - net	27,723	142,858
Loss on the sale of machinery and equipment	-	(14,500)
Loss on equity investment	(33,211)	(26,057)
Interest expense	(8,702)	(1,788)
	(14,190)	100,513
Net loss	\$(2,761,691)	\$(2,724,309)
Loss per common share - basic and diluted	\$(0.04)	\$(0.05)
Common shares used in basic earnings per share calculation	70,798,879	60,103,693

See accompanying notes to consolidated financial statements.

22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Nine Months Ended September 30,
(unaudited)

	2015	2014
Revenue:		
Sale of products	\$5,590,597	\$528,080
Cost of goods sold:		
Royalties for licensing	-	246,434
Products	6,181,954	250,285
	6,181,954	496,719
Gross (loss) profit	(591,357)	31,361
Operating expenses:		
Research and development (including stock based compensation of \$114,745 and \$241,067, respectively)	1,020,670	835,050
General and administrative (including stock based compensation of \$3,064,184 and \$1,514,797, respectively)	6,227,465	4,160,775
Pre-manufacturing facility costs (including stock based compensation of \$0 and \$16,508, respectively)	-	702,166
Sales and marketing costs (including stock based compensation of \$32,646 and \$0, respectively)	876,625	57,575
Amortization and depreciation	497,583	325,962
	8,622,343	6,081,528
Operating loss	(9,213,700)	(6,050,167)
Other income (expense):		
Warrant liability gain (loss) - net	199,556	(3,850,295)
Warrant amendment inducement expense	-	(144,548)
Litigation proceeds	1,000,000	-
Gain on the sale of machinery and equipment	-	71,121
Loss on equity investment	(125,026)	(26,057)
Interest expense	(27,963)	(5,306)
	1,046,567	(3,955,085)
Net loss	\$(8,167,133)	\$(10,005,252)
Loss per common share - basic and diluted	\$(0.12)	\$(0.17)
Common shares used in basic earnings per share calculation	67,225,308	58,687,238

See accompanying notes to consolidated financial statements.

22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Nine Months Ended September 30, 2015
(unaudited)

	Common Shares Outstanding	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
Common stock issued in June 2015 registered direct offering	6,000,000	60	5,576,023	-	5,576,083
Stock based compensation	453,896	5	1,297,628	-	1,297,633
Stock issued in connection with equity investment	377,906	4	324,996	-	325,000
Stock cancellation	(50,000)	(1)	(34,499		