

22nd Century Group, Inc.
Form 10-Q
August 04, 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 June 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

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(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 August 4, 2015, there were 70,873,164 shares of common stock issued and outstanding.

22nd CENTURY GROUP, INC.

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

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$8,196,739	\$6,402,687
Accounts receivable	449,461	-
Settlement proceeds receivable	600,000	-
Due from related party	46,069	46,069
Inventory, net	2,381,923	2,064,796
Prepaid consulting fees	-	1,978,785
Prepaid expenses and other assets	455,625	214,469
Total current assets	12,129,817	10,706,806
 Machinery and equipment, net	 2,715,807	 2,850,615
 Other assets:		
Intangible assets, net	7,205,927	7,077,759
Equity investment	1,226,520	1,318,335
Total other assets	8,432,447	8,396,094
 Total assets	 \$23,278,071	 \$21,953,515
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Demand bank loan	\$174,925	\$174,925
Current portion of note payable	332,497	320,513
Accounts payable	984,664	884,412
Accrued expenses	1,148,668	1,081,545
Accrued severance	286,418	212,012
Total current liabilities	2,927,172	2,673,407
 Long-term portion of note payable	 605,217	 605,217
Long-term portion of accrued severance	307,046	412,308
Warrant liability	2,871,013	3,042,846
Total liabilities	6,710,448	6,733,778
 Commitments and contingencies (Note 16)	 -	 -
 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:

70,773,164 common shares (64,085,042 at December 31, 2014)	708	641
Capital in excess of par value	77,497,451	70,744,190
Accumulated deficit	(60,930,536)	(55,525,094)
Total shareholders' equity	16,567,623	15,219,737

Total liabilities and shareholders' equity	\$23,278,071	\$21,953,515
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See accompanying notes to consolidated financial statements.

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

	2015	2014
Revenue:		
Sale of products	\$2,306,953	\$ 16,114
Cost of goods sold:		
Products	2,600,446	13,176
Gross (loss) profit	(293,493)	2,938
Operating expenses:		
Research and development (including stock based compensation of \$31,913 and \$90,400, respectively)	308,105	263,335
General and administrative (including stock based compensation of \$314,534 and \$973,253, respectively)	1,290,536	1,344,680
Pre-manufacturing facility costs (including stock based compensation of \$0 and \$5,093, respectively)	-	274,582
Sales and marketing costs (including stock based compensation of \$11,211 and \$0, respectively)	290,775	34,160
Amortization and depreciation	163,827	124,344
	2,053,243	2,041,101
Operating loss	(2,346,736)	(2,038,163)
Other income (expense):		
Warrant liability gain - net	112,620	74,117
Settlement proceeds	1,000,000	-
Loss on equity investment	(40,834)	-
Interest expense	(13,753)	(1,769)
	1,058,033	72,348
Net loss	\$(1,288,703)	\$(1,965,815)
Loss per common share - basic and diluted	\$(0.02)	\$(0.03)
Common shares used in basic earnings per share calculation	66,616,739	58,749,240

See accompanying notes to consolidated financial statements.

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

	2015	2014
Revenue:		
Sale of products	\$2,923,091	\$463,649
Cost of goods sold:		
Products	3,233,026	190,872
Gross (loss) profit	(309,935)	272,777
Operating expenses:		
Research and development (including stock based compensation of \$77,476 and \$150,667, respectively)	491,080	485,715
General and administrative (including stock based compensation of \$2,705,355 and \$838,289, respectively)	4,934,462	2,349,867
Pre-manufacturing facility costs (including stock based compensation of \$0 and \$5,093, respectively)	-	432,767
Sales and marketing costs (including stock based compensation of \$16,032 and \$0, respectively)	406,004	34,160
Amortization and depreciation	324,718	195,613
	6,156,264	3,498,122
Operating loss	(6,466,199)	(3,225,345)
Other income (expense):		
Warrant liability gain (loss) - net	171,833	(3,993,153)
Warrant amendment inducement expense	-	(144,548)
Settlement proceeds	1,000,000	-
Gain on the sale of machinery and equipment	-	85,621
Loss on equity investment	(91,815)	-
Interest expense	(19,261)	(3,518)
	1,060,757	(4,055,598)
Net loss	\$(5,405,442)	\$(7,280,943)
Loss per common share - basic and diluted	\$(0.08)	\$(0.13)
Common shares used in basic earnings per share calculation	65,408,908	58,075,029

See accompanying notes to consolidated financial statements.

22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Six Months Ended June 30, 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
Common stock issued in June 2015 registered direct offering	6,000,000	60	5,576,023	-	5,576,083
Stock based compensation	360,216	4	886,741	-	886,745
Stock issued in connection with equity investment	377,906	4	324,996	-	325,000
Stock cancellation	(50,000)	(1)	(34,499)	-	(34,500)
Net loss	-	-	-	(5,405,442)	(5,405,442)
Balance at June 30, 2015	70,773,164	\$ 708	\$ 77,497,451	\$(60,930,536)	\$ 16,567,623

See accompanying notes to consolidated financial statements.

22nd CENTURY GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30,
(unaudited)

	2015	2014
Cash flows from operating activities:		
Net loss	\$(5,405,442)	\$(7,280,943)
Adjustments to reconcile net loss to cash used in operating activities:		
Amortization and depreciation	324,718	195,613
Amortization of license fees	49,011	-
Loss on equity investment	91,815	-
Accretion of interest on notes payable	11,984	-
Gain on the sale of machinery and equipment	-	(85,621)
Warrant liability (gain) loss	(171,833)	3,993,153
Warrant amendment inducement expense	-	144,548
Equity based employee compensation expense	685,860	994,049
Equity based payments for outside services	2,113,003	-
Increase in inventory reserve	60,000	-
Increase in assets:		
Accounts receivable	(449,461)	(16,114)
Settlement proceeds receivable	(600,000)	-
Inventory	(377,127)	(288,841)
Prepaid expenses and other assets	(174,489)	(251,095)
Increase (decrease) in liabilities:		
Accounts payable	(123,334)	433,339
Accrued expenses	392,123	108,396
Accrued severance	(30,857)	-
Deferred revenue	-	(179,014)
Net cash used in operating activities	(3,604,029)	(2,232,530)
Cash flows from investing activities:		
Acquisition of patents and trademarks	(138,871)	(89,352)
Acquisition machinery and equipment	(4,631)	(130,184)
Proceeds from the sale of machinery and equipment	-	631,484
Equity investment and advance	-	(342,894)
Net cash (used in) provided by investing activities	(143,502)	69,054
Cash flows from financing activities:		
Net proceeds from exercise of warrants	-	466,201
Net proceeds from exercise of options	-	34,500
Net proceeds from issuance of common stock	5,576,083	-
Stock cancellation	(34,500)	-
Net payments to related party	-	(2,500)
Net advances from officers	-	7,471
Net cash provided by financing activities	5,541,583	505,672
Net increase (decrease) in cash	1,794,052	(1,657,804)
Cash - beginning of period	6,402,687	5,830,599
Cash - end of period	\$8,196,739	\$4,172,795

Supplemental disclosures of cash flow information:

Net cash paid for:

Cash paid during the period for interest	\$7,296	\$3,537
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Cash paid during the period for income taxes	\$-	\$-
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Non-cash transactions:

Reclassification of derivative liability to equity due to warrant amendments	\$-	&nbs
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