22nd Century Group, Inc. Form 10-Q

9530 Main Street, Clarence, New York 14031

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)
Nevada 98-0468420 (State or other jurisdiction of incorporation) (IRS Employer Identification No.)

(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 x 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 x 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 x

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 x

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

22nd CENTURY GROUP, INC.

INDEX

		Page Number
PART I	. <u>FINANCIAL INFORMATION</u>	1
Item 1.	Financial Statements	1
	Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014	1
	Consolidated Statements of Operations for the Three Months Ended June 30, 2015 and 2014 (unaudited)	2
	Consolidated Statements of Operations for the Six Months Ended June 30, 2015 and 2014 (unaudited)	3
	Consolidated Statement of Changes in Shareholders' Equity for the Six Months Ended June 30, 201 (unaudited)	<u>5</u> 4
	Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2015 and 2014 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
PART II.	OTHER INFORMATION	28
Item 1.	Legal Proceedings	28
Item 1A	A. Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Default Upon Senior Securities	28

Item 4.	Mine Safety Disclosures	28
Item 5.	Other Information	28
Item 6.	<u>Exhibits</u>	29
SIGNA	<u>ΓURES</u>	30

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
2011 0011011 1110111100	_,> _ , , _ , _ ,	2,070,107
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

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

See accompanying notes to consolidated financial statements.

1

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 2,053,243	124,344 2,041,101
Operating loss	(2,346,736)	(2,038,163)
Other income (expense): Warrant liability gain - net Settlement proceeds Loss on equity investment Interest expense	112,620 1,000,000 (40,834) (13,753) 1,058,033	74,117 - - (1,769) 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) General and administrative (including stock based compensation of \$2,705,355 and	491,080	485,715
\$838,289, respectively) Pre-manufacturing facility costs (including stock based compensation of \$0 and \$5,093, respectively)	4,934,462	2,349,867 432,767
Sales and marketing costs (including stock based compensation of \$16,032 and \$0, respectively)	406,004	34,160
Amortization and depreciation	324,718 6,156,264	195,613 3,498,122
Operating loss	(6,466,199)	(3,225,345)
Other income (expense): Warrant liability gain (loss) - net Warrant amendment inducement expense Settlement proceeds Gain on the sale of machinery and equipment Loss on equity investment Interest expense	171,833 - 1,000,000 - (91,815) (19,261) 1,060,757	(3,993,153) (144,548) - 85,621 - (3,518) (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

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	Contributed	Accumulated	Shareholders'
	Outstanding	Common Shares	Capital	Deficit	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.

4

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

Net loss \$(5,405,442) \$(7,280,943) Adjustments to reconcile net loss to cash used in operating activities: 324,718 195,613 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 (171,333) 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 inventory reserve (60,000) - Increase in assets: (449,461) (16,114)) Settlement proceeds receivable (600,000) (728,841)) Inventory (37,127) (288,841)) Prepaid expenses and other assets (123,334) 433,339		2015	2014
Adjustments to reconcile net loss to cash used in operating activities: Amortization and depreciation Amortization of license fees Loss on equity investment Accretion of interest on notes payable Cain on the sale of machinery and equipment Warrant liability (gain) loss Warrant amendment inducement expense Equity based employee compensation expense Equity based payments for outside services Equity based payments for outside services Increase in inventory reserve Increase in assets: Accounts receivable Accounts receivable Inventory Expenses and other assets Accounts payable Accrued expenses and other assets Accounts payable Accrued expenses Accrued expenses Accrued expenses Cash flows from investing activities Acquisition of patents and trademarks Acquisition of patents and trademarks Acquisition machinery and equipment Proceeds from the sale of machinery and equipment Equity investment and advance Cash flows from financing activities: Net proceeds from exercise of options Net proceeds from financing activities Stock cancellation Net payments to related party Net advances from officers - 7,471 Net cash provided by financing activities Net increase (decrease) in cash Cash -beginning of period Acquisition of patents and frademarks Acquisition financing activities: Net proceeds from exercise of options Net proceeds from exercise of options Acquisition financing activities: Net proceeds from financing activities Acquisition financing activities Acquisition financing activities Acquisition of patents and frademar	Cash flows from operating activities:	Φ (5. 405. 440)	ф <i>(</i> 7.2 00.042)
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Loss on equity investment	*	·	195,613
Accretion of interest on notes payable 11,984 - (85,621)		· ·	-
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 (600,000) - Inventory (377,127) (288,841) Prepaid expenses and other assets (174,489) (251,095) Increase (decrease) in liabilities: (123,334) 433,339 Accrued expenses 392,123 108,396 Accrued expenses 392,123 108,396 Accrued expenses 392,123 108,396 Accrued expenses (30,857) - Deferred revenue - (179,014) Net cash used in operating activities (3,604,029) (2,232,530) Cash flows from investing activities (3,604,029) (2,232,530)		· ·	-
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: - (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: (174,489) (251,095) Accrued expenses and other assets (174,489) (251,095) Increase (decrease) in liabilities: (30,857) - Accounts payable (123,334) 433,339 Accrued expenses 392,123 108,396 Accrued expenses 392,123 108,396 Accrued expenses (30,857) - Deferred revenue - (179,014) Net cash used in operating activities (3604,029) </td <td>* *</td> <td>11,984</td> <td>(05.621</td>	* *	11,984	(05.621
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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 (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: - (179,014) 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 - (31,484) Equity investment and advance - (342,894) Net cash (used in) provided by investing activities - (36,000) Cash flows from financing activities - 466,201) Net proceeds from exercise of options -	· · · · · · · · · · · · · · · · · · ·	60,000	-
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Increase (decrease) in liabilities: Accounts payable	Inventory	(377,127)	(288,841)
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: (138,871) (89,352) Acquisition of patents and trademarks (138,871) (89,352) Acquisition machinery and equipment - (31,484) Equity investment and advance - (342,894) Net cash (used in) provided by investing activities (143,502) 69,054 Cash flows from financing activities: - 466,201 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	Prepaid expenses and other assets	(174,489)	(251,095)
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: - (348,871) (89,352) Acquisition of patents and trademarks (138,871) (89,352)) Acquisition machinery and equipment - (631,484) Proceeds from the sale of machinery and equipment - (342,894) Proceeds from the sale of machinery and equipment - (342,894) Requity investment and advance - (342,894) Net cash (used in) provided by investing activities (143,502) 69,054 Cash flows from financing activities: - 466,201 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 advances from officers - 7,471	Increase (decrease) in liabilities:		
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: - (348,871) (89,352) Acquisition of patents and trademarks (138,871) (130,184) Acquisition 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: - 466,201 Net proceeds from exercise of warrants - 466,201 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	Accounts payable	(123,334)	433,339
Deferred revenue - (179,014) Net cash used in operating activities (3,604,029) (2,232,530) Cash flows from investing activities: (138,871) (89,352) Acquisition of patents and trademarks (138,871) (130,184) Acquisition 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: - 466,201 Net proceeds from exercise of warrants - 466,201 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	Accrued expenses	392,123	108,396
Net cash used in operating activities (3,604,029) (2,232,530) Cash flows from investing activities: (138,871) (89,352) Acquisition of patents and trademarks (138,871) (130,184) 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: - 466,201 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	Accrued severance	(30,857)	-
Cash flows from investing activities: Acquisition of patents and trademarks Acquisition machinery and equipment Proceeds from the sale of machinery and equipment Equity investment and advance Net cash (used in) provided by investing activities Cash flows from financing activities: Net proceeds from exercise of warrants Net proceeds from exercise of options Net proceeds from issuance of common stock Stock cancellation Net payments to related party Net advances from officers Net cash provided by financing activities Net increase (decrease) in cash Cash - beginning of period (138,871) (89,352) (138,871) (89,352) (130,184) (143,502) 69,054 Cash - (143,502) 69,054	Deferred revenue	-	(179,014)
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: - 466,201 Net proceeds from exercise of warrants - 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	Net cash used in operating activities	(3,604,029)	(2,232,530)
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 flows from investing activities:		
Proceeds from the sale of machinery and equipment Equity investment and advance Net cash (used in) provided by investing activities Cash flows from financing activities: Net proceeds from exercise of warrants Net proceeds from exercise of options Net proceeds from issuance of common stock Stock cancellation Net payments to related party Net advances from officers Net cash provided by financing activities Net increase (decrease) in cash Cash - beginning of period - (342,894) - (466,201) - 466,201 - 34,500 - (2,500) -	Acquisition of patents and trademarks	(138,871)	(89,352)
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	Acquisition machinery and equipment	(4,631)	(130,184)
Net cash (used in) provided by investing activities Cash flows from financing activities: Net proceeds from exercise of warrants Net proceeds from exercise of options Net proceeds from issuance of common stock Stock cancellation Net payments to related party Net advances from officers Net cash provided by financing activities Net increase (decrease) in cash Cash - beginning of period 69,054	Proceeds from the sale of machinery and equipment	-	631,484
Cash flows from financing activities: Net proceeds from exercise of warrants Net proceeds from exercise of options Net proceeds from issuance of common stock Stock cancellation Net payments to related party Net advances from officers Net cash provided by financing activities Net increase (decrease) in cash Cash - beginning of period - 466,201 - 34,500 - (34,500 - (2,500 - 7,471 Net cash provided by financing activities 5,541,583 505,672 (1,657,804) 6,402,687 5,830,599	Equity investment and advance	-	(342,894)
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	Net cash (used in) provided by investing activities	(143,502)	69,054
Net proceeds from exercise of options-34,500Net proceeds from issuance of common stock5,576,083-Stock cancellation(34,500)-Net payments to related party-(2,500)Net advances from officers-7,471Net cash provided by financing activities5,541,583505,672Net increase (decrease) in cash1,794,052(1,657,804)Cash - beginning of period6,402,6875,830,599	Cash flows from financing activities:		
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	Net proceeds from exercise of warrants	-	466,201
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	Net proceeds from exercise of options	-	34,500
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	Net proceeds from issuance of common stock	5,576,083	-
Net advances from officers-7,471Net cash provided by financing activities5,541,583505,672Net increase (decrease) in cash1,794,052(1,657,804)Cash - beginning of period6,402,6875,830,599	<u>-</u>	(34,500)	-
Net advances from officers-7,471Net cash provided by financing activities5,541,583505,672Net increase (decrease) in cash1,794,052(1,657,804)Cash - beginning of period6,402,6875,830,599	Net payments to related party	-	(2,500)
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		-	
Net increase (decrease) in cash 1,794,052 (1,657,804) Cash - beginning of period 6,402,687 5,830,599		5,541,583	
Cash - beginning of period 6,402,687 5,830,599			
Cash - chu oi periou \$6,170,739 \$4,172,793	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 Cash paid during the period for income taxes \$-

Non-cash transactions:

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