

22nd Century Group, Inc.
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9:00 am CT

Operator: Please standby, we're about to begin. Good day everyone and welcome to the 22nd Century First Quarter 2015 Business Update Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Tom James, General Counsel of 22nd Century Group. Please go ahead.

Tom James: Good morning. My name is Thomas James and I'm the Vice President, General Counsel and Corporate Secretary of 22nd Century Group, Inc. Before we begin this conference call, I need to make the following Safe Harbor disclaimers on forward-looking statements that may occur on this call. The statements made on today's call that are not based on historical information are forward looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements regarding our Company's business strategy, future plans and objectives, and future results of operations or that may predict, forecast, indicate or imply future results performance or achievements.

The words estimate, project, intend, forecast, anticipate, plan, expect, believe, will, will likely, should or the negative of such words, or words expressions of similar meanings are intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and all such forward-looking statements involve risk and uncertainties, many of which are beyond our Company's ability to control. Actual results may differ materially from those expressed or implied by such forward-looking statements.

As a result of various factors, including but not limited to the risk factors disclosed in our Company's most recent Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 6, 2015. We do not undertake and we disclaim any obligation to update any forward-looking statements or to announce revisions to any of the forward-looking statements.

During this conference call, we will also disclose certain non-GAAP financial measures including Adjusted EBITDA, which we define as earnings before interest, taxes, depreciation and amortization as adjusted by 22nd Century for certain non-cash and non-operating income and expense items described in our Company's earnings press release for the quarter ended March 31, 2015, as issued yesterday on May 11, 2015 and which is available on our Company's web site.

And with that, I'll turn it over to our Chief Financial Officer, John Brodfuehrer.

John Brodfuehrer: Good morning everyone and thank you for dialing into our conference call.

As Tom said, my name is John Brodfuehrer. I am the Chief Financial Officer of 22nd Century Group. I am pleased this morning to provide you with a summary of the Company's financial results for the first quarter of 2015 and to take a brief look ahead at the remainder of 2015.

As you know, we filed our Form 10-Q yesterday with the SEC and issued a press release containing a summary of the financial results from the first quarter of 2015. I will use these few minutes this morning to elaborate on the reported results.

We reported on our year-end conference call back in February that we intend to focus on revenue generation during 2015 and anticipated 2015 revenues to be at least \$5 million.

We are off to an excellent start in the first quarter of 2015 with net revenues of \$616,000 as we began to ramp up sales of Smoker Friendly branded cigarettes, continued sales of filtered cigars and began selling our own super premium cigarette brand, RED SUN, in the United States.

The first quarter 2015 revenues exceeded our revenues for all of 2014, which only amounted to a total of \$529,000 with \$448,000 of those 2014 sales generated from an order of SPECTRUM research cigarettes in the first quarter of 2014.

We are not offering a breakdown of the Q1 2015 sales, nor do we intend to do so for at least the next year, because the sales represent initial stocking orders by new distributors and they are not necessarily ratable.

Moving on, we experienced a net loss for the quarter of \$4.1 million, or a negative \$0.06 per share, as compared to a net loss of \$5.3 million, or a negative \$0.09 per share, in the first quarter of 2014.

A significant portion of the first quarter 2015 net loss, approximately 2.6 million, consisted of non-cash expenses. \$2.4 million of the non-cash expenses consisted of equity-based compensation, with nearly \$2 million of that amount resulting from recognition of the remaining expense relating to the fair value of warrants, issued to Crede CG in September 2014 in connection with the six month consulting agreement previously discussed in our prior calls and public filings.

As of March 31, 2015, all non-cash expenses relating to this consulting agreement have been recognized. You will note on the March 31, 2015 balance sheet that the prepaid

consulting fees relating to this agreement are zero. Accordingly, there will be no further non-cash expenses associated with this agreement.

Other non-cash expenses included (i) depreciation expense of \$78,000 primarily relating to depreciation on manufacturing equipment in our North Carolina factory, (ii) amortization expense of \$108,000 relating to the amortization of our patent costs and license fees, (iii) equity based compensation relating to employees, officers and directors in the amount of \$354,000, and finally, (iv) our portion of the net loss on our investment in Anandia in the amount of \$50,000.

After accounting for the non-cash expenses, the resulting cash-related expenses amounted to approximately \$1.4 million during the first quarter of 2015. This amount is roughly equal to negative adjusted EBITDA of \$1.5 million, or a negative \$0.02 per share, as we reported in yesterday's press release.

As explained more fully in our press release, adjusted EBITDA is a non-GAAP financial measure we like to use in addition to traditional GAAP measurement tools. Adjusted EBITDA for the first quarter of 2014 was approximately a negative \$750,000, or a negative \$0.01 per share.

The increase in the negative EBITDA of \$750,000 is primarily due to increases in (i) personnel related expenses as we have grown our Company, (ii) sales and marketing expenses incurred to promote our RED SUN brand, and (iii) expenses related to legal, accounting and other professional services.

We also consumed cash of approximately \$1.1 million during the first quarter of 2015 for working capital needs relating to operations. Much of this amount was used to

produce product inventory in our North Carolina factory, grow sales through accounts receivable, and pay various accrued expenses from year-end.

We had cash on hand of March 31, 2015 of \$3.84 million. We believe this cash balance, coupled with revenues from ongoing product sales and proceeds of \$1 million to be received in the second and third quarters of 2015 from a successful legal settlement disclosed in our recent Form 10-Q, will be adequate to sustain operations and meet current obligations for a period of approximately nine months.

Going forward, we look forward to continued revenue growth for the remainder of 2015. As we reported in yesterday's press release, we expect to generate second quarter revenues of approximately \$1.5 million and exceed our initial projection of \$5 million in revenues for 2015.

These revenues will continue to be generated from sales of Smoker Friendly branded cigarettes, other contract manufactured products and the sale of RED SUN in the United States. We will also be generating revenue from sales of our MAGIC branded cigarettes in Europe that were kicked off by a successful launch in Spain during April 2015.

I will now turn the remainder of the conference over to our CEO, Henry Sicignano, who will provide you with some business highlights and updates. Thank you again.

Henry Sicignano: Thank you John. Good morning. John and Tom are hard acts to follow, but I will start by saying we are absolutely giddy about the first quarter 2015! Sales far exceeded our expectations. Our RED SUN super premium cigarettes have been very well received by consumers, retailers, and distributors.

And, perhaps most importantly, we have actually established teams of management personnel, both in Mocksville, North Carolina at our factory, and in Buffalo, New York. These teams are truly outstanding professionals from Reynolds Tobacco, from Santa Fe Natural Tobacco Company, from top law firms, and from competitors.

We have built a team of people that will enable us to execute on our business plan as articulated in our Form 10-K a few months ago. And, that is really what it is all about at this point. It is all about execution. We have explained to the market and to investors exactly what we intend to do in 2015. And, in the first quarter of 2015, we have gotten an excellent start on executing our mission.

I will touch on each of the six major business areas that we have articulated as being priorities for the Company. The first being RED SUN, of course. Consumers who have had the opportunity to try RED SUN have embraced the product. Our challenge is to introduce the product to more consumers... and to broaden distribution.

Right now, we have 12 distributors in various pockets around the country. We have 170 retail stores listed on our web site, with probably another 100 stores carrying the product where we do not know the particular name and address of those stores.

We have probably another 150 stores in queue that we are aware of, so I am expecting by the end of the second quarter to have 500 stores carrying RED SUN here in the United States.

We have also just begun, as articulated in yesterday's press release, the second stage of our marketing strategy. To launch the product, it was very important that, of course,

we first had listing of the product on state directories and we are now listed on 49 state directories.

Then it was very important for us to gain distribution with distributors where those states could be served. And, right now, the dozen distributors that we have can in fact ship to 45 of the 50 states in the United States. We are not in 45 states yet, but we can in fact ship to 45 states.

So, once we had the distributor coverage in place, the next step was to start to focus on marketing to retailers in target markets across the country. We have done this and we have achieved retailer coverage in select markets in about 25 states at this point.

The next step for the balance of the second quarter and into the third quarter will be to increase consumer demand or consumer “pull” for RED SUN. And, to do this, we will be dispatching teams of brand ambassadors to actual retail accounts throughout the country in our targeted market areas.

These brand ambassadors will focus on consumers who buy competitive brands; the brand ambassadors will be enticing consumers to try RED SUN with brand information and with an offer of a discounted price for a RED SUN purchase..

Our brand ambassadors will explain to customers what makes RED SUN so special, why it is a super-premium brand, how our tobacco is some of the most expensive tobacco... and some of the highest quality tobacco of any cigarette on the market today.

So, with that knowledge in hand, we believe we will have a high rate of sampling and a high rate of trials by consumers in about ten different target markets across the

country. We have 340 events scheduled in retail stores for the second, third and perhaps into the first few weeks of the fourth quarter.

Accordingly, this will be a very, very important step for us and this effort will start to really generate consumer “pull” for RED SUN, now that we have successfully begun the trade “push” process.

The RED SUN launch is something we are very excited about. And indeed, it is not easy, as most of you probably realize at this point, to launch a premium brand in the United States... a premium cigarette brand in particular. There are many restrictions on marketing, distribution and advertising, but we think we have braved the maze of these challenges and we are in a great place to move forward.

We are also very excited about MAGIC, the world's lowest nicotine tobacco cigarette. We launched in Spain, as you all know, with preorders from about 900 stores. Just a few weeks later, we are in over 1,100 stores. We expect to be in some 2,500 stores by year-end in Spain alone.

We are also in discussions right now to launch the product in the UK, France, Italy and Belgium in the next three to four months. Two of those launches are actually likely to occur before summer and two of those launches are likely to occur in September.

The MAGIC product and the marketing that we are able to initiate with that product -- promoting MAGIC as the world's lowest nicotine/tobacco cigarette -- will be not only important for the brand MAGIC, but also for our Company as a whole.

For our Company, with the mission to reduce the harm caused by smoking, to be able to say to consumers, retailers, distributors and even public health officials around the

world, “Hey, we are a company that has the world's lowest nicotine/tobacco cigarette!” We think that is an incredibly powerful message.

So, again, MAGIC is exceeding our expectations in terms of speed to the market and in terms of actual potential, both in sales and in terms of the symbolic importance of the product.

Our Brand A Modified Risk Application is also well underway. As promised, we will be submitting this application to the FDA this summer. You know, and I should make it clear here, this is not a 20 or 30 page submission. This application will be well over 1,000 pages. It encompasses summaries of five Phase II clinical trials that have already been done with our very low nicotine tobacco.

Also, the most interesting part of the Modified Risk Application, is that it will incorporate a proposed new brand for our very low nicotine, essentially nicotine-free cigarette, here in the United States. We will not be allowed to use the MAGIC brand name here in the United States.

So, Brand A will use an entirely new brand name. In fact, we will need to conduct consumer perception studies that show that this new brand will not be so enticing to consumers that it will entice non-smokers to start smoking or current smokers to smoke more. That is the delicate balance we need to undertake.

We want to make our marketing and advertising very effective but of course we want to stay within the law. And, at the same time, we cannot make the advertising so persuasive as to convince non-smokers to try the product or to convince existing smokers to smoke more if they do choose to try our new very low nicotine cigarette here in the United States.

So, that is an important part of the application. All of these things are under way and we are excited about the opportunity to submit our Brand A modified risk product application this summer.

X-22 also remains a top priority for the Company. We are in continuing discussions with potential partners around the world and I remain very optimistic that we will succeed in signing a jv contract. I must emphasize, X-22 is a top priority for the Company.

It could make the Company very, very important in the public health world in terms of having a combustible cigarette that actually helps smokers to quit smoking. I think it is incredibly important in terms of the symbolism of the product and in terms of the profit potential for 22nd Century. So, X-22 remains a top priority and Tom James is heading up that effort for us.

Last, but not least, - well actually, second last - is our efforts to secure a joint venture with one or more Asian partners. As you all know, we have explored this opportunity in China, as well as in Japan, and more recently in South Korea.

I just returned a couple of weeks ago from an around the world trip, and we had outstanding discussions in Japan on this trip. But, those three countries remain top priorities for the Company and we remain very optimistic that we will sign at least one deal in 2015 for an Asian joint venture.

And then last, but not least, is of course our contract manufacturing business in our NASCO manufacturing facility. Contract manufacturing, while not the be-all and end-all for the Company, will certainly be a very important part of our business to establish a manufacturing base that will essentially support operations at the factory before we have achieved break-even sales volumes on our proprietary cigarette brands.

We have three large and important contracts with both small filtered cigar brand owners and with Smoker Friendly, of course, for their MSA cigarette - their Smoker Friendly private brand. All of these contracts are important and are growing, and we intend to add to this base of contract manufacturing projects in the balance of 2015.

So... all in all, everything is actually outstanding here at 22nd Century. Sales are terrific. We have a great team of people doing outstanding things. And, our prospects truly are outstanding.

We are very close, we believe, to our submission of our Brand A Modified Risk Application and with approval from the FDA... not this year, maybe not even next year, but possibly by the end of 2016 or the beginning of 2017, we will have perhaps the world's first and only approved modified risk, combustible cigarette. We think that is an outstanding opportunity.

With that, I will open the conference call to questions now. And, I think we already have our first question on the line.

Operator: Thank you, if you would like to ask a question, simply press the star key, followed by the digit one on your telephone keypad. Also, if you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, press star 1 at this time. We will pause for a moment. And, we will first hear from Jim McIlree of Chardan Capital.

Jim McIlree: Yes, thanks and good morning, Henry.

Henry Sicignano: Good morning, Jim.

Jim McIlree: You have talked about Smoker Friendly sales ramping up at the pace that the prior inventory has been consumed. Do you have any sense for how that dynamic has played out or where you are now. Are you at your full ramp for Smoker Friendly or is there still some way to go?

Henry Sicignano: You know, we are not quite at full production yet with Smoker Friendly, because the prior manufacturer had excess inventory and I believe that many Smoker Friendly retailers loaded up on inventory from that prior manufacturer before the March 31 deadline when we took over the contract in full.

So, yes, sales are ramping up in earnest, but I do not think we are at the rate yet that we will be when all that inventory is exhausted from the retail channel.

Jim McIlree: So, is it fair to say that the contract manufacturing in Q1 was a relatively minor portion of the total sales?

Henry Sicignano: That's sneaky Jim. It is fair to say that contract manufacturing going forward will be substantially higher than Q1. But, I am not going to comment on the breakdown of Q1 sales.

Jim McIlree: Okay, do you expect reorders of RED SUN in Q2 from the retailers who took possession of RED SUN in Q1. A different way to ask it is, you know, what is that cycle going to look like from the time you start filling reorders.

Henry Sicignano: That is a good question. I will restate – I have said this before and I want everybody to be clear - we do not ship directly to retailers. So, we do not have as much knowledge as we would like to have as to how much product resides at retail locations.

We ship to distributors and then the distributors ship to retailers and then, at their discretion, the distributors share inventory information with us. But, we really have very little of that information. So, it is likely that we will not really truly understand the rate of replenishment until probably the third quarter of this year.

And, even that will be greatly impacted by the efficacy of this consumer campaign that will be launching in the second half of this quarter and the third quarter because I think this marketing initiative will essentially change the dynamic again and will likely increase the rate of consumption from those retailers.

In summary, what I am telling you is that we do not have ratable shipping volume projections yet and we probably will not until at least the third quarter. But, that is good news because, frankly, as quick as we ship product, we are moving on to the next level of marketing and distribution... consumer marketing in the second and third quarters is really what is going to drive continued sales for the fourth quarter of this year and for 2016.

Jim McIlree: Okay. The \$1.5 million in Q2 revenues, does that include a large component for let's call it initial orders for RED SUN and MAGIC?

Henry Sicignano: It includes RED SUN orders, MAGIC sales, and contract manufacturing - all three. The first quarter revenue obviously did not include any MAGIC sales.

Jim McIlree: Right, okay and just two more questions if you don't mind. This million-dollar settlement, who was that? What is this settlement all about?

Henry Sicignano: You know, I cannot really go into much more than we publically disclosed in the 10-Q. So, that is as far as I can go there. But, the good news is that the settlement is money that we will have available to us going forward for our operations.

Jim McIlree: Right, okay and then, John spoke about a \$2 million non-cash stock expense for the consulting agreement. And, I understand that the existing consulting agreement is complete. But, is there another consulting agreement that would take place further in the JV with China if that goes forward?

Henry Sicignano: No, there is not.

Jim McIlree: Okay, great. Thanks a lot and good luck with everything.

Henry Sicignano: Thanks Jim.

Operator: Next, we'll hear from Jimmy Smith, who's a private investor. Jimmy, your line is open, if you can release your mute function. Hearing no response, we'll take a question from Ruth Julian, who's a private investor.

Ruth Julian: I'm sorry, oh well, I don't have a question. I think things are going well. And, they've explained everything that I want to know and I was curious about. Thank you.

Henry Sicignano: Thank you very much.

Operator: And next, we'll hear from Joe Reda of Chardan.

Joe Reda: Hey Henry, congrats on a great quarter and impressive Q2 guidance

Henry Sicignano: Thank you very much.

Joe Reda: But, I know you guys have been focusing a lot on the product launches and the joint venture partnerships, but can you give some color on your plans, if any, for Botanical Genetics and if you're going to pursue Jon Page's cannabis technology, since it's utterly legal in Canada?

Henry Sicignano: Yes. As you know, I have not included cannabis as one of the Company's top six priorities for this year. But of course, cannabis is a very important part of our IP portfolio. We are continuing with research and development on Jon Page's patents.

As a matter of fact, we just had conferences in the last week on an additional project related to those cannabis patents for 2015. So, I guess the best way to describe our relationship or our strategy in terms of Botanical Genetics and cannabis is to say that it

is really a treasure trove of IP that is potentially some of our most valuable intellectual property.

But, this year we are focusing on execution on the tobacco side and on the six priorities that I have outlined in the 10-K and in today's call as well. So, those are our priorities this year.

On the backburner is the research and development we are doing on cannabis for the main reason it is simply not legal in the United States yet. And, anything that we would do here, well it needs to be done eventually in Canada and in the labs with Dr. Page.

So, that is the main rationale behind the strategy and I will reiterate, it is in fact some of our potentially most valuable IP, but we are not going to focus on this IP until at least 2016/2017.

Joe Reda: Okay, and if you were going to monetize it, it would probably similar to, you know, what you've done on the tobacco side with JVs and so on?

Henry Sicignano: That is likely. But, it is too early to tell.

Joe Reda: Okay, great job guys.

Operator: And, as a reminder if you would like to ask a question, press star 1 at this time.

Next, we'll hear from Rex Wiggins, who is a private investor.

Rex Wiggins: Great quarter Henry. That's a good job. If you were at a million and a half run rate in the second quarter, if you were to annualize that, that takes you to about 6 million. I guess, one of my questions is, out of ignorance, is there a seasonality within

your business, do people smoke more in, I don't know, the fourth quarter versus the first or whatnot.

And then, also if you could give just a little bit of thoughts and ideas of your core businesses, not the cannabis, but your core businesses - where you think you maybe say three years from now as far as top line.

Henry Sicignano: Okay. There is some seasonality to the cigarette business, largely because of smoking legislation, which has prohibited indoor smoking in so many different venues over the years. So, generally speaking, in the summer months you will have higher cigarette sales than in the dead of winter.

So, some of that depends obviously where your sales are coming from. Small companies like ours who have sales in say warmer pockets of the country might be less impacted by seasonality. But, generally speaking, summer sales are greater than winter sales. So that is the answer to the first part of your question.

Three years out, so here's the - we have not publically disclosed any kinds of projections three years out. So, I am hesitant to give you specific numbers. But, I will say that it would be certainly a multiple of this year's sales. I really do not want to be more specific than that.

Perhaps at year's end this year, we will give better and more definitive guidance on this front. But certainly it will be an appreciable multiple of this year's sales. And, I guess with that, in turn comes profitability, of course. So, I hope that is helpful and that answers your question.

Rex Wiggins: Yes, I think it does. I mean, I guess, I was, you know, looking at your - the previous company you were with, you know, and the size they were when, you know, they were acquired. And, I was trying to - you know, you have to get to a certain critical mass before you would be of value to someone else. And, I don't have any feel for whether that's, you know, \$20 million or \$100 million or I mean, I really don't know. But, I was just - I would think the market would be out there. It would be whether you could finance it or not. Okay, enough on that.

Do you have any idea of the erraticness of your stock price and it almost appears to me that there's certain times that people just throw stock on the market and almost intentionally try to depress the price. Have you noticed that or is that just insanity on my part that I've witnessed?

Henry Sicignano: We have noticed how our price bounces around. And, you know, all I can say is that our stock price today is 20% of what it was a little over a year ago.

And, look at how far we have come. We are listed in 49 state directories. We have gotten RED SUN in the marketplace in 300 locations. We have 12 distributors across the United States. We launched MAGIC in Spain. We are in over 1,100 stores there. We are months away from submitting our Brand A Modified Risk Application to the FDA.

We have made substantial progress on joint venture opportunities in Asia and we have a great foundation of contract manufacturing in our Company-owned factory in North Carolina. And yet, our stock today is 20% of what it was a year ago.

So, of course, we too are frustrated by that fact. But, I think astute investors will listen to today's call and will do their due diligence and will make investment decisions on the real information that best describes not only our Company, but the opportunity our

Company has to become a significant - very significant - player in both in the tobacco market and potentially in the pharmaceutical market.

Rex Wiggins: I couldn't agree more. To the extent you have time, I know it's very, very arduous business for a small company such as yours, that the more you can tell your story, you know, the better off you will be. So maybe it's just not enough people know it.

I know that's hard to do when you're flying all around the globe trying to run the business. But, you know, the people don't know what they don't know. And, I feel like you discovered it. And, I bought a lot of shares after the first conference call and I'm going to buy a lot more after this, because I'm very encouraged that you're executing on your plan and I have faith in your abilities.

But, I've sat here and called in, you know, but most people wouldn't. So, any time you can, you know, deliver that message, because you know, in the short run, I could care less, but in the longer run, as you know, in the financing of the Company it may be important to have a much higher stock price to raise money at a less dilutive level for us current shareholders.

That's the only reason to drive it up there, so anyway, good quarter. Keep it up and I'll look forward to listening to you in three months from now.

Henry Sicignano: Well, thank you very much. And you know, and I will just reemphasize, we agree and we are absolutely giddy about where we are positioned today. So, thank you very much, Mr. Wiggins.

Operator: Next, we'll hear from Jimmy Smith.

Jimmy Smith: Yes, hi, just a question about what can you do in order to optimize your share structure. I was just following on the last caller. As you mentioned, you're 20% below what your 52-week high was. Yet, you're five times higher than what your 104-week low was.

So, is there any plans you've got, you know, in your pipeline or kind of in your overall business plan to optimize your overall share structure, maybe soak up a little bit more of the float or I don't know.

Can you allude to anything with respect to that because, yes clearly, you had a good quarter here and it's not getting the visibility that it deserves. So, what is it going to take in order to get that, you know, additional market recognition that you deserve in order to make this stock attractive? Thanks.

Henry Sicignano: Okay. Well, thank you and that is the challenge as you have articulated. That is exactly right. And, I think what we are going to do to accomplish what we need to accomplish there is to continue to execute the business plan and with press releases articulating our achievements as we enter new countries with MAGIC.

And, as we achieve important milestones here in the U.S., I think that investors and consumers, and competitors, unfortunately, are going to become very, very aware of our progress and our success. So, I really think at least in the foreseeable future, that is our strategy.

Now of course I will be doing some traveling. We do have an investor relations firm and I will be doing some traveling over the next several months to different investor

conferences, both on the West Coast and on the East Coast. We will, of course, also have these conference calls.

And, you know, I came back from a non-deal road show in New York a couple of weeks ago and we met with over 120 investment professionals and it is my understanding that all of these or the vast majority of the 100 plus investment professionals that we met with, really appreciated hearing about the Company and learning the message. And, they actually have started to talk about 22nd Century with their clients and with their associates.

So, I think that is how we will build knowledge about the Company - an awareness of the Company - by these small steps, one at a time, going forward. Thank you very much for your question.

Jimmy Smith: So, do you feel pretty comfortable about the share structure right now. I mean, are you confident that it's as optimized as it can be in order to kind of give you that tailwind you need to go forward or is there something you can do better in regards to that. That was kind of the gist of my question.

Henry Sicignano: Well, I am not sure. And, maybe after the call, I will talk to our investment bankers at Chardan and see if they have some recommendations on how we might do some of the things that you are talking about.

Jimmy Smith: I think that would be great. I think that would definitely give you the boost that you need. I mean when it really comes down to giving you the visibility that you need, any opportunity that you can kind of look into and delve into making your share structure look even more attractive is a huge highlight and for the investor base. And,

that'll definitely draw something like - somebody like me back into looking at it as a more considerable long-term investment, as well.

Henry Sicignano: Well, thank you very much. We certainly appreciate that and we will certainly have those kinds of discussions with Chardan.

Jimmy Smith: All right, great. Thank you.

Henry Sicignano: Okay.

Operator: Sabastian Fasanello, private investor.

Sabastian Fasanello: Hi Henry. Congratulations on the quarter. Just a quick question, you mentioned that no further payments are going to be made under that consulting agreement to Peizer.

Does that mean that his efforts have ceased? And, if that's the case, what does that mean about the status of a joint venture with China?

Henry Sicignano: No, his efforts have not ceased. His efforts have certainly not ceased and it is essentially just the terms of the agreement that we signed. And you know, I will actually let Tom comment if you'd like to on Tranche 2 and 3 warrants if you would like to, which are performance based. I am going to let Tom comment so that I do not go too far in terms of not publically available information.

But, in a nutshell, those consulting payments have ended. But, there are warrant incentives for Crede to succeed in our effects with the China JV. So, I will let Tom articulate a little more on that point.

Tom James: Yes, I think Henry summarized it very well. And, it is exactly that. The term of the agreement was only six months at the request of the consultant, Crede, which is Terren's company. He has continued to be involved, so the term of the consultant agreement has nothing to do with the level of involvement.

And, in fact, some of the compensation that is under there is under certain warrants that we call Tranche 2 and Tranche 3 warrants, which are based on performance overseas. So, there is continuing incentive for Crede to be involved in that.

Henry Sicignano: So, we are very fine with all of it. And, in fact, and importantly, those are incentive based warrants - those Tranche 2 and 3 warrants. So, if certain milestones are not met, then those warrants are not earned. Does that answer your question?

Sabastian Fasanello: I think it does. Thanks.

Operator: Angelo Tomasello, private investor.

Angelo Tomasello: Good morning guys. First, I just wanted to congratulate you on the Spain European launch. I'm anxious for this call next quarter to see how that goes. That's exceeded my expectations.

My primary question is regarding the Brand B that wasn't mentioned. I'm just curious if you could add a little articulation or color on when that submission may come back.

I believe back in November, I think you already went through this entire FDA process and I thought you had an approved application. I know you suspended and had reasons behind it. When can we expect that to, you know, come back and be added to the business plan?

Henry Sicignano: Okay, that is a great question because Brand B is so important to the Company. Brand B is our low tar-to-nicotine ratio cigarette. And, we did not have an application ready for submission because, in fact, we need to conduct exposure studies for Brand B.

And, the exposure studies are going to be, I don't know, \$2+ million. So, what we have done is postpone, but not suspend, Brand B. We thought it would be a better use of our resources to submit an application for Brand A where we can reflect on the exposure studies that have already been done and spend substantially less money in 2015 on an application for Brand A, rather than looking for another \$2+ million to submit an application for Brand B this year.

So, Brand A is a low nicotine - obviously a very low nicotine - the world's lowest nicotine combustible cigarette, and frankly it is the cigarette that regulators seem more excited about. So, that application will be submitted this summer because it is the most expedient, most cost effective and most acceptable application to regulators.

In 2016, I would hope that we will have the funds and the management time necessary to conduct exposure studies and then to submit an application for Brand B, which of course we believe has outstanding market potential because it is a cigarette with traditional or even slightly higher nicotine content.

Angelo Tomasello: Thank you. That's a key clarification. So, just from my understanding, what was - Brand B, that was just going to be an exposure study? So, what you're submitting for Brand A is beyond exposure studies, that's an actual application for the Modified Risk Claim?

Henry Sicignano: That's right. Both products will require applications. In the application for Brand A, we will not do any exposure studies. We will use the research that has been done in prior independent clinical studies.

And then, for Brand B, of course, we will have to spend the money to do our own exposure studies and we will submit those for our Brand B application.

Angelo Tomasello: Okay great. I'm anxious to - I just think it may help RED SUN if you get a positive exposure study, even though it's a different product. I have one more question for either you or Tom.

Ultimately, when Brand A gets approved, if and when it does get approved, that would - do potential joint venture partners for X-22 - have they expressed any concern about you having a competing MAGIC equivalent cigarette out there? I don't know if I asked that properly.

Henry Sicignano: No, that is an insightful and a very good question. In some of the discussions we have had, we have actually had partners that are interested in having participation in Brand A for certain regions of the world.

So, we have not had someone yet say hey, we are concerned about this as a competitive product. But, we have in fact had some potential partners say, they might like to

participate in Brand A in certain regions of the world. But, those things are yet to be determined and we are not sure how we will play the cards there.

Angelo Tomasello: I would imagine the regulatory environment in various jurisdictions and countries will dictate if you can win with X-22 or Brand A, once they're both approved. Very well, thank you for your time. I look forward to following the results going forward.

Henry Sicignano: Thanks very much.

Operator: Next, we'll hear from Derek Zwyer, private investor.

Derek Zwyer: Hey guys. I was very intrigued by the connection you made to public health agencies and I was wondering if there is anything that you could specifically elaborate on about that?

Henry Sicignano: Well, I can speak broadly. I can say that we get emails and letters and phone calls on a weekly basis from public health officials, from doctors, and from researchers, all expressing their enthusiasm for our technology and some of them for our very low nicotine cigarettes in particular.

We have had people for years now asking us for samples of our MAGIC cigarettes, even before they were available on the open market and we are aware of some researchers actually purchasing the product on the open market to conduct their own studies in Europe.

Domestically, we have doctors and public health officials that have encouraged us and have actually even volunteered to assist us with our Modified Risk Application for Brand A.

This is really exciting stuff. I do not think there is another tobacco company in the world that has doctors and researchers encouraging the company to move forward with its products so that it could be available for smokers and even patients.

Again, I am not sure that investors and consumers really appreciate how outstanding and how truly unusual these things are. So, yes, broadly I hope that helps. I am not going to give you specific names of individuals.

Derek Zwyer: Of course, of course. Yes, thank you.

Henry Sicignano: And, we are very excited about those things. Professor David Steiner is a well-known public health official from Canada. He actually gave the keynote address at our annual meeting a few weeks ago here in Buffalo. And, I can mention him by name because he gave our keynote address. He is incredibly enthusiastic about our potential to save thousands of lives, hundreds of thousands of lives. Is that helpful?

Derek Zwyer: Okay, yes, absolutely. I'm very enthusiastic also, especially, even if many people aren't going to just instantly change their cigarette brand that they've smoked, I still think that actually having the public health system behind it makes it extremely an incentive for people just to see that it's not just some other product kind of thing.

Henry Sicignano: I think you are exactly right. And, we will be giving them important choices. And, I think choices are very important – it is a very important fact. So, thank you very much. We appreciate it.

Derek Zwyer: Okay.

Henry Sicignano: Okay. I think this next call will be our last call so we stay within our hour allotted timeframe.

Operator: And next, we'll hear from Tony Zaleski, who's a private investor.

Tony Zaleski: Good morning, Mr. Sicignano. How're you doing? Good first quarter. Just some questions on revenue. We say we have cash for nine months. And then after that, I thought I read somewhere, where we might be dipping into our \$42 million shelf offering to, you know, fund operations after that.

Looking at Chardan's results, you're showing us with maybe \$13.6 million in revenues in 2016, but still losing money. At what point are we cash flow positive, is that going to be 2017 or will it be really sometime in 2016, when we'll start printing money?

Henry Sicignano: That is the question of all questions and it is a great question. It is an important question. It is a question I think about every day. And, the answer is: it depends.

And what does that mean? It depends on the product mix for our sales. It depends on if and when we sign a joint venture in Asia. It depends on our contract manufacturing based in North Carolina. So, that is why I am so hesitant to give projections in terms of our product mix.

We simply do not know at this time. I am not sure if RED SUN is going to be a runaway success and we are going to achieve profitability far sooner than anyone thought, simply on our single proprietary brand of super-premium cigarettes, or if in fact MAGIC could do that for us.

So, I hate to answer your question with a question, but you know, how much will we achieve in terms of RED SUN sales? How much will we achieve in terms of MAGIC sales?

If we were to achieve, for example, \$10 million in RED SUN sales, we would be profitable already. So, the breakdown of our sales is what is going to be very important in terms of us achieving profitability. And, the wild cards of course are in fact our joint venture opportunity in Asia and, of course, our potential milestone payments from British American Tobacco. That could push us into profitability, either one of those events this year. I hope that is helpful.

Tom Zaleski: Thank you very much. Good job.

Henry Sicignano: Thank you so much. And you know, as we wrap up the call, I just want to say thank you to everyone on the call for joining us and for your investments and for your patience. Again, you know, our interests are 100% aligned with your interests.

We too are disappointed when our share price has dropped the way it has. But, we are very, very optimistic that by executing our business plan and by reporting to shareholders on a regular basis that our share prices will continue to march forward in a very positive, very ratable direction over the coming weeks and months.

So, I look forward to delivering to you these good results and we appreciate your investment in the Company. And, I welcome any of you to visit Buffalo or to visit our Mocksville, North Carolina manufacturing facility if and when you have the opportunity to do so. Thank you so much.

Operator: So, that does conclude today's conference. Thank you all for your participation.

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