

22nd Century Group, Inc.

**Earnings Conference Call
November 10, 2015
10:00 am Eastern Time**

Operator: Good day and welcome to the 22nd Century Group Third Quarter 2015 Business Update.

Today's conference is being recorded.

At this time I would like to turn the conference over to Thomas James, General Counsel for 22nd Century Group. Please go ahead sir.

Thomas James: Good morning. My name is Thomas James and I am 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 during 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 5, 2015, 22nd Century does 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 September 30, 2015, as issued yesterday on November 9, 2015, and which is available on our Company's website. And with that, I will turn it over to our Chief Financial Officer, John Brodfuehrer.

John Brodfuehrer: Good morning everyone and thank you for dialing in to our third quarter 2015 conference call. My name is John Brodfuehrer and I am the Chief Financial Officer of 22nd Century Group.

I am very pleased this morning to provide you with a summary of our Company's financial results for the three months and the nine months ended September 30, 2015 and provide a brief look at the remainder of the year. As you know, we filed our Form 10-Q yesterday with the SEC and issued a press release containing a summary of financial results for the three months and the nine months ended September 30 of this year.

I will use my time this morning to review and elaborate on those reported results. We are pleased to report that our third quarter net revenues were nearly \$2.7 million, an increase of

approximately \$361,000, or 15.6%, over our second quarter net revenues of \$2.3 million and significantly higher than our first quarter 2015 net revenues of approximately \$616,000.

Our net revenues for the nine months ended September 30, 2015 were nearly \$5.6 million, putting our Company on a trajectory for annual net revenue in excess of \$8 million for the calendar year 2015. Our current projection of \$8 million in net revenues would for this year exceeds our prior projection last quarter of \$5 million in net revenues for this year. We experienced a net loss for the third quarter this year of \$2.76 million, or a negative \$0.04 cents per share, as compared to a net loss of \$2.72 million, or a negative \$0.05 cents per share, in the third quarter of 2014, a small increase in the loss of approximately of \$37,000.

This small increase in the third quarter loss was primarily due to an increase in the gross loss of approximately \$40,000 and a decrease in net other income (expense) of approximately \$115,000, partially offset by a decrease in operating expenses of approximately \$117,000. Furthermore, approximately \$622,000 of the third quarter 2015 loss was attributable to net non-cash expenses, as compared to approximately \$800,000 in net non-cash expenses for the third quarter of 2014, a decrease of approximately \$178,000.

This decrease is primarily a result of the decrease in equity based compensation to officers, directors, employees and third party service providers in the amount of approximately \$343,000, partially offset by an increase in amortization and depreciation expense and a decrease in the warrant liability net gain for the third quarter of 2015 when compared to the third quarter of 2014.

We experienced a net loss for the nine months ended September 30, 2015 of approximately \$8.2 million, or a negative \$0.12 per share, as compared to a net loss of \$10 million, or a negative 0.17 per share, for the nine months ended September 30, 2014, a decrease in the net loss of approximately \$1.8 million. This decrease in the nine month loss is primarily a result of the

decrease in the warrant liability gain (loss) - net of approximately \$4,050,000 and other income received of \$1,000,000 from a litigation settlement.

These items were offset by an increase in the gross loss of approximately \$623,000 and an increase in operating expenses of approximately \$2,540,000. Approximately \$1,439,000 of this increase in operating expenses is attributable to non-cash increases in equity based compensation expense, primarily to Crede as part of the six-month consulting agreement that expired at the end of the first quarter of 2015 and other third party service providers to our Company.

The amount associated with the Crede non-cash equity compensation expense of nearly \$2 million in the first quarter of 2015 represents the fair value assigned to warrants issued with exercise prices of \$3.36 and \$2.59 per share at the time of issuance. Approximately \$3.7 million of the nine month 2015 loss is attributable to net non-cash expenses, as compared to approximately \$6 million in non-cash expenses for the first nine months of 2014; a decrease in net non-cash expenses of \$2.3 million.

This decrease in net non-cash expenses is primarily the result of a decrease in the warrant liability gain (loss) as previously mentioned in the amount of \$4,050,000, partially offset by the increase in non-cash equity based compensation of \$1,439,000, as I just described above, plus an increase in amortization and depreciation in the approximate amount of \$237,000, and an increase in the loss on our equity investment in Anandia in the amount of approximately \$99,000.

As Tom mentioned, we like to look at a non-GAAP financial measurement tool called Adjusted EBITDA to evaluate our financial position in conjunction with traditional GAAP financial measurements. We adjust our net loss for certain non-cash and non-operating income and expense items to arrive at Adjusted EBITDA.

Adjusted EBITDA was a negative \$2.1 million and a negative \$1.9 million for three months ended September 30, 2015 and 2014, respectively; an increase in the negative EBITDA of approximately \$200,000. Adjusted EBITDA was a negative \$5.4 million and a negative \$3.9 million for the nine months ended September 30, 2015 and 2014, respectively; an increase in the negative EBITDA of approximately \$1.5 million.

Both the three-month and nine-month increases in the negative EBITDA are primarily attributable to an increase in the gross loss in the approximate amount of \$40,000 and \$622,000 for the three months and nine months ended September 30, 2015, respectively, and an increase in the cash related operating expenses of approximately \$188,000 and \$861,000 for the three months and nine months ended September 30, 2015, respectively.

I will once again this quarter address the gross loss on product sales for the three months and nine months ended September 30, 2015, in the approximate amount of \$281,000 and \$591,000, respectively. Our excess manufacturing capacity above current production requirements resulted in the gross loss on product sales. We are continuing our efforts to expand our third party contract manufacturing base, working towards the goal of eliminating the gross loss situation. We are making progress on this front.

We also consumed cash of approximately \$482,000 during the nine months ended September 30, 2015 for working capital needs relating to operations, as compared to \$1.36 million consumed during the first six months of the year; a decrease of approximately \$880,000, indicating positive management of our working capital assets.

We had cash on hand at September 30, 2015 of \$6.7 million, as compared to cash on hand of June 30, 2015 of \$8.2 million; a decrease of approximately \$1.46 million. This cash decrease consists of \$2.14 million used to support the cash loss for the quarter plus approximately

\$200,000 used in investing activities, primarily for patent costs, offset by a decrease in cash used for working capital needs relating to operations, in the approximate amount of \$880,000.

As discussed above, not including potential milestone payments of up to \$7 million from BAT and not including deposits from potential strategic partnerships, we believe that the cash on hand at September 30, 2015 coupled with revenues from ongoing product sales will be adequate to sustain operations and meet all current obligations as they come due through June 2016.

Thank you for your time and consideration. 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, thank you Tom and thank you to all the investors who have made time for us this morning. Well, I think that I will take a different tact this quarter. Rather than simply reviewing the business highlights that we have already outlined in our press release, I think that I will broadly highlight the most significant drivers of our business in the near term.

I would like to take this opportunity in particular to discuss our technology stemming from very low nicotine tobacco. In brief, the three most obvious products that we should look for stemming from this technology are (1) our MAGIC cigarettes, (2) Brand A, the Company's first modified risk tobacco candidate, and (3) X-22, which is 22nd Century's smoking cessation aid in the form of a combustible tobacco cigarette.

The first point is that all these products have a foundation built on our Company's very low nicotine tobacco. This is obviously a huge competitive advantage. At the same time, our stock price presents certain challenges and limitations. I realize that some shareholders have expressed disappointment that we have not worked more quickly to roll out MAGIC very low nicotine cigarettes in Europe. I also understand that some shareholders are surprised that we

introduced an American tasting cigarette in Spain. Let me go over a few points to explain our thinking.

MAGIC Zero in Europe is made primarily with a flue cured tobacco that is proprietary to 22nd Century. Even though it has virtually zero nicotine, this tobacco has a robust, full bodied taste. Conversely, European cigarettes generally contain a flue cured Virginia tobacco, as well as burley tobacco and oriental tobacco. What this means is that all European cigarettes, relatively speaking, have a taste that is somewhat more bland or more mild than American cigarettes.

We were not unaware of these differences when we introduced MAGIC Zero in the market in Spain. At the time, however, we realized that American Spirit cigarettes, at least when I worked at that company, were a consummate American blend cigarette and had nonetheless done quite well across Europe. American Spirit cigarettes were introduced internationally without a blend change primarily on the strength of the additive free all natural marketing claim. We believe and continue to expect the "0.0 mg nicotine" disclosure on every pack of MAGIC Zero will be very important to European consumers who try the product.

That said, we do wish to do everything possible to make the cigarettes' taste characteristics consistent with products that consumers are accustomed to in Europe. Even though we cannot simply change the tobacco blend that comprises the world's only virtually nicotine free tobacco cigarette, in the past few months we have altered the structural components in our MAGIC cigarettes in a way that we believe will significantly reduce the intensity of our American tobacco blend cigarette for European consumers.

For more details... stay tuned. We intend to make a detailed disclosure of this technology in an upcoming press release.

The next product I would like to discuss is Brand A. We have already prepared the bulk of our modified risk tobacco product application for our very low nicotine Brand A and we intend to submit the final application to the FDA before the end of this year. The only hurdles between now and our submission of the application is third party laboratory testing needed to confirm concise nicotine levels of our tobacco blend and of our finished cigarette that will be submitted to the FDA as part of our application.

As you know, Brand A has the world's lowest nicotine content compared to all other tobacco cigarettes made by any other company. This fact is undisputed and this is fundamentally the basis of our request to the FDA to label and market our Brand A product as a cigarette with reduced nicotine exposure. It is as simple as that.

We are seeking authorization to make a very narrow reduced exposure marketing claim. Accordingly, we believe 22nd Century will be the first company approved by the FDA to label and market a modified risk tobacco product. This is a very different strategy than that of one of our most significant competitors. I will take a moment to note a few points about American Spirit cigarettes, a brand that I know well and that many of you have heard me speak of previously.

Santa Fe Natural Tobacco Company's American Spirit brand, as owned by tobacco conglomerate Reynolds American, has approximately 2% market share and it is the 10th largest premium cigarette brand in the country. American Spirit is the fastest growing premium cigarette brand in the United States. That said, in August of this year the FDA sent a warning letter to Santa Fe and Reynolds stating that American Spirit natural and additive free labeling and advertising represent explicitly or implicitly that the products or their smoke supposedly present a lower risk of tobacco related disease or are supposedly less harmful than other tobacco products.

Though Reynolds and Santa Fe will surely argue that their products are not in fact making implied health claims, 22nd Century's strategy is to stay far above the fray. As I have discussed today,

our strategy is to actually win the right to label our product as modified risk tobacco. What does this essentially mean? What does this mean for our company?

Following a strategy of provocative advertising, the FDA is very likely to halt the sales of American Spirit, which has built quite a franchise. Just one month after receiving the FDA warning letter, Reynolds sold its international American Spirit business to Japan Tobacco for \$5 billion, a figure that is 30 times sales -- not earnings, not EBITDA, but 30 times sales. The well-known Wells Fargo tobacco analyst Bonnie Herzog now values the remaining U.S. American Spirit franchise at \$8 billion. Considering that the American Spirit brand currently represents approximately 2% market share, it appears that one should value market share for premium cigarettes with growth potential at \$1 billion for each 1/4 of 1%.

This kind of metric is what is so exciting for our Company. This is the kind of comparable that might suggest to investors that when 22nd Century wins the right to market our very low nicotine cigarettes as modified risk products, then we will have the opportunity with both our own brands, and with possible licensing fees, to achieve tremendous upside. Consider for a minute the notion of a very low nicotine Camel cigarette or perhaps the very low nicotine American Spirit brand style or simply a 22nd Century proprietary brand as the world's first combustible modified risk tobacco product.

Again applying the comparable valuation used by tobacco analyst Bonnie Herzog of Wells Fargo for each quarter of 1% of the market, our company should be worth \$1 billion when we achieve a one-quarter point market share. Before I end, I will briefly address our third very low nicotine product that has tremendous market potential for 22nd Century.

X-22 is our Company's prescription cigarette in development for smoking cessation. Although I have a room of lawyers listening here this morning, I am going to state clearly and for the record that I believe X-22 is the world's most effective smoking cessation aid. I am confident that, unlike

marketing leading Chantix, our product has no new side effects and perhaps most importantly and most significantly I am 100% sure that our smoking cessation cigarette as compared to pills or nicotine gums, lozenges or patches, is far and away the most attractive smoking cessation product for consumers.

Several independent cessation trials with very low nicotine cigarettes have demonstrated that our product works by itself, it works in conjunction with nicotine replacement therapy and it increases the efficacy of Chantix. Five Phase II clinical trials and two Phase III trials have been conducted with our VLN tobacco cigarettes. These clinical trials have been conducted in the United States, in New Zealand and in England. The results of all of these trials is that very low nicotine cigarettes are more effective in smoking cessation and provide greater relief from withdrawal and cravings as compared to all other types of nicotine replacement therapies.

Compensatory smoking does not occur with our VLN cigarettes. Instead there is a decline in the number of cigarettes smoked per day and smoke exposure. However, until we have a strategic partner to help fund our next and final Phase III clinical trials for X-22, we are not prepared to go forward with such clinical trials. We have put in great efforts over the last six months and particularly the last quarter seeking a strategic partner for X-22.

I was at a convention in Munich, Germany last week called Bio Europe. We met with 18 pharmaceutical companies, all of whom expressed interest in discussing further our very low nicotine tobacco cigarette and smoking cessation aid, and none of whom deny the efficacy demonstrated by our independent clinical trials. If and when we are able to find the right strategic partnership with a pharmaceutical company or a nutraceutical company, then we will go into Phase III clinical trials and I believe we will be on our way to having the world's most effective smoking cessation aid.

Again, I believe these areas will increase shareholder value beyond any of the things that John is reporting on this quarter. All of the things that we have done in setting up our factory, obtaining MSA compliance and achieving state directory listings in all 50 states in the U.S., all of these things have been setting the table and preparing our Company to be able to market our products with the strength and the leverage that modified risk authorization will provide... and hopefully to ultimately prepare products according to FDA protocol and good manufacturing practices to actually produce a prescription product available at pharmacies across the country.

In short, we are building a multi-billion dollar company and though many of you have been as disappointed as we have with short term fluctuations in the company's share price, we really do not concern ourselves with day-to-day movements in the stock price. As one of the Company's largest shareholders, I do not know if the stock will be \$10 in a day, a week, a month or a year. Eventually, though, I am quite confident that the street will realize the value of our technology and of our science, and our share price will appreciate dramatically.

The analyst at Chardan has a \$9 price target and we hope to far exceed that over time. In my opinion, it is a matter of when not if we will succeed. In any case, thank you for joining me this morning. I appreciate it. We will open up the call for questions and I will address any concerns you may have.

Operator: At this time if you would like to ask a question, please press the star and 1 on your touch-tone telephone. You may withdraw your question at any time by pressing the pound key. Once again, to ask a question please press star and 1 on your touch-tone phone. We will take our first question from Jim McIlree from Chardon Capital. Your line is open.

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

Henry Sicignano: Hello Jim.

Jim McIlree: For the MAGIC in Europe are you going to be stuck with some inventory that you have to write off or redeploy?

Henry Sicignano: No we will not, Jim. We are selling through the inventory we have in Spain and we have not made additional quantities of MAGIC precisely because we are going to be changing the structure of the cigarette.

Jim McIlree: And the timeframe for getting the newly designed cigarette to Spain?

Henry Sicignano: Well we are going to launch likely in Holland before we replace inventory in Spain and I think it will be very soon that we launch the new product in Holland. We will sell through the Spanish product and replace it as it sells with the new product, which process will start in the coming months.

Jim McIlree: What brought about the realization that it was the taste that was objected to by consumers?

Henry Sicignano: I do not think it was objected to. I simply think we will have higher conversions of consumers. Really the product has been out less than six months so I am not sure we have enough data to say that it has been objectionable. What we found is that simply the taste is more intense -- even as a 0.0 milligram nicotine cigarette -- than conventional European cigarettes. We are not trying to be something we are not. Rather, we thought that if we could make the products more consistent with European taste, then we would simply do better there.

The early feedback came from shop owners in stores across Spain where we launched the product and we decided to act on that rather than pushing -- as I mentioned American Spirit at least when I was part of the company, they went forward with American Spirit being an American tasting cigarette and simply put forward the additive free claim. If someone was interested in the

additive free claim, then they accepted the American tasting cigarette and they smoked the product.

I think we could do the same thing with MAGIC Zero. Then again if we are able to change or lessen the intensity of the cigarette, then I think we will simply do better... faster.

Jim McIlree: Okay got it. The press release yesterday said that you're in 600 stores now for RED SUN.

Is that the 600 that you are aware of or is that your guestimate of how many you are at right now?

Henry Sicignano: It is the 600 stores that we are aware of. We are probably in some hundreds more stores than that, but 600 stores are what we are aware of. Again, I have been focusing on select markets so people on the call, depending on what area you are in, you might not see our product in any of the stores in your area. We are focusing in the Pacific Northwest, California, Colorado and select markets in the East, but really our strategy is to focus first on market-leading stores in markets that will be susceptible or amendable to a product like ours.

Jim McClere: Okay great, just a couple more questions if you do not mind. Can you discuss further the Anandia developments? I am not exactly sure what you are trying to accomplish with that and when that would be accomplished.

Henry Sicignano: Sure. It is a good problem to have when you have more technology and more opportunities than time and resources to address them all. That is where we are. We are constantly juggling priorities and opportunities that the Company has and, as I discussed earlier in the year, our mission is to reduce the harm cost by smoking. That is our primary mission. That is how the Company was established and that is going to be our focus.

On the other hand, we have some incredible intellectual property associated with cannabis. We are not going to let that die on the vine. Taking into account that the product is not yet legal on

the federal level in the United States, we obviously cannot pursue a whole host of commercial opportunities in the United States... yet. But we are going to pursue developments of our opportunity in cannabis in Canada with our partners at Anandia.

Most recently, you have probably seen a press release announcing that we brought on Dr. Paul Rushton, who is a plant biochemist and has a significant interest in cannabis. Bringing him to 22nd Century not only strengthened our bench, but also adds someone to the team who has interest and ability in the cannabis world. Dr. Rushton has interest and has already invited the principals of Anandia for a summit here in Buffalo in November. We will be spending time with the Anandia principals and mapping out a priority list of projects going forward into 2016. As time and financial resources allow, we are going to exploit those opportunities.

Jim McIlree: It is most likely something that will generate business in Canada first and then you will wait until the U.S. federal government decides what to do about the Schedule I designation?

Henry Sicignano: That is pretty much true, unless of course if we develop a THC-free hemp product, then it could be exploited in the United States very readily and very soon.

Jim McIlree: Great. My last one. You settled with the former CEO. Will that a result in any cash or non-cash charges this quarter and next?

Henry Sicignano: No, it will not.

Jim McIlree: Okay great. Thanks a lot.

Henry Sicignano: Thanks Jim.

Operator: Thank you. We'll move next to Lawrence Andros. Your line is open.

Henry Sicignano: Good morning.

Lawrence Andros: Good morning. This is Larry Andros from Dallas. My concern is with the results of the poor sales. There was a \$500,000 loss of any profit in the sales on the products and I am wondering if there is a need for stronger marketing. I will give you an example.

I have traveled around the Dallas area and the near Texas area and I cannot find anybody selling 22nd Century products like Red Sun, MAGIC or any of those products. Is there a need for stronger marketing?

Henry Sicignano: That is a good question and the question touches on several important points. I guess we will start with the loss that you are talking about, which is primarily related to the fact that we have more capacity in the factory than we are currently utilizing making all of our products, both the Company's proprietary brands as well as contract cigarettes and cigars.

As you see our sales continue to grow, then that loss will evaporate. I appreciate your question and we should all have the sense of urgency about eliminating those losses, but such losses will not be eliminated until we absorb all that excess capacity. In terms of marketing the products and selling them, what we are doing is we are marketing the products in strategic locations where those products will be most readily received. I have been to Dallas many times and the Dallas market is a very high end, but it is different from the markets that might be most receptive to our products.

Our products make more sense in forward-thinking, college-oriented, young mobile markets where people are trying new things and they are on the forefront of new technology and new products. The folks in the West, in California and the Pacific Northwest and even the folks -- the rugged individuals -- in Colorado and the people who really appreciate fiercely independent small

companies, all of those kinds of folks are really the folks we are going to be targeting with our RED SUN product.

Now... if and when -- I actually believe when -- we achieve modified risk authorization from the FDA, then everything changes. Right now essentially what we are establishing is a base of business and we are absorbing some of our capacity at the factory. When we have a modified risk authorization to market our products as reduced exposure products with the world's lowest nicotine tobacco cigarette, we will pursue several additional sales channels.

Ultimately I think that these products should then be made available to smokers in every state in every city across the country. I think smokers would be very receptive to our reduced exposure product. As I mentioned in our preliminary remarks, we are building a base and we are going to exploit that base when we have authorization to market our products with all the tremendous product attributes that these products have. Right now our hands are tied. We cannot -- yet -- really communicate to consumers how extraordinary our very low nicotine cigarettes are.

Lawrence Andros: Henry, I appreciate your answer. I think you are doing a great job and I wish you great success and we will sit back and be patient knowing that you will be successful. Thank you.

Henry Sicignano: Thank you very much. I appreciate that.

Operator: Thank you. We'll move next to Alan Brochstein. Your line is open.

Alan Brochstein: Hello Henry. Thank you for taking my call.

Henry Sicignano: Good morning.

Alan Brochstein: I focus on the cannabis space so that will be the line of my questions and I appreciate the responses that you gave to Jim. When you took over a year ago that was right after the Anandia deal had been announced and you tabled it. I am curious why you are really engaged in cannabis. What changed in your mind to give you the confidence to move forward with that project?

Henry Sicignano: I guess the biggest answer is was just a matter of priorities at that time. Over the last year, our primary priority has been to establish a base case, especially in the United States, for RED SUN to get our factory going and to start to absorb the capacity that we have at our factory and to introduce a product in Europe, essentially to get all those parts of our business up and running.

Until the last couple of months our primary scientific officer, Dr. Michael Moynihan, was really the extent of the scientific staff we have and he was spread very thin across all of these different products. You can broaden that to include our modified risk application, X-22 and then essentially establishing growing programs from scratch outside of the United States. Dr. Moynihan was focused on all of these disparate projects and I simply did not think that there was enough time or resources nine months ago to really give cannabis its due.

Now, again with the added strength of Dr. Rushton... and we also have another person, Gregg Gellman, who is our Director of New Business and Regulatory Affairs helping Mike Moynihan... I think we now have more management capacity and I think we are ready to start to look at cannabis. As I mentioned earlier, however, we are going to obviously focus work and research that needs to be done on cannabis in Canada.... and it is premature to start talking about product launches in the United States.

Alan Brochstein: Sure. Do you have an estimate of how much you are willing to invest in this effort?

Henry Sicignano: Well, at this point, no. But, in the coming weeks as I mentioned earlier, the principals from Anandia will be coming to visit us here in Buffalo and the agenda of our meetings is to set out the priorities over the next two or three years and to start to map out budgets. I am not sure we have the money to do every project that we would like to do that is cannabis related, but we certainly would like to attack the top two or three projects and we would like to allocate the appropriate money behind those projects.

Alan Brochstein: I think Jim was eluding to this, but do you have a timeframe for when you can actually have a product in Canada?

Henry Sicignano: The earliest product that is probably eligible for the market will likely be a hemp product and I cannot tell you definitively but I would have to guess that it would be at least a year away.

Alan Brochstein: Okay one last question. As I look at your financials.... I apologize...I am really trying to get up to speed on your Company. There is still a cash burn and I know you have some cash on the balance sheet and you have some more warrants that if the stock price holds up could be exercised. Do you have an estimate of when your Company can get to cash flow positive and not burning cash any longer given that in terms of time or revenue level or anything like that?

Henry Sicignano: As John mentioned, excluding potentially \$7 million in BAT milestone payments and excluding any deposits we receive from a strategic partner for X-22 or potentially Brand A, excluding all of those payments, then we have cash that will last us through the beginning of next summer.

In terms of a going concern, a consumer product business that is generating profitable sales, then that is really going to depend, in my opinion, on a modified risk authorization. If we get a modified risk authorization or when we get a modified risk authorization, then I think we will become

profitable very quickly. Without that authorization, we are going to invest slowly and carefully because to do otherwise would be imprudent.

Alan Brochstein: Okay. Thank you so much and congratulations on getting that litigation resolved as well.

Henry Sicignano: Thanks very much.

Operator: Thank you. We will take our next question from Rex Wiggins. Your line is open.

Rex Wiggins: Yes. Good job Henry. I love the strategic direction you have gone in. I think the only thing I would add, and I think you are starting to do this more if I heard it right about the quarter percent market share equals \$1 billion valuation. If you did get the FDA authorization, then 2% to 4% market share would be nothing and if you are doing that math, then you are way up there in the billions of dollars.

Your current market cap is not reflective of that. Why look at cigarette sales? If you did not even have that part of the business, then your market cap probably would be higher if you were truly looked at as a biotech firm. So I would just do -- going to conferences, going to Biotech conferences. I heard you put the pedal to the metal on getting more clinical trials in a partnership.

I am telling you what you already know, but I am going on a dramatically aggressive valuation of the Company and of course right now this is a good time for people to buy into the stock. You guys have settled with the past CEO ((inaudible)) they do a lot of ((inaudible)) guys. Maybe they can issue some more to institutional investors in the biotech space. I think the more you couch yourself as a biotech, then the much higher your stock price will be as opposed to people worrying about whether you made \$1 million or lost \$1 million. Anyway good job and I like the direction you are going.

Henry Sicignano: Thank you very much. I could not have said it better. You are exactly correct. We often scratch our heads because we believe that people should look at our Company as a biotechnology company. Our factory and the sales that we have with RED SUN and MAGIC, all of that is simply a precursor to when we have a modified risk authorization with our proprietary products.

It is preparation. That is all it is. It is preparation, having a factory, having MSA, having 50 state directory listings, and having relationships with more than a dozen distributors across the country and hundreds of stores across the country. All of these things are simply setting up the Company to exploit the opportunity once we are awarded a modified risk authorization.

You are exactly right. Frankly, the biotech investors and the pharmaceutical companies that we speak with, they do in fact recognize that our Company is drastically undervalued and several have told me over the last month that they are making substantial investments in our Company stock on the open market precisely because they believe that our Company's \$100 million market valuation is quite low given our opportunities and our potential with both modified risk and smoking cessation. Thank you very much. I think your comments are spot on.

Rex Wiggins: Good job. Keep it up.

Operator: Thank you. We will move next to Akash Patel. Your line is open.

Akash Patel: Hello Henry. I have a question regarding the application for the modified risk authorization from FDA. I understand it does take some time, but if it is rejected, do you guys have a Plan B for marketing the MAGIC product in the U.S.?

Henry Sicignano: No. There is no plan B. We do not believe it is possible to reject our application to be very honest. I do not mean to be too bold here, but we have the world's lowest nicotine cigarette. It has 95% less nicotine than conventional brands. We are simply asking to make the claim that it is a reduced exposure product.

We think it is simply impossible to deny that request. It is irrefutably a reduced exposure product. Now how long that takes and what we need to go through, I am not sure yet. We believe that it will be 12 months perhaps and we made the strategic hire of Gregg Gellman, who is going to shepherd the product and the application through the FDA regulatory approval process to address any concerns that they might have, as early as we possibly can.

Public health officials, researchers and anyone else who looks at our technology and our product agrees unanimously that no one can deny that we have a reduced exposure cigarette. That is precisely the claim that we are asking for.

Akash Patel: You guys are not applying for the reduced risk statement on the cigarette? It is only reduced exposure?

Henry Sicignano: Right. Reduced exposure is essentially a subcategory of modified risk tobacco products. We will be regulated as modified risk tobacco product, but the claim that we are seeking is as a reduced exposure product.

Akash Patel: Okay that is good to hear. I am excited about your product. I am a pharmacist and this I can tell you guys that there is not really anything effective for smoking cessation. This looks like something very promising, so keep up the good work.

Henry Sicignano: We appreciate that and it is very promising. We have been speaking to more and more pharmacists companies who happen to own pharmacies and they are telling us the same

thing. They are telling us that there is a tremendous unmet medical need in smoking cessation and our products could really disrupt the entire marketplace. Thank you very much.

Akash Patel: Thank you.

Operator: Thank you. We will take our next question from Marion Green. Your line is open.

Marion Green: Good morning. So far very good work and a great job.

Henry Sicignano: Thank you.

Marion Green: Very great job. I am very happy. I am just curious. Is anything going on with the cigar industry?

Henry Sicignano: Well that is a great question and, to be very honest, not yet. As I mentioned earlier, there is a long list of great projects that we could work on. We are focusing our time and our resources on really the lowest hanging fruit right now.

I think the most strategic near term catalysts are business opportunities that are clearly modified risk and perhaps our X-22 smoking cessation aid. Those are really the brunt of our near term focus. Cannabis is probably a second to those priorities, and then of course all our commercial business, domestically and internationally, is going to simply support all of those main priorities. Cigars is an interesting opportunity.

I spoke with an investor recently who was asking about taking the caffeine out of tea in much the same way that we have taken the nicotine out of tobacco. There are a host of incredible opportunities that could use our proprietary technology and we appreciate you pointing out yet another.

Marion Green: Thank you so much.

Henry Sicignano: Okay. Have a good day.

Marion Green: You too. Have a very good day.

Operator: Thank you. We will move now to Wesley Smith. Your line is open.

Wesley Smith: Good morning.

Henry Sicignano: Good morning.

Wesley Smith: Yes. Is one of the scientists there at the table?

Henry Sicignano: No, not right now. I am sorry. We do not have a scientist in the room; too many lawyers taking up all the seats here.

Wesley Smith: Well the reason why I am calling is the plants we have. Could that be used for the entire tobacco plant family? Is that just the tobacco plant because people who have Parkinson's disease, the only thing that seems to help them is the nicotine. We could raise the nicotine in tomatoes or green peppers or people who have Parkinson's could smoke our cigarettes. It seems to be the only thing that helps them.

Henry Sicignano: That is an interesting point and I apologize. We do not have one of our scientists in the room right now. It sounds like you appreciate all that we are working on. We have the capacity to grow the world's highest nicotine content tobacco plants. It is conceivable that our technology certainly – it is a similar technology in the cannabis plant -- and it is conceivable that our

technology could be used in other plants. I am not going to say anymore about that topic without counsel of our scientists. Thank you for raising the issue and we will certainly give some thought to that.

Wesley Smith: Thank you sir. Good bye.

Henry Sicignano: Okay, goodbye.

Operator: Thank you. As a reminder if you would like to ask a question today, please press the star and 1 on your touch-tone phone. We will move next to Elliot Robbins. Your line is open.

Elliot Robbins: Hello Henry, small investor here in Chicago. Very excited about a lot of the developments that are underway, a little concerned about the cash position. We fell off from \$8.2 million to \$6.7 million from June 30th of this year to September 30th. Only cash on-hand and revenue that is coming are believed to last for the next nine months as opposed to a year, which we typically like to hear.

As you sit here now, do you have any plans toward any capital needs? Do you believe you need to raise capital after nine months in order to keep your level of investment and operating expenses up?

Henry Sicignano: We have no current plans to do so. As John mentioned, cash on-hand, expected revenues and whatever profits from sales are what get you to your 12-month cash number. What John also mentioned is that the 12-month cash number excludes potential payments from BAT of up to \$7 million and excludes any deposits or payments from any partner associated with X-22 or with an international license.

My answer to you is we have no current plans. I would be disappointed if we did not have some other extraordinary source of cash in the next six months and I will also remind you that I am a large shareholder and the last thing that I like to see is dilution. So rest assured that we will be doing everything that we can to generate sales, profits and royalties that will preclude the need for us to raise additional funds.

Elliot Robbins: Just one quick follow up. Can you shed any light on that \$7 million milestone that would have to be achieved to get that BAT money? Can you elaborate on that at all?

Henry Sicignano: There are actually four separate BAT milestones, each of them generating between \$1.5 and \$2.0 million in cash payments to our Company. Two of the milestones are related to very low nicotine tobacco and two other milestones are related to high nicotine tobacco. All I can say about those things are that we are in constant communication with BAT and that BAT is working diligently on the science that it needs to perform in order to achieve those milestones. 22nd Century is prepared to assist in any way that we can.

Elliot Robbins: Very good and then one separate area of questioning. I was pleased to hear that things have been resolved with Pandolfino and that he is going to be added as a consultant. One thing as a shareholder that I am trying to figure out is how many millions of shares he actually still continues to hold. I understand that he cannot continue to sell shares for another year, but is that something that the public can be informed about? At one point he was a holder of over 6 million shares.

Henry Sicignano: I cannot speak for Joe. I am not going to speak for Joe, but I believe - and I am not 100% certain, that Joe owns in the neighborhood of 5.5 million shares today. Some of the numbers you are referencing might include warrants or options, but I believe he owns approximately 5.5 million shares, but I certainly cannot and will not speak for Joe.

I can say that I believe, as the Company's second largest shareholder, that Joe very much wants to increase shareholder value in the near term and in the long term. Obviously, he would like to see those shares at a price of \$10 or \$20 or \$30 a share as opposed to the dollar and whatever they are today. I know that is Joe's mindset. I know that he will be valuable to the Company as a consultant working on some very special projects. I know because Joe has signed a lock-up agreement that he will not be selling shares until at least the beginning of 2017.

Elliot Robbins: Henry your enthusiasm is palpable. I appreciate your candor and I am excited about the future of this Company.

Henry Sicignano: Well thank you so much. We appreciate having you as an investor.

Elliot Robbins: Thank you.

Operator: Thank you. This does conclude our call today. I would like to thank everyone for your participation and you may disconnect at any time.

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