

22nd Century Group, Inc.
Form 10-Q
January 19, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2010

or

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: 333-130696

22ND CENTURY GROUP, INC.
(Exact name of Registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

98-0468420
(IRS Employer Identification No.)

11923 SW 37 Terrace
Miami, Florida 33175
(Address of principal executive offices)

(305) 677-9456
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one).

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of January 17, 2011, there were 17,356,590 shares of the issuer's common stock, par value \$0.00001, outstanding.

22ND CENTURY GROUP, INC.

FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2010
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's September 30, 2010 Form 10-K filed with the SEC on December 1, 2010. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the periods presented have been reflected herein. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

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22nd Century Group, Inc.
(A Development Stage Company)

Balance Sheets

| | As of December 31, 2010 (Unaudited) | As of September 30, 2010 |
|---|--|--------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 24 | \$ 323 |
| Total current assets | 24 | 323 |
| Non-Current Assets | | |
| Mineral property reclamation bond (Note 5) | 4,330 | 4,330 |
| TOTAL ASSETS | \$ 4,354 | \$ 4,653 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 49,803 | \$ 55,450 |
| Notes payable – stockholders (Note 6) | 112,327 | 112,327 |
| Accrued interest, notes payable – stockholders (Note 6) | 14,824 | 11,277 |
| Total current liabilities | 176,954 | 179,054 |
| Long-Term Liabilities | | |
| Note payable – stockholder (Note 6) | 50,000 | - |
| TOTAL LIABILITIES | 226,954 | 179,054 |
| STOCKHOLDERS' DEFICIT | | |
| Capital Stock (Note 3) | | |
| Authorized: | | |
| 10,000,000 preferred shares, \$0.00001 par value | | |
| 300,000,000 common shares, \$0.00001 par value | | |
| Issued and outstanding shares: | | |
| 0 preferred shares | - | - |
| 17,356,590 common shares | 174 | 174 |
| Capital in excess of par value | 146,328 | 146,328 |
| Deficit accumulated during the development stage | (369,102) | (320,903) |
| Total stockholders' deficit | (222,600) | (174,401) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 4,354 | \$ 4,653 |

The accompanying notes are an integral part of these financial statements.

22nd Century Group, Inc.
(A Development Stage Company)

Interim Statements of Operations
(Unaudited)

| | Three Months Ended December 31, 2010 | 2009 | Cumulative from Inception (September 12, 2005) to December 31, 2010 |
|--|--|-------------|---|
| Income | \$ - | \$ - | \$ - |
| Expenses | | | |
| Mineral property costs | - | - | 38,434 |
| Professional fees | 44,652 | 15,509 | 286,707 |
| Office and administrative | - | 2,005 | 28,683 |
| Total Operating Expenses | 44,652 | 17,514 | 353,824 |
| Other Income (Expense) | | | |
| Foreign currency transaction loss | - | - | (470) |
| Interest income | - | - | 16 |
| Interest expense | (3,547) | (1,663) | (14,824) |
| Total Other Income (Expense) | (3,547) | (1,663) | (15,278) |
| Net Loss Applicable to Common Shares | \$ (48,199) | \$ (19,177) | \$ (369,102) |
| Basic and Diluted Loss per Common Share | \$ (0.00) | \$ (0.00) | |
| Weighted Average Number of Common Shares Outstanding | 17,356,590 | 17,356,590 | |

The accompanying notes are an integral part of these financial statements.

22nd Century Group, Inc.
(A Development Stage Company)

Interim Statements of Cash Flows
(Unaudited)

| | Three Months Ended December 31, | | Cumulative From Inception (September 12, 2005) to December 31, |
|---|---------------------------------|-------------|---|
| | 2010 | 2009 | 2010 |
| Cash Flow from Operating Activities: | | | |
| Loss for the period | \$ (48,199) | \$ (19,177) | \$ (369,102) |
| Adjustments to reconcile net loss to net cash used in operations: | | | |
| Changes in operating assets and liabilities: | | | |
| Decrease in withholding tax receivable | - | 1 | - |
| Increase (decrease) in accounts payable and accrued liabilities | (5,647) | 17,513 | 49,803 |
| Increase in accrued interest, notes payable – stockholders | 3,547 | 1,663 | 14,824 |
| Net cash used in operating activities | (50,299) | - | (304,475) |
| Cash Flows from Investing Activities: | | | |
| Mineral property reclamation bond | - | - | (4,330) |
| Net cash used in investing activities | - | - | (4,330) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from notes payable – stockholders | 50,000 | - | 162,327 |
| Proceeds from notes payable – related party | - | - | 34,502 |
| Issuance of common stock | - | - | 112,000 |
| Net cash provided by financing activities | 50,000 | - | 308,829 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (299) | - | 24 |
| Cash and Cash Equivalents – Beginning of Period | 323 | - | - |
| Cash and Cash Equivalents – End of Period | \$ 24 | \$ - | \$ 24 |
| Supplemental Cash Flow Disclosure: | | | |
| Cash paid for interest | \$ - | \$ - | \$ - |
| Cash paid for income taxes | \$ - | \$ - | \$ - |
| Non-Cash Financing and Investing Activities: | | | |
| Note payable – related party converted to common stock | \$ - | \$ - | \$ 34,502 |

The accompanying notes are an integral part of these financial statements.

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

1. Organization

22nd Century Group, Inc. (the “Company”) was incorporated on September 12, 2005 in the State of Nevada, USA, and is based in Miami, Florida. The Company was originally incorporated as Touchstone Mining Limited and changed its name to 22nd Century Group, Inc. on November 23, 2010. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America, and the Company’s fiscal year end is September 30.

The Company was initially incorporated for the purpose of engaging in the acquisition, exploration, and development of mineral resource properties. The Company has obtained the right to conduct exploration work on ten mineral mining claims in Humboldt County, Nevada, USA. Prior to this, the Company’s activities have been limited to its formation, the raising of equity capital, and its mining exploration work program. Although the Company has not disposed of its interest in its mining properties (Note 5), it has discontinued exploration on the property and is actively seeking other ventures of interest that may include, but not be limited to, mergers, acquisitions, or similar transactions.

Development Stage Company

The Company is considered to be in the development stage as defined in FASC 915-10-05 “Development Stage Entities.”

2. Significant Accounting Policies

Use of Estimates

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company’s periodic filings with the Securities and Exchange Commission include, where applicable, disclosures of estimates, assumptions, uncertainties, and markets that could affect the financial statements and future operations of the Company.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, money market funds, and certificates of term deposits with maturities of less than three months, which are readily convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of loss in value. The Company had \$24 and \$323 in cash and cash equivalents at December 31, 2010 and September 30, 2010, respectively.

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

2. Significant Accounting Policies (continued)

Mineral Acquisition and Exploration Costs

The Company has been in the development stage since its formation on September 12, 2005 and has not yet realized any revenue from its planned operations. It has been primarily engaged in the acquisition, exploration, and development of mining properties. Mineral property acquisition and exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property are capitalized. Such costs will be amortized using the units-of-production method over the estimated life of the probable reserves.

Start-Up Costs

In accordance with FASC 720-15-20 "Start-up Costs," the Company expenses all costs incurred in connection with the start-up and organization of the Company.

Net Income or (Loss) Per Share of Common Stock

The Company has adopted FASC 260-10-20, "Earnings per Share," ("EPS") which requires presentation of basic and diluted EPS on the face of the statements of operations for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. In the accompanying financial statements, basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. The Company has no potentially dilutive securities, such as options or warrants, currently issued and outstanding. The potential conversion of the notes payable in Note 6 would have an antidilutive effect on EPS due to the Company's accumulated losses.

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended December 31, | |
|--|---------------------------------|-------------|
| | 2010 | 2009 |
| Net loss applicable to common shares | \$ (48,199) | \$ (19,177) |
| Weighted average common shares | | |
| Outstanding (Basic) | 17,356,590 | 17,356,590 |
| Options | - | - |
| Warrants | - | - |
| Weighted average common shares outstanding (Basic and Diluted) | 17,356,590 | 17,356,590 |
| Net loss per share (Basic and Diluted) | \$ (0.00) | \$ (0.00) |

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk primarily consist of its cash and cash equivalents and related party payables it will likely incur in the near future. The Company places its cash and cash equivalents with financial institutions of high credit worthiness. At times, its cash and cash equivalents with a particular financial institution may exceed any applicable government insurance limits. The Company's management plans to assess the financial strength and credit worthiness of any parties to which it extends funds, and as such, it believes that any associated credit risk exposures are limited.

Risks and Uncertainties

The Company previously operated in the resource exploration industry that is subject to significant risks and uncertainties, including financial, operational, technological, and other risks associated with operating a resource exploration business, including the potential risk of business failure.

Environmental Expenditures

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for future reclamation and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. All of these types of expenditures incurred since inception have been charged against earnings due to the uncertainty of their future recoverability. Estimated future reclamation and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries.

Recently Issued Accounting Pronouncements

In June 2009, the FASB established the Accounting Standards Codification ("Codification" or "ASC") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") issued under authority of federal securities laws are also sources of GAAP for SEC registrants. Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact our financial statements. The ASC does change the way the guidance is organized and presented.

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

2. Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

Statement of Financial Accounting Standards (“SFAS”) No. 165 (ASC Topic 855), “ Subsequent Events, ” SFAS No. 166 (ASC Topic 810), “ Accounting for Transfers of Financial Assets-an Amendment of FASB Statement No. 140, ” SFAS No. 167 (ASC Topic 810), “ Amendments to FASB Interpretation No. 46(R) ,” and SFAS No. 168 (ASC Topic 105), “ The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles- a replacement of FASB Statement No. 162 ” were recently issued. SFAS No. 165, 166, 167, and 168 have no current applicability to the Company or their effect on the financial statements would not have been significant.

Accounting Standards Update (“ASU”) ASU No. 2009-05 (ASC Topic 820), which amends Fair Value Measurements and Disclosures – Overall, ASU No. 2009-13 (ASC Topic 605), Multiple Deliverable Revenue Arrangements, ASU No. 2009-14 (ASC Topic 985), Certain Revenue Arrangements that include Software Elements, and various other ASU’s No. 2009-2 through ASU No. 2010-29 which contain technical corrections to existing guidance or affect guidance to specialized industries or entities were recently issued. These updates have no current applicability to the Company or their effect on the financial statements would not have been significant.

3. Stockholders’ Equity

Authorized Stock

At inception, the Company authorized 100,000,000 common shares with a par value of \$0.00001 per share. Each common share entitles the holder to one vote, in person or proxy, on any matter on which action of the stockholders of the corporation is sought.

Effective November 23, 2010, the Company increased the number of authorized shares to 310,000,000 shares, of which 300,000,000 shares are designated as common stock par value \$0.00001 per share, and 10,000,000 shares are designated as preferred stock, par value \$0.00001 per share.

Effective the close of business on November 29, 2010 the Company effected a 2.782:1 forward stock split in the form of a dividend. In connection therewith, all shareholders of record at the close of business on November 29, 2010 received an additional 1.782 shares of the Company’s common stock for each share held by them. This resulted in the issuance of an aggregate of 11,117,701 shares. Following such issuance, we had 17,356,590 shares issued and outstanding. All descriptions of share issuances give retroactive effect to the forward stock split.

Share Issuances

Since inception (September 12, 2005), the Company has issued 8,624,200 common shares at \$0.007 per share for \$62,000 in cash, and 386,390 common shares at \$0.13 per share for \$50,000 in cash, for total proceeds of \$112,000. The Company also issued 8,346,000 common shares at \$0.004 per share in satisfaction of debt of \$34,502. There were 17,356,590 common shares issued and outstanding at December 31, 2010 and September 30, 2010.

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

4. Provision for Income Taxes

The Company recognizes the tax effects of transactions in the year in which such transactions enter into the determination of net income, regardless of when reported for tax purposes. Deferred taxes are provided in the financial statements under FASB ASC Topic 740-10-25 to give effect to the resulting temporary differences which may arise from differences in the bases of fixed assets, depreciation methods, allowances, and start-up costs based on the income taxes expected to be payable in future years.

Minimal development stage deferred tax assets arising as a result of net operating loss carryforwards have been offset completely by a valuation allowance due to the uncertainty of their utilization in future periods. Operating loss carryforwards generated during the period from September 12, 2005 (date of inception) through December 31, 2010 of \$369,102 will begin to expire in 2025. Accordingly, deferred tax assets of approximately \$129,200 (assuming an effective maximum statutory rate of 35%) were offset by the valuation allowance, which increased by approximately \$16,900 and \$6,700 during the three months ended December 31, 2010 and 2009, respectively.

The Company follows the provisions of uncertain tax positions as addressed in FASB ASC Topic 740-10-65-1. The Company recognized approximately no increase in the liability for unrecognized tax benefits.

The Company has no tax positions at December 31, 2010 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. No such interest or penalties were recognized during the periods presented. The Company had no accruals for interest and penalties at December 31, 2010.

5. Mineral Property Costs

By agreement dated November 23, 2005 with Mineral Exploration Services Ltd. (“MES”), the Company acquired an option to acquire a 100% interest in certain properties consisting of 10 unpatented mineral claims, known as the Boulder Claims (the “Property”) located in Humboldt County, Nevada, USA.

Upon execution of the agreement, MES transferred 100% interest in the mineral claims to the Company for \$50,000 to be paid, at the Company’s option, as follows:

| | Cash Payments |
|--|---------------|
| Upon signing of the agreement and transfer of title (paid) | \$ 3,500 |
| On or before November 23, 2006 (paid) | 3,500 |
| On or before November 23, 2007 | 8,000 |
| On or before November 23, 2008 | 10,000 |
| On or before November 23, 2009 | 10,000 |
| On or before November 23, 2010 | 15,000 |
| | \$ 50,000 |

22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

5. Mineral Property Costs (continued)

In August 2007, the Company reached an agreement with MES, whereby MES relinquished its rights to the Property. During the year ended September 30, 2008, the Company proceeded to stake the claims in its own name. The Company is no longer obligated to make the payments outlined above for 2007 through 2010, and is only responsible for maintaining the mineral claims in good standing by paying all the necessary rents, taxes, and filing fees associated with the Property. As of December 31, 2010, the Company met these obligations.

Although the Company has not disposed of its interest in the Property, it has discontinued exploration and is currently evaluating its options and is seeking other ventures of interest.

A \$4,330 reclamation bond has been paid to the Bureau of Land Management (BLM) in the State of Nevada. This bond will be held by the BLM until such time as it determines that the mineral property has been properly reclaimed and indigenous species of plants have been planted and are growing. Given the uncertainty of any future exploration and/or additional work on the property, that the Company will perform and the additional time needed before a BLM inspector can view the property, this bond has been accounted for as a non-current asset. Management estimates the costs to restore the property will be nominal and that the entire bond will be recovered as a result.

6. Notes Payable – Stockholders

On May 8, 2009 the Company received an \$80,000 unsecured loan from a minority stockholder of the Company, and in connection therewith issued an 8.25%, \$80,000 convertible promissory note dated May 8, 2009. If not converted, interest and principal were originally due at maturity on November 8, 2010, which date has been extended by both parties to May 8, 2011. The terms of conversion have not been determined but will be mutually determined by the Company and the holder.

On February 10, 2010, the Company received a \$32,327 unsecured loan from a minority stockholder of the Company, and in connection therewith issued a 10% convertible promissory note dated February 10, 2010. If not converted, interest and principal are due at maturity on August 9, 2011. The note is convertible at any time prior to maturity at a conversion price of approximately \$0.036 per share. The conversion price and the number of shares issuable upon conversion are subject to adjustment under certain circumstances including mergers, consolidations, reclassifications, stock splits, combinations, dividends and similar transactions. Further, the conversion price is subject to downward adjustment if the Company issues common stock or securities convertible into common stock at a price of less than \$0.036 per share at any time while the note remains outstanding. In such event, the conversion price under the note shall be reduced to such lower price.

On October 14, 2010, the Company received a \$50,000 loan from a minority shareholder of the Company, and issued a 10%, \$50,000 convertible promissory note dated October 14, 2010. If not converted, interest and principal are due at maturity on April 13, 2012. The note is convertible at any time prior to maturity at a conversion price of approximately \$0.036 per share. The conversion price and the number of shares issuable upon conversion are subject to adjustment under certain circumstances including mergers, consolidations, reclassifications, stock splits, combinations, dividends and similar transactions. Further, the conversion price is subject to downward adjustment if we issue common stock or securities convertible into common stock at a price of less than \$0.036 per share at any time while the note remains outstanding. In such event, the conversion price under the note shall be reduced to such

lower price.

Interest expense and accrued interest as of and for the three months ended December 31, 2010 totaled \$3,547 and \$14,824, respectively.

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22nd Century Group, Inc.
(A Development Stage Company)

Notes to Interim Financial Statements
December 31, 2010
(Unaudited)

7. **Going Concern and Liquidity Considerations**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. As of December 31, 2010, the Company had a working capital deficit of \$176,930 and an accumulated deficit of \$369,102. The Company intends to fund operations through debt and equity financing arrangements, which may be insufficient to fund its capital expenditures, working capital and other cash requirements for the next twelve months.

The ability of the Company to emerge from the development stage is dependent upon, among other things, obtaining additional financing to continue operations. In response to these problems, management intends to raise additional funds through public or private placement offerings.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

8. **Subsequent Events**

The Company has evaluated subsequent events from the balance sheet date through the date the financial statements were issued and determined there are no additional items to disclose.

ITEM 2.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Except for historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve risks and uncertainties, including, among other things, statements regarding our business strategy, future revenues and anticipated costs and expenses. Such forward-looking statements include, among others, those statements including the words “expects,” “anticipates,” “intends,” “believes” and similar language. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed herein as well as in the “Description of Business – Risk Factors” section in our Annual Report on Form 10-K for the year ended September 30, 2010. You should carefully review the risks described in our Annual Report and in other documents we file from time to time with the Securities and Exchange Commission. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements.

All references in this Form 10-Q to the “Company,” “22nd Century,” “we,” “us,” or “our” are to 22nd Century Group, Inc., and where context requires, its wholly owned subsidiaries, 22nd Century Acquisition Subsidiary, LLC and Touchstone Split Corp.

All references in this Form 10-Q to issued and outstanding shares give retroactive effect to a 2.782:1 forward stock split in the form of a dividend which was effected at the close of business on November 29, 2010. In connection therewith, all shareholders of record at the close of business on November 29, 2010 received an additional 1.782 shares of our common stock for each share held by them. This resulted in our issuance of an aggregate of 11,117,701 shares. Following such issuance we had 17,356,590 shares issued and outstanding.

General Overview

We were incorporated in the State of Nevada under the name Touchstone Mining Limited on September 12, 2005 to engage in the acquisition, exploration and development of mineral deposits and reserves. On November 23, 2005 we entered into a Mineral Claim Purchase Agreement (the “Agreement”) with Mineral Exploration Services, Ltd. (“MES”) pursuant to which we acquired an option to purchase certain unpatented mineral mining claims. The related property consisted of ten lode mineral claims located on approximately 200 acres in Humboldt County, Nevada. Under the terms of the Agreement, we agreed to pay MES an aggregate of \$50,000 over five years and to make exploration expenditures on the property of \$50,000 over the same five year period. During the initial exploration, no commercial quantities of gold or other minerals were discovered and in August 2007, we ceased exploration on the prospect. On August 16, 2007 we notified MES of our intention to return the property via a quit claim deed. At that time, MES informed us that it no longer wanted to retain the claim or the property and MES subsequently allowed such claim to lapse. Our Agreement with MES was terminated as of September 16, 2007. At the time of the termination, we had paid MES an aggregate of \$7,000 under the Agreement. In October 2007, we restaked the claims in the property and paid the necessary fees to the Bureau of Land Management. We temporarily lost our rights in the property for failure to pay filing and recording fees due on the property on September 1, 2009. On February 10, 2010 we restaked our claims in the property. The lease to the property is currently in our name. We do not claim to have any minerals or

reserves whatsoever at this time on any of the property. Our management has no current plans for the property at this time, and all of our exploration operations have been discontinued. Following the discontinuation of our planned mineral acquisition, exploration and development activities through the present, we have determined to look at other ventures of merit to enhance stockholder value. These ventures may involve sales of our debt or equity security in merger, acquisition, or similar transactions. To date, we have achieved no operating revenues and have yet to engage in any such ventures.

On October 5, 2010 we entered into a non-binding Letter of Intent with 22nd Century Limited, LLC, a Delaware limited liability corporation (“22nd Century”) regarding a possible business combination involving the two companies. At this stage, neither party is bound to proceed with the transaction. With the permission of 22nd Century and as provided below, on November 23, 2010 we changed our name to “22nd Century Group, Inc.” to facilitate these discussions. If the parties determine not to proceed with the business combination, we will change our name back to Touchstone Mining Limited or adopt another name.

As set forth in our Information Statement dated November 2, 2010 and filed with the Securities and Exchange Commission on the same date, which is incorporated herein by reference, our board of directors and stockholders owning a majority of our outstanding common stock, pursuant to signed written consents, each dated October 21, 2010, authorized and approved the following:

- Amended and Restated Articles of Incorporation (the “Charter Amendment”) which, among other things, (i) change our name to 22nd Century Group, Inc.; (ii) increase our authorized capitalization from 100,000,000 shares, consisting of 100,000,000 shares of common stock, \$0.00001 par value per share, to 310,000,000 shares, consisting of 300,000,000 shares of common stock, \$0.00001 par value per share, and 10,000,000 shares of blank check preferred stock, \$0.00001 par value per share; and (iii) limit the liability of our officers and directors, our stockholders and our creditors to the fullest extent permitted by Nevada law;
- Adoption of our 2010 Equity Incentive Plan (the “Plan Adoption”); and
- Transfer of our assets and liabilities to a split-off subsidiary to be transferred to our majority stockholder in consideration of the surrender of his shares of Company stock for cancellation (the “Split-Off”).

The Information Statement was mailed to our stockholders on November 2, 2010. In accordance with the regulations under the Securities Exchange Act of 1934, as amended, the Charter Amendment was filed with the Nevada Secretary of State on November 23, 2010. The Charter Amendment became effective upon filing. The Plan Adoption became effective upon its approval by the Company’s Board of Directors and a stockholder owning a majority of our common stock. The effective date of the Split-Off is not presently known and is dependent upon our proceeding with the business combination.

As the result of the name change to 22nd Century Group, Inc. our common stock is now quoted on OTC Markets and the OTC Bulletin Board under the symbol “XXII”.

Results of Operations

We conducted no material operations during the quarter ended December 31, 2010 and do not have any present operations. During the three month period ended December 31, 2010, we generated no revenues, we had total operating expenses of \$44,652 and we incurred a net loss of \$48,199. During the three month period ended December 31, 2009, we generated no revenues, we had total operating expenses of \$17,514, and we incurred a net loss of \$19,177.

Liquidity and Capital Resources

The report of our auditors on our audited financial statements for the fiscal year ended September 30, 2010 contains a going concern qualification as we have suffered losses since our inception. We have minimal assets and have achieved no operating revenues since our inception. We have depended on loans and sales of equity securities to conduct operations. As of December 31, 2010 and September 30, 2010, we had cash of \$24 and \$323, current assets of \$24 and \$323 and current liabilities of \$176,954 and \$179,054, respectively. Unless and until we commence

material operations and achieve material revenues, we will remain dependent on financings to continue our operations.

Plan of Operation

We were formed to engage in the acquisition, exploration and development of mineral deposits and reserves. We conducted minimal operations in this line of business and in August 2007 decided to discontinue operations in this area. We are presently inactive, but we are looking at ventures of merit for corporate participation as a means of enhancing stockholder value. This may involve sales of our equity or debt securities in merger or acquisition transactions.

We have minimal operating costs and expenses at the present time due to our limited business activities. Accordingly, absent changed circumstances, we will not be required to raise significant capital over the next twelve months, although we may do so in connection with or in anticipation of possible acquisition transactions. We do not currently engage in any product research and development and have no plans to do so in the foreseeable future. We have no present plans to purchase or sell any plant or significant equipment. We also have no present plans to add employees although we may do so in the future if we engage in any merger or acquisition transactions.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have not formed any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Our Disclosure Controls

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, David Rector, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to us, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of our business, we may from time to time become subject to routine litigation or administrative proceedings which are incidental to our business. We are not a party to nor are we aware of any existing, pending or threatened lawsuits or other legal actions involving us.

ITEM 1A.

RISK FACTORS

Not applicable.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We did not issue any equity securities during the quarter ended December 31, 2010.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.

(REMOVED AND RESERVED)

ITEM 5.

OTHER INFORMATION

Management

On November 22, 2010, Ronald Asirwatham resigned as our Director, Chief Executive Officer, Chief Financial Officer, President, Secretary and Treasurer. Mr. Asirwatham did not have any disagreement with us on any matter relating to our operations, policies or practices.

On November 22, 2010, our Board of Directors appointed David Rector as our Director, Chief Executive Officer, Chief Financial Officer, President, Secretary and Treasurer.

Loans

On May 8, 2009 we received an \$80,000 loan from a minority shareholder and in connection therewith issued an 8.25%, \$80,000 convertible promissory note dated May 8, 2009. On November 8, 2010 the note was amended to extend the maturity date. Subject to prior conversion, interest and principal are due on the note on May 8, 2011. The terms of conversion have not been determined but will be mutually determined by us and the holder.

On February 10, 2010, the Company received a \$32,327 unsecured loan from a minority stockholder of the Company, and in connection therewith issued a 10% convertible promissory note dated February 10, 2010. If not converted, interest and principal are due at maturity on August 9, 2011. The note is convertible at any time prior to maturity at a conversion price of approximately \$0.036 per share. The conversion price and the number of shares issuable upon conversion are subject to adjustment under certain circumstances including mergers, consolidations, reclassifications, stock splits, combinations, dividends and similar transactions. Further, the conversion price is subject to downward adjustment if the Company issues common stock or securities convertible into common stock at a price of less than \$0.036 per share at any time while the note remains outstanding. In such event, the conversion price under the note shall be reduced to such lower price.

On October 14, 2010 we received a \$50,000 loan from a minority shareholder and issued a 10%, \$50,000 convertible promissory note dated October 14, 2010. If not converted, interest and principal are due at maturity on April 13, 2012. The note is convertible at any time prior to maturity at a conversion price of approximately \$0.036 per share. The conversion price and the number of shares issuable upon conversion are subject to adjustment under certain circumstances including mergers, consolidations, reclassifications, stock splits, combinations, dividends and similar transactions. Further, the conversion price is subject to downward adjustment if we issue common stock or securities convertible into common stock at a price of less than \$0.036 per share at any time while the note remains outstanding.

In such event, the conversion price under the note shall be reduced to such lower price.

Forward Stock Split

Effective the close of business on November 29, 2010 we effected a 2.782:1 forward stock split in the form of a dividend pursuant to which shareholders of record at the close of business on November 29, 2010 received an additional 1.782 shares of our common stock for each share of common stock held by them. This resulted in our issuance of an aggregate of 11,117,701 shares. Following such issuance, we had 17,356,590 shares issued and outstanding.

2010 EIP

Effective October 21, 2010, our Board of Directors and stockholders holding a majority of our outstanding common stock approved our 2010 Equity Incentive Plan. The purpose of the 2010 Equity Incentive Plan is to attract and retain the best available personnel for positions of substantial responsibility; to provide incentives to individuals who perform services for us; and to promote the success of our business.

The 2010 Equity Incentive Plan reserves a total of 4,250,000 shares of our common stock for issuance under the 2010 Equity Incentive Plan. If an incentive award granted under the 2010 Equity Incentive Plan expires, terminates, is unexercised or is forfeited, or if any shares are surrendered to us in connection with an incentive award, the shares subject to such award and the surrendered shares will become available for further awards under the 2010 Equity Incentive Plan.

The number of shares of our common stock subject to the 2010 Equity Incentive Plan, any number of shares subject to any numerical limit in the Plan, and the number of shares and terms of any incentive award will be adjusted in the event of any change in our outstanding common stock by reason of any stock dividend, spin-off, split-up, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares or similar transaction.

Following the November 29, 2010 2.782:1 forward stock split in the form of a dividend, the number of shares reserved under the 2010 Equity Incentive Plan increased to 11,823,500 but our Board of Directors determined to reduce the number of shares reserved for issuance under the 2010 Equity Incentive Plan to 4,250,000.

Formation of Subsidiaries

On December 6, 2010 we formed 22nd Century Acquisition Subsidiary LLC, a Delaware limited liability corporation, as a wholly owned subsidiary. 22nd Century Acquisition Subsidiary, LLC has no present assets or liabilities and is presently inactive.

On December 6, 2010 we formed Touchstone Split Corp., a Delaware corporation, as a wholly owned subsidiary. Touchstone Split Corp. has no present assets or liabilities and is presently inactive.

ITEM 6.

EXHIBITS

In reviewing the agreements included as exhibits to this Form 10-Q, please remember that they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The following exhibits are included as part of this report:

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Certificate of Incorporation of Touchstone Split Corp., as filed with the Secretary of State of Delaware on December 6, 2010 |
| 3.2 | Certificate of Formation of 22nd Century Acquisition Subsidiary, LLC, as filed with the Secretary of State of Delaware on December 6, 2010 |
| 31.1 / 31.2 | Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive and Financial Officer |
| 32.1 / 32.2 | Rule 1350 Certification of Principal Executive and Financial Officer |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

22ND CENTURY GROUP, INC.

Dated: January 18, 2011

By:

/s/ David Rector
David Rector
President, Principal Executive and Financial
Officer