

Turning Point Brands, Inc.  
Form 10-Q  
May 01, 2019

---

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 March 31, 2019

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: 001-37763

TURNING POINT BRANDS, INC.  
(Exact name of registrant as specified in its charter)

Delaware 20-0709285  
(State or other jurisdiction of Incorporation or organization) (I.R.S. Employer Identification No.)

5201 Interchange Way, Louisville, KY 40229  
(Address of principal executive offices) (Zip Code)

(502) 778-4421  
(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: not applicable

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Edgar Filing: Turning Point Brands, Inc. - Form 10-Q

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

At April 22, 2019, there were 19,589,410 shares outstanding of the registrant's voting common stock, par value \$0.01 per share.

---

---

TURNING POINT BRANDS, INC.  
TABLE OF CONTENTS

	<u>Page No.</u>
<b><u>PART I—FINANCIAL INFORMATION</u></b>	
ITEM 1 Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets as of March 31, 2019, and December 31, 2018</u>	5
<u>Consolidated Statements of Income for the three months ended March 31, 2019 and 2018</u>	6
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	7
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	8
<u>Consolidated Statements of Stockholder’s Equity (Deficit) for the three months ended March 31, 2019 and 2018</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
ITEM 2 <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	28
ITEM 3 <u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
ITEM 4 <u>Controls and Procedures</u>	35
<b><u>PART II—OTHER INFORMATION</u></b>	
ITEM 1 <u>Legal Proceedings</u>	36
ITEM 1A <u>Risk Factors</u>	36
ITEM 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
ITEM 3 <u>Defaults Upon Senior Securities</u>	36
ITEM 4 <u>Mine Safety Disclosures</u>	36
ITEM 5 <u>Other Information</u>	36
ITEM 6 <u>Exhibits</u>	37
<b><u>Signatures</u></b>	38

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements may generally be identified by the use of words such as “anticipate,” “believe,” “expect,” “intend,” “plan,” and “will” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. By their nature, forward-looking statements involve risks and uncertainties because they relate to events, and depend on circumstances, that may or may not occur in the future. As a result, actual events may differ materially from those expressed in, or suggested by, the forward-looking statements. Any forward-looking statement made by Turning Point Brands, Inc. (“TPB”), in this Quarterly Report on Form 10-Q speaks only as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for TPB to predict these events or how they may affect it. TPB has no obligation, and does not intend, to update any forward-looking statements after the date hereof, except as required by federal securities laws. Factors that could cause these differences include, but are not limited to:

- declining sales of tobacco products, and expected continuing decline of sales, in the tobacco industry overall;
- our dependence on a small number of third-party suppliers and producers;
- the possibility that we will be unable to identify or contract with new suppliers or producers in the event of a supply or product disruption;
- the possibility that our licenses to use certain brands or trademarks will be terminated, challenged or restricted;
- failure to maintain consumer brand recognition and loyalty of our customers;
- substantial and increasing U.S. regulation;
- regulation of our products by the FDA, which has broad regulatory powers;
- our products are subject to developing and unpredictable regulation;
- our products contain nicotine which is considered to be a highly addictive substance;
- uncertainty related to the regulation and taxation of our NewGen products;
- possible significant increases in federal, state and local municipal tobacco- and vapor-related taxes;
- possible increasing international control and regulation;
- our reliance on relationships with several large retailers and national chains for distribution of our products;
- our amount of indebtedness;
- the terms of our credit facilities, which may restrict our current and future operations;
- intense competition and our ability to compete effectively;
- uncertainty and continued evolution of markets containing our NewGen products;
- significant product liability litigation;
- some of our products are subject to developing and unpredictable regulations;
- the scientific community’s lack of information regarding the long-term health effects of electronic cigarette, vaporizer and e-liquid use;
- requirement to maintain compliance with master settlement agreement escrow account;
- competition from illicit sources;
- our reliance on information technology;
- security and privacy breaches;
- contamination of our tobacco supply or products;
- infringement on our intellectual property;
- third-party claims that we infringe on their intellectual property;
- failure to manage our growth;
- failure to successfully integrate our acquisitions or otherwise be unable to benefit from pursuing acquisitions;
- fluctuations in our results;
- exchange rate fluctuations;
- adverse U.S. and global economic conditions;
- sensitivity of end-customers to increased sales taxes and economic conditions;
- failure to comply with certain regulations;

- departure of key management personnel or our inability to attract and retain talent;
- imposition of significant tariffs on imports into the U.S.;
- reduced disclosure requirements applicable to emerging growth companies may make our common stock less attractive to investors, potentially decreasing our stock price;
- failure to maintain our status as an emerging growth company before the five-year maximum time period a company may retain such status;

Table of Contents

our principal stockholders will be able to exert significant influence over matters submitted to our stockholders and may take certain actions to prevent takeovers;

our certificate of incorporation and bylaws, as well as Delaware law and certain regulations, could discourage or prohibit acquisition bids or merger proposals, which may adversely affect the market price of our common stock;

our certificate of incorporation limits the ownership of our common stock by individuals and entities that are Restricted Investors. These restrictions may affect the liquidity of our common stock and may result in Restricted Investors being required to sell or redeem their shares at a loss or relinquish their voting, dividend and distribution rights;

future sales of our common stock in the public market could reduce our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute your ownership in us;

we may issue preferred stock whose terms could adversely affect the voting power or value of our common stock; and our status as a “controlled company” could make our common stock less attractive to some investors or otherwise harm our stock price.

Table of Contents

## PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Turning Point Brands, Inc.  
 Consolidated Balance Sheets  
 (dollars in thousands except share data)

	(unaudited) March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,741	\$ 3,306
Accounts receivable, net of allowances of \$47 in 2019 and \$42 in 2018	4,343	2,617
Inventories	90,871	91,237
Other current assets	11,666	14,694
Total current assets	108,621	111,854
Property, plant, and equipment, net	10,942	10,589
Right of use assets	10,951	-
Deferred financing costs, net	818	870
Goodwill	145,961	145,939
Other intangible assets, net	34,979	35,339
Master Settlement Agreement (MSA) escrow deposits	31,045	30,550
Other assets	4,225	4,236
Total assets	\$ 347,542	\$ 339,377
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 15,070	\$ 6,841
Accrued liabilities	20,419	22,925
Current portion of long-term debt	12,000	8,000
Revolving credit facility	14,000	26,000
Total current liabilities	61,489	63,766
Notes payable and long-term debt	180,900	186,715
Deferred income taxes	2,172	2,291
Postretirement benefits	3,092	3,096
Lease liabilities	9,504	-
Other long-term liabilities	1,544	886
Total liabilities	258,701	256,754
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.01 par value; authorized shares 40,000,000; issued and outstanding shares -0-	-	-
Common stock, voting, \$0.01 par value; authorized shares, 190,000,000; issued and outstanding shares - 19,576,398 at March 31, 2019, and 19,553,857 at December 31, 2018	196	196
Common stock, nonvoting, \$0.01 par value; authorized shares, 10,000,000; issued and outstanding shares -0-	-	-

Edgar Filing: Turning Point Brands, Inc. - Form 10-Q

Additional paid-in capital	111,089		110,466	
Accumulated other comprehensive loss	(2,614	)	(2,536	)
Accumulated deficit	(19,830	)	(25,503	)
Total stockholders' equity	88,841		82,623	
Total liabilities and stockholders' equity	\$ 347,542		\$ 339,377	

The accompanying notes are an integral part of the consolidated financial statements.

5

---



Table of Contents

Turning Point Brands, Inc.

Consolidated Statements of Income

(dollars in thousands except share data)

(unaudited)

	Three Months Ended		
	March 31,		
	2019	2018	
Net sales	\$91,628	\$73,942	
Cost of sales	51,164	42,133	
Gross profit	40,464	31,809	
Selling, general, and administrative expenses	28,429	22,068	
Operating income	12,035	9,741	
Interest expense, net	3,856	3,654	
Investment income	(144	) (95	)
Loss on extinguishment of debt	-	2,384	
Net periodic benefit income, excluding service cost	(11	) (43	)
Income before income taxes	8,334	3,841	
Income tax expense	1,774	809	
Consolidated net income	\$6,560	\$3,032	
Basic income per common share:			
Consolidated net income	\$0.34	\$0.16	
Diluted income per common share:			
Consolidated net income	\$0.33	\$0.15	
Weighted average common shares outstanding:			
Basic	19,559,596	19,221,892	
Diluted	20,045,964	19,762,194	

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Turning Point Brands, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
Consolidated net income	\$ 6,560	\$ 3,032
Other comprehensive loss, net of tax		
Amortization of unrealized pension and postretirement gain (loss), net of tax of \$1 in 2019 and \$10 in 2018	(4 )	30
Unrealized gain (loss) on investments, net of tax of \$93 in 2019 and \$135 in 2018	402	(384 )
Unrealized loss on interest rate swaps, net of tax of \$182 in 2019 and \$185 in 2018	(476 )	(526 )
	(78 )	(880 )
Consolidated comprehensive income	\$ 6,482	\$ 2,152

The accompanying notes are an integral part of the consolidated financial statements

Table of Contents

Turning Point Brands, Inc.  
 Consolidated Statements of Cash Flows  
 (dollars in thousands)  
 (unaudited)

	Three Months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Consolidated net income	\$ 6,560	\$ 3,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on extinguishment of debt	-	2,384
Loss on disposal of property, plant, and equipment	23	-
Depreciation expense	531	560
Amortization of other intangible assets	359	176
Amortization of deferred financing costs	237	238
Deferred income taxes	(29)	793
Stock compensation expense	466	197
Changes in operating assets and liabilities:		
Accounts receivable	(1,726)	965
Inventories	366	5,237
Other current assets	2,984	(2,051)
Other assets	(427)	(23)
Accounts payable	8,229	2,955
Accrued postretirement liabilities	(9)	(14)
Accrued liabilities and other	(3,539)	(6,029)
Net cash provided by operating activities	\$ 14,025	\$ 8,420
Cash flows from investing activities:		
Capital expenditures	\$ (886)	\$ (363)
Restricted cash, MSA escrow deposits	1,702	(530)
Net cash provided by (used in) investing activities	\$ 816	\$ (893)

Table of Contents

Turning Point Brands, Inc.

Consolidated Statements of Cash Flows (Cont.)

(dollars in thousands)

(unaudited)

Three Months ended March 31,