

Turning Point Brands, Inc.
Form 10-Q
August 11, 2016

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 June 30, 2016

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 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.

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Large accelerated filer

Accelerated filer

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

At August 9, 2016, there were 17,900,318 shares outstanding of the registrant's voting common stock, par value \$0.01 per share.

TURNING POINT BRANDS, INC.
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Turning Point Brands, Inc.

Consolidated Balance Sheets

(dollars in thousands except share data) (unaudited)

	June 30, 2016	December 31, 2015	
ASSETS			
Current assets:			
Cash	\$ 3,612	\$ 4,835	
Accounts receivable, net of allowances of \$29 in 2016 and \$137 in 2015	5,209	3,940	
Inventories	51,756	44,339	
Other current assets	9,895	10,838	
Total current assets	70,472	63,952	
Property, plant and equipment, net	5,876	5,603	
Deferred financing costs, net	174	208	
Goodwill	128,697	128,697	
Other intangible assets, net	8,553	8,553	
Master Settlement Agreement - escrow deposits	31,904	31,842	
Other assets	701	3,608	
Total assets	\$ 246,377	\$ 242,463	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	\$ 5,321	\$ 4,087	
Accrued expenses	9,564	11,053	
Accrued interest expense	629	4,329	
First lien term loan	1,650	1,650	
Revolving credit facility	6,621	18	
Other current liabilities	295	-	
Total current liabilities	24,080	21,137	
Notes payable and long-term debt	199,435	290,772	
Deferred income taxes	7,063	7,013	
Postretirement benefits	4,607	4,666	
Pension benefits	372	487	
Total liabilities	235,557	324,075	
Commitments and contingencies			
Stockholders' equity (deficit):			
Preferred stock; \$0.01 par value; authorized shares 40,000,000; issued shares -0-			
Common stock, voting, \$0.01 par value; authorized shares, 190,000,000; issued shares, 2016 17,901,164 and 2015 6,259,480	179	63	
Common stock, nonvoting, \$0.01 par value; authorized shares, 10,000,000; issued shares, 2016 0 and 2015 938,857	-	9	
Additional paid-in capital	104,759	12,628	
Accumulated other comprehensive loss	(3,266)	(3,512)	
Accumulated deficit	(90,852)	(90,800)	

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Total stockholders' equity (deficit)	10,820	(81,612)
Total liabilities and stockholders' equity (deficit)	\$ 246,377	\$ 242,463	

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

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Turning Point Brands, Inc.
 Consolidated Statements of Operations
 (dollars in thousands except share data)
 (unaudited)

	Three Months Ended	
	June 30, 2016	June 30, 2015
Net sales	\$51,581	\$ 47,999
Cost of sales	26,707	25,388
Gross profit	24,874	22,611
Selling, general and administrative expenses	14,098	14,875
Operating income	10,776	7,736
Interest expense and financing costs	6,876	8,574
Investment income	(332) -
Loss on extinguishment of debt	2,824	-
Income (loss) before income taxes	1,408	(838)
Income tax expense	609	583
Net income (loss)	\$799	\$ (1,421)
Basic earnings per common share:		
Net income	\$0.05	\$ (0.20)
Diluted earnings per common share:		
Net income	\$0.05	\$ (0.20)
Weighted average common shares outstanding:		
Basic - inclusive of voting and non-voting shares	15,274,446	7,198,337
Diluted - inclusive of voting and non-voting shares	16,877,291	7,198,337

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

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Turning Point Brands, Inc.

Consolidated Statements of Income

(dollars in thousands except share data)

(unaudited)

	Six Months Ended	
	June 30, 2016	June 30, 2015
Net sales	\$101,447	\$ 99,085
Cost of sales	51,926	51,819
Gross profit	49,521	47,266
Selling, general and administrative expenses	27,836	27,546
Operating income	21,685	19,720
Interest expense and financing costs	15,338	17,056
Investment income	(332) -
Loss on extinguishment of debt	2,824	-
Income before income taxes	3,855	2,664
Income tax expense	822	658
Net income	\$3,033	\$ 2,006
Basic earnings per common share:		
Net income	\$0.24	\$ 0.28
Diluted earnings per common share:		
Net income	\$0.22	\$ 0.24
Weighted average common shares outstanding:		
Basic - inclusive of voting and non-voting shares	12,476,719	7,197,928
Diluted - inclusive of voting and non-voting shares	13,924,626	8,334,137

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

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Turning Point Brands, Inc.
 Consolidated Statements of Comprehensive Income
 (dollars in thousands)
 (unaudited)

	Three Months Ended	
	June	
	30, 2016	June 30, 2015
Net income (loss)	\$ 799	\$ (1,421)
Other comprehensive income, net of tax -		
Pension and postretirement		
Amortization of unrealized losses recorded in cost of sales	6	6
Amortization of unrealized losses recorded in selling, general and administrative expenses	117	125
	123	131
Comprehensive income (loss)	\$ 922	\$ (1,290)

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

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Turning Point Brands, Inc.
 Consolidated Statements of Comprehensive Income
 (dollars in thousands)
 (unaudited)

	Six Months Ended	
	June 30,	June 30,
	2016	2015
Net income	\$ 3,033	\$ 2,006
Other comprehensive income, net of tax -		
Pension and postretirement		
Amortization of unrealized losses recorded in cost of sales	12	12
Amortization of unrealized losses recorded in selling, general and administrative expenses	234	251
	246	263
Comprehensive income	\$ 3,279	\$ 2,269

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

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

	Six Months Ended	
	June 30, 2016	June 30, 2015
Cash flows from operating activities:		
Net income	\$ 3,033	\$ 2,006
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on extinguishment of debt	2,824	-
Gain on sale of fixed assets	-	(1)
Depreciation expense	586	519
Amortization of deferred financing costs	719	724
Amortization of original issue discount	459	524
Interest incurred but not paid on PIK Toggle Notes	3,422	3,963
Interest incurred but not paid on 7% Senior Notes	329	426
Interest paid on PIK Toggle Notes	(9,893)	-
Deferred income taxes	50	(9)
Stock compensation expense	25	92
Restricted stock compensation expense	8	-
Member unit compensation expense	13	57
Changes in operating assets and liabilities:		
Accounts receivable	(1,269)	(1,010)
Inventories	(7,417)	(3,962)
Other current assets	943	(4,815)
Other assets	(62)	(87)
Accounts payable	1,234	2,355
Accrued pension liabilities	131	82
Accrued postretirement liabilities	(59)	(63)
Accrued expenses and other	(4,188)	(2,256)
Net cash used in operating activities	(9,112)	(1,455)
Cash flows from investing activities:		
Capital expenditures	(859)	(641)
Proceeds from sale of fixed assets	-	2
Note receivable	-	(430)
Net cash used in investing activities	(859)	(1,069)

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Turning Point Brands, Inc.

Consolidated Statements of Cash Flows (Cont.)

(dollars in thousands)

(unaudited)

	Six Months Ended	
	June 30,	June 30,
	2016	2015
Cash flows from financing activities:		
Proceeds from revolving credit facility, net	6,603	213
Payment of financing costs	(200)	-
Payment of first lien term loan	(3,563)	(825)
Payment of second lien term loan	(20,000)	-
Payment of PIK Toggle Notes	(24,107)	-
Redemption of Intrepid options	(661)	-
Redemption of Intrepid warrants	(5,500)	-
Stock option exercised	8	-
Proceeds from issuance of stock	56,168	1
Net cash provided by (used in) financing activities	8,748	(611)
Net decrease in cash	(1,223)	(3,135)
Cash, beginning of period	4,835	8,467
Cash, end of period	\$3,612	\$5,332
Supplemental schedule of noncash financing activities:		
Issuance of restricted stock	\$279	\$-