

Tobin Smith: This is Toby Smith with the Next Big Thing, and ladies and gentlemen, hang on for a second – you know the next big thing in smoking ain't smoking, it's vapor. Kevin Frija of Vapor Corp. has basically pioneered this business. Heaven on earth, who came up with this idea of basically smokeless cigarettes, and cigars, by the way, which you're not getting this back.

Kevin Frija: Believe it or not, the first record is in 1964 by an American inventor, and that was the first patent filed. That patent has obviously expired by now, and the technology wasn't available then to come up with the product. In the last five years or so, the technology has advanced to the point where today we have a cigarette as small and as light as a regular cigarette. This cigarette has a soft tip and it's as small and light as a regular cigarette, so the technology has come this far.

Tobin Smith: I don't care about that. Am I getting any nicotine out of this thing?

Kevin Frija: There's nicotine in the solution. It's about 2 percent nicotine in the solution, so you do get some nicotine, and you get to enjoy your smoking without any ash, without any tar, without any secondhand smoke.

Tobin Smith: Without any carcinogens going in your body.

Kevin Frija: No carcinogens.

Tobin Smith: So, **if I'm starting**, like, for instance, my producer at Fox, Jennifer, just about six months ago decided she wanted to quit smoking, and she started on the vapor cigarettes, and she doesn't smoke anymore. She smokes the vapor cigarettes.

Kevin Frija: So, she hasn't quit, she's switched to the alternative.

Tobin Smith: Right, right, the alternative.

Kevin Frija: Yeah, we don't promote this being used as a smoking cessation –

Tobin Smith: Okay.

Kevin Frija: – _____. As a matter of fact, most people that smoke don't really want to quit. They only want to quit because they know smoking is bad for you –

Tobin Smith: Sure, it's bad for them.

- Kevin Frija:* – and can kill you. Otherwise, smoking was cool once, do you remember that?
- Tobin Smith:* I do remember that. You know, _____ Humphrey Bogart, for crying out loud. I remember when doctors used to do ads for Pall Mall. I mean I saw it. It was in *Life* magazine. All right, so this business has been growing 50 percent a year –
- Kevin Frija:* Our business has, yes.
- Tobin Smith:* – right? In 2012, you guys did about \$20 million?
- Kevin Frija:* That's right, a little over \$21 million.
- Tobin Smith:* All right, and you're gonna continue somewhat at that same growth rate.
- Kevin Frija:* We expect growth to continue at the same pace, if not better.
- Tobin Smith:* All right, so you guys have your own brands. What's the best selling brand you make?
- Kevin Frija:* Our flagship brand for convenience stores, gas stations and the like is Krave.
- Tobin Smith:* Krave, with a K.
- Kevin Frija:* That's right. We do have another brand, 51, which was our initial brand that was sold in cigar shops, smoke shops, and in those mall kiosks that you see in the malls, and that allowed us to enter the market and demonstrate the product in the malls before there was mass retail acceptance, which we have today.
- Tobin Smith:* You actually manufacture, too.
- Kevin Frija:* We are a manufacturer. We have multiple factories. We contract in China and manufacturer to our specific specs of the item.
- Tobin Smith:* **This is amazing.** All right, we're gonna come back and we're gonna talk about how you're gonna make this into, I don't know, a \$200 million business, because I know you're on that track. Number two, where else do you sell this? Number three, you actually sell this on infomercials. I haven't caught them yet, so we'll –
- Kevin Frija:* That's right.

Tobin Smith: – come back. The next big thing in smoking, no question, is vaporless, or vapor cigarettes, and this cigar is just for fun, but you're not getting this back. See you later.

[End of Audio]

Tobin Smith: All right, ladies and gentlemen, we're back with the next big thing in smoking, which is vapor cigarettes. I love it. It's been growing fast, you're one of the biggest brands out there, but where's your advertising, or what's the other type of television marketing you all do?

Kevin Frija: Believe it or not, we spent the last four years building the brand and building the company, and just penetrating the retail establishments. The next phase of our marketing is brand and consumer awareness for the consumer, so you'll see that rolling out the later half of this year and into 2014.

Tobin Smith: And then you actually have some advertorials, right? You're doing some –

Kevin Frija: We have an infomercial campaign –

Tobin Smith: – infomercial, yeah.

Kevin Frija: – with our AlternaCig brand. It's doing very well, and we're expanding that every week, and it gives the customers an opportunity to watch the commercial and really get educated on how the product works. Not many people know how it works.

Tobin Smith: How does it work?

Kevin Frija: Well, it has a battery inside, and –

Tobin Smith: Really?

Kevin Frija: – yes, it does, it's a battery. It's a heating element that heats up the solution, which vaporizes the solution, similar to a humidifier, and, when you give it a puff, it has a switch that turns on the light, heats up the vapor, and, as you can see, emits a vapor that contains some nicotine.

Tobin Smith: How long is this gonna last, because I'm gonna be here for the next three days.

Kevin Frija: That should last you about 1,000 puffs, which is equal to probably four or five cigars.

Tobin Smith: Oh my – I love it.

Kevin Frija: The cigarette lasts approximately half a pack to a pack of cigarettes, equivalent to what a smoker would smoke.

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- Tobin Smith:* This is sort of a novelty act, but that's the real deal, the cigarette.
- Kevin Frija:* This is the real deal. This is a consumable product. People are buying them, two or three at a time.
- Tobin Smith:* How much per pack?
- Kevin Frija:* It's \$5.99 for a cigarette, which is equivalent –
- Tobin Smith:* Oh, per cigarette? Okay.
- Kevin Frija:* – yes, equivalent to about half a pack of cigarettes.
- Tobin Smith:* Well, since a cigarette pack costs \$10.00 here in New York, that's not a bad deal.
- Kevin Frija:* Plus, you have the convenience and the pleasure of smoking without all the smell and the side-effects of the ash and the tar and the carcinogens.
- Tobin Smith:* Yeah, that nasty little carcinogen thing. I know, Jennifer, I'm talking about my producer at Fox, she discovered it via being at a party and someone _____, so I mean it's sort of a word-of-mouth thing at this point?
- Kevin Frija:* Well, smoking is social, so the best way to promote a product is when people are smoking and it's in a group, and one of their friends is using the product, and it's really the best form of advertising, word-of-mouth, and word-of-mouth of a smoker, they're all smoking together –
- Tobin Smith:* You know the people **at the bottom** of your office that are all together. I think those people should be paid less, by the way. That's just my _____. All right, so can I do this in New York? Can I have this inside a New York bar?
- Kevin Frija:* There are certain establishments that have their own rules, and certain municipalities that have passed rules to limit the smoking and where you can smoke electronic cigarettes. I think once the learning curve is passed and people realize that the electronic cigarette is not producing the secondhand smoke, they will most likely prefer that their customers will smoke electronic cigarettes. It's still a learning curve, and it looks so real that it's a little bit confusing for enforcement. So, the problem that we have is it's too real.
- Tobin Smith:* Too real, so you need to make a pink one, maybe _____.

Kevin Frija: Pink would do well, I think.

Tobin Smith: All right, 50 percent sales growth, 40 percent margins, by the way, and then you actually manufacture. If a big guy comes in, a Philip Morris or somebody, they're gonna get in this business –

Kevin Frija: Sure, sure, _____.

Tobin Smith: – so you're gonna be a manufacturer. You protect your business by your brand, right? In other words, it's just like Red Bull versus the big guys.

Kevin Frija: Right, the branding, the specific flavoring, and then we do have some patents filed for the soft-tip filter, for example. We have a patent on that that's filed, and a few other patents that will differentiate our product from the rest of the pack.

Tobin Smith: Well, I'm telling you, the next big thing for smoking is not smoking –

Kevin Frija: Vaping.

Tobin Smith: – it's vaping, and we _____, love the product, love the idea. Great to have you here, and thank you for my cigar.

Kevin Frija: You're welcome.

Tobin Smith: All right, a pleasure.

Kevin Frija: A pleasure to see you.

[End of Audio]

Tobin Smith: All right, Toby Smith, and we're back with Kevin Frija, and we're back with Vapor Corp., and we're smoking, I guess, right?

Kevin Frija: We're smoking.

Tobin Smith: We're not getting any carcinogens, no smoke, a little tiny battery creates this vapor. Now, what are the regulatory issues with this?

Kevin Frija: The FDA is currently looking at regulating the product. We don't expect the regulation to be any worse than cigarette regulation, which we all know is a thriving industry, and once that regulation passes, we expect other countries to follow, and it may open up markets, actually, for us worldwide, as opposed to restricting the markets.

Tobin Smith: So, right now, for instance in Canada, you can't put nicotine in it.

Kevin Frija: Right. We do sell successfully in Canada without nicotine, and customers use it as a flavor experience. We have six flavors, and they can purchase it over the counter, on the counter, and they use it after a meal, almost like chewing gum that you would have a piece of gum after a meal, and some customers prefer it to –

Tobin Smith: I don't know, I'm thinking sex. That's just me. Now, what is the –

Kevin Frija: – I gotta move over.

Tobin Smith: – idea, though, you have a razorblade sort of model here that somebody buys. Is this refillable?

Kevin Frija: This product is disposable, but we have another product that you can unscrew the cap, and it's a two-piece product, so there's a razor/razorblade business model, sure.

Tobin Smith: Okay, and of your sales, how much are the razors and how much is the razorblade?

Kevin Frija: Fifty percent of the customers will buy the disposable product, and then, if they like the experience, and they do, they'll go over and buy the razor and razorblade, which saves them about half the cost. So, the refillable cartridge is a \$3.00 cartridge versus a \$6.00 disposable –

Tobin Smith: I'm all about that.

Kevin Frija: – so it's beneficial to the cost for the customer.

Tobin Smith: I guess I can't use this on a plane yet?

Kevin Frija: You can try in the restroom.

[Laughter]

Tobin Smith: With a \$25,000.00 fine, I'm not gonna do it. All right, so there's _____, you have patents, you have the brands. To make your business bigger, what do you need to do to keep it at this growth rate?

Kevin Frija: I think it's gonna be difficult for us not to grow this far. The U.S. market is \$90 billion for tobacco. Some –

Tobin Smith: Ninety-billion with a B.

Kevin Frija: – \$90 billion with a B. Some analysts have predicted that in the next ten years the electronic cigarette market will overtake traditional tobacco cigarettes, and they could go the way Kodak went with regular film.

Tobin Smith: So, you're **dis-intermediating** the tobacco company with a non-tobacco smoke.

Kevin Frija: Something that they've been trying to do for years is being done today, and the convenience and all the other benefits of the product, it's only natural that the customers will choose to use an electronic cigarette. Now, the tobacco companies will come into the market, but that only legitimizes the business and makes it more –

Tobin Smith: You guys are the founding brand, you've got the cred, you've got the street cred, flavors. There's flavors in this, _____, like a menthol?

Kevin Frija: We have menthol, we have cherry, we have vanilla. We don't market the flavors to children. We're not selling them as –

Tobin Smith: Sure, a candy substitute.

Kevin Frija: – a candy substitute, but people do prefer – I mean tobacco is great tasting, if you like tobacco, **but** vanilla is better tasting.

Tobin Smith: So, what I'm smoking here, is this tobacco flavor?

Kevin Frija: This has a light tobacco flavoring to it.

Tobin Smith: Can I get a heavier one?

Kevin Frija: You can get a heavier tobacco, sure.

Tobin Smith: I had no idea. All right, so electric cigarette –

Kevin Frija: Electronic, e-cigs.

Tobin Smith: – e-cigs, okay.

Kevin Frija: E-cigs.

Tobin Smith: All right, it's an e-cig. You are smoking, you're just not getting all the bad stuff from the smoke, _____ not getting **any** _____, and all you're ingesting in this is there's a little bit of nicotine.

Kevin Frija: Nicotine and some flavoring, and vegetable glycerin or propylene glycol that carries the solution.

Tobin Smith: So, there's no calories.

Kevin Frija: Uh, no calories.

Tobin Smith: All right, I love it. Well, the next big thing _____ consumers is e-cigs. The **vapor company** is the man, and we love having you on. This is too much fun. Don't take –

Kevin Frija: Great to meet you.

Tobin Smith: – my cigar away.

Kevin Frija: No, no, it's yours.

[End of Audio]