

AMCON DISTRIBUTING CO
Form 10-Q
July 17, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

- o** **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 1-15589

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

47-0702918
(I.R.S. Employer
Identification No.)

7405 Irvington Road, Omaha NE
(Address of principal executive offices)

68122
(Zip code)

Registrant's telephone number, including area code: **(402) 331-3727**

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.

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

The Registrant had 615,822 shares of its \$.01 par value common stock outstanding as of July 13, 2015.

Table of Contents

Form 10-Q
3rd Quarter

INDEX

	PAGE
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed consolidated balance sheets at June 30, 2015 (unaudited) and September 30, 2014</u>	3
<u>Condensed consolidated unaudited statements of operations for the three and nine months ended June 30, 2015 and 2014</u>	4
<u>Condensed consolidated unaudited statements of cash flows for the nine months ended June 30, 2015 and 2014</u>	5
<u>Notes to condensed consolidated unaudited financial statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4. Controls and Procedures</u>	23
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 3. Defaults Upon Senior Securities</u>	24
<u>Item 4. Mine Safety Disclosures</u>	24
<u>Item 5. Other Information</u>	25
<u>Item 6. Exhibits</u>	25

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****AMCON Distributing Company and Subsidiaries****Condensed Consolidated Balance Sheets****June 30, 2015 and September 30, 2014**

	June 2015 (Unaudited)	September 2014
ASSETS		
Current assets:		
Cash	\$ 149,857	\$ 99,922
Accounts receivable, less allowance for doubtful accounts of \$1.0 million and \$0.8 million at June 2015 and September 2014, respectively	33,301,156	33,286,932
Inventories, net	49,896,207	43,635,266
Deferred income taxes	1,550,877	1,606,168
Prepaid and other current assets	4,092,039	5,034,570
Total current assets	88,990,136	83,662,858
Property and equipment, net	13,084,440	13,763,140
Goodwill	6,349,827	6,349,827
Other intangible assets, net	4,182,228	4,455,978
Other assets	329,618	448,149
	\$ 112,936,249	\$ 108,679,952
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 16,629,153	\$ 16,412,895
Accrued expenses	7,350,570	6,891,308
Accrued wages, salaries and bonuses	3,335,949	2,647,969
Income taxes payable	581,042	1,603,614
Current maturities of long-term debt	348,710	341,190
Total current liabilities	28,245,424	27,896,976
Credit facility	14,307,224	15,081,783
Deferred income taxes	3,562,406	3,484,204
Long-term debt, less current maturities	3,473,025	3,735,702
Other long-term liabilities	36,871	139,003
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized, issued, and outstanding, and a total liquidation preference of \$2.5 million at both June 2015 and September 2014	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized, 16,000 shares issued and outstanding at both June 2015 and September 2014, and a total liquidation preference of \$0.4 million at both June 2015 and September 2014	400,000	400,000

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Shareholders' equity:			
Preferred stock, \$.01 par value, 1,000,000 shares authorized, 116,000 shares outstanding and issued in Series A and B referred to above			
Common stock, \$.01 par value, 3,000,000 shares authorized, 615,822 shares outstanding at June 2015 and 602,411 shares outstanding at September 2014		6,811	6,677
Additional paid-in capital		14,723,863	13,571,909
Retained earnings		51,646,128	47,829,201
Treasury stock at cost		(5,965,503)	(5,965,503)
Total shareholders' equity		60,411,299	55,442,284
	\$	112,936,249	\$ 108,679,952

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

Table of Contents**AMCON Distributing Company and Subsidiaries****Condensed Consolidated Unaudited Statements of Operations****for the three and nine months ended June 30, 2015 and 2014**

	For the three months ended June		For the nine months ended June	
	2015	2014	2015	2014
Sales (including excise taxes of \$101.5 million and \$100.4 million, and \$285.9 million and \$283.5 million, respectively)	\$ 334,456,509	\$ 322,647,624	\$ 937,333,849	\$ 900,694,969
Cost of sales	314,957,889	303,353,020	880,575,362	844,139,340
Gross profit	19,498,620	19,294,604	56,758,487	56,555,629
Selling, general and administrative expenses	15,405,676	16,295,082	47,072,555	48,599,519
Depreciation and amortization	542,307	557,736	1,709,469	1,810,610
	15,947,983	16,852,818	48,782,024	50,410,129
Operating income	3,550,637	2,441,786	7,976,463	6,145,500
Other expense (income):				
Interest expense	242,266	228,827	673,783	753,446
Other (income), net	(20,853)	(37,473)	(63,907)	(106,659)
	221,413	191,354	609,876	646,787
Income from operations before income tax expense	3,329,224	2,250,432	7,366,587	5,498,713
Income tax expense	1,333,000	990,000	3,055,000	2,419,000
Net income	1,996,224	1,260,432	4,311,587	3,079,713
Preferred stock dividend requirements	(48,643)	(48,643)	(145,928)	(145,928)
Net income available to common shareholders	\$ 1,947,581	\$ 1,211,789	\$ 4,165,659	\$ 2,933,785
Basic earnings per share available to common shareholders	\$ 3.16	\$ 2.00	\$ 6.78	\$ 4.79
Diluted earnings per share available to common shareholders	\$ 2.69	\$ 1.73	\$ 5.85	\$ 4.18
Basic weighted average shares outstanding	615,822	605,319	614,723	613,032
Diluted weighted average shares outstanding	741,183	729,978	737,325	736,531

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

Table of Contents**AMCON Distributing Company and Subsidiaries****Condensed Consolidated Unaudited Statements of Cash Flows****for the nine months ended June 30, 2015 and 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,311,587	\$ 3,079,713
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	1,435,719	1,536,860
Amortization	273,750	273,750
(Gain) loss on sale of property and equipment	5,103	(42,745)
Equity-based compensation	910,920	1,025,694
Deferred income taxes	133,493	421,934
Provision for losses on doubtful accounts	193,000	63,000
Provision for losses on inventory obsolescence	132,793	15,878
Other	(6,034)	(6,034)
Changes in assets and liabilities:		
Accounts receivable	(207,224)	(1,379,031)
Inventories	(6,393,734)	(1,572,589)
Prepaid and other current assets	942,531	(2,048,389)
Other assets	118,531	31,892
Accounts payable	242,760	598,939
Accrued expenses and accrued wages, salaries and bonuses	1,505,917	805,286
Income tax payable	(1,022,572)	(1,589,747)
Net cash flows from operating activities	2,576,540	1,214,411
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(812,624)	(2,337,626)
Proceeds from sales of property and equipment	24,000	47,969
Acquisition		(996,803)
Net cash flows from investing activities	(788,624)	(3,286,460)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (payments) borrowings on bank credit agreements	(774,559)	6,322,689
Principal payments on long-term debt	(255,157)	(915,350)
Repurchase of Series B Convertible Preferred Stock and common stock		(2,648,318)
Dividends paid on convertible preferred stock	(145,928)	(145,928)
Dividends on common stock	(348,732)	(353,806)
Withholdings on the exercise of equity-based awards	(213,605)	(128,523)
Net cash flows from financing activities	(1,737,981)	2,130,764
Net change in cash	49,935	58,715
Cash, beginning of period	99,922	275,036
Cash, end of period	\$ 149,857	\$ 333,751

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

Table of Contents

	2015		2014
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 677,163	\$	751,909
Cash paid during the period for income taxes	3,944,080		3,586,813
Supplemental disclosure of non-cash information:			
Equipment acquisitions classified as accounts payable	8,483		62,414
Issuance of common stock in connection with the vesting and exercise of equity-based awards	1,240,842		1,154,869

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

Table of Contents

AMCON Distributing Company and Subsidiaries

Notes to Condensed Consolidated Unaudited Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

AMCON Distributing Company and Subsidiaries (AMCON or the Company) operate two business segments:

- Our wholesale distribution segment (Wholesale Segment) distributes consumer products in the Central, Rocky Mountain, and Southern regions of the United States. Additionally, our Wholesale Segment provides a full range of programs and services to assist our customers in managing their business and profitability.
- Our retail health food segment (Retail Segment) operates sixteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,500 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In September 2014, Convenience Store News ranked us as the sixth (6th) largest convenience store distributor in the United States based on annual sales.

Our wholesale business offers retailers the ability to take advantage of manufacturer and Company sponsored sales and marketing programs, merchandising and product category management services, and the use of information systems and data services that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales and profits. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management, efficiency in processing small orders, and frequency of deliveries. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory, merchandising expertise, information systems, and accessing trade credit.

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kellogg's, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. We do not maintain long-term purchase contracts with our suppliers.

RETAIL SEGMENT

Our Retail Segment is a specialty retailer of natural/organic groceries and dietary supplements which focuses on providing high quality products at affordable prices, with an exceptional level of customer service and nutritional consultation. All of the products carried in our stores must meet strict quality and ingredient guidelines, and include offerings such as gluten-free and antibiotic-free groceries and meat products, as well as products containing no artificial colors, flavors, preservatives, or partially hydrogenated oils. We design our retail sites in an efficient and flexible small-store format, which emphasizes a high energy and shopper-friendly environment.

We operate within the natural products retail industry, which is a subset of the large and stable U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers. According to The Natural Foods Merchandiser, a leading industry trade publication, retail sales in the natural foods industry exceeded \$89 billion during the 2013 calendar year.

Our Retail Segment operates sixteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 32,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of ten locations in Arkansas, Kansas, Missouri, Nebraska, and Oklahoma.

Table of Contents**FINANCIAL STATEMENTS**

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements (financial statements) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2014, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , and AMCON shall mean AMCON Distributing Company and its subsidiaries. Additionally, the three month fiscal periods ended June 30, 2015 and June 30, 2014 have been referred to throughout this quarterly report as Q3 2015 and Q3 2014, respectively. The fiscal balance sheet dates as of June 30, 2015, June 30, 2014, and September 30, 2014 have been referred to as June 2015, June 2014, and September 2014, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standard Codification 605 - Revenue Recognition and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations, and cash flow.

2. CONVERTIBLE PREFERRED STOCK

The Company has two series of convertible preferred stock outstanding at June 2015 as identified in the following table:

	Series A	Series B
Date of issuance:	June 17, 2004	October 8, 2004
Optionally redeemable beginning	June 18, 2006	October 9, 2006
Par value (gross proceeds):	\$ 2,500,000	\$ 400,000
Number of shares:	100,000	16,000
Liquidation preference per share:	\$ 25.00	\$ 25.00
Conversion price per share:	\$ 30.31	\$ 24.65
Number of common shares in which to be converted:	82,481	16,227
Dividend rate:	6.785%	6.37%

The Series A Convertible Preferred Stock (Series A) and Series B Convertible Preferred Stock (Series B), (collectively, the Preferred Stock), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

converted multiplied by a fraction equal to \$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock would be entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock. The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Preferred Stock is redeemable at the liquidation value and at the option of the holder. The Series A Preferred Stock and 8,000 shares of the Series B Preferred Stock are owned by Mr. Christopher Atayan, AMCON's Chief Executive Officer and Chairman of the Board. The Series B Preferred Stockholders have the right to elect one member of our Board of Directors, pursuant to the voting rights in the Certificate of Designation creating the Series B. Mr. Atayan was first nominated and elected to this seat in 2004.

Table of Contents**3. INVENTORIES**

At June 2015, inventories consisted of finished goods and are stated at the lower of cost determined on a First-in, First-out (FIFO) basis, or market. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods included total reserves of approximately \$1.0 million at June 2015 and \$0.9 million at September 2014. These reserves include the Company's obsolescence allowance, which reflects estimated unsalable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill by reporting segment of the Company consisted of the following:

	June 2015	September 2014
Wholesale Segment	\$ 4,436,950	\$ 4,436,950
Retail Segment	1,912,877	1,912,877
	\$ 6,349,827	\$ 6,349,827

Other intangible assets of the Company consisted of the following:

	June 2015	September 2014
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Non-competition agreement (less accumulated amortization of \$0.4 million and \$0.3 million at June 2015 and September 2014, respectively)	91,667	166,667
Customer relationships (less accumulated amortization of \$1.4 million and \$1.2 million at June 2015 and September 2014, respectively)	717,292	916,042
	\$ 4,182,228	\$ 4,455,978

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At June 2015, identifiable intangible assets considered to have finite lives were represented by customer relationships and the value of a non-competition agreement acquired as part of acquisitions. The customer relationships are being amortized over eight years and the value of the non-competition agreement is being amortized over five years. These intangible assets are evaluated for accelerated attrition or amortization adjustments if warranted. Amortization expense related to these assets was \$0.1 million and \$0.3 million for the three and nine month periods ended June 2015, respectively, and \$0.1 million and \$0.3 million for the three and nine month periods ended June 2014, respectively.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at June 2015:

Customer relationships		June 2015
Fiscal 2015 (1)	\$	91,250
Fiscal 2016		331,667
Fiscal 2017		265,000
Fiscal 2018		79,375
Fiscal 2019		41,667
	\$	808,959

(1) Represents amortization for the remaining three months of Fiscal 2015.

5. DIVIDENDS

The Company paid cash dividends on its common stock and convertible preferred stock totaling \$0.2 million and \$0.5 million for the three and nine month periods ended June 2015, respectively, and \$0.2 million and \$0.5 million for the three and nine month periods ended June 2014, respectively.

Table of Contents**6. EARNINGS PER SHARE**

Basic earnings per share available to common shareholders is calculated by dividing net income less preferred stock dividend requirements by the weighted average common shares outstanding for each period. Diluted earnings per share available to common shareholders is calculated by dividing income from operations less preferred stock dividend requirements (when anti-dilutive) by the sum of the weighted average common shares outstanding and the weighted average dilutive options, using the treasury stock method.

	For the three months ended June			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	615,822	615,822	605,319	605,319
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		125,361		124,659
Weighted average number of shares outstanding	615,822	741,183	605,319	729,978
Net income	\$ 1,996,224	\$ 1,996,224	\$ 1,260,432	\$ 1,260,432
Deduct: convertible preferred stock dividends (2)	(48,643)		(48,643)	
Net income available to common shareholders	\$ 1,947,581	\$ 1,996,224	\$ 1,211,789	\$ 1,260,432
Net earnings per share available to common shareholders	\$ 3.16	\$ 2.69	\$ 2.00	\$ 1.73

(1) Diluted earnings per share calculation includes all stock options, convertible preferred stock, and restricted stock deemed to be dilutive.

(2) Diluted earnings per share calculation excludes dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

	For the nine months ended June			
	2015		2014	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	614,723	614,723	613,032	613,032
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		122,602		123,499
Weighted average number of shares outstanding	614,723	737,325	613,032	736,531
Net income	\$ 4,311,587	\$ 4,311,587	\$ 3,079,713	\$ 3,079,713
Deduct: convertible preferred stock dividends (2)	(145,928)		(145,928)	
Net income available to common shareholders	\$ 4,165,659	\$ 4,311,587	\$ 2,933,785	\$ 3,079,713
Net earnings per share available to common shareholders	\$ 6.78	\$ 5.85	\$ 4.79	\$ 4.18

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- (1) Diluted earnings per share calculation includes all stock options, convertible preferred stock, and restricted stock units deemed to be dilutive.
- (2) Diluted earnings per share calculation excludes dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

Table of Contents

7. DEBT

The Company primarily finances its operations through a credit facility agreement (the Facility) and long term debt agreements with banks. The Facility is provided through Bank of America acting as the senior agent and with BMO Harris Bank participating in a loan syndication. The Facility included the following significant terms at June 2015:

- A July 2018 maturity date without a penalty for prepayment.
- \$70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by \$25.0 million.
- A provision providing an additional \$10.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.
- The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 175 basis points depending on certain credit facility utilization measures, at the election of the Company.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.

- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's availability has not fallen below 10% of the maximum loan limit and the Company's fixed charge coverage ratio is over 1.0.
- Provides that the Company may not pay dividends on its common stock in excess of \$1.00 per share on an annual basis. There is, however, no limit on common stock dividends if certain excess availability measurements have been maintained for the thirty day period immediately prior to the payment of any such dividends or distributions and if immediately after giving effect to any such dividend or distribution payments the Company has a fixed charge coverage ratio of at least 1.10 to 1.0 as defined in the credit facility agreement.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, is financed through a term loan with BMO Harris, NA (BMO) which is also a participant lender on the Company's revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is the lender, including the revolving credit facility, is in default. There were no such cross defaults as of June 2015. In addition, the BMO loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

AMCON has issued a letter of credit in the amount of approximately \$0.4 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Table of Contents**8. EQUITY-BASED INCENTIVE AWARDS****Omnibus Plan**

The Company has two Omnibus Incentive Plans, the 2007 Omnibus Plan and 2014 Omnibus Plan (collectively the Omnibus Plans), which provide for equity incentives to employees. Each Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus Plans together permit the issuance of up to 225,000 shares of the Company's common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares, and dividend share awards payable in the form of common stock or cash. The number of shares issuable under the Omnibus Plans is subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company's common stock. At June 2015, awards with respect to a total of 161,588 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plans and awards with respect to another 63,412 shares may be awarded under the Omnibus Plans.

Stock Options

The stock options issued by the Company expire ten years from the grant date and include graded vesting schedules ranging between three and five years. Stock options issued and outstanding at June 2015 are summarized as follows:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Exercisable Weighted-Average Exercise Price
Fiscal 2007	\$18.00	25,000	1.45 years	\$ 18.00	25,000	\$ 18.00
Fiscal 2010	\$51.50	3,500	4.83 years	\$ 51.50	3,500	\$ 51.50
Fiscal 2012	\$53.80 - \$65.97	4,900	6.33 years	\$ 55.15	2,700	\$ 55.04
Fiscal 2013	\$62.33	6,700	7.32 years	\$ 62.33	2,900	\$ 62.33
Fiscal 2015	\$81.03	6,000	9.59 years	\$ 81.03		
		46,100		\$ 39.13	34,100	\$ 28.15

Restricted Stock Units

At June 2015, nonvested restricted stock units awarded pursuant to the Company's Omnibus Plans were as follows:

	Restricted Stock Units(1)	Restricted Stock Units(2)	Restricted Stock Units(3)
Date of award:	October 2012	October 2013	October December 2014
Original number of awards issued:	15,000	17,600	13,000
Service period:	36 months	36-60 months	36 months

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Estimated fair value of award at grant date	\$935,000	\$1,486,000	\$1,083,000
Awards outstanding at June 2015	5,000	11,977	13,000
Fair value of non-vested awards at June 2015:	\$398,000	\$953,000	\$1,034,000

-
- (1) 10,000 of the restricted stock units were vested as of June 2015. The remaining 5,000 restricted stock units will vest in October 2015.
 - (2) 5,623 of the restricted stock units were vested as of June 2015. 9,337 restricted stock units will vest in equal amounts in October 2015, and October 2016. The remaining 2,640 restricted stock units will vest in equal amounts in October 2015, October 2016, October 2017, and October 2018.
 - (3) 13,000 restricted stock units will vest in equal amounts in October 2015, October 2016, and October 2017.

Table of Contents

There is no direct cost to the recipients of the restricted stock units, except for any applicable taxes. The recipients of the restricted stock units are entitled to the customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company's common stock. All cash dividends and/or distributions payable to restricted stock recipients will be held in escrow until all the conditions of vesting have been met.

The restricted stock units provide that the recipients can elect, at their option, to receive either common stock in the Company, or a cash settlement based upon the closing price of the Company's shares, at the time of vesting. Based on these award provisions, the compensation expense recorded in the Company's Condensed Statement of Operations reflects the straight-line amortized fair value based on the period end closing price.

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stock units at September 2014	32,900	\$ 84.75
Granted	13,000	83.30
Vested	(15,923)	82.93
Forfeited/Expired		
Nonvested restricted stock units at June 2015	29,977	\$ 80.40

All Equity-Based Awards (stock options and restricted stock units)

Net income before income taxes included compensation expense related to the amortization of all equity-based compensation awards of \$0.3 million and \$0.9 million for the three and nine months ended June 2015, respectively, and \$0.3 million and \$1.0 million for the three and nine months ended June 2014, respectively. Total unamortized compensation expense related to these awards at June 2015 was approximately \$1.7 million.

Table of Contents**9. BUSINESS SEGMENTS**

AMCON has two reportable business segments: the wholesale distribution of consumer products and the retail sale of health and natural food products. The retail health food stores operations are aggregated to comprise the Retail Segment because such operations have similar economic characteristics, as well as similar characteristics with respect to the nature of products sold, the type and class of customers for the health food products and the methods used to sell the products. Included in the Other column are intercompany eliminations, and assets held and charges incurred by our holding company. The segments are evaluated on revenues, gross margins, operating income (loss), and income before taxes.

	Wholesale Segment	Retail Segment	Other	Consolidated
THREE MONTHS ENDED JUNE 2015:				
External revenue:				
Cigarettes	\$ 239,917,539	\$	\$	\$ 239,917,539
Confectionery	22,520,687			22,520,687
Health food		7,744,518		7,744,518
Tobacco, foodservice & other	64,273,765			64,273,765
Total external revenue	326,711,991	7,744,518		334,456,509
Depreciation	341,432	109,625		451,057
Amortization	91,250			91,250
Operating income (loss)	5,053,788	51,812	(1,554,963)	3,550,637
Interest expense	32,269	49,231	160,766	242,266
Income (loss) from operations before taxes	5,037,641	7,312	(1,715,729)	3,329,224
Total assets	99,443,589	13,292,026	200,634	112,936,249
Capital expenditures	187,605	13,913		201,518
THREE MONTHS ENDED JUNE 2014:				
External revenue:				
Cigarettes	\$ 231,814,363	\$	\$	\$ 231,814,363
Confectionery	21,214,377			21,214,377
Health food		8,509,813		8,509,813
Tobacco, foodservice & other	61,109,071			61,109,071
Total external revenue	314,137,811	8,509,813		322,647,624
Depreciation	340,287	125,262	937	466,486
Amortization	91,250			91,250
Operating income (loss)	3,657,657	138,969	(1,354,840)	2,441,786
Interest expense	36,657	51,284	140,886	228,827
Income (loss) from operations before taxes	3,627,311	93,097	(1,469,976)	2,250,432
Total assets	98,799,569	13,602,639	280,846	112,683,054
Capital expenditures	949,732	25,062		974,794

Table of Contents

	Wholesale Segment	Retail Segment	Other	Consolidated
NINE MONTHS ENDED JUNE 2015:				
External revenue:				
Cigarettes	\$ 671,006,822	\$	\$	\$ 671,006,822
Confectionery	60,589,226			60,589,226
Health food		23,750,098		23,750,098
Tobacco, foodservice & other	181,987,703			181,987,703
Total external revenue	913,583,751	23,750,098		937,333,849
Depreciation	1,088,027	345,818	1,874	1,435,719
Amortization	273,750			273,750
Operating income (loss)	11,629,871	633,735	(4,287,143)	7,976,463
Interest expense	98,400	145,616	429,767	673,783
Income (loss) from operations before taxes	11,581,352	502,145	(4,716,910)	7,366,587
Total assets	99,443,589	13,292,026	200,634	112,936,249
Capital expenditures	692,394	120,230		812,624
NINE MONTHS ENDED JUNE 2014:				
External revenue:				
Cigarettes	\$ 647,770,840	\$	\$	\$ 647,770,840
Confectionery	55,921,920			55,921,920
Health food		26,221,759		26,221,759
Tobacco, foodservice & other	170,780,450			170,780,450
Total external revenue	874,473,210	26,221,759		900,694,969
Depreciation	1,154,830	379,218	2,812	1,536,860
Amortization	273,750			273,750
Operating income (loss)	9,548,781	681,990	(4,085,271)	6,145,500
Interest expense	119,310	168,062	466,074	753,446
Income (loss) from operations before taxes	9,463,125	528,267	(4,492,679)	5,498,713
Total assets	98,799,569	13,602,639	280,846	112,683,054
Capital expenditures	2,242,733	94,893		2,337,626

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words future, position, anticipate(s), expect, believe(s), see, plan, further improve, outlook, should or similar. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions.

You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increasing competition in our wholesale segment,
- increases in state and federal excise taxes on cigarette and tobacco products,
- the increasing demand and sales of electronic cigarettes and vapors through specialty shops and over the internet,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,
- regulation of cigarette and tobacco products by the FDA, in addition to existing state and federal regulations by other agencies,
- potential bans or restrictions imposed by the FDA on the manufacture, distribution, and sale of certain cigarette and tobacco products,

- increases in fuel prices,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,
- changes in promotional and incentive programs offered by manufacturers,
- demand for the Company's products, particularly cigarette and tobacco products,
- risks associated with opening new retail stores,
- increasing competition in our retail health food segment,
- the expansion of large and well capitalized national and regional health food retail store chains,
- management periodically reviews market conditions and the demand for various assets that may lead to acquisitions, divestitures, new business ventures, or efforts to expand, each which carry integration and execution risk,
- increasing health care costs and the potential impact on discretionary consumer spending,
- changes in laws and regulations and ongoing compliance with the Patient Protection and Affordable Care Act,
- decreased availability of capital resources,
- domestic regulatory and legislative risks,

Table of Contents

- poor weather conditions,
- consolidation trends within the convenience store, wholesale distribution, and retail health food industries,
- natural disasters and domestic unrest,
- other risks over which the Company has little or no control, and any other factors not identified herein

Changes in these factors could result in significantly different results. Consequently, future results may differ from management's expectations. Moreover, past financial performance should not be considered a reliable indicator of future performance. Any forward-looking statement contained herein is made as of the date of this document. Except as required by law, the Company undertakes no obligation to publicly update or correct any of these forward-looking statements in the future to reflect changed assumptions, the occurrence of material events or changes in future operating results, financial conditions or business over time.

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our annual report on Form 10-K for the fiscal year ended September 30, 2014, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the nine months ended June 2015.

THIRD FISCAL QUARTER 2015 (Q3 2015)

The following discussion and analysis includes the Company's results of operations for the three and nine months ended June 2015 and June 2014.

Wholesale Segment

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,500 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In September 2014, Convenience Store News ranked us as the sixth (6th) largest convenience store distributor in the United States based on annual sales.

Our wholesale business offers retailers the ability to take advantage of manufacturer and Company sponsored sales and marketing programs, merchandising and product category management services, and the use of information systems and data services that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales and profits. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management, efficiency in processing small orders, and frequency of deliveries. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory, merchandising expertise, information systems, and accessing trade credit.

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kellogg's, Kraft, and Mars. We also market private label lines of water, candy products, batteries, film, and other products. We do not maintain long-term purchase contracts with our suppliers.

Table of Contents

Retail Segment

Our Retail Segment is a specialty retailer of natural/organic groceries and dietary supplements which focuses on providing high quality products at affordable prices, with an exceptional level of customer service and nutritional consultation. All of the products carried in our stores must meet strict quality and ingredient guidelines, and include offerings such as gluten-free and antibiotic-free groceries and meat products, as well as products containing no artificial colors, flavors, preservatives, or partially hydrogenated oils. We design our retail sites in an efficient and flexible small-store format, which emphasizes a high energy and shopper-friendly environment.

We operate within the natural products retail industry, which is a subset of the large and stable U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers. According to The Natural Foods Merchandiser, a leading industry trade publication, retail sales in the natural foods industry exceeded \$89 billion during the 2013 calendar year.

Our Retail Segment operates sixteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 32,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of ten locations in Arkansas, Kansas, Missouri, Nebraska, and Oklahoma.

Business Update Wholesale Segment

Competition in the marketplace remains brisk as various other retail sales channels such as drug stores, dollar stores, and quick-service restaurants continue to pursue many of the same customers traditionally serviced by convenience stores. At the distributor level, industry-wide gross margins remain pressured as full service distributors and distributors who merely provide logistics services (i.e. doorstep deliveries) compete for market share. In response to price-only competition, we promote a wide range of customizable solutions and programs which can be tailored to specific customers depending on their size, region, size, and needs.

We are closely watching a number of ongoing trends within the industry: 1) the increasing reliance on technology at both the distributor and convenience store level and 2) the increasing demand for fresh/hot foodservice offerings. It is likely that the capital intensive nature of providing these services will largely fall on distributors and over time may force many smaller distributors from the market, presenting potential consolidation opportunities. For our Company in particular, we continue to make targeted investments in a number of areas including technology applications and the expansion of our temperature controlled trucking fleet.

Over the medium to long term, we remain focused on a number of initiatives to help us further monetize different aspects of our business. Strategic and opportunistic acquisitions will also remain an important part of our long term value creation strategy. As always, managing our business in a low risk fashion remains a top priority.

Table of Contents**Business Update Retail Segment**

The growing demand for natural products has attracted a wide range of well financed competitors. The operating environment for our retail health food segment is highly competitive as regional and national retailers such as Whole Foods Market, Trader Joe's, Sprouts Farmers Market, Natural Grocers, Vitamin Shoppe, and General Nutrition Center (GNC) have all engaged in aggressive new store expansion strategies, often opening new retail sites in close proximity to our existing stores. Additionally, the purchase of consumer health products over the internet continues to grow and compete with brick and mortar retailers.

Our Midwestern stores in particular have experienced increased competition over the past several years which has impacted both sales and gross profit. We expect this highly competitive environment to persist and potentially increase into the foreseeable future. In light of the heightened competition, our management team has focused on a number of key initiatives. These efforts include merchandising and marketing strategies designed to promote customer retention and attract younger customers who are increasingly embracing natural products. Additionally, our management team remains highly focused on optimizing our expense and unit economic structure for each store based on local conditions.

RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 2015:

	For the three months ended June			
	2015	2014	Incr (Decr)	% Change
CONSOLIDATED:				
Sales (1)	\$ 334,456,509	\$ 322,647,624	\$ 11,808,885	3.7
Cost of sales	314,957,889	303,353,020	11,604,869	3.8
Gross profit	19,498,620	19,294,604	204,016	1.1
Gross profit percentage	5.8%	6.0%		
Operating expense	15,947,983	16,852,818	(904,835)	(5.4)
Operating income	3,550,637	2,441,786	1,108,851	45.4
Interest expense	242,266	228,827	13,439	5.9
Income tax expense	1,333,000	990,000	343,000	34.6
Net income	1,996,224	1,260,432	735,792	58.4
BUSINESS SEGMENTS:				
Wholesale				
Sales	\$ 326,711,991	\$ 314,137,811	\$ 12,574,180	4.0
Gross profit	16,334,296	15,681,005	653,291	4.2
Gross profit percentage	5.0%	5.0%		
Retail				
Sales	\$ 7,744,518	\$ 8,509,813	\$ (765,295)	(9.0)
Gross profit	3,164,324	3,613,599	(449,275)	(12.4)
Gross profit percentage	40.9%	42.5%		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$5.9 million in Q3 2015 and \$5.3 million in Q3 2014.

SALES

Changes in sales are driven by two primary components:

- (i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and
- (ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

Table of Contents**SALES Q3 2015 vs. Q3 2014**

Sales in our Wholesale Segment increased \$12.6 million during Q3 2015 as compared to Q3 2014. Significant items impacting sales during Q3 2015 included a \$2.1 million increase in sales related to the volume and mix of cigarette cartons sold, a \$6.0 million increase in sales related to price increases implemented by cigarette manufacturers, and a \$4.5 million increase in sales related to higher sales in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories (Other Products). Q3 2015 sales in our Retail Segment decreased \$0.8 million as compared to Q3 2014. This change in sales was primarily related to increased competition within the markets we operate.

GROSS PROFIT Q3 2015 vs. Q3 2014

Our gross profit does not include fulfillment costs and costs related to the distribution network which are included in selling, general and administrative costs, and may not be comparable to those of other entities. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for the wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives we receive which are netted against such costs.

Gross profit in our Wholesale Segment increased \$0.7 million in Q3 2015 as compared to Q3 2014, primarily due to higher sales in our Other Products category. Q3 2015 gross profit in our Retail Segment decreased \$0.4 million as compared to Q3 2014. This change was primarily related to lower sales volume in our retail stores.

OPERATING EXPENSE Q3 2015 vs. Q3 2014

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance, and professional fees. Our Q3 2015 operating expenses decreased \$0.9 million as compared to Q3 2014. Significant items impacting operating costs during the three month period ended June 2015 included a \$0.9 million decrease in delivery and health insurance costs in our Wholesale Segment, and a \$0.4 million reduction in operating costs in our Retail Segment. These decreases were partially offset by a \$0.4 million increase in compensation expense and other operating costs.

RESULTS OF OPERATIONS NINE MONTHS ENDED JUNE 2015:

	For the nine months ended June			
	2015	2014	Incr (Decr)	% Change
CONSOLIDATED:				

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Sales (1)	\$	937,333,849	\$	900,694,969	\$	36,638,880	4.1
Cost of sales		880,575,362		844,139,340		36,436,022	4.3
Gross profit		56,758,487		56,555,629		202,858	0.4
Gross profit percentage		6.1%		6.3%			
Operating expenses		48,782,024		50,410,129		(1,628,105)	(3.2)
Operating income		7,976,463		6,145,500		1,830,963	29.8
Interest expense		673,783		753,446		(79,663)	(10.6)
Income tax expense		3,055,000		2,419,000		636,000	26.3
Net income		4,311,587		3,079,713		1,231,874	40.0

BUSINESS SEGMENTS:

Wholesale

Sales	\$	913,583,751	\$	874,473,210	\$	39,110,541	4.5
Gross profit		46,794,647		45,293,292		1,501,355	3.3
Gross profit percentage		5.1%		5.2%			

Retail

Sales	\$	23,750,098	\$	26,221,759	\$	(2,471,661)	(9.4)
Gross profit		9,963,840		11,262,337		(1,298,497)	(11.5)
Gross profit percentage		42.0%		43.0%			

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$16.2 million for the nine month ended June 2015 and \$15.0 million for the nine months ended June 2014.

Table of Contents

SALES Nine months Ended June 2015

Sales in our Wholesale Segment increased \$39.1 million for the nine months ended June 2015 as compared to the same prior year period. Significant items impacting sales during the period included a \$5.3 million increase in sales primarily related to the volume and mix of cigarette cartons sold, a \$17.9 million increase in sales related to price increases implemented by cigarette manufacturers, and a \$15.9 million increase in sales related to higher sales in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories (Other Products).

Sales in our Retail Segment for the nine months ended June 2015 decreased \$2.5 million as compared to the same prior year period. This change in sales was primarily related to increased competition within the markets we operate.

GROSS PROFIT Nine months Ended June 2015

Our gross profit does not include fulfillment costs and costs related to the distribution network which are included in selling, general and administrative costs, and may not be comparable to those of other entities. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for the wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives we receive which are netted against such costs.

Gross profit in our Wholesale Segment increased \$1.5 million for the nine month period ended June 2015 as compared to the same prior year period. This change was primarily related to an increase in our Other Product category sales and gross profit.

Gross profit in our Retail Segment decreased \$1.3 million for the nine month period ended June 2015 as compared to the same prior year period. This change was primarily related to lower sales volume in our retail stores.

OPERATING EXPENSE Nine months Ended June 2015

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance, and professional fees. Operating expenses decreased \$1.6 million during the nine months ended June 2015 as compared to the same prior year period. Significant items impacting operating costs during the nine month period ended June 2015 included a \$1.8 million decrease in delivery and health insurance costs in our Wholesale Segment, and a \$1.3 million reduction in operating costs in our Retail Segment. These decreases were partially offset by a \$1.5 million increase in compensation expense and other operating costs.

LIQUIDITY AND CAPITAL RESOURCES

Overview

- **General.** The Company requires cash to pay operating expenses, purchase inventory, and make capital investments. In general, the Company finances its cash flow requirements with cash generated from operating activities and credit facility borrowings.

- **Operating Activities.** For the nine months ended June 2015, the Company used cash of approximately \$2.6 million for operating activities. Significant uses of cash during the period included an increase in inventory and a decrease in income taxes payable. These uses of cash were partially offset by increases in accounts payable and accrued expenses, a decrease in prepaid and other current assets, and the impact of net earnings.

Our variability in cash flows from operating activities is dependent on the timing of inventory purchases and seasonal fluctuations. For example, periodically we have inventory buy-in opportunities which offer more favorable pricing terms. As a result, we may have to hold inventory for a period longer than the payment terms. This generates a cash outflow from operating activities which we expect to reverse in later periods. Additionally, during the warm weather months which is our peak time of operations, we generally carry higher amounts of inventory to ensure high fill rates and customer satisfaction.

Table of Contents

- **Investing Activities.** The Company used approximately \$0.8 million of cash during the nine month period ended June 2015 for investing activities, primarily related to capital expenditures for property and equipment.
- **Financing Activities.** The Company used cash of \$1.7 million from financing activities during the nine month period ended June 2015. Of this amount, approximately \$0.8 million related to net payments on the Company's credit facility, \$0.2 million related to long-term debt repayments, \$0.5 million related to dividends on the Company's common and preferred stock, and \$0.2 million related to equity-based awards.
- **Cash on Hand/Working Capital.** At June 2015, the Company had cash on hand of \$0.1 million and working capital (current assets less current liabilities) of \$60.7 million. This compares to cash on hand of \$0.1 million and working capital of \$55.8 million at September 2014.

Credit Agreement

The Company primarily finances its operations with cash generated from operating activities and through a credit facility provided under an agreement with Bank of America (the Facility). The Facility included the following significant terms at June 2015:

- A July 2018 maturity date without a penalty for prepayment.
- \$70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by \$25.0 million.
- A provision providing an additional \$10.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 175 basis points depending on certain credit facility utilization measures, at the election of the Company.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's availability has not fallen below 10% of the maximum loan limit and the Company's fixed charge coverage ratio is over 1.0.
- Provides that the Company may not pay dividends on its common stock in excess of \$1.00 per share on an annual basis. There is, however, no limit on common stock dividends if certain excess availability measurements have been maintained for the thirty day period immediately prior to the payment of any such dividends or distributions and if immediately after giving effect to any such dividend or distribution payments the Company has a fixed charge coverage ratio of at least 1.10 to 1.0 as defined in the credit facility agreement.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the credit limit of the Facility at June 2015 was \$69.6 million, of which \$14.3 million was outstanding, leaving \$55.3 million available.

At June 2015, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 2.27% at June 2015.

For the nine months ended June 2015, our peak borrowings under the Facility were \$43.1 million, and our average borrowings and average availability under the Facility were \$28.5 million and \$39.1 million, respectively. Our availability to borrow under the

Table of Contents

Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, is financed through a term loan with BMO Harris, NA (BMO) which is also a participant lender on the Company's revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is the lender, including the revolving credit facility, is in default. There were no such cross defaults as of June 2015. In addition, the BMO loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividends Payments

The Company paid cash dividends on its common stock and convertible preferred stock totaling \$0.2 million and \$0.5 million for the three and nine month periods ended June 2015, respectively, and \$0.2 million and \$0.5 million for the three and nine month periods ended June 2014, respectively.

Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's annual report on Form 10-K for the fiscal period ended September 30, 2014.

Other

AMCON has issued a letter of credit in the amount of approximately \$0.4 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Liquidity Risk

The Company's liquidity position is significantly influenced by its ability to maintain sufficient levels of working capital. For our Company and industry in general, customer credit risk and ongoing access to bank credit heavily influence liquidity positions.

The Company does not currently hedge its exposure to interest rate risk or fuel costs. Accordingly, significant price movements in these areas can and do impact the Company's profitability.

While the Company believes its liquidity position going forward will be adequate to sustain operations. However, a precipitous change in operating environment could materially impact the Company's future revenue stream as well as its ability to collect on customer accounts receivable or secure bank credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management,

Table of Contents

including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15(b) and 15d-15(b) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2015 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control that occurred during the fiscal quarter ended June 30, 2015, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A Risk Factors of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No shares of our common stock were purchased by or on behalf of our Company during the quarterly period ended June 30, 2015.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act

31.2 Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 302 of the Sarbanes-Oxley Act

32.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act

32.2 Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 906 of the Sarbanes-Oxley Act

101 Interactive Data File (filed herewithin electronically)

Table of Contents

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.

AMCON DISTRIBUTING COMPANY
(registrant)

Date: July 17, 2015

/s/ Christopher H. Atayan
Christopher H. Atayan,
Chief Executive Officer and Chairman

Date: July 17, 2015

/s/ Andrew C. Plummer
Andrew C. Plummer,
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)