

AMCON DISTRIBUTING CO  
Form 10-Q  
January 20, 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 December 31, 2014**

**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       Smaller reporting company   
(Do not check if a smaller reporting company)

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

The Registrant had 615,822 shares of its \$.01 par value common stock outstanding as of January 19, 2015.

Table of Contents

Form 10-Q

1st Quarter

**INDEX**

	<b>PAGE</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed consolidated balance sheets at December 31, 2014 (unaudited) and September 30, 2014</u>	3
<u>Condensed consolidated unaudited statements of operations for the three months ended December 31, 2014 and 2013</u>	4
<u>Condensed consolidated unaudited statements of cash flows for the three months ended December 31, 2014 and 2013</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>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	21
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults Upon Senior Securities</u>	22
<u>Item 4. Mine Safety Disclosures</u>	22
<u>Item 5. Other Information</u>	22
<u>Item 6. Exhibits</u>	23

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****AMCON Distributing Company and Subsidiaries****Condensed Consolidated Balance Sheets****December 31, 2014 and September 30, 2014**

	<b>December 2014 (Unaudited)</b>	<b>September 2014</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 173,707	\$ 99,922
Accounts receivable, less allowance for doubtful accounts of \$1.0 million and \$0.8 million at December 2014 and September 2014, respectively	33,408,314	33,286,932
Inventories, net	47,495,141	43,635,266
Deferred income taxes	1,245,371	1,606,168
Prepaid and other current assets	6,578,677	5,034,570
Total current assets	88,901,210	83,662,858
Property and equipment, net	13,629,797	13,763,140
Goodwill	6,349,827	6,349,827
Other intangible assets, net	4,364,728	4,455,978
Other assets	316,706	448,149
	\$ 113,562,268	\$ 108,679,952
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,264,507	\$ 16,412,895
Accrued expenses	5,408,114	6,891,308
Accrued wages, salaries and bonuses	2,080,691	2,647,969
Income taxes payable	491,450	1,603,614
Current maturities of long-term debt	343,777	341,190
Total current liabilities	24,588,539	27,896,976
Credit facility	20,812,554	15,081,783
Deferred income taxes	3,502,668	3,484,204
Long-term debt, less current maturities	3,648,704	3,735,702
Other long-term liabilities	136,991	139,003
Series A cumulative, Convertible Preferred Stock, \$.01 par value 100,000 shares authorized and issued, and a total liquidation preference of \$2.5 million at both December 2014 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 December 2014 and September 2014, and a total liquidation preference of \$0.4 million at both December 2014 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 December 2014 and 602,411 shares outstanding at September 2014	6,811	6,677
Additional paid-in capital	14,721,867	13,571,909
Retained earnings	49,209,637	47,829,201
Treasury stock at cost	(5,965,503)	(5,965,503)
Total shareholders' equity	57,972,812	55,442,284
	\$ 113,562,268	\$ 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 months ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Sales (including excise taxes of \$96.9 million and \$97.3 million at December 2014 and December 2013, respectively)	\$ 315,433,476	\$ 305,625,557
Cost of sales	295,906,944	285,984,494
Gross profit	19,526,532	19,641,063
Selling, general and administrative expenses	16,181,122	16,492,263
Depreciation and amortization	576,305	624,040
	16,757,427	17,116,303
Operating income	2,769,105	2,524,760
Other expense (income):		
Interest expense	237,142	301,995
Other (income), net	(7,067)	(30,231)
	230,075	271,764
Income from operations before income tax expense	2,539,030	2,252,996
Income tax expense	993,000	965,000
Net income	1,546,030	1,287,996
Preferred stock dividend requirements	(49,177)	(49,177)
Net income available to common shareholders	\$ 1,496,853	\$ 1,238,819
Basic earnings per share available to common shareholders	\$ 2.44	\$ 1.99
Diluted earnings per share available to common shareholders	2.11	1.73
Basic weighted average shares outstanding	612,560	622,226
Diluted weighted average shares outstanding	734,256	744,568

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 three months ended December 31, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,546,030	\$ 1,287,996
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	485,055	532,790
Amortization	91,250	91,250
(Gain) loss on sale of property and equipment	12,036	(7,704)
Equity-based compensation	289,551	342,160
Deferred income taxes	379,261	484,838
Provision for losses on doubtful accounts	186,750	130,000
Provision for losses on inventory obsolescence	10,420	38,803
Other	(2,012)	(2,011)
Changes in assets and liabilities:		
Accounts receivable	(308,132)	(3,838,855)
Inventories	(3,870,295)	(4,900,694)
Prepaid and other current assets	(1,544,107)	(2,030,838)
Other assets	131,443	64,798
Accounts payable	(174,140)	995
Accrued expenses and accrued wages, salaries and bonuses	(1,033,434)	(928,307)
Income tax payable	(1,112,164)	(1,669,022)
Net cash flows from operating activities	(4,912,488)	(10,403,801)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(340,796)	(985,678)
Proceeds from sales of property and equipment	2,800	9,320
Net cash flows from investing activities	(337,996)	(976,358)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on bank credit agreements	5,730,771	13,908,025
Principal payments on long-term debt	(84,411)	(302,076)
Repurchase of common stock and Series B Convertible Preferred Stock		(1,941,918)
Dividends paid on convertible preferred stock	(49,177)	(49,177)
Dividends on common stock	(116,417)	(120,628)
Withholdings on the exercise of equity-based awards	(156,497)	(62,713)
Net cash flows from financing activities	5,324,269	11,431,513
Net change in cash	73,785	51,354
Cash, beginning of period	99,922	275,036
Cash, end of period	\$ 173,707	\$ 326,390

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





Table of Contents

	2014		2013
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 223,385	\$	274,796
Cash paid during the period for income taxes	1,725,903		2,149,184
Supplemental disclosure of non-cash information:			
Equipment acquisitions classified as accounts payable	\$ 60,737	\$	60,332
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 any 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 December 31, 2014 and December 31, 2013 have been referred to throughout this quarterly report as Q1 2015 and Q1 2014 respectively. The fiscal balance sheet dates as of December 31, 2014, December 31, 2013, and September 30, 2014 have been referred to as December 2014, December 2013, and September 2014, respectively.

**ADOPTION OF NEW ACCOUNTING STANDARD**

During Q1 2015, the Company adopted Accounting Standards Update ( ASU ) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . ASU 2013-11 provides guidance about when entities should present an unrecognized tax benefit as a reduction of deferred tax assets for net operating loss ( NOL ) or similar tax losses or tax credits carryforward rather than as a liability when uncertain tax positions would reduce the NOL or other carryforward under the tax law. The adoption of this standard did not have a material impact on our financial position, results of operations, or cash flow.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued 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, 2016, 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 December 2014 as identified in the following table:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	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 outstanding at December 2014:	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 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.

Table of Contents

In the event of a liquidation of the Company, the holders of the Preferred Stock are 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 Stock holders 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. Christopher H. Atayan was first nominated and elected to this seat in 2004.

**3. INVENTORIES**

At December 2014 and September 2014, 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 \$0.9 million at both December 2014 and September 2014, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable 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:

	December 2014	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:

	December 2014	September 2014
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Non-competition agreement (less accumulated amortization of approximately \$0.4 million at December 2014 and \$0.3 million at September 2014)	141,667	166,667
Customer relationships (less accumulated amortization of \$1.3 million and \$1.2 million at December 2014 and September 2014, respectively)	849,792	916,042
	\$ 4,364,728	\$ 4,455,978

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Goodwill, trademarks, and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At December 2014, 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 identifiable intangible assets was \$0.1 million during both Q1 2015 and Q1 2014.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at December 2014:

	<b>December 2014</b>
Fiscal 2015 (1)	\$ 273,750
Fiscal 2016	331,667
Fiscal 2017	265,000
Fiscal 2018	79,375
Fiscal 2019	41,667
	\$ 991,459

---

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

Table of Contents**5. DIVIDENDS**

The Company paid cash dividends on its common stock and convertible preferred stock totaling \$0.2 million during both Q1 2015 and Q1 2014.

**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 December			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	612,560	612,560	622,226	622,226
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		121,696		122,342
Weighted average number of shares outstanding	612,560	734,256	622,226	744,568
Net income	\$ 1,546,030	\$ 1,546,030	\$ 1,287,996	\$ 1,287,996
Deduct: convertible preferred stock dividends (2)	(49,177)		(49,177)	
Net income available to common shareholders	\$ 1,496,853	\$ 1,546,030	\$ 1,238,819	\$ 1,287,996
Net earnings per share available to common shareholders	\$ 2.44	\$ 2.11	\$ 1.99	\$ 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.

**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 December 2014:

- A July 2018 maturity date without a penalty for prepayment.
- \$70.0 million revolving credit limit.



## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- 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 if elected by the Company.
- 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.

Table of Contents

- 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 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 a lender, including the revolving credit facility, is in default. There were no such cross defaults at December 2014. In addition, the BMO loan contain 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

The Company 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.

**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 for 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,

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

stock dividends, and certain other distributions on the Company's common stock. At December 2014 awards with respect to a total of 157,328 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plans and awards with respect to another 67,672 shares may be awarded under the Omnibus Plans.

Table of ContentsStock 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 December 2014 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	1.95 years	\$ 18.00	25,000	\$ 18.00
Fiscal 2010	\$51.50	4,000	5.33 years	\$ 51.50	3,100	\$ 51.50
Fiscal 2012	\$53.80 - \$65.97	5,400	6.84 years	\$ 54.93	3,100	\$ 54.59
Fiscal 2013	\$62.33	7,200	7.82 years	\$ 62.33	3,400	\$ 62.33
		41,600		\$ 33.69	34,600	\$ 28.64

Restricted Stock Units

During Q1 2015, the Company issued 13,000 restricted stock unit awards to members of its management team pursuant to the provisions of the Company's Omnibus Plans. Nonvested restricted stock units at December 2014 are as follows:

	Restricted Stock Units(1)	Restricted Stock Units(2)	Restricted Stock Units(3)
Date of award:	October 2012	October 2013	October - December 2014
Number of awards issued:	15,000	17,600	13,000
Service period:	36 months	36-60 months	36 months
Estimated fair value of award at grant date	\$935,000	\$1,486,000	\$1,083,000
Awards outstanding at December 2014	5,000	11,977	13,000
Fair value of non-vested awards at December 2014:	\$400,000	\$958,000	\$1,040,000

- 
- (1) 10,000 of the restricted stock units were vested as of December 2014. The remaining 5,000 restricted stock units will vest in October 2015.
- (2) 5,623 restricted stock units were vested as of December 2014. 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.

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.

Table of Contents

	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
Expired		
Nonvested restricted stock units at December 2014	29,977	\$ 80.00

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

Net income before income taxes included compensation expense of approximately \$0.3 million during both Q1 2015 and Q1 2014 related to the amortization of all equity-based compensation awards. Total unamortized compensation expense related to these awards at December 2014 and December 2013 was approximately \$2.2 million and \$2.5 million, respectively.

**9. BUSINESS SEGMENTS**

The Company 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
<b>THREE MONTHS ENDED DECEMBER 2014:</b>				
External revenue:				
Cigarettes	\$ 226,237,114		\$	\$ 226,237,114
Confectionery	19,561,238			19,561,238
Health food		7,770,967		7,770,967
Tobacco, food service & other	61,864,157			61,864,157
Total external revenue	307,662,509	7,770,967		315,433,476
Depreciation	366,530	117,588	937	485,055
Amortization	91,250			91,250
Operating income (loss)	4,020,917	124,465	(1,376,277)	2,769,105
Interest expense	33,557	47,695	155,890	237,142
Income (loss) from operations before taxes	3,989,706	81,491	(1,532,167)	2,539,030
Total assets	100,156,097	13,174,571	231,600	113,562,268
Capital expenditures	297,123	43,673		340,796
<b>THREE MONTHS ENDED DECEMBER 2013:</b>				
External revenue:				
Cigarettes	\$ 221,151,811		\$	\$ 221,151,811
Confectionery	18,203,191			18,203,191
Health food		8,523,278		8,523,278

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Tobacco, food service & other	57,747,277			57,747,277
Total external revenue	297,102,279	8,523,278		305,625,557
Depreciation	403,342	128,510	938	532,790
Amortization	91,250			91,250
Operating income (loss)	3,795,962	52,190	(1,323,392)	2,524,760
Interest expense	43,797	60,776	197,422	301,995
Income (loss) from operations before taxes	3,759,523	(3,628)	(1,502,899)	2,252,996
Total assets	103,144,703	13,564,621	206,413	116,915,737
Capital expenditures	918,542	67,136		985,678

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 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:

- increases in state and federal excise taxes on cigarette and tobacco products,
- the increasing demand and sale of electronic cigarettes and vapors through specialty shops and over the internet,
- 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,
- increased competition in our retail health food segment,
- the expansion of large and well capitalized national and regional health food retail store chains,
- risks associated with opening new retail stores,
- integration risk related to acquisitions or other efforts to expand,
- 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 manufacturer prices,
- increases in inventory carrying costs and customer credit risk,
- changes in promotional and incentive programs offered by manufacturers,
- decreased availability of capital resources,



Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- demand for the Company's products, particularly cigarette and tobacco products,
- new business ventures or acquisitions,
- domestic regulatory and legislative risks,
- increasing competition in our wholesale segment,

Table of Contents

- poor weather conditions,
- increases in fuel prices,
- consolidation trends within the retail health food, convenience store, and wholesale distribution 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 our fiscal quarter ended December 2014.

**FIRST FISCAL QUARTER 2015 (Q1 2015)**

The following discussion and analysis includes the Company's results of operations for the three months ended December 2014 and December 2013.

**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.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 any 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**

At the distributor level, industry-wide gross margins remain pressured as convenience store owners struggle to distinguish between the value delivered by full service distributors and other distributors who merely provide logistics services (i.e. moving products from point A to point B).

To better differentiate our position in the marketplace, we continue to emphasize customizable programs which allow customers to pick and choose from the services they value most. Much of our efforts are focused on expanding the use of specialized merchandising programs designed to help customers reduce their reliance on traditional revenue streams such as tobacco products and growing higher margin foodservice product lines such as snacks, fresh bakery items, gourmet sandwiches, wraps, and specialty drinks.

As a distributor, our business is sensitive to changes in fuel prices. Decreases in fuel prices similar to that recently seen across the United States can benefit distributors operating costs, however, they must be considered in a broader context relative to all the drivers of total fuel costs, such as total miles driven and trucking fleet efficiency. For our Company in particular, an increase in the total miles driven and higher fuel consumption by our newer refrigerated trucking units, mitigated any benefits from the recent decrease in fuel prices.

We are closely monitoring the development of the electronic cigarettes (e-cigarettes) and vaping product categories. While still a small percentage of total cigarette and tobacco sales, these categories are growing and have become an alternative to traditional tobacco products. We currently carry a wide selection of electronic cigarettes and vaping options which are offered to our customers through specialized programs.

As the sixth (6th) largest wholesale distributor to convenience stores in the United States, our reach is considerable connecting over 4,500 retail locations and millions of consumers to products, services, and technology. Over the medium to long term, we are focused on a number of initiatives to help us further monetize this reach on our business platform.

Forward looking, we believe the competitive landscape will remain intense. As always, our number one priority remains creating shareholder value in a low risk fashion. This means maximizing liquidity in the short term so capital can be deployed in a patient, opportunistic manner, as strategic investment and acquisition opportunities arise.

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 an increase in competition over the past year which has impacted both sales and gross profit. We expect this highly competitive environment to persist and potentially accelerate into the foreseeable future.

We believe the market has the potential to grow as more consumers gravitate more towards natural foods and products. There appears to be a shift among certain customer segments towards simpler, cleaner foods and products, and away from processed foods or chemical heavy products. In particular, we believe millennial and generation X consumers present a considerable opportunity and we are working on a number of initiatives to capture these customers.

With the exception of commodity oriented products, we believe the health food industry remains primarily a high touch business requiring a certain degree of consultative engagement before customers become comfortable making purchases. This is particularly true in product categories such as vitamin or herb supplements. In these product categories, the depth of our educational offerings and in store product specialists, provides a real competitive differentiator which has the potential to drive growth as we introduce new programs and services.

**RESULTS OF OPERATIONS**

	For the three months ended December			
	2014	2013	Incr (Decr)	% Change
<b>CONSOLIDATED:</b>				
Sales (1)	\$ 315,433,476	\$ 305,625,557	\$ 9,807,919	3.2
Cost of sales	295,906,944	285,984,494	9,922,450	3.5
Gross profit	19,526,532	19,641,063	(114,531)	(0.6)
Gross profit percentage	6.2%	6.4%		
Operating expense	16,757,427	17,116,303	(358,876)	(2.1)
Operating income	2,769,105	2,524,760	244,345	9.7
Interest expense	237,142	301,995	(64,853)	(21.5)
Income tax expense	993,000	965,000	28,000	2.9
Net income	1,546,030	1,287,996	258,034	20.0
<b>BUSINESS SEGMENTS:</b>				
<b>Wholesale</b>				
Sales	\$ 307,662,509	\$ 297,102,279	\$ 10,560,230	3.6
Gross profit	16,252,543	16,005,570	246,973	1.5
Gross profit percentage	5.3%	5.4%		
<b>Retail</b>				
Sales	\$ 7,770,967	\$ 8,523,278	\$ (752,311)	(8.8)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Gross profit	3,273,989	3,635,493	(361,504)	(9.9)
Gross profit percentage	42.1%	42.7%		

- 
- (1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$5.1 million in Q1 2015 and \$4.9 million in Q1 2014.

Table of Contents

**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.

**SALES Q1 2015 vs. Q1 2014**

Sales in our Wholesale Segment increased \$10.6 million during Q1 2015 as compared to Q1 2014. Significant items impacting sales during Q1 2015 included a \$6.5 million increase in sales related to price increases implemented by cigarette manufacturers and a \$5.5 increase in sales related to higher sales in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories ( Other Products ). These increases were partially offset by a \$1.4 million decrease in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment decreased \$0.8 million in Q1 2015 as compared to Q1 2014. During Q1 2015, our Midwest retail stores experienced lower sales due to increased competition from national and regional health food chains.

**GROSS PROFIT Q1 2015 vs. Q1 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 \$0.2 million in Q1 2015 as compared to Q1 2014. This increase in gross profit was primarily related to higher sales volume in our Other Products categories. Q1 2015 gross profit in our Retail Segment decreased \$0.4 million as compared to Q1 2014. This change was primarily related to the decrease in sales as previously discussed.

**OPERATING EXPENSE Q1 2015 vs. Q1 2014**



## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 Q1 2015 operating expenses decreased \$0.4 million as compared to Q1 2014. Significant items impacting operating costs during the period a \$0.5 million decrease in health insurance costs resulting from favorable experience and a \$0.4 million reduction in operating costs at our Retail Segment. These decreases were partially offset by a \$0.5 million increase in other operating costs.

### **INCOME TAX EXPENSE Q1 2015 vs. Q1 2014**

The effective income tax rate for Q1 2015 was 39.1% as compared to 42.8% in Q1 2014. The decrease in effective tax rates between the comparative periods was primarily related to changes in the amount of nondeductible expenses under the Internal Revenue Service Code.

Table of Contents

**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.** During Q1 2015, the Company used cash of approximately \$4.9 million for operating activities. Significant uses of cash during Q1 2015 included increases in accounts receivable, inventory, prepaid and other current assets, and decreases in accounts payable, accrued expenses, and income taxes payable. These uses of cash were partially offset by 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.

- **Investing Activities.** The Company used approximately \$0.3 million of cash during Q1 2015 for investing activities, primarily related to capital expenditures for property and equipment.
- **Financing Activities.** The Company generated cash of \$5.3 million from financing activities during Q1 2015. Of this amount, approximately \$5.7 million related to net borrowings on the Company's credit facility. This was partially offset by \$0.1 million related to repayments on long-term debt, \$0.2 million related to dividends on the Company's common and preferred stock, and \$0.1 million related to equity-based awards.
- **Cash on Hand/Working Capital.** At December 2014, the Company had cash on hand of \$0.2 million and working capital (current assets less current liabilities) of \$64.3 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 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 December 2014:

- 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 if elected by the Company.
- 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 ratio is over 1.0.

Table of Contents

- 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 December 2014 was \$69.6 million, of which \$20.8 million was outstanding, leaving \$48.8 million available.

At December 2014, 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 2.17% at December 2014.

During Q1 2015, our peak borrowings under the Facility were \$40.2 million, and our average borrowings and average availability under the Facility were \$30.4 million and \$38.5 million, respectively. Our availability to borrow under the 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 a lender, including the revolving credit facility, is in default. There were no such cross defaults at December 2014. In addition, the BMO loan contain 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 during both Q1 2015 and Q1 2014.

**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**

The Company 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.

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.

Table of Contents

**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, 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 December 31, 2014 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 December 31, 2014, 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.

Table of Contents

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

During Q1 2015, the Company awarded 4,952 restricted stock units under the AMCON Distributing Company 2007 Omnibus Incentive Plan (the 2007 Plan ) and 8,048 restricted stock units ( RSUs ) under the AMCON Distributing Company 2014 Omnibus Incentive Plan (the 2014 Plan ) to three executives of our Company (namely: Christopher H. Atayan, Andrew C. Plummer, and Philip E. Campbell). The RSUs provide the award recipient with the right to receive, subject to being employed on the applicable vesting date, (i) an amount of cash equal to the per share fair market value of our Company s common stock as of the vesting date multiplied by the number of shares underlying the RSUs then becoming vested and held by the award recipient or (ii) a number of shares of common stock equal to the whole number of shares underlying the RSUs then becoming vested and held by the award recipient, as elected by the award recipient.

Subject to earlier forfeiture under certain limited circumstances, the 13,000 RSUs awarded to the three executives of the Company will vest evenly over three years in October 2015, October 2016, and October 2017. If all RSUs were to fully vest and be settled in shares of our Company s common stock, a total of 13,000 shares of our Company s common stock would be issued.

On October 22, 2014, our Company issued a total of 3,928 shares of common stock, par value \$.01 per share, pursuant to the settlement of restricted stock units previously awarded under the 2007 Plan to three executives of our company (namely: Christopher H. Atayan, Andrew C. Plummer, and Philip E. Campbell). An additional 330 shares of common stock, par value \$.01 per share, were issuable as of that date to our non-employee directors (namely: John R. Loyack, Timothy R. Pestotnik, Jeremy W. Hobbs, Stanley Mayer and Raymond F. Bentele) pursuant to the settlement of restricted stock units previously awarded under the 2007 Plan. These 330 shares are expected to be issued in January 2015.

On October 23, 2014, our Company issued a total of 4,486 shares of common stock, par value \$.01 per share, pursuant to the settlement of restricted stock units previously awarded under the 2007 Plan to three executives of our Company (namely: Christopher H. Atayan, Andrew C. Plummer, and Philip E. Campbell).

On October 25, 2014, our Company issued a total of 4,667 shares of common stock, par value \$.01 per share, pursuant to the settlement of restricted stock units previously awarded under the 2007 Plan to four executives of our company (namely: Christopher H. Atayan, Andrew C. Plummer, Eric J. Hinkfent, and Philip E. Campbell).

The securities described above in this item were issued for services and in furtherance of the 2007 Plan s purpose of encouraging employees of our company and its affiliates to acquire a proprietary and vested interest in the growth and performance of our company. The securities were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for transactions not involving any public offering. Our company received no payment in connection with such issuances. No underwriters were involved with the issuance of the securities described in this item and no commissions were paid in connection with such issuances. There was no advertisement or general solicitation made in connection with the issuance of the securities described in this item.

No shares of our common stock were purchased by or on behalf of our Company during the quarterly period ended December 31, 2014.



**Item 3. Defaults Upon Senior Securities**

Not Applicable.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

Not applicable.

Table of Contents

**Item 6. Exhibits**

(a) Exhibits

- 10.1 AMCON Distributing Company 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on December 22, 2014).
- 10.2 Form of Restricted Stock Unit Award Agreement under the 2014 Omnibus Incentive Plan, together with a schedule indentifying individual award recipients and the related terms (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K filed on December 22, 2014).
- 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: January 20, 2015

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

Date: January 20, 2015

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