

AMCON DISTRIBUTING CO  
Form 10-Q  
July 18, 2018  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-15589

---

(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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company    Emerging growth company

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

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

The Registrant had 615,988 shares of its \$.01 par value common stock outstanding as of July 16, 2018.

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, 2018 (unaudited) and September 30, 2017</u>	3
<u>Condensed consolidated unaudited statements of operations for the three and nine months ended June 30, 2018 and 2017</u>	4
<u>Condensed consolidated unaudited statements of cash flows for the nine months ended June 30, 2018 and 2017</u>	5
<u>Notes to condensed consolidated unaudited financial statements</u>	6
<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>	22
<u>Item 4. Controls and Procedures</u>	22
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	23
<u>Item 1A. Risk Factors</u>	23
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 3. Defaults Upon Senior Securities</u>	23
<u>Item 4. Mine Safety Disclosures</u>	23
<u>Item 5. Other Information</u>	24
<u>Item 6. Exhibits</u>	24



Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## AMCON Distributing Company and Subsidiaries

## Condensed Consolidated Balance Sheets

June 30, 2018 and September 30, 2017

	June 2018 (Unaudited)	September 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 275,320	\$ 523,065
Accounts receivable, less allowance for doubtful accounts of \$0.8 million at both June 2018 and September 2017	33,943,794	30,690,403
Inventories, net	51,009,431	72,909,996
Prepaid and other current assets	10,062,688	4,218,811
Total current assets	95,291,233	108,342,275
Property and equipment, net	13,715,318	13,307,986
Goodwill	6,349,827	6,349,827
Other intangible assets, net	3,430,561	3,494,311
Other assets	315,416	310,488
Total assets	\$ 119,102,355	\$ 131,804,887
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,122,752	\$ 17,631,552
Accrued expenses	8,127,663	7,553,089
Accrued wages, salaries and bonuses	2,669,243	3,477,966
Income taxes payable	555,820	544,069
Current maturities of long-term debt	382,209	373,645
Total current liabilities	30,857,687	29,580,321
Credit facility	20,485,436	29,037,182
Deferred income tax liability, net	1,663,832	2,336,263
Long-term debt, less current maturities	2,360,276	2,648,179
Other long-term liabilities	37,067	34,100
Shareholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized	—	—

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Common stock, \$.01 par value, 3,000,000 shares authorized, 615,988 shares outstanding at June 2018 and 678,006 shares outstanding at September 2017	8,441	8,314
Additional paid-in capital	22,042,155	20,825,919
Retained earnings	62,953,155	60,935,911
Treasury stock at cost	(21,305,694)	(13,601,302)
Total shareholders' equity	63,698,057	68,168,842
Total liabilities and shareholders' equity	\$ 119,102,355	\$ 131,804,887

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, 2018 and 2017

	For the three months ended June		For the nine months ended June	
	2018	2017	2018	2017
Sales (including excise taxes of \$96.2 million and \$95.1 million, and \$267.9 million and \$271.8 million, respectively)	\$ 349,043,200	\$ 332,842,200	\$ 959,763,695	\$ 936,994,299
Cost of sales	329,930,190	314,818,453	905,392,747	883,180,664
Gross profit	19,113,010	18,023,747	54,370,948	53,813,635
Selling, general and administrative expenses	17,008,355	16,587,055	48,981,383	48,105,878
Depreciation and amortization	614,710	474,890	1,683,618	1,531,292
	17,623,065	17,061,945	50,665,001	49,637,170
Operating income	1,489,945	961,802	3,705,947	4,176,465
Other expense (income):				
Interest expense	261,510	180,266	777,065	545,719
Other (income), net	(18,615)	(16,513)	(51,158)	(37,250)
	242,895	163,753	725,907	508,469
Income from operations before income tax expense	1,247,050	798,049	2,980,040	3,667,996
Income tax expense	462,000	413,000	376,000	1,748,000
Net income available to common shareholders	\$ 785,050	\$ 385,049	\$ 2,604,040	\$ 1,919,996
Basic earnings per share available to common shareholders	\$ 1.21	\$ 0.57	\$ 3.85	\$ 2.82
Diluted earnings per share available to common shareholders	\$ 1.18	\$ 0.56	\$ 3.79	\$ 2.78
Basic weighted average shares outstanding	651,170	678,938	676,103	679,858
Diluted weighted average shares outstanding	664,688	691,701	686,576	690,840
Dividends declared and paid per common share	\$ 0.18	\$ 0.18	\$ 0.82	\$ 0.82

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, 2018 and 2017

	June 2018	June 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,604,040	\$ 1,919,996
Adjustments to reconcile net income from operations to net cash flows from		
operating activities:		
Depreciation	1,619,868	1,332,542
Amortization	63,750	198,750
Gain on sale of property and equipment	(5,300)	(30,854)
Equity-based compensation	957,656	1,193,005
Deferred income taxes	(672,431)	120,367
Provision for losses on doubtful accounts	23,000	42,000
Inventory allowance	(267,389)	4,852
Other	2,967	2,296
Changes in assets and liabilities:		
Accounts receivable	(3,276,391)	(1,044,423)
Inventories	22,167,954	(701,279)
Prepaid and other current assets	(5,843,877)	771,870
Other assets	(4,928)	(38,358)
Accounts payable	1,584,358	322,325
Accrued expenses and accrued wages, salaries and bonuses	125,758	(659,813)
Income taxes payable	11,751	7,059
Net cash flows from operating activities	19,090,786	3,440,335
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,120,358)	(1,761,431)
Proceeds from sales of property and equipment	5,300	42,655
Net cash flows from investing activities	(2,115,058)	(1,718,776)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under revolving credit facility	1,043,415,401	950,104,143
Repayments under revolving credit facility	(1,051,967,147)	(950,313,271)
Principal payments on long-term debt	(279,339)	(271,031)
Repurchase of common stock	(7,704,392)	(1,038,060)
Dividends on common stock	(586,796)	(579,848)
Withholdings on the exercise of equity-based awards	(101,200)	(107,082)
Net cash flows from financing activities	(17,223,473)	(2,205,149)
Net change in cash	(247,745)	(483,590)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Cash, beginning of period	523,065	605,380
Cash, end of period	\$ 275,320	\$ 121,790
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 764,557	\$ 545,719
Cash paid during the period for income taxes	1,036,680	1,620,574
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified in accounts payable	8,203	9,881
Issuance of common stock in connection with the vesting and exercise of equity-based awards	1,183,091	1,262,763

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 and provides a full range of programs and services to our customers that are focused on helping them manage their business and increase their profitability. We primarily operate in the Central, Rocky Mountain, and Southern regions of the United States.
- Our retail health food segment (“Retail Segment”) operates fourteen 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 4,000 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 November 2017, Convenience Store News ranked us as the seventh (7th) 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, ITG Brands, Hershey, Kelloggs, 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.

Table of Contents

We operate within the natural products retail industry, which is a subset of the 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.

Our Retail Segment operates fourteen 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 seven stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of seven locations in Arkansas, Missouri, Nebraska, and Oklahoma.

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, 2017, 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, 2018 and June 30, 2017 have been referred to throughout this quarterly report as Q3 2018 and Q3 2017, respectively. The fiscal balance sheet dates as of June 30, 2018 and September 30, 2017 have been referred to as June 2018 and September 2017, respectively.

ACCOUNTING PRONOUNCEMENTS

New 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 and related amendments 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 (Fiscal 2019 for the Company), and for interim periods within that fiscal year. The Company is in the data aggregation and quantification phase of its review of this new standard, and is working to assess the impact and our approach towards adopting this ASU.

In February 2016, FASB issued ASU No. 2016-02 "Leases" ("ASU 2016-02"). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases greater than one year in duration and classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (Fiscal 2020 for the Company), and for interim periods within that fiscal year. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements including the potential capitalization of all operating leases on the Company's balance sheet.

Table of Contents

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which introduces a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2019 (fiscal 2021 for the Company) with early adoption permitted. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). The new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 requires goodwill impairment to be measured as the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. ASU 2017-04 requires prospective application and is effective for annual periods beginning after December 15, 2019 (Fiscal 2021 for the Company) with early adoption permitted. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements.

2. INVENTORIES

Inventories consisted of finished goods and are stated at the lower of cost (determined on a FIFO basis for our wholesale segment and using the retail method for our retail segment) or net realizable value. 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 \$0.5 million at June 2018 and \$0.8 million at September 2017. 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.

Table of Contents

## 3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 2018	September 2017
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 2018	September 2017
Trademarks and tradenames (Retail Segment)	\$ 3,373,269	\$ 3,373,269
Customer relationships (Wholesale Segment) (less accumulated amortization of approximately \$2.1 million and \$2.0 million at June 2018 and September 2017, respectively)	57,292	121,042
	\$ 3,430,561	\$ 3,494,311

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At June 2018, identifiable intangible assets considered to have finite lives were represented by customer relationships which are being amortized over eight years. These intangible assets are evaluated for accelerated attrition or amortization adjustments if warranted.

At June 2018, goodwill allocated to our wholesale and retail reporting units totaled \$4.4 million and \$1.9 million, respectively. In conjunction with the Company's annual impairment testing for the fiscal year ended September 30, 2017, the Company determined that the estimated fair value of these reporting units exceeded their carrying value at September 30, 2017. There has been no material changes to this assessment by the Company through June 2018.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at June 2018:



	June 2018
Fiscal 2018 (1)	\$ 15,625
Fiscal 2019	41,667
	\$ 57,292

---

(1) Represents amortization for the remaining three months of Fiscal 2018.

#### 4. DIVIDENDS

The Company paid cash dividends on its common stock during each of the three and nine month periods ended June 2017 and June 2018 of \$0.1 million and \$0.6 million, respectively.

Table of Contents

## 5. 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.

	For the three months ended June			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	651,170	651,170	678,938	678,938
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	13,518	—	12,763
Weighted average number of shares outstanding	651,170	664,688	678,938	691,701
Net income available to common shareholders	\$ 785,050	\$ 785,050	\$ 385,049	\$ 385,049
Net earnings per share available to common shareholders	\$ 1.21	\$ 1.18	\$ 0.57	\$ 0.56

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

	For the nine months ended June			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	676,103	676,103	679,858	679,858
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	10,473	—	10,982
Weighted average number of shares outstanding	676,103	686,576	679,858	690,840
Net income available to common shareholders	\$ 2,604,040	\$ 2,604,040	\$ 1,919,996	\$ 1,919,996
	\$ 3.85	\$ 3.79	\$ 2.82	\$ 2.78

Net earnings per share available to common  
shareholders

---

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

## 6. 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 2018:

- A November 2022 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.

10

---

Table of Contents

- 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 - 150 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 for the trailing twelve months.
- Provides that the Company may pay up to \$2.0 million of dividends on its common stock provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after the dividend.

Cross Default and Co-Terminus Provisions

The Company owns real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause it 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 June 2018. In addition, the Real Estate 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 \$0.5 million letter of credit to its workers' compensation insurance carrier as part of its self-insured loss control program.

## 7. INCOME TAXES

The Company's results of operations for the nine months ended June 2018 included the impact of the enactment of the Tax Cuts and Jobs Act ("Tax Reform") which was signed into law on December 22, 2017. Among numerous provisions included in the new law was a reduction in the corporate federal income tax rate from 35% to 21% which resulted in a \$0.9 million income tax benefit to the Company as reflected in our Statement of Operations for the nine months ended June 2018. This tax benefit primarily resulted from applying the new lower federal income tax rates to the Company's net long term deferred tax liabilities recorded on its Consolidated Balance Sheet. Because of the effective date of the new tax law in relation to the Company's fiscal year (October 1st - September 30th), the Company's fiscal 2018 results from operations will be taxed at a lower blended federal rate of approximately 24% for fiscal 2018, which reflects a portion of fiscal 2018 at the old federal tax rate and a portion of fiscal 2018 at the new federal tax rate. The final impact of Tax Reform may differ due to and among other things, changes in interpretations, assumptions made by the Company, the issuance of additional guidance, and actions Company may take as a result of Tax Reform.

Table of Contents

## 8. 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 JUNE</b>				
<b>2018</b>				
External revenues:				
Cigarettes	\$ 248,357,752	\$ —	\$ —	\$ 248,357,752
Tobacco	44,598,270	—	—	44,598,270
Confectionery	21,437,432	—	—	21,437,432
Health food	—	6,246,691	—	6,246,691
Foodservice & other	28,403,055	—	—	28,403,055
Total external revenue	342,796,509	6,246,691	—	349,043,200
Depreciation	284,609	314,476	—	599,085
Amortization	15,625	—	—	15,625
Operating income (loss)	4,245,654	(1,078,191)	(1,677,518)	1,489,945
Interest expense	22,585	—	238,925	261,510
Income (loss) from operations before taxes	4,239,525	(1,076,032)	(1,916,443)	1,247,050
Total assets	104,905,403	13,994,013	202,939	119,102,355
Capital expenditures	468,995	284,596	—	753,591
<b>THREE MONTHS ENDED JUNE</b>				
<b>2017</b>				
External revenue:				
Cigarettes	\$ 236,433,449	\$ —	\$ —	\$ 236,433,449
Tobacco	41,478,941	—	—	41,478,941
Confectionery	22,024,887	—	—	22,024,887
Health food	—	6,376,725	—	6,376,725
Foodservice & other	26,528,198	—	—	26,528,198
Total external revenue	326,465,475	6,376,725	—	332,842,200
Depreciation	292,294	116,345	—	408,639
Amortization	66,251	—	—	66,251
Operating income (loss)	3,096,128	(615,276)	(1,519,050)	961,802

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Interest expense	25,279	—	154,987	180,266
Income (loss) from operations before taxes	3,082,982	(610,896)	(1,674,037)	798,049
Total assets	98,406,083	14,135,564	167,671	112,709,318
Capital expenditures	109,648	813,888	—	923,536

12

---

Table of Contents

	Wholesale Segment	Retail Segment	Other	Consolidated
NINE MONTHS ENDED JUNE				
2018				
External revenue:				
Cigarettes	\$ 679,812,016	\$ —	\$ —	\$ 679,812,016
Tobacco	125,776,543	—	—	125,776,543
Confectionery	57,210,816	—	—	57,210,816
Health food	—	19,349,676	—	19,349,676
Foodservice & other	77,614,644	—	—	77,614,644
Total external revenue	940,414,019	19,349,676	—	959,763,695
Depreciation	919,236	700,632	—	1,619,868
Amortization	63,750	—	—	63,750
Operating income (loss)	9,966,031	(1,744,717)	(4,515,367)	3,705,947
Interest expense	69,107	—	707,958	777,065
Income (loss) from operations before taxes	9,938,081	(1,737,416)	(5,220,625)	2,980,040
Total assets	104,905,403	13,994,013	202,939	119,102,355
Capital expenditures	1,137,117	983,241	—	2,120,358
NINE MONTHS ENDED JUNE				
2017				
External revenue:				
Cigarettes	\$ 667,849,390	\$ —	\$ —	\$ 667,849,390
Tobacco	117,535,875	—	—	117,535,875
Confectionery	58,606,239	—	—	58,606,239
Health food	—	19,334,087	—	19,334,087
Foodservice & other	73,668,708	—	—	73,668,708
Total external revenue	917,660,212	19,334,087	—	936,994,299
Depreciation	981,232	351,310	—	1,332,542
Amortization	198,750	—	—	198,750
Operating income (loss)	9,802,019	(1,122,951)	(4,502,603)	4,176,465
Interest expense	77,100	—	468,619	545,719
Income (loss) from operations before taxes	9,749,503	(1,110,284)	(4,971,223)	3,667,996
Total assets	98,406,083	14,135,564	167,671	112,709,318
Capital expenditures	429,892	1,331,539	—	1,761,431

## 9. COMMON STOCK REPURCHASE



The Company repurchased a total of 68,016 and 74,669 common shares during the three and nine month periods ended June 30, 2018, respectively, for cash totaling approximately \$7.1 million and \$7.7 million, respectively, and 11,104 common shares during the nine month period ended June 30, 2017 for cash totaling approximately \$1.0 million. The Company made no share repurchases during Q3 2017. All repurchased shares were recorded in treasury stock at cost.

#### 10. SUBSEQUENT EVENT

In July 2018, the Company's wholly owned subsidiary, The Healthy Edge, Inc., through its newly formed wholly owned subsidiary, EOM Acquisition Corp, closed a transaction to acquire and operate eight leased retail health food stores located in Florida. In this transaction, EOM Acquisition Corp. will pay approximately \$0.7 million in four installments through July 2019. The transaction will be funded through the Company's existing credit facility. The acquisition expands the Company's strategic footprint in the Florida market and enhances its ability to service customers in that region.

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," similar expressions. 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 and retail health food businesses and any associated impact on the carrying value of intangible assets within those businesses,
- that our repositioning strategy for our retail business will not be successful,
- risks associated with opening or acquiring new retail stores,
- Challenges experienced in relation to the Company's recent acquisition of eight retail health food stores in Florida, including but not limited to lease renewals, employee integration, product acquisition and distribution, and customer retention during and after the full integration of the eight stores into the Company's Retail Health Food Segment.
- if online shopping formats such as Amazon continue to grow in popularity and further disrupt traditional sales channels, it may present a significant direct risk to brick and mortar retailers and potentially wholesale distributors,
  - increases in fuel costs and expenses associated with operating a refrigerated trucking fleet,

- increases in state and federal excise taxes on cigarette and tobacco products and the potential impact on demand,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,
- regulation of cigarette, tobacco, and e-cigarette/vaping products by the United States Food and Drug Administration (“FDA”), in addition to existing state and federal regulations by other agencies,
- potential bans or restrictions imposed by the FDA, states, or local municipalities on the manufacture, distribution, and sale of certain cigarette, tobacco, and e-cigarette/vaping products,
- 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, tobacco and e-cigarette/vaping products,
- risks that product manufacturers may begin selling directly to convenience stores and bypass wholesale distributors,

Table of Contents

- changes in laws and regulations and ongoing compliance related to health care and associated insurance,
- increasing health care costs for consumers and the potential impact on discretionary consumer spending,
- the ongoing trend of higher health care costs in our business which has impacted profitability,
- decreased availability of capital resources,
  - domestic regulatory and legislative risks,
- poor weather conditions,
- consolidation trends within the convenience store, wholesale distribution, and retail health food industries,
- natural disasters and domestic or political unrest,
- the impact on the Company's financial statements as it relates to the accounting treatment and disclosure requirements under the new tax law (Tax Cut and Jobs Act) and the issuance of any new interpretive guidance,
- 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, 2017, 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 2018.

### THIRD FISCAL QUARTER 2018 (Q3 2018)

The following discussion and analysis includes the Company's results of operations for the three and nine months ended June 2018 and June 2017:

#### Wholesale Segment

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,000 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 November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

## Table of Contents

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, ITG Brands, Hershey, Kelloggs, 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 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 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.

Our Retail Segment operates fourteen 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 seven stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of seven locations in Arkansas, Missouri, Nebraska, and Oklahoma.

As previously disclosed, the Company has implemented a multi-year strategic plan to reposition its Retail Segment. In conjunction with this competitive repositioning plan, the Company opened one new retail health food store in its Florida market during its first fiscal quarter of fiscal 2018 (Q1 2018) and closed two non-performing stores in its Midwestern market during Q3 2018.

Table of Contents

## RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 2018:

	For the three months ended June			
	2018	2017	Incr (Decr)	% Change
<b>CONSOLIDATED:</b>				
Sales(1)	\$ 349,043,200	\$ 332,842,200	\$ 16,201,000	4.9
Cost of sales	329,930,190	314,818,453	15,111,737	4.8
Gross profit	19,113,010	18,023,747	1,089,263	6.0
Gross profit percentage	5.5	% 5.4	%	
Operating expense	\$ 17,623,065	\$ 17,061,945	\$ 561,120	3.3
Operating income	1,489,945	961,802	528,143	54.9
Interest expense	261,510	180,266	81,244	45.1
Income tax expense (benefit)	462,000	413,000	49,000	11.9
Net income	785,050	385,049	400,001	103.9
<b>BUSINESS SEGMENTS:</b>				
<b>Wholesale</b>				
Sales	\$ 342,796,509	\$ 326,465,475	\$ 16,331,034	5.0
Gross profit	16,744,182	15,412,958	1,331,224	8.6
Gross profit percentage	4.9	% 4.7	%	
<b>Retail</b>				
Sales	\$ 6,246,691	\$ 6,376,725	\$ (130,034)	(2.0)
Gross profit	2,368,828	2,610,789	(241,961)	(9.3)
Gross profit percentage	37.9	% 40.9	%	

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$6.0 million in Q3 2018 and \$6.1 million in Q3 2017.

**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 – Q3 2018 vs. Q3 2017

Sales in our Wholesale Segment increased \$16.3 million during Q3 2018 as compared to Q3 2017. Significant items impacting sales during Q3 2018 included a \$8.3 million increase in sales related to price increases implemented by cigarette manufacturers, a \$4.4 million increase in sales related to higher sales volumes in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories (“Other Products”) and a \$3.6 million increase in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment decreased \$0.1 million for Q3 2018 as compared to Q3 2017. Significant items impacting sales in our Retail Segment for the three months ended June 2018 included a \$0.4 million increase in sales related to the opening of a new store in our Florida market, offset by a \$0.5 million decrease in sales related to the closure of two non-performing stores in our Midwest market and lower sales volumes in our existing stores which have experienced increased competition.

Table of Contents

GROSS PROFIT – Q3 2018 vs. Q3 2017

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 \$1.3 million during Q3 2018 as compared to Q3 2017. Significant items impacting gross profit during the period included a \$0.8 million benefit related to cigarette manufacturer price increases, a \$0.4 million increase in gross profit related to higher sales volumes in our Other Product category, and a \$0.1 million increase in gross profit related to the volume and mix of cigarette cartons sold during the current period.

Q3 2018 gross profit in our Retail Segment decreased \$0.2 million as compared to Q3 2017. Significant items impacting our Q3 2018 Retail Segment gross profit included a \$0.2 million increase in gross profit related to the opening of our new Florida market store, offset by a \$0.4 million decrease in gross profit related to the closure of two non-performing stores in our Midwest market and lower sales volumes and gross profits in our existing stores.

OPERATING EXPENSE – Q3 2018 vs. Q3 2017

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, and insurance costs. Our Q3 2018 operating expenses increased \$0.6 million as compared to Q3 2017. Significant items impacting operating expenses during the current period included a \$0.4 million increase in employee compensation and benefit costs, a \$0.4 million increase in insurance and other costs, a \$0.2 million increase in fuel costs, and a \$0.2 million increase in expenses in our Retail Segment. These increases were partially offset by a \$0.6 million decrease in health insurance costs.

INCOME TAX EXPENSE – Q3 2018 vs. Q3 2017

Significant items impacting the Company's Q3 2018 income tax expense included the impact of nondeductible compensation expense, partially offset by a decrease in the Company's federal income tax rate related to the enactment

of the Tax Cuts and Jobs Act (“Tax Reform”) which was signed into law on December 22, 2017 and which reduced the corporate federal income tax rate from 35% to 21%.

Table of Contents

## RESULTS OF OPERATIONS – NINE MONTHS ENDED JUNE 2018:

	For the nine months ended June			
	2018	2017	Incr (Decr)	% Change
<b>CONSOLIDATED:</b>				
Sales(1)	\$ 959,763,695	\$ 936,994,299	\$ 22,769,396	2.4
Cost of sales	905,392,747	883,180,664	22,212,083	2.5
Gross profit	54,370,948	53,813,635	557,313	1.0
Gross profit percentage	5.7	% 5.7	%	
Operating expenses	50,665,001	49,637,170	1,027,831	2.1
Operating income	3,705,947	4,176,465	(470,518)	(11.3)
Interest expense	777,065	545,719	231,346	42.4
Income tax expense (benefit)	376,000	1,748,000	(1,372,000)	(78.5)
Net income	2,604,040	1,919,996	684,044	35.6
<b>BUSINESS SEGMENTS:</b>				
Wholesale				
Sales	\$ 940,414,019	\$ 917,660,212	\$ 22,753,807	2.5
Gross profit	46,416,619	45,573,362	843,257	1.9
Gross profit percentage	4.9	% 5.0	%	
Retail				
Sales	\$ 19,349,676	\$ 19,334,087	\$ 15,589	0.1
Gross profit	7,954,329	8,240,273	(285,944)	(3.5)
Gross profit percentage	41.1	% 42.6	%	

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$17.7 million for the nine month period ended June 2018 and \$17.4 million for the nine month period ended June 2017.

## SALES — Nine months Ended June 2018

Sales in our Wholesale Segment increased \$22.8 million for the nine months ended June 2018 as compared to the same prior year period. Significant items impacting sales during the period included a \$24.0 million increase in sales related to price increases implemented by cigarette manufacturers and a \$10.8 million increase in sales in our Other Products categories. These increases were partially offset by a \$12.0 million decrease in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment for the nine months ended June 2018 were even as compared to the same prior year period. Significant items impacting sales during the current period included a \$1.3 million increase in sales related to

the opening of a new store in our Florida market which was offset by a \$1.3 million decrease in sales related to the closure of two non-performing stores in our Midwest market and lower sales volumes in our existing stores.

GROSS PROFIT — Nine months Ended June 2018

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.

Table of Contents

Gross profit in our Wholesale Segment for the nine month period ending June 2018 increased \$0.8 million as compared to the same prior year period, primarily related to higher sales in our Other Products categories. Gross profit in our Retail Segment decreased \$0.3 million for the nine month period ended June 2018 as compared to the same prior year period. Significant items impacting gross profit during the current period included a \$0.7 million increase in gross profit related to the opening of our new Florida market store, offset by a \$1.0 million decrease in gross profit related to the closure of two non-performing stores in our Midwest market and lower sales volumes and gross profits in our existing stores.

OPERATING EXPENSE — Nine months Ended June 2018

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, and insurance costs. Operating expenses increased \$1.0 million during the nine months ended June 2018 as compared to the same prior year period. Significant items impacting operating expenses during the nine months ended June 2018 included a \$0.7 million increase in employee compensation and benefit costs, a \$0.6 million increase in fuel costs, a \$0.3 million increase in insurance and other costs, and a \$0.3 million increase in expenses in our Retail Segment. These increases were partially offset by a \$0.9 million decrease in health insurance costs.

INCOME TAX EXPENSE – Nine months Ended June 2018

Significant items impacting the Company’s income tax expense for the nine months ended June 2018 included the impact of the Tax Cuts and Jobs Act (“Tax Reform”) which was signed into law on December 22, 2017 and reduced the corporate federal income tax rate from 35% to 21% resulting in a \$0.9 million income tax benefit to the Company as reflected in our Statement of Operations for the nine months ended June 2018. This decrease in income tax expense was partially offset by the impact of nondeductible compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Company’s 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.

In general, the Company finances its operations through a credit agreement (the "Facility") with Bank of America acting as the senior agent and with BMO Harris Bank participating in the loan syndication. The Facility included the following significant terms at June 2018:

- A November 2022 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.

Table of Contents

- The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 150 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 for the trailing twelve months.
- Provides that the Company may pay up to \$2.0 million of dividends on its common stock provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after the dividend.

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 2018 was \$69.6 million, of which \$20.5 million was outstanding, leaving \$49.1 million available.

At June 2018, 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 3.98% at June 2018. For the nine months ended June 2018, our peak borrowings under the Facility were \$48.9 million, and our average borrowings and average availability under the Facility were \$23.5 million and \$45.1 million, respectively.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause the loan 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 June 2018. In addition, the Real Estate 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 during each of the three and nine month periods ended June 2017 and June 2018 of \$0.1 million and \$0.6 million, 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, 2017.

#### Other

The Company has issued a letter of credit for \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Table of Contents

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.

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(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of June 2018 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.

Table of Contents

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, 2018, 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, 2017.

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

The following table summarizes the purchases made by or on behalf of our Company or certain affiliated purchasers of shares of our common stock during the quarterly period ended June 2018:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
April 1 - 30, 2018	45	\$ 90.36	45	49,955
May 1 - 31, 2018	67,677	\$ 103.87	67,677	7,323
June 1 - 30, 2018	294	\$ 86.71	294	7,029
Total	68,016	\$ 103.79	68,016	7,029

\*In April 2018, the Company's Board of Directors ("Board") replenished the existing share repurchase authority to provide for the purchase of up to 50,000 shares of the Company's common stock in open market or negotiated transactions. In May 2018, the Board replenished and expanded the share repurchase authority to provide for the purchase of up to 75,000 shares of the Company's common stock in open market or negotiated transactions. In each case, management was given discretion to determine the number and pricing of the shares to be purchased, as well as the timing of any such purchases.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

Item 5. Other Information

In July 2018, the Company's wholly owned subsidiary, The Healthy Edge, Inc., through its newly formed wholly owned subsidiary, EOM Acquisition Corp, closed a transaction to acquire and operate eight leased retail health food stores located in Florida. In this transaction, EOM Acquisition Corp. will pay approximately \$0.7 million in four installments through July 2019. The transaction will be funded through the Company's existing credit facility. The acquisition expands the Company's strategic footprint in the Florida market and enhances its ability to service customers in that region.

Item 6. Exhibits

(a) Exhibits

- 31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, filed 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 filed 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 herewith 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 18, 2018 /s/ Christopher H. Atayan  
Christopher H. Atayan,  
Chief Executive Officer and Chairman

Date: July 18, 2018 /s/ Andrew C. Plummer  
Andrew C. Plummer,  
Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)