AMCON DISTRIBUTING CO
Form 10-Q
July 18, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

(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 x No o

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 x No o

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The Registrant had 623,115 shares of its $.01 par value common stock outstanding as of July 15, 2013.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2013 and September 30, 2012

		June 2013 (Unaudited)		September 2012
ASSETS				
Current assets:				
Cash	$	177,452	$	491,387
Accounts receivable, less allowance for doubtful accounts of $1.2 million at both June 2013 and September 2012		35,454,486		32,681,835
Inventories, net		48,138,310		38,364,621
Deferred income taxes		1,730,126		1,916,619
Prepaid and other current assets		8,098,720		6,476,702
Total current assets		93,599,094		79,931,164
Property and equipment, net		13,311,648		13,083,912
Goodwill		6,349,827		6,349,827
Other intangible assets, net		4,912,228		5,185,978
Other assets		442,361		1,258,985
	$	118,615,158	$	105,809,866
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	16,128,607	$	17,189,208
Accrued expenses		6,663,762		6,931,859
Accrued wages, salaries and bonuses		2,830,924		2,503,361
Income taxes payable		1,098,354		2,194,966
Current maturities of long-term debt		1,214,256		1,182,829
Total current liabilities		27,935,903		30,002,223
Credit facility		28,051,389		14,353,732
Deferred income taxes		3,896,085		3,633,390
Long-term debt, less current maturities		4,160,330		5,075,680
Other long-term liabilities		330,152		336,186
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 June 2013 and September 2012		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 June 30, 2013 and 58,000 shares issued and outstanding at September 30, 2012, and a total liquidation preference of $0.4 million and $1.5 million at June 2013 and September 2012, respectively		400,000		1,450,000

Shareholders equity:				
Preferred stock, $.01 par value, 1,000,000 shares authorized, 116,000 and 158,000 shares outstanding and issued in Series A and B referred to above				
Common stock, $.01 par value, 3,000,000 shares authorized, 623,115 shares outstanding at June 2013 and 612,327 shares outstanding at September 2012		6,543		6,293
Additional paid-in capital		12,485,773		11,021,109
Retained earnings		42,149,939		38,349,253
Treasury stock at cost		(3,300,956)		(918,000)
Total shareholders equity		51,341,299		48,458,655
	$	118,615,158	$	105,809,866

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Operations

for the three and nine months ended June 30, 2013 and 2012

	For the three months ended June		For the nine months ended June	
	2013	2012	2013	2012
Sales (including excise taxes of $100.2 million and $96.1 million, and $285.4 million and $272.7 million, respectively)	$ 316,031,197	$ 307,112,774	$ 892,817,669	$ 866,505,090
Cost of sales	296,220,406	287,211,769	835,480,069	808,750,009
Gross profit	19,810,791	19,901,005	57,337,600	57,755,081
Selling, general and administrative expenses	16,065,285	15,845,201	47,351,952	47,096,958
Depreciation and amortization	598,061	552,888	1,791,708	1,780,309
	16,663,346	16,398,089	49,143,660	48,877,267
Operating income	3,147,445	3,502,916	8,193,940	8,877,814
Other expense (income):				
Interest expense	309,445	361,756	874,489	1,105,707
Other (income), net	(49,487)	(47,841)	(225,682)	(292,979)
	259,958	313,915	648,807	812,728
Income from operations before income tax expense	2,887,487	3,189,001	7,545,133	8,065,086
Income tax expense	1,255,000	1,343,000	3,236,000	3,316,000
Net income	1,632,487	1,846,001	4,309,133	4,749,086
Preferred stock dividend requirements	(48,642)	(66,907)	(156,041)	(201,454)
Net income available to common shareholders	$ 1,583,845	$ 1,779,094	$ 4,153,092	$ 4,547,632
Basic earnings per share available to common shareholders	$ 2.54	$ 2.92	$ 6.67	$ 7.38
Diluted earnings per share available to common shareholders	$ 2.19	$ 2.37	$ 5.73	$ 6.06
Basic weighted average shares outstanding	623,115	608,271	622,833	615,913
Diluted weighted average shares outstanding	744,732	779,106	751,946	783,987

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Cash Flows

for the nine months ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,309,133	$ 4,749,086
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	1,517,958	1,496,868
Amortization	273,750	283,441
Gain on sale of property and equipment	(72,318)	(28,606)
Equity-based compensation	971,954	930,593
Deferred income taxes	449,188	1,022,701
Provision for losses on doubtful accounts	80,000	75,757
Provision for losses on inventory obsolescence	54,028	98,789
Other	(6,034)	(6,034)
Changes in assets and liabilities:		
Accounts receivable	(2,852,651)	(1,144,999)
Inventories	(9,827,717)	(11,031,978)
Prepaid and other current assets	(1,622,018)	1,097,241
Other assets	55,753	(51,138)
Accounts payable	(1,070,612)	(2,396,748)
Accrued expenses and accrued wages, salaries and bonuses	525,856	(19,827)
Income tax payable	(1,096,612)	(1,796,182)
Net cash flows from operating activities	(8,310,342)	(6,721,036)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,808,206)	(914,486)
Proceeds from sales of property and equipment	144,841	48,984
Net cash flows from investing activities	(1,663,365)	(865,502)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on bank credit agreements	13,697,657	9,308,869
Principal payments on long-term debt	(883,923)	(1,018,587)
Repurchase of Series B Convertible Preferred Stock and common stock	(2,572,085)	(918,000)
Dividends paid on convertible preferred stock	(156,041)	(201,454)
Dividends on common stock	(352,406)	(354,723)
Proceeds from exercise of stock options	1,180	1,180
Withholdings on the exercise of equity-based awards	(74,610)	(51,452)
Net cash flows from financing activities	9,659,772	6,765,833
Net change in cash	(313,935)	(820,705)
Cash, beginning of period	491,387	1,389,665
Cash, end of period	$ 177,452	$ 568,960

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

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		2013		2012
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	851,665	$	1,094,086
Cash paid during the period for income taxes		3,883,424		4,089,482
Supplemental disclosure of non-cash information:				
Equipment acquisitions classified as accounts payable		21,248		28,282
Issuance of common stock in connection with the vesting and exercise of equity-based awards		1,389,258		950,562
Conversion by holder of Series B Convertible Preferred Stock to common stock		100,000		
Common stock acquired with other consideration		760,871		

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

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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 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 convenience store distributors in the United States serving approximately 5,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We distribute over 14,000 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. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems to assist our customers in maximizing profitability. Convenience stores represent our largest customer category. In October 2012, Convenience Store News ranked us as the ninth (9th) largest convenience store distributor in the United States based on annual sales.

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 601,000 square feet of floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kelloggs, Kraft and Mars. We also market private label lines of water, candy products, batteries, film, 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 and organic groceries and dietary supplements, which is a subset of the larger U.S. grocery industry. We operate sixteen retail health food stores doing business as Chamberlin s Market & Café (Chamberlin s) and Akin s Natural Foods Market (Akin s). 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.

Our stores carry over 30,000 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. We compete against a wide range retailers including, conventional, natural, gourmet, and discount retailers, as well as warehouse clubs, independent health food stores, dietary supplement retailers, drug stores, farmers markets, mail order, online retailers, and multi-level marketers.

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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, 2012, 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, 2013 and June 30, 2012 have been referred to throughout this quarterly report as Q3 2013 and Q3 2012, respectively. The fiscal balance sheet dates as of June 30, 2013, June 30, 2012, and September 30, 2012 have been referred to as June 2013, June 2012, and September 2012, respectively.

2. CONVERTIBLE PREFERRED STOCK:

The Company has two series of convertible preferred stock outstanding at June 2013 as identified in the following table:

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

The Series A Convertible Preferred Stock (Series A) and Series B Convertible Preferred Stock (Series B), (collectively, the Preferred Stock), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted multiplied by a fraction equal to $25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock would be entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock. The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Preferred Stock is redeemable at the liquidation value and at the option of the holder. The Series A Preferred Stock and 8,000 shares of the Series B Preferred Stock are owned by Mr. Christopher Atayan, AMCON s Chief Executive

Officer and Chairman of the Board. The Series B Preferred 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. Mr. Atayan was first nominated and elected to this seat in 2004.

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3. INVENTORIES

Inventories consist of finished goods at June 2013 and September 2012 and are stated at the lower of cost, determined on a First-in, First-out (FIFO) basis, or market. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company s customers or sold at retail. Finished goods included total reserves of approximately $1.0 million and $0.9 million at June 2013 and September 2012, respectively. These reserves include the Company s obsolescence allowance, which reflects estimated unsalable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

		June 2013		**September 2012**
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 2013		**September 2012**
Trademarks and tradenames	$	3,373,269	$	3,373,269
Non-competition agreement (less accumulated amortization of $0.2 million at June 2013 and $0.1 million at September 2012)		291,667		366,667
Customer relationships (less accumulated amortization of $0.9 million and $0.7 million at June 2013 and September 2012, respectively)		1,247,292		1,446,042
	$	4,912,228	$	5,185,978

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At June 2013, identifiable intangible assets considered to have finite lives were represented by customer relationships and the value of a non-competition agreement acquired as part of acquisitions. The customer relationships are being amortized over eight years and the value of the non-competition agreement is being amortized over five years. These intangible assets are evaluated for accelerated attrition or amortization adjustments if warranted. Amortization expense related to these assets was $0.1 million and $0.3 million for the three and nine month periods ended June 2013, respectively, and $0.1 million and $0.3 million for the three and nine month periods ended June 2012, respectively.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at June 2013:

Customer relationships		June 2013
Fiscal 2013 /1/	$	91,250
Fiscal 2014		365,000
Fiscal 2015		365,000
Fiscal 2016		331,667
Fiscal 2017		265,000
Thereafter		121,042
	$	1,538,959

/1/ Represents amortization for the remaining three months of Fiscal 2013.

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5. DIVIDENDS:

The Company paid cash dividends on its common stock and convertible preferred stock totaling $0.2 million and $0.5 million for the three and nine month periods ended June 2013, respectively, and $0.2 million and $0.6 million for the three and nine month periods ended June 2012, respectively.

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 net income less preferred stock dividend requirements (when anti-dilutive) by the sum of the weighted average common shares outstanding and the weighted average dilutive options, using the treasury stock method.

	For the three months ended June			
	2013		2012	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	623,115	623,115	608,271	608,271
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		121,617		170,835
Weighted average number of shares outstanding	623,115	744,732	608,271	779,106
Net income	$ 1,632,487	$ 1,632,487	$ 1,846,001	$ 1,846,001
Deduct: convertible preferred stock dividends /2/	(48,642)		(66,907)	
Net income available to common shareholders	1,583,845	1,632,487	1,779,094	1,846,001
Net earnings per share available to common shareholders	$ 2.54	$ 2.19	$ 2.92	$ 2.37

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

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

For the nine months ended June

	2013		2012	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	622,833	622,833	615,913	615,913
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		129,113		168,074
Weighted average number of shares outstanding	622,833	751,946	615,913	783,987
Net income	$ 4,309,133	$ 4,309,133	$ 4,749,086	$ 4,749,086
Deduct: convertible preferred stock dividends /2/	(156,041)		(201,454)	
Net income available to common shareholders	4,153,092	4,309,133	4,547,632	4,749,086
Net earnings per share available to common shareholders	$ 6.67	$ 5.73	$ 7.38	$ 6.06

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

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

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7. DEBT

The Company primarily finances its operations with cash generated from operating activities and credit facility borrowings provided under an agreement with Bank of America (the Facility). On July 16, 2013, the Company renewed and extended its credit facility with Bank of America though July 2018. The existing Facility in place at June 2013 included the following significant terms:

- An April 2014 maturity date.
- $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 $5.0 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.
- Prepayment penalty equal to one-fourth of one percent (1/4%) if the Company prepays the entire Facility or terminates it in year two of the agreement. The prepayment penalty is calculated based on the maximum loan limit.
- The Facility bears interest at either the bank s prime rate or at LIBOR plus 175 basis points, 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.

- Provides that the Company may not pay dividends on its common stock in excess of $1.00 per share on an annual basis.

- A financial covenant requiring a fixed charge coverage ratio of at least 1.1 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.

Cross Default and Co-Terminus Provisions

The Company s owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, is financed through a term loan with BMO Harris, NA (BMO) which is also a participant lender on the Company s revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is the lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2013. In addition, the BMO loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

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

Off-Balance Sheet Arrangements

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

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8. EQUITY-BASED INCENTIVE AWARDS

Omnibus Plan

The Company has an Omnibus Incentive Plan (the Omnibus Plan) which provides for equity incentives to employees. The 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 Plan permits the issuance of up to 150,000 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 Plan is subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company s common stock. At June 2013, awards with respect to a total of 131,195 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plan and awards with respect to another 18,805 shares may be awarded under the plan.

Stock Options

The stock options issued by the Company expire ten years from the grant date and include graded vesting schedules ranging between three and five years. Stock options issued and outstanding at June 2013 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	3.45 years	$	18.00	25,000	$	18.00
Fiscal 2010	$51.50	5,500	6.83 years	$	51.50	3,300	$	51.50
Fiscal 2012	$53.80 - $65.97	6,500	8.33 years	$	54.74	1,300	$	54.74
Fiscal 2013	$62.33	8,000	9.32 years	$	62.33		$	
		45,000		$	35.28	29,600	$	23.35

The following is a summary of stock option activity for the nine month period ended June 2013:

	Number of Shares		Weighted Average Exercise Price
Outstanding at September 2012	37,042	$	29.43
Granted	8,000		62.33
Exercised	(42)		28.80
Forfeited/Expired			
Outstanding at June 2013	45,000	$	35.28

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Restricted Stock Units

A summary of restricted stock unit awards at June 2013 is as follows:

	Restricted Stock Units(1)	Restricted Stock Units(2)	Restricted Stock Units(3)
Date of award:	November 22, 2010	October 26, 2011	October 23, 2012
Original number of awards issued:	12,000	15,900	15,000
Service period:	36 months	36 months	36 months
Estimated fair value of award at grant date	$864,000	$855,000	$935,000
Awards outstanding at June 2013	4,000	10,600	15,000
Fair value of non-vested awards at June 2013:	$319,000	$845,000	$1,196,000

(1) 8,000 of the restricted stock units were vested at June 2013. The remaining 4,000 restricted stock units will vest on November 22, 2013.

(2) 5,300 of the restricted stock units were vested as of June 2013. The remaining 10,600 restricted stock units will vest in equal amounts on October 25, 2013 and October 25, 2014.

(3) The 15,000 restricted stock units will vest in equal amounts on October 23, 2013, October 23, 2014, and October 23, 2015.

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 Consolidated Unaudited Statement of Operations reflects the straight-line amortized fair value based on the period end closing price.

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stock units at September 2012	36,700	$ 65.00
Granted	15,000	62.33
Vested	(22,100)	62.86
Expired		
Nonvested restricted stock units at June 2013	29,600	$ 79.75

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

Net income before income taxes included compensation expense related to the amortization of all equity-based compensation awards of $0.3 million and $1.0 million for the three and nine months ended June 2013, respectively, and $0.3 million and $0.9 million for the three and nine months ended June 2012, respectively. Total unamortized compensation expense related to these awards at June 2013 was approximately $1.7 million.

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9. BUSINESS SEGMENTS

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

	Wholesale Segment	Retail Segment	Other	Consolidated
THREE MONTHS ENDED JUNE 2013:				
External revenue:				
Cigarettes	$ 228,861,228	$	$	$ 228,861,228
Confectionery	20,658,502			20,658,502
Health food		9,331,747		9,331,747
Tobacco, food service & other	57,179,720			57,179,720
Total external revenue	306,699,450	9,331,747		316,031,197
Depreciation	387,683	118,191	937	506,811
Amortization	91,250			91,250
Operating income (loss)	3,951,778	364,126	(1,168,459)	3,147,445
Interest expense	49,754	55,187	204,504	309,445
Income (loss) from operations before taxes	3,900,589	314,153	(1,327,255)	2,887,487
Total assets	103,780,433	14,602,570	232,155	118,615,158
Capital expenditures	235,470	468,507		703,977
THREE MONTHS ENDED JUNE 2012:				
External revenue:				
Cigarettes	$ 223,189,406	$	$	$ 223,189,406
Confectionery	20,433,115			20,433,115
Health food		9,499,012		9,499,012
Tobacco, food service & other	53,991,241			53,991,241
Total external revenue	297,613,762	9,499,012		307,112,774
Depreciation	363,557	97,142	938	461,637
Amortization	91,251			91,251
Operating income (loss)	4,073,549	757,482	(1,328,115)	3,502,916
Interest expense	131,983	67,437	162,336	361,756
Income (loss) from operations before taxes	3,953,942	695,509	(1,460,450)	3,189,001
Total assets	102,837,606	12,957,856	993,103	116,788,565
Capital expenditures	182,156	24,606		206,762

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	Wholesale Segment	Retail Segment	Other	Consolidated
NINE MONTHS ENDED JUNE 2013:				
External revenue:				
Cigarettes	$ 648,295,732	$	$	$ 648,295,732
Confectionery	55,461,844			55,461,844
Health food		27,904,440		27,904,440
Tobacco, food service & other	161,155,653			161,155,653
Total external revenue	864,913,229	27,904,440		892,817,669
Depreciation	1,209,733	305,414	2,811	1,517,958
Amortization	273,750			273,750
Operating income (loss)	10,285,106	1,803,736	(3,894,902)	8,193,940
Interest expense	156,650	168,735	549,104	874,489
Income (loss) from operations before taxes	10,147,828	1,650,327	(4,253,022)	7,545,133
Total assets	103,780,433	14,602,570	232,155	118,615,158
Capital expenditures	738,809	1,069,397		1,808,206
NINE MONTHS ENDED JUNE 2012:				
External revenue:				
Cigarettes	$ 628,218,679	$	$	$ 628,218,679
Confectionery	55,792,444			55,792,444
Health food		28,175,654		28,175,654
Tobacco, food service & other	154,318,313			154,318,313
Total external revenue	838,329,436	28,175,654		866,505,090
Depreciation	1,193,834	300,222	2,812	1,496,868
Amortization	283,441			283,441
Operating income (loss)	10,402,816	2,295,893	(3,820,895)	8,877,814
Interest expense	401,043	225,849	478,815	1,105,707
Income (loss) from operations before taxes	10,108,749	2,085,526	(4,129,189)	8,065,086
Total assets	102,837,606	12,957,856	993,103	116,788,565
Capital expenditures	765,508	148,978		914,486

10. SUBSEQUENT EVENTS

On July 16, 2013, the Company renewed and extended its credit facility through July 2018. The significant provisions of the new credit agreement include the following:

- A July 2018 maturity date without penalty for prepayment.
- $70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.

• A provision providing an additional $10.0 million of credit advances for certain inventory purchases.

• Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.

• The Facility bears interest at either the bank s prime rate, or at LIBOR plus 125 - 175 basis points depending on certain credit facility utilization measures, at the election of the Company.

• Lending limits subject to accounts receivable and inventory limitations.

• An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

• Secured by collateral including all of the Company s equipment, intangibles, inventories, and accounts receivable.

• A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement.

• 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 no limit on dividend payments if certain excess availability measurements are achieved as defined in the credit facility agreement.

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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 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 expressions. For these statements 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,
- 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,
- demand for the Company s products, particularly cigarette and tobacco products,
- new business ventures or acquisitions,
- domestic regulatory and legislative risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- consolidation trends within the convenience store and wholesale distribution industries,
- natural disasters and domestic unrest,
- increasing health care costs, as well as changes in laws and regulations and ongoing compliance with the Patient Protection and Affordable Care Act,
- other risks over which the Company has little or no control, and any other factors not identified herein.

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FORWARD-LOOKING STATEMENTS (continued)

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, 2012, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during our fiscal quarter ended June 2013.

THIRD FISCAL QUARTER 2013 (Q3 2013)

The following discussion and analysis includes the Company s results of operations for the three and nine months ended June 2013 and June 2012.

Wholesale Segment

Our Wholesale Segment is one of the largest wholesale convenience store distributors in the United States serving approximately 5,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We distribute over 14,000 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. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems to assist our customers in maximizing profitability. Convenience stores represent our largest customer category. In October 2012, Convenience Store News ranked us as the ninth (9th) largest convenience store distributor in the United States based on annual sales.

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 601,000 square feet of floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kelloggs, Kraft and Mars. We also market private label lines of water, candy products, batteries, film, 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 and organic groceries and dietary supplements, which is a subset of the larger U.S. grocery industry. We operate sixteen retail health food stores doing business as Chamberlin s Market & Café (Chamberlin s) and Akin s Natural Foods Market (Akin s). 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.

Our stores carry over 30,000 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. We compete against a wide range of retailers including, conventional, natural, gourmet, and discount retailers, as well as warehouse clubs, independent health food stores, dietary supplement retailers, drug stores, farmers markets, mail order, online retailers, and multi-level marketers.

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Business Update   Wholesale Segment

Legislative initiatives across the country will continue to dominate the risk profile for the industry in the coming years. Both at the local level and at the federal level (Food and Drug Administration - FDA), tobacco products sold by our convenience stores customers are facing higher sales and excise taxes which will negatively impact long-term demand trends.

At the same time, the demand for convenience shopping in the United States continues to grow. According to the National Association of Convenience Stores (NACS   ) 2013 State of Industry Report, total convenience store count increased 0.7% during the 2012 calendar year to 149,040 units and total convenience shopping units (drug stores, dollar stores, quick-service restaurants etc.) increased 1.8% to 412,515 units during the 2012 calendar year.

Because our customer base is primarily comprised of independent convenience store owners and small and medium size convenience store chains, we feel our company is well positioned to capitalize on these trends as the industry looks to remake and modernize itself. Still, we expect a highly competitive operating environment going forward, with increasing pressure on margins. Ultimately, however, our consultative approach to delivering differentiated merchandising and technology solutions is what separates us in this highly commoditized marketplace.

Business Update   Retail Segment

Industry-wide, we believe a number of key factors are influencing overall demand trends. In particular, increased media coverage regarding possible linkages between food additives and disease, as well as premature development in children, has created tremendous awareness about the benefits of natural products. Additionally, food additives such as sugars, aspartame included in diet sodas, and the use of growth hormones and antibiotics in the production of chicken, beef, and dairy products have also come under a high degree of scrutiny in terms of dietary consumption, which has increased the interest in natural products.

The growing demand for natural products has generated increased competition from well capitalized regional and national natural food retailers with significant resources. These competitors are undertaking aggressive expansion strategies and often locate new stores in close proximity to our existing locations representing direct competition for our stores. This new competition increases customer churn and compresses gross margins industry-wide.

Identifying organic growth opportunities remains a top priority for our management team. During Q3 2013, the Company opened two new Akin   s health food stores located in Northwest Arkansas and Nebraska. These stores are located in high traffic locations with strong demographics and include modern store designs and layouts. We continue to believe that mid-market cities still offer attractive options for new store expansion. Our new site selection criteria focuses on areas with strong real estate sites that can accommodate a lively and dynamic customer experience that we strive to create in all of our stores. All of our new stores must adhere to our specific screening criteria. Towards that end, we have ongoing efforts to identify additional store locations as well as potential acquisition opportunities.

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RESULTS OF OPERATIONS

	For the three months ended June			
	2013	2012	Incr (Decr)	% Change
CONSOLIDATED:				
Sales /1/	$ 316,031,197	$ 307,112,774	$ 8,918,423	2.9
Cost of sales	296,220,406	287,211,769	9,008,637	3.1
Gross profit	19,810,791	19,901,005	(90,214)	(0.5)
Gross profit percentage	6.3%	6.5%		
Operating expense	16,663,346	16,398,089	265,257	1.6
Operating income	3,147,445	3,502,916	(355,471)	(10.1)
Interest expense	309,445	361,756	(52,311)	(14.5)
Income tax expense	1,255,000	1,343,000	(88,000)	(6.6)
Net income	1,632,487	1,846,001	(213,514)	(11.6)
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 306,699,450	$ 297,613,762	$ 9,085,688	3.1
Gross profit	15,722,805	15,827,670	(104,865)	(0.7)
Gross profit percentage	5.1%	5.3%		
Retail				
Sales	$ 9,331,747	$ 9,499,012	$ (167,265)	(1.8)
Gross profit	4,087,986	4,073,335	14,651	0.4
Gross profit percentage	43.8%	42.9%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $4.9 million in Q3 2013 and $4.5 million in Q3 2012.

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 2013 vs. Q3 2012

Sales in our Wholesale Segment increased $9.1 million during Q3 2013 as compared to Q3 2012. Significant items impacting sales during Q3 2013 included a $6.5 million increase in sales related to price increases implemented by cigarette manufacturers, a $5.2 million increase in sales related to higher state excise taxes between the comparative periods, and a $3.4 million 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 $6.0 million decrease in sales primarily related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment decreased $0.2 million in Q3 2013 as compared to Q3 2012. During Q3 2013, we experienced lower sales from our existing locations due to increased competition from national and regional health food chains, partially offset by sales generated from our new health food store openings.

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GROSS PROFIT Q3 2013 vs. Q3 2012

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 decreased $0.1 million in Q3 2013 as compared to Q3 2012. This decrease was primarily related to a $0.4 million decrease in gross profit related to the volume and mix of cigarette cartons sold, partially offset by $0.3 million increase in gross profit in our Other Product category which benefited from higher sales volume.

Gross profit in our Retail Segment during Q3 2013 was even as compared to Q3 2012. During Q3 2013, we experienced lower gross profit in our existing stores resulting from a decrease in sales, offset by gross profit from our new health food store openings.

OPERATING EXPENSE Q3 2013 vs. Q3 2012

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. Q3 2013 operating expenses increased $0.3 million as compared to Q3 2012. This increase was primarily related to operating costs associated with our new health food store openings.

RESULTS OF OPERATIONS NINE MONTHS ENDED JUNE 2013:

	For the nine months ended June			
	2013	**2012**	**Incr (Decr)**	**% Change**
CONSOLIDATED:				
Sales /1/	$ 892,817,669	$ 866,505,090	$ 26,312,579	3.0
Cost of sales	835,480,069	808,750,009	26,730,060	3.3
Gross profit	57,337,600	57,755,081	(417,481)	(0.7)
Gross profit percentage	6.4%	6.7%		
Operating expenses	49,143,660	48,877,267	266,393	0.5
Operating income	8,193,940	8,877,814	(683,874)	(7.7)
Interest expense	874,489	1,105,707	(231,218)	(20.9)
Income tax expense	3,236,000	3,316,000	(80,000)	(2.4)
Net income	4,309,133	4,749,086	(439,953)	(9.3)
BUSINESS SEGMENTS:				

Wholesale				
Sales	$ 864,913,229	$ 838,329,436	$ 26,583,793	3.2
Gross profit	45,202,624	45,688,406	(485,782)	(1.1)
Gross profit percentage	5.2%	5.4%		
Retail				
Sales	$ 27,904,440	$ 28,175,654	$ (271,214)	(1.0)
Gross profit	12,134,976			