

AMCON DISTRIBUTING CO  
Form 10-Q  
April 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 March 31, 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**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

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

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

**68122**  
(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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



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**Form 10-Q**  
**2nd Quarter**

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****AMCON Distributing Company and Subsidiaries****Condensed Consolidated Balance Sheets****March 31, 2013 and September 30, 2012**

	<b>March 2013 (Unaudited)</b>	<b>September 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 432,857	\$ 491,387
Accounts receivable, less allowance for doubtful accounts of \$1.2 million at both March 2013 and September 2012	30,956,166	32,681,835
Inventories, net	39,096,409	38,364,621
Deferred income taxes	1,654,571	1,916,619
Prepaid and other current assets	6,323,715	6,476,702
Total current assets	78,463,718	79,931,164
Property and equipment, net	13,154,761	13,083,912
Goodwill	6,349,827	6,349,827
Other intangible assets, net	5,003,478	5,185,978
Other assets	461,390	1,258,985
	\$ 103,433,174	\$ 105,809,866
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 15,433,201	\$ 17,189,208
Accrued expenses	5,654,247	6,931,859
Accrued wages, salaries and bonuses	1,887,926	2,503,361
Income taxes payable	134,886	2,194,966
Current maturities of long-term debt	1,202,804	1,182,829
Total current liabilities	24,313,064	30,002,223
Credit facility	17,732,149	14,353,732
Deferred income taxes	3,828,867	3,633,390
Long-term debt, less current maturities	4,468,350	5,075,680
Other long-term liabilities	332,163	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 March 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 March 31, 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 March 2013 and September 2012, respectively	400,000	1,450,000

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Shareholders' equity:

Preferred stock, \$0.01 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, \$0.01 par value, 3,000,000 shares authorized, 623,115 shares outstanding at March 2013 and 612,327 shares outstanding at September 2012	6,543	6,293
Additional paid-in capital	12,469,411	11,021,109
Retained earnings	40,683,583	38,349,253
Treasury stock at cost	(3,300,956)	(918,000)
Total shareholders' equity	49,858,581	48,458,655
	\$ 103,433,174	\$ 105,809,866

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 six months ended March 31, 2013 and 2012**

	For the three months ended March		For the six months ended March	
	2013	2012	2013	2012
Sales (including excise taxes of \$87.2 million and \$86.1 million, and \$185.2 million and \$176.6 million, respectively)	\$ 274,568,151	\$ 275,829,266	\$ 576,786,472	\$ 559,392,316
Cost of sales	256,271,131	256,612,867	539,259,663	521,538,240
Gross profit	18,297,020	19,216,399	37,526,809	37,854,076
Selling, general and administrative expenses	15,438,195	15,901,755	31,286,667	31,251,757
Depreciation and amortization	599,785	613,927	1,193,647	1,227,421
	16,037,980	16,515,682	32,480,314	32,479,178
Operating income	2,259,040	2,700,717	5,046,495	5,374,898
Other expense (income):				
Interest expense	248,992	319,841	565,044	743,951
Other (income), net	(114,846)	(93,874)	(176,195)	(245,138)
	134,146	225,967	388,849	498,813
Income from operations before income tax expense	2,124,894	2,474,750	4,657,646	4,876,085
Income tax expense	911,000	1,010,000	1,981,000	1,973,000
Net income	1,213,894	1,464,750	2,676,646	2,903,085
Preferred stock dividend requirements	(48,108)	(66,906)	(107,399)	(134,547)
Net income available to common shareholders	\$ 1,165,786	\$ 1,397,844	\$ 2,569,247	\$ 2,768,538
Basic earnings per share available to common shareholders	\$ 1.87	\$ 2.26	\$ 4.13	\$ 4.47
Diluted earnings per share available to common shareholders	\$ 1.63	\$ 1.87	\$ 3.55	\$ 3.70
Basic weighted average shares outstanding	623,115	619,480	622,692	619,705
Diluted weighted average shares outstanding	743,195	784,429	754,881	785,281

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 six months ended March 31, 2013 and 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,676,646	\$ 2,903,085
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	1,011,147	1,035,231
Amortization	182,500	192,190
Gain on sale of property and equipment	(71,131)	(22,216)
Equity-based compensation	652,421	674,180
Deferred income taxes	457,525	453,989
Provision for losses on doubtful accounts	39,000	164,757
Provision for losses on inventory obsolescence	49,179	7,827
Other	(4,023)	(4,023)
Changes in assets and liabilities:		
Accounts receivable	1,686,669	813,322
Inventories	(780,967)	3,645,697
Prepaid and other current assets	152,987	(1,308,654)
Other assets	36,724	(48,424)
Accounts payable	(1,802,183)	(2,062,052)
Accrued expenses and accrued wages, salaries and bonuses	(1,123,486)	(1,509,628)
Income tax payable	(2,060,080)	(1,268,395)
Net cash flows from operating activities	1,102,928	3,666,886
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,104,229)	(707,724)
Proceeds from sales of property and equipment	139,540	40,820
Net cash flows from investing activities	(964,689)	(666,904)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings (payments) on bank credit agreements	3,378,417	(1,464,646)
Principal payments on long-term debt	(587,355)	(732,440)
Repurchase of Series B Convertible Preferred Stock and common stock	(2,572,085)	(918,000)
Dividends paid on convertible preferred stock	(107,399)	(134,547)
Dividends on common stock	(234,917)	(238,628)
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	(196,769)	(3,538,533)
Net change in cash	(58,530)	(538,551)
Cash, beginning of period	491,387	1,389,665
Cash, end of period	\$ 432,857	\$ 851,114

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	\$ 564,422	\$	770,110
Cash paid during the period for income taxes	3,583,555		2,787,407
Supplemental disclosure of non-cash information:			
Equipment acquisitions classified as accounts payable	57,412		5,185
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 fourteen 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 Philip Morris USA, RJ Reynolds, Commonwealth Brands, Lorillard, Proctor & Gamble, Hershey, Mars, Quaker, and Nabisco. 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 fourteen retail health food stores doing business as Chamberlin's Market & Café ( Chamberlin's ) and Akin's Natural Foods

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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 eight locations in Oklahoma, Nebraska, Missouri, and Kansas. We are also scheduled to open two new Akin s retail stores during fiscal 2013. These stores will be located in Arkansas and Nebraska.

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.

Table of Contents**FINANCIAL STATEMENTS**

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ( GAAP ) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ( financial statements ) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 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 March 31, 2013 and March 31, 2012 have been referred to throughout this quarterly report as Q2 2013 and Q2 2012, respectively. The fiscal balance sheet dates as of March 31, 2013, March 31, 2012, and September 30, 2012 have been referred to as March 2013, March 2012, and September 2012, respectively.

**2. CONVERTIBLE PREFERRED STOCK:**

The Company has two series of convertible preferred stock outstanding at March 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

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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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Inventories consist of finished goods at March 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 March 2013 and September 2012, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

**4. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

	<b>March 2013</b>	<b>September 2012</b>
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:

	<b>March 2013</b>	<b>September 2012</b>
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Non-competition agreement (less accumulated amortization of \$0.2 million at March 2013 and \$0.1 million at September 2012)	316,668	366,667
Customer relationships (less accumulated amortization of \$0.8 million and \$0.7 million at March 2013 and September 2012, respectively)	1,313,541	1,446,042
	\$ 5,003,478	\$ 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 March 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 \$0.2 million for the three and six month periods ended March 2013, respectively, and \$0.1 million and \$0.2 million for the three and six month periods ended March 2012, respectively.

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

	March
<b>Customer relationships</b>	<b>2013</b>
Fiscal 2013 (1)	\$ 182,500
Fiscal 2014	365,000
Fiscal 2015	365,000
Fiscal 2016	331,667
Fiscal 2017	265,000
Thereafter	121,042
	\$ 1,630,209

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(1) Represents amortization for the remaining six months of Fiscal 2013.

#### 5. DIVIDENDS:

The Company paid cash dividends on its common stock and convertible preferred stock totaling \$0.2 million and \$0.3 million for the three and six month periods ended March 2013, respectively, and \$0.2 million and \$0.4 million for the three and six month periods ended March 2012, respectively.

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

	2013		For the three months ended March		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	623,115	623,115	619,480	619,480	619,480	619,480
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		120,080				164,949
Weighted average number of shares outstanding	623,115	743,195	619,480	784,429	619,480	784,429
Income from continuing operations	\$ 1,213,894	\$ 1,213,894	\$ 1,464,750	\$ 1,464,750	\$ 1,464,750	\$ 1,464,750
Deduct: convertible preferred stock dividends (2)	(48,108)		(66,906)		(66,906)	
Net income available to common shareholders	1,165,786	1,213,894	1,397,844	1,464,750	1,397,844	1,464,750
Net earnings per share available to common shareholders	\$ 1.87	\$ 1.63	\$ 2.26	\$ 1.87	\$ 2.26	\$ 1.87

(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.

	2013		For the six months ended March		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	622,692	622,692	619,705	619,705	619,705	619,705
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		132,189				165,576
Weighted average number of shares outstanding	622,692	754,881	619,705	785,281	619,705	785,281

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Income from continuing operations	\$	2,676,646	\$	2,676,646	\$	2,903,085	\$	2,903,085
Deduct: convertible preferred stock dividends (2)		(107,399)				(134,547)		
Net income available to common shareholders		2,569,247		2,676,646		2,768,538		2,903,085
Net earnings per share available to common shareholders	\$	4.13	\$	3.55	\$	4.47	\$	3.70

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(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). The Facility included the following significant terms at March 2013:

- An April 2014 maturity date.
- \$70.0 million revolving credit limit.
-