AMCON DISTRIBUTING CO
Form 10-Q
July 18, 2014

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, 2014

OR

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

For the transition period from to

Commission File Number 1-15589

(Exact name of registrant as specified in its charter)

Delaware	**47-0702918**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7405 Irvington Road, Omaha NE	**68122**
(Address of principal executive offices)	(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 602,602 shares of its $.01 par value common stock outstanding as of July 14, 2014.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2014 and September 30, 2013

	June 2014 (Unaudited)	September 2013
ASSETS		
Current assets:		
Cash	$ 333,751	$ 275,036
Accounts receivable, less allowance for doubtful accounts of $1.2 million and $1.1 million at June 2014 and September 2013, respectively	29,699,236	28,383,205
Inventories, net	48,639,828	46,125,187
Deferred income taxes	1,652,702	1,831,933
Prepaid and other current assets	7,050,381	5,001,992
Total current assets	87,375,898	81,617,353
Property and equipment, net	13,944,111	13,088,859
Goodwill	6,349,827	6,349,827
Other intangible assets, net	4,547,228	4,820,978
Other assets	465,990	497,882
	$ 112,683,054	$ 106,374,899
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,447,785	$ 15,859,636
Accrued expenses	7,114,393	6,714,444
Accrued wages, salaries and bonuses	3,105,187	2,754,136
Income taxes payable	332,604	1,922,351
Current maturities of long-term debt	338,595	998,788
Total current liabilities	27,338,564	28,249,355
Credit facility	21,164,401	14,841,712
Deferred income taxes	3,569,713	3,327,010
Long-term debt, less current maturities	3,821,735	4,076,892
Other long-term liabilities	141,014	239,396
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 2014 and September 2013	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, $.01 par value 80,000 shares authorized, 16,000 shares issued and outstanding at both June 2014 and September 2013, and a total liquidation preference of $0.4 million at both June 2014 and September 2013	400,000	400,000
Shareholders equity:		

Preferred stock, $.01 par value, 1,000,000 shares authorized, 116,000 shares outstanding and issued in Series A and B referred to above				
Common stock, $.01 par value, 3,000,000 shares authorized, 602,602 shares outstanding at June 2014 and 623,115 shares outstanding at September 2013		6,677		6,543
Additional paid-in capital		13,577,433		12,502,135
Retained earnings		46,112,791		43,532,812
Treasury stock at cost		(5,949,274)		(3,300,956)
Total shareholders equity		53,747,627		52,740,534
	$	112,683,054	$	106,374,899

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, 2014 and 2013

	For the three months ended June		For the nine months ended June	
	2014	**2013**	**2014**	**2013**
Sales (including excise taxes of $100.4 million and $100.2 million, and $283.5 million and $285.4 million, respectively)	$ 322,647,624	$ 316,031,197	$ 900,694,969	$ 892,817,669
Cost of sales	303,353,020	296,220,406	844,139,340	835,480,069
Gross profit	19,294,604	19,810,791	56,555,629	57,337,600
Selling, general and administrative expenses	16,295,082	16,065,285	48,599,519	47,351,952
Depreciation and amortization	557,736	598,061	1,810,610	1,791,708
	16,852,818	16,663,346	50,410,129	49,143,660
Operating income	2,441,786	3,147,445	6,145,500	8,193,940
Other expense (income):				
Interest expense	228,827	309,445	753,446	874,489
Other (income), net	(37,473)	(49,487)	(106,659)	(225,682)
	191,354	259,958	646,787	648,807
Income from operations before income tax expense	2,250,432	2,887,487	5,498,713	7,545,133
Income tax expense	990,000	1,255,000	2,419,000	3,236,000
Net income	1,260,432	1,632,487	3,079,713	4,309,133
Preferred stock dividend requirements	(48,643)	(48,642)	(145,928)	(156,041)
Net income available to common shareholders	$ 1,211,789	$ 1,583,845	$ 2,933,785	$ 4,153,092
Basic earnings per share available to common shareholders	$ 2.00	$ 2.54	$ 4.79	$ 6.67
Diluted earnings per share available to common shareholders	$ 1.73	$ 2.19	$ 4.18	$ 5.73
Basic weighted average shares outstanding	605,319	623,115	613,032	622,833
Diluted weighted average shares outstanding	729,978	744,732	736,531	751,946

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,079,713	$ 4,309,133
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	1,536,860	1,517,958
Amortization	273,750	273,750
Gain on sale of property and equipment	(42,745)	(72,318)
Equity-based compensation	1,025,694	971,954
Deferred income taxes	421,934	449,188
Provision for losses on doubtful accounts	63,000	80,000
Provision for losses on inventory obsolescence	15,878	54,028
Other	(6,034)	(6,034)
Changes in assets and liabilities:		
Accounts receivable	(1,379,031)	(2,852,651)
Inventories	(1,572,589)	(9,827,717)
Prepaid and other current assets	(2,048,389)	(1,622,018)
Other assets	31,892	55,753
Accounts payable	598,939	(1,070,612)
Accrued expenses and accrued wages, salaries and bonuses	805,286	525,856
Income tax payable	(1,589,747)	(1,096,612)
Net cash flows from operating activities	1,214,411	(8,310,342)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,337,626)	(1,808,206)
Proceeds from sales of property and equipment	47,969	144,841
Acquisition	(996,803)	
Net cash flows from investing activities	(3,286,460)	(1,663,365)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on bank credit agreements	6,322,689	13,697,657
Principal payments on long-term debt	(915,350)	(883,923)
Repurchase of Series B Convertible Preferred Stock and common stock	(2,648,318)	(2,572,085)
Dividends paid on convertible preferred stock	(145,928)	(156,041)
Dividends on common stock	(353,806)	(352,406)
Proceeds from exercise of stock options		1,180
Withholdings on the exercise of equity-based awards	(128,523)	(74,610)
Net cash flows from financing activities	2,130,764	9,659,772
Net change in cash	58,715	(313,935)
Cash, beginning of period	275,036	491,387
Cash, end of period	$ 333,751	$ 177,452

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

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	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 751,909	$ 851,665
Cash paid during the period for income taxes	3,586,813	3,883,424
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified as accounts payable	62,414	21,248
Issuance of common stock in connection with the vesting and exercise of equity-based awards	1,154,869	1,389,258
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 a full range of programs and services to assist our customers in managing their business and profitability.

- Our retail health food segment (Retail Segment) operates sixteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,500 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems that allow our customers to compete and maximize their profitability. Convenience stores represent our largest customer category. In October 2013, Convenience Store News ranked us as the seventh (7th) 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 602,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kellogg s, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. The Company does not maintain long term purchase contracts with its suppliers.

RETAIL SEGMENT

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

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

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

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

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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, 2013, 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 fis periods ended June 30, 2014 and June 30, 2013 have been referred to throughout this quarterly report as Q3 2014 and Q3 2013, respectively. The fiscal balance sheet dates as of June 30, 2014, June 30, 2013, and September 30, 2013 have been referred to as June 2014, June 2013, and September 2013, respectively.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which states that entities should present the unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss (NOL) or similar tax loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward under the tax law. The Company will be required to adopt this new standard on a prospective basis in the first interim reporting period of fiscal 2015, however, early adoption is permitted as is a retrospective application. We do not anticipate that the adoption of this standard will have a material effect on the Company s financial position, results of operations, or cash flow.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standard Codification 605 - Revenue Recognition and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations, and cash flow.

2. ACQUISITIONS

During the first nine months of fiscal 2014, the Company began serving customers of two small convenience store distributors (Distributors) located in North Dakota. As part of our agreement with these Distributors, the Company acquired inventory totaling approximately $1.0 million. No material intangible assets or liabilities were assumed in connection with these transactions. These businesses will be included in our Wholesale Distribution Segment and are not considered material to the Company s consolidated financial statements.

3. CONVERTIBLE PREFERRED STOCK

The Company has two series of convertible preferred stock outstanding at June 2014 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.

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

4. INVENTORIES

At June 2014 and September 2013, inventories consisted of finished goods and are stated at the lower of cost determined on a First-in, First-out (FIFO) basis, or market. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company s customers or sold at retail. Finished goods included total reserves of approximately $0.8 million at both June 2014 and September 2013. 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.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

		June 2014		September 2013
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 2014		September 2013
Trademarks and tradenames	$	3,373,269	$	3,373,269
Non-competition agreement (less accumulated amortization of $0.3 million and $0.2 million at June 2014 and September 2013, respectively)		191,667		266,667
Customer relationships (less accumulated amortization of $1.1 million and $0.9 million at June 2014 and September 2013, respectively)		982,292		1,181,042
	$	4,547,228	$	4,820,978

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At June 2014, identifiable intangible assets considered to have finite lives were represented by customer relationships and the value of a non-competition agreement acquired as part of acquisitions. The customer relationships are being amortized over eight years and the value of the non-competition agreement is being amortized over five years. These intangible assets are evaluated for accelerated attrition or amortization adjustments if warranted. Amortization expense related to these assets was $0.1 million and $0.3 million for the three and nine month periods ended June 2014, respectively, and $0.1 million and $0.3 million for the three and nine month periods ended June 2013, respectively.

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

Customer relationships		**June 2014**
Fiscal 2014 (1)	$	91,250
Fiscal 2015		365,000
Fiscal 2016		331,667
Fiscal 2017		265,000
Fiscal 2018		79,375
Thereafter		41,667
	$	1,173,959

(1) Represents amortization for the remaining three months of Fiscal 2014.

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6. 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 2014, respectively, and $0.2 million and $0.5 million for the three and nine month periods ended June 2013, respectively.

7. 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			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	605,319	605,319	623,115	623,115
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)		124,659		121,617
Weighted average number of shares outstanding	605,319	729,978	623,115	744,732
Net income	$ 1,260,432	$ 1,260,432	$ 1,632,487	$ 1,632,487
Deduct: convertible preferred stock dividends (2)	(48,643)		(48,642)	
Net income available to common shareholders	$ 1,211,789	$ 1,260,432	$ 1,583,845	$ 1,632,487
Net earnings per share available to common shareholders	$ 2.00	$ 1.73	$ 2.54	$ 2.19

(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			
	2014		2013	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	613,032	613,032	622,833	622,833
Weighted average of net additional shares outstanding assuming dilutive options		123,499		129,113

exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)								
Weighted average number of shares outstanding		613,032		736,531		622,833		751,946
Net income	$	3,079,713	$	3,079,713	$	4,309,133	$	4,309,133
Deduct: convertible preferred stock dividends (2)		(145,928)				(156,041)		
Net income available to common shareholders	$	2,933,785	$	3,079,713	$	4,153,092	$	4,309,133
Net earnings per share available to common shareholders	$	4.79	$	4.18	$	6.67	$	5.73

(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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8. DEBT

The Company primarily finances its operations with cash generated from operating activities and through a credit facility provided under an agreement with Bank of America (the Facility). The Facility included the following significant terms at June 2014:

- A July 2018 maturity date without a penalty for prepayment.

- $70.0 million revolving credit limit.

- Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.

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

- 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, however, no limit on common stock dividends if certain excess availability measurements have been maintained for the thirty day period immediately prior to the payment of any such dividends or distributions and if immediately after giving effect to any such dividend or distribution payments the Company has a fixed charge coverage ratio of at least 1.10 to 1.0 as defined in the credit facility agreement.

Cross Default and Co-Terminus Provisions

The Company s owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, is financed through a term loan with BMO Harris, NA (BMO) which is also a participant lender on the Company s revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is the lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2014. 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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9. 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 2014, awards with respect to a total of 146,600 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plan and awards with respect to another 3,400 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 2014 are summarized as follows:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Exercisable Weighted-Average Exercise Price
Fiscal 2007	$18.00	25,000	2.45 years	$ 18.00	25,000	$ 18.00
Fiscal 2010	$51.50	4,400	5.83 years	$ 51.50	3,400	$ 51.50
Fiscal 2012	$53.80 - $65.97	5,600	7.35 years	$ 54.89	2,000	$ 55.02
Fiscal 2013	$62.33	7,300	8.32 years	$ 62.33	1,300	$ 62.33
		42,300		$ 34.02	31,700	$ 25.75

Restricted Stock Units

At June 2014, nonvested restricted stock units awarded pursuant to the Company s Omnibus Plan were as follows:

	Restricted Stock Units(1)	Restricted Stock Units(2)	Restricted Stock Units(3)
Date of award:	October 26, 2011	October 23, 2012	October 22, 2013
Original number of awards issued:	15,900	15,000	17,900
Service period:	36 months	36 months	36-60 months
Estimated fair value of award at grant date	$855,000	$935,000	$1,486,000

Awards outstanding at June 2014	5,300	10,000	17,600
Fair value of non-vested awards at June 2014:	$433,000	$818,000	$1,439,000

(1) 10,600 of the restricted stock units were vested as of June 2014. The remaining 5,300 restricted stock units will vest on October 25, 2014.

(2) 5,000 of the restricted stock units were vested as of June 2014. The remaining 10,000 restricted stock units will vest in equal amounts on October 23, 2014 and October 23, 2015.

(3) 14,000 restricted stock units will vest in equal amounts on October 22, 2014, October 22, 2015, and October 22, 2016. The remaining 3,600 restricted stock units will vest in equal amounts on October 22, 2014, October 22, 2015, October 22, 2016, October 22, 2017, and October 22, 2018.

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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 2013	29,600	$	81.89
Granted	17,900		83.03
Vested	(14,300)		80.68
Forfeited/Expired	(300)		81.75
Nonvested restricted stock units at June 2014	32,900	$	81.75

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 2014, respectively, and $0.3 million and $1.0 million for the three and nine months ended June 2013, respectively. Total unamortized compensation expense related to these awards at June 2014 was approximately $1.9 million.

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10. 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 2014:				
External revenue:				
Cigarettes	$ 231,814,363	$	$	$ 231,814,363
Confectionery	21,214,377			21,214,377
Health food		8,509,813		8,509,813
Tobacco, food service & other	61,109,071			61,109,071
Total external revenue	314,137,811	8,509,813		322,647,624
Depreciation	340,287	125,262	937	466,486
Amortization	91,250			91,250
Operating income (loss)	3,657,657	138,969	(1,354,840)	2,441,786
Interest expense	36,657	51,284	140,886	228,827
Income (loss) from operations before taxes	3,627,311	93,097	(1,469,976)	2,250,432
Total assets	98,799,569	13,602,639	280,846	112,683,054
Capital expenditures	949,732	25,062		974,794
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

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	Wholesale Segment	Retail Segment	Other	Consolidated
NINE MONTHS ENDED JUNE 2014:				
External revenue:				
Cigarettes	$ 647,770,840	$	$	$ 647,770,840
Confectionery	55,921,920			55,921,920
Health food		26,221,759		26,221,759
Tobacco, food service & other	170,780,450			170,780,450
Total external revenue	874,473,210	26,221,759		900,694,969
Depreciation	1,154,830	379,218	2,812	1,536,860
Amortization	273,750			273,750
Operating income (loss)	9,548,781	681,990	(4,085,271)	6,145,500
Interest expense	119,310	168,062	466,074	753,446
Income (loss) from operations before taxes	9,463,125	528,267	(4,492,679)	5,498,713
Total assets	98,799,569	13,602,639	280,846	112,683,054
Capital expenditures	2,242,733	94,893		2,337,626
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

11. COMMON STOCK REPURCHASE

During the nine months ended June 2014, the Company repurchased 33,887 shares of its common stock from independent third parties for cash totaling approximately $2.6 million. All repurchased shares are recorded in treasury stock at cost.

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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,
- the increasing demand and sale of electronic cigarettes and vapors through specialty shops and over the internet,
- increasing health care costs and the potential impact on discretionary consumer spending,
- changes in laws and regulations and ongoing compliance with the Patient Protection and Affordable Care Act,
- increased competition in our retail health food segment,
- the expansion of large and well capitalized national and regional health food retail store chains,
- risks associated with opening new retail stores,

- integration risk related to acquisitions or other efforts to expand,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,
- regulation of cigarettes, tobacco, electronic cigarettes, and vaping 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,
- increasing competition in our wholesale segment,

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

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

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company s financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our annual report on Form 10-K for the fiscal year ended September 30, 2013, 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 2014.

THIRD FISCAL QUARTER 2014 (Q3 2014)

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

Wholesale Segment

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,500 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems that allow our customers to compete and maximize their profitability. Convenience stores represent our largest customer category. In October 2013, Convenience Store News ranked us as the seventh (7th) 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 602,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kellogg s, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. The Company does not maintain long term purchase contracts with its 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.

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

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

Business Update Wholesale Segment

The demand for convenience shopping in the United States remains steady, with convenience stores accounting for over 34% of all retail formats combined (drug stores, supermarkets, dollar stores etc.), according to Nielsen. Competition, however, remains brisk as these retail formats combined are increasingly targeting the same customer segment. We are seeing an increasing bifurcation in performance between the top quartile and bottom quartile convenience store operators. We are also closely watching the development of the electronic cigarette and vapor product categories which are experiencing a rapid rise in popularity. We currently carry a wide selection of electronic cigarettes and vaping options which are offered to our customers through specialized merchandising programs.

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

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

While the distribution industry serving convenience stores is consolidating, the overall industry remains highly fragmented. As one of the industry s largest distributors with a long history of acquiring and integrating such businesses, we believe our Company is uniquely positioned to capitalize on the ongoing consolidation trend.

During first nine months of fiscal 2014, the Company acquired the inventory and began servicing customers of two small convenience store distributors located in North Dakota. These transactions represented a valuable opportunity to leverage our existing infrastructure, while expanding our sales penetration in the region.

Business Update Retail Segment

The growing demand for natural products has attracted a wide range of well financed competitors. The operating environment for our retail health food segment is highly competitive as regional and national retailers such as Whole Foods Market, Trader Joe s, Sprouts Farmers Market, Natural Grocers, Vitamin Shoppe, and General Nutrition Center (GNC) have all engaged in aggressive new store expansion strategies, often opening new retail sites in close proximity to our existing stores. Additionally, the purchase of consumer health products over the internet continues to grow and compete with brick and mortar retailers. Our Midwestern United States stores in particular have experienced an increase in competition over the past year which has impacted both sales and gross profit. We expect this highly competitive environment to persist and potentially accelerate into the foreseeable future.

Our management team is focused on a number of initiatives in our retail segment. These efforts include a number of merchandising and marketing strategies designed to promote customer retention and attract a new generation of younger customers who are embracing natural products, as well as reconfiguring certain aspects of our procurement processes.

For over seventy-five years, our health food stores have succeeded with a simple value proposition; helping our customers maintain good health. While consumer tastes and product offerings will evolve and change over time, we believe our customer focused philosophy will remain attractive to customers.

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RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 2014:

	For the three months ended June			
	2014	**2013**	**Incr (Decr)**	**% Change**
CONSOLIDATED:				
Sales (1)	$ 322,647,624	$ 316,031,197	$ 6,616,427	2.1
Cost of sales	303,353,020	296,220,406	7,132,614	2.4
Gross profit	19,294,604	19,810,791	(516,187)	(2.6)
Gross profit percentage	6.0%	6.3%		
Operating expense	16,852,818	16,663,346	189,472	1.1
Operating income	2,441,786	3,147,445	(705,659)	(22.4)
Interest expense	228,827	309,445	(80,618)	(26.1)
Income tax expense	990,000	1,255,000	(265,000)	(21.1)
Net income	1,260,432	1,632,487	(372,055)	(22.8)
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 314,137,811	$ 306,699,450	$ 7,438,361	2.4
Gross profit	15,681,005	15,722,805	(41,800)	(0.3)
Gross profit percentage	5.0%	5.1%		
Retail				
Sales	$ 8,509,813	$ 9,331,747	$ (821,934)	(8.8)
Gross profit	3,613,599	4,087,986	(474,387)	(11.6)
Gross profit percentage	42.5%	43.8%		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $5.3 million in Q3 2014 and $4.9 million in Q3 2013.

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 2014 vs. Q3 2013

Sales in our Wholesale Segment increased $7.4 million during Q3 2014 as compared to Q3 2013. Significant items impacting sales during Q3 2014 included a $7.2 million increase in sales related to price increases implemented by cigarette manufacturers, and a $4.4 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 items were partially offset by a $4.2 million decrease in sales primarily related to the volume and mix of cigarette cartons sold.

Q3 2014 sales in our Retail Segment decreased $0.8 million as compared to Q3 2013. During Q3 2014, sales at our existing retail locations decreased $1.3 million, primarily related to lower volumes resulting from competitive conditions in the markets we operate. This decrease was partially offset by $0.5 million increase in sales from new store openings.

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GROSS PROFIT   Q3 2014 vs. Q3 2013

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. Our Q3 2014 wholesale segment gross profit was even with Q3 2013.

Q3 2014 gross profit in our Retail Segment decreased $0.5 million as compared to Q3 2013. This change was primarily related to lower sales volume in our existing stores, partially offset by gross profit generated by the new health food stores added between the comparative periods.

OPERATING EXPENSE   Q3 2014 vs. Q3 2013

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 2014 operating expenses increased $0.2 million as compared to Q3 2013. Of this increase, approximately $0.5 million related to higher compensation and insurance costs, partially offset by a $0.3 million reduction in other operating expenses.

RESULTS OF OPERATIONS   NINE MONTHS ENDED JUNE 2014:

	For the nine months ended June			
	2014	**2013**	**Incr (Decr)**	**% Change**
CONSOLIDATED:				
Sales (1)	$ 900,694,969	$ 892,817,669	$ 7,877,300	0.9
Cost of sales	844,139,340	835,480,069	8,659,271	1.0
Gross profit	56,555,629	57,337,600	(781,971)	(1.4)
Gross profit percentage	6.3%	6.4%		
Operating expenses	50,410,129	49,143,660	1,266,469	2.6
Operating income	6,145,500	8,193,940	(2,048,440)	(25.0)
Interest expense	753,446	874,489	(121,043)	(13.8)
Income tax expense	2,419,000	3,236,000	(817,000)	(25.2)
Net income	3,079,713	4,309,133	(1,229,420)	(28.5)
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 874,473,210	$ 864,913,229	$ 9,559,981	1.1
Gross profit	45,293,292	45,202,624	90,668	0.2
Gross profit percentage	5.2%	5.2%		

Retail							
Sales	$	26,221,759	$	27,904,440	$	(1,682,681)	(6.0)
Gross profit		11,262,337		12,134,976		(872,639)	(7.2)
Gross profit percentage		43.0%		43.5%			

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $15.0 million for the nine month ended June 2014 and $14.1 million for the nine months ended June 2013.

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SALES   Nine months Ended June 2014

Sales in our Wholesale Segment increased $9.6 million for the nine months ended June 2014 as compared to the same prior year period. Significant items impacting sales for the nine months ended June 2014 included a $18.4 million increase in sales related to price increases implemented by cigarette manufacturers and a $10.1 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 $18.9 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 2014 decreased $1.7 million as compared to the same prior year period. For the nine month period ended June 2014, sales at our existing retail locations decreased $3.7 million, primarily related to lower volumes resulting from competitive conditions in the markets we operate. This decrease was partially offset by a $2.0 million increase in sales from new store openings.

GROSS PROFIT   Nine months Ended June 2014

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

Gross profit in our Wholesale Segment increased $0.1 million for the nine month period ended June 2014 as compared to the same prior year period. This change was primarily related to a $0.8 million increase in our Other Product category gross profit, partially offset by a $0.7 million decrease in gross profit related to the volume and mix of cigarette cartons sold.

Gross profit in our Retail Segment decreased $0.9 million for the nine month period ended June 2014 as compared to the same prior year period. This change was primarily related to lower sales volume in our existing stores, partially offset by gross profit generated by the new health food stores added between the comparative periods.

OPERATING EXPENSE   Nine months Ended June 2014

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance, and professional fees. Operating expenses increased $1.3 million during the nine months ended June 2014 as compared to the same prior year period. Of this increase, approximately $1.1 million related to higher compensation and health insurance costs and $0.8 million related to operating costs associated with new health food store openings. These increases were partially offset by a $0.6 million reduction in other operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

- Operating Activities. The Company generated cash of approximately $1.2 million from operating activities during the nine months ended June 2014. Significant sources of cash during the period included the impact of net earnings as well as increases in accounts payable, accrued expenses, and accrued wages, salaries and bonuses. These sources of cash were partially offset by increases in accounts receivable, inventory, prepaid and other current assets, and reductions in income tax payable.

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

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- Investing Activities. The Company used approximately $3.3 million of cash during the nine month period ended June 2014. Of this amount, approximately $2.3 million related to capital expenditures for property and equipment and $1.0 million related to the acquisitions discussed in Note 2.

- Financing Activities. The Company generated cash of $2.1 million from financing activities during the nine month period ended June 2014. Of this amount, approximately $6.3 million related to net borrowings on the Company s credit facility. These borrowings were offset by $0.9 million in long-term debt repayments, $2.7 million related to the repurchase of shares of the Company s common stock and Series B Convertible Preferred Stock, $0.5 million related to dividends on the Company s common and preferred stock, and $0.1 million related to equity-based awards.

- Cash on Hand/Working Capital. At June 2014, the Company had cash on hand of $0.3 million and working capital (current assets less current liabilities) of $60.0 million. This compares to cash on hand of $0.3 million and working capital of $53.4 million at September 2013.

Credit Agreement

The Company primarily finances its operations with cash generated from operating activities and through a credit facility provided under an agreement with Bank of America (the Facility). The Facility included the following significant terms at June 2014:

- A July 2018 maturity date without a penalty for prepayment.

- $70.0 million revolving credit limit.

- Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.

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

- 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, however, no limit on common stock dividends if certain excess availability measurements have been maintained for the thirty day period immediately prior to the payment of any such dividends or distributions and if immediately after giving effect to any such dividend or distribution payments the Company has a fixed charge coverage ratio of at least 1.10 to 1.0 as defined in the credit facility agreement.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the credit limit of the Facility at June 2014 was $63.4 million, of which $21.2 million was outstanding, leaving $42.3 million available. At June 2014, the revolving portion of the Company s Facility balance bore interest based on the bank s prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 2.33% at June 2014.

For the nine months ended June 2014, our peak borrowings under the Facility were $54.0 million, and our average borrowings and average availability under the Facility were $33.0 million and $34.7 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

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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 2014. In addition, the BMO loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividends Payments

The Company paid cash dividends on its common stock and convertible preferred stock totaling $0.2 million and $0.5 million for the three and nine month periods ended June 2014, respectively, and $0.2 million and $0.5 million for the three and nine month periods ended June 2013, 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, 2013.

Other

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

Off-Balance Sheet Arrangements

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

Liquidity Risk

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

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

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15(b) and 15d-15(b) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2014 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control that occurred during the fiscal quarter ended June 30, 2014, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the Company s risk factors as previously disclosed in Item 1A Risk Factors of the Company s annual report on Form 10-K for the fiscal year ended September 30, 2013.

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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 30, 2014:

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, 2014	8,830	$	80.00	8,830	41,170
May 1-31, 2014					41,170
June 1-30, 2014					41,170
Total	8,830	$	80.00	8,830	41,170

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* On December 20, 2013 our Board of Directors expanded upon the then-existing share repurchase authorization to provide renewed authorization for the repurchase of up to 50,000 shares of our Company s common stock in open market or negotiated transactions. 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.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

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

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

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

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

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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, 2014	/s/ Christopher H. Atayan Christopher H. Atayan, Chief Executive Officer and Chairman
Date: July 18, 2014	/s/ Andrew C. Plummer Andrew C. Plummer, Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)