

AMCON DISTRIBUTING CO  
Form 10-Q  
April 17, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from      to

Commission File Number 1-15589

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

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

The Registrant had 615,822 shares of its \$.01 par value common stock outstanding as of April 13, 2015.

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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, 2015 and September 30, 2014**

	March 2015 (Unaudited)	September 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$ 189,559	\$ 99,922
Accounts receivable, less allowance for doubtful accounts of \$0.9 million and \$0.8 million at March 2015 and September 2014, respectively	30,847,526	33,286,932
Inventories, net	65,521,673	43,635,266
Deferred income taxes	1,353,082	1,606,168
Prepaid and other current assets	3,325,626	5,034,570
Total current assets	101,237,466	83,662,858
Property and equipment, net	13,388,517	13,763,140
Goodwill	6,349,827	6,349,827
Other intangible assets, net	4,273,478	4,455,978
Other assets	336,357	448,149
	\$ 125,585,645	\$ 108,679,952
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,627,660	\$ 16,412,895
Accrued expenses	5,978,844	6,891,308
Accrued wages, salaries and bonuses	1,977,298	2,647,969
Income taxes payable	26,476	1,603,614
Current maturities of long-term debt	346,057	341,190
Total current liabilities	24,956,335	27,896,976
Credit facility	31,963,666	15,081,783
Deferred income taxes	3,469,673	3,484,204
Long-term debt, less current maturities	3,561,053	3,735,702
Other long-term liabilities	134,980	139,003
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized, issued, and outstanding, and a total liquidation preference of \$2.5 million at both March 2015 and September 2014	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized, 16,000 shares issued and outstanding at both March 2015 and September 2014, and a total liquidation preference of \$0.4 million at both March 2015 and September 2014	400,000	400,000

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Shareholders' equity:

Preferred stock, \$.01 par value, 1,000,000 shares authorized, 116,000 shares outstanding and issued in Series A and B referred to above		
Common stock, \$.01 par value, 3,000,000 shares authorized, 615,822 shares outstanding at March 2015 and 602,411 shares outstanding at September 2014	6,811	6,677
Additional paid-in capital	14,743,839	13,571,909
Retained earnings	49,814,791	47,829,201
Treasury stock at cost	(5,965,503)	(5,965,503)
Total shareholders' equity	58,599,938	55,442,284
	\$ 125,585,645	\$ 108,679,952

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

Table of Contents**AMCON Distributing Company and Subsidiaries****Condensed Consolidated Unaudited Statements of Operations****for the three and six months ended March 31, 2015 and 2014**

	For the three months ended March		For the six months ended March	
	2015	2014	2015	2014
Sales (including excise taxes of \$87.4 million and \$85.7 million, and \$184.4 million and \$183.1 million, respectively)	\$ 287,443,864	\$ 272,421,788	\$ 602,877,340	\$ 578,047,345
Cost of sales	269,710,529	254,801,826	565,617,473	540,786,320
Gross profit	17,733,335	17,619,962	37,259,867	37,261,025
Selling, general and administrative expenses	15,485,757	15,812,174	31,666,879	32,304,437
Depreciation and amortization	590,857	628,834	1,167,162	1,252,874
	16,076,614	16,441,008	32,834,041	33,557,311
Operating income	1,656,721	1,178,954	4,425,826	3,703,714
Other expense (income):				
Interest expense	194,375	222,624	431,517	524,619
Other (income), net	(35,987)	(38,955)	(43,054)	(69,186)
	158,388	183,669	388,463	455,433
Income from operations before income tax expense	1,498,333	995,285	4,037,363	3,248,281
Income tax expense	729,000	464,000	1,722,000	1,429,000
Net income	769,333	531,285	2,315,363	1,819,281
Preferred stock dividend requirements	(48,108)	(48,108)	(97,285)	(97,285)
Net income available to common shareholders	\$ 721,225	\$ 483,177	\$ 2,218,078	\$ 1,721,996
Basic earnings per share available to common shareholders	\$ 1.17	\$ 0.79	\$ 3.61	\$ 2.79
Diluted earnings per share available to common shareholders	\$ 1.04	\$ 0.72	\$ 3.15	\$ 2.46
Basic weighted average shares outstanding	615,822	611,432	614,173	616,888
Diluted weighted average shares outstanding	737,180	737,461	735,599	739,223

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, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,315,363	\$ 1,819,281
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation	984,662	1,070,374
Amortization	182,500	182,500
(Gain) loss on sale of property and equipment	7,036	(24,746)
Equity-based compensation	607,661	717,821
Deferred income taxes	238,555	462,447
Provision for losses on doubtful accounts	159,999	132,000
Provision for losses (recoveries) on inventory obsolescence	(34,189)	(1,121)
Other	(4,023)	(4,023)
Changes in assets and liabilities:		
Accounts receivable	2,279,407	1,356,409
Inventories	(21,852,218)	(2,474,084)
Prepaid and other current assets	1,708,944	5,700
Other assets	111,792	13,054
Accounts payable	200,996	(34,071)
Accrued expenses and accrued wages, salaries and bonuses	(862,235)	(1,565,640)
Income tax payable	(1,577,138)	(1,618,592)
Net cash flows from operating activities	(15,532,888)	37,309
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(611,106)	(1,362,832)
Proceeds from sales of property and equipment	7,800	29,969
Acquisition		(513,938)
Net cash flows from investing activities	(603,306)	(1,846,801)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on bank credit agreements	16,881,883	4,926,619
Principal payments on long-term debt	(169,782)	(607,923)
Repurchase of Series B Convertible Preferred Stock and common stock		(1,941,918)
Dividends paid on convertible preferred stock	(97,285)	(97,285)
Dividends on common stock	(232,488)	(239,362)
Withholdings on the exercise of equity-based awards	(156,497)	(109,115)
Net cash flows from financing activities	16,225,831	1,931,016
Net change in cash	89,637	121,524
Cash, beginning of period	99,922	275,036
Cash, end of period	\$ 189,559	\$ 396,560

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





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	2015		2014
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	\$ 403,758	\$	523,081
Cash paid during the period for income taxes	3,060,584		2,585,145
Supplemental disclosure of non-cash information:			
Equipment acquisitions classified as accounts payable	48,754		152,311
Issuance of common stock in connection with the vesting and exercise of equity-based awards	1,240,842		1,154,869

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

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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. Convenience stores represent our largest customer category. In September 2014, Convenience Store News ranked us as the sixth (6th) largest convenience store distributor in the United States based on annual sales.

Our wholesale business offers retailers the ability to take advantage of manufacturer and Company sponsored sales and marketing programs, merchandising and product category management services, and the use of information systems and data services that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales and profits. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management, efficiency in processing small orders, and frequency of deliveries. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory, merchandising expertise, information systems, and accessing trade credit.

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, Commonwealth Brands, Lorillard, Hershey, Kellogg's, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. We do not maintain long-term purchase contracts with our suppliers.

**RETAIL SEGMENT**

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

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

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

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**FINANCIAL STATEMENTS**

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ( GAAP ) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ( financial statements ) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2014, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , and AMCON shall mean AMCON Distributing Company and its subsidiaries. Additionally, the three month fiscal periods ended March 31, 2015 and March 31, 2014 have been referred to throughout this quarterly report as Q2 2015 and Q2 2014, respectively. The fiscal balance sheet dates as of March 31, 2015, March 31, 2014, and September 30, 2014 have been referred to as March 2015, March 2014, and September 2014, respectively.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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