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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018
OR

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

For the transition period from ___________to _________

Commission File Number 1-15589

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-0702918 (I.R.S. Employer Identification No.)
7405 Irvington Road, Omaha NE (Address of principal executive offices)	68122 (Zip code)

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

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

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

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

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

Smaller reporting company Emerging growth company

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

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

The Registrant had 684,004 shares of its $.01 par value common stock outstanding as of April 16, 2018.

Table of Contents

Form 10-Q

2nd Quarter

INDEX

	PAGE
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed consolidated balance sheets at March 31, 2018 (unaudited) and September 30, 2017	3
Condensed consolidated unaudited statements of operations for the three and six months ended March 31, 2018 and 2017	4
Condensed consolidated unaudited statements of cash flows for the six months ended March 31, 2018 and 2017	5
Notes to condensed consolidated unaudited financial statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Mine Safety Disclosures	24
Item 5. Other Information	25
Item 6. Exhibits	25

2

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Balance Sheets

March 31, 2018 and September 30, 2017

	March 2018 (Unaudited)	September 2017
ASSETS		
Current assets:		
Cash	$ 564,817	$ 523,065
Accounts receivable, less allowance for doubtful accounts of $0.7 million at March 2018 and $0.8 million at September 2017	29,245,698	30,690,403
Inventories, net	76,092,792	72,909,996
Prepaid and other current assets	3,002,475	4,218,811
Total current assets	108,905,782	108,342,275
Property and equipment, net	13,616,571	13,307,986
Goodwill	6,349,827	6,349,827
Other intangible assets, net	3,446,186	3,494,311
Other assets	330,391	310,488
Total assets	$ 132,648,757	$ 131,804,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,720,165	$ 17,631,552
Accrued expenses	6,710,555	7,553,089
Accrued wages, salaries and bonuses	2,612,826	3,477,966
Income taxes payable	175,600	544,069
Current maturities of long-term debt	379,302	373,645
Total current liabilities	27,598,448	29,580,321
Credit facility	30,549,306	29,037,182
Deferred income tax liability, net	1,912,941	2,336,263
Long-term debt, less current maturities	2,456,769	2,648,179
Other long-term liabilities	36,078	34,100
Shareholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized	—	—

Common stock, $.01 par value, 3,000,000 shares authorized, 684,004 shares outstanding at March 2018 and 678,006 shares outstanding at September 2017	8,441	8,314
Additional paid-in capital	22,036,562	20,825,919
Retained earnings	62,296,042	60,935,911
Treasury stock at cost	(14,245,830)	(13,601,302)
Total shareholders’ equity	70,095,215	68,168,842
Total liabilities and shareholders' equity	$ 132,648,757	$ 131,804,887

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

Table of Contents

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Operations

for the three and six months ended March 31, 2018 and 2017

	For the three months ended March		For the six months ended March	
	2018	2017	2018	2017
Sales (including excise taxes of $83.1 million and $85.7 million, and $171.7 million and $176.7 million, respectively)	$ 295,207,286	$ 294,047,870	$ 610,720,495	$ 604,152,099
Cost of sales	278,141,110	276,573,968	575,462,557	568,362,211
Gross profit	17,066,176	17,473,902	35,257,938	35,789,888
Selling, general and administrative expenses	15,619,420	15,820,504	31,973,028	31,518,823
Depreciation and amortization	537,903	529,969	1,068,908	1,056,402
	16,157,323	16,350,473	33,041,936	32,575,225
Operating income	908,853	1,123,429	2,216,002	3,214,663
Other expense (income):				
Interest expense	313,364	147,910	515,555	365,453
Other (income), net	(27,410)	(14,964)	(32,543)	(20,737)
	285,954	132,946	483,012	344,716
Income from operations before income tax expense	622,899	990,483	1,732,990	2,869,947
Income tax expense (benefit)	284,000	502,000	(86,000)	1,335,000
Net income available to common shareholders	$ 338,899	$ 488,483	$ 1,818,990	$ 1,534,947
Basic earnings per share available to common shareholders	$ 0.49	$ 0.72	$ 2.64	$ 2.26
Diluted earnings per share available to common shareholders	$ 0.49	$ 0.71	$ 2.61	$ 2.22
Basic weighted average shares outstanding	689,480	678,938	688,570	680,318
Diluted weighted average shares outstanding	697,406	688,016	697,563	690,190
Dividends declared and paid per common share	$ 0.46	$ 0.46	$ 0.64	$ 0.64

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, 2018 and 2017

	March 2018	March 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,818,990	$ 1,534,947
Adjustments to reconcile net income from operations to net cash flows from		
operating activities:		
Depreciation	1,020,783	923,903
Amortization	48,125	132,499
Gain on sale of property and equipment	(300)	(21,624)
Equity-based compensation	642,785	765,554
Deferred income taxes	(423,322)	318,682
Provision (recovery) for losses on doubtful accounts	(77,000)	29,000
Inventory allowance	(231,625)	72,197
Other	1,978	1,308
Changes in assets and liabilities:		
Accounts receivable	1,521,705	2,266,241
Inventories	(2,951,171)	2,625,416
Prepaid and other current assets	1,216,336	778,364
Other assets	(19,903)	(52,854)
Accounts payable	126,012	(771,163)
Accrued expenses and accrued wages, salaries and bonuses	(1,059,839)	(822,955)
Income taxes payable	(368,469)	(117,476)
Net cash flows from operating activities	1,265,085	7,662,039
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,366,767)	(837,895)
Proceeds from sales of property and equipment	300	31,978
Net cash flows from investing activities	(1,366,467)	(805,917)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	623,945,799	610,559,577
Repayments under revolving credit facility	(622,433,675)	(615,994,225)
Principal payments on long-term debt	(185,753)	(180,267)
Repurchase of common stock	(644,528)	(1,038,060)
Dividends on common stock	(458,859)	(452,685)
Withholdings on the exercise of equity-based awards	(79,850)	(107,082)
Net cash flows from financing activities	143,134	(7,212,742)
Net change in cash	41,752	(356,620)

Cash, beginning of period	523,065	605,380
Cash, end of period	$ 564,817	$ 248,760
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 489,840	$ 365,620
Cash paid during the period for income taxes	705,790	1,133,794
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified in accounts payable	63,962	29,219
Issuance of common stock in connection with the vesting and exercise of equity-based awards	1,183,091	1,262,763

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

Table of Contents

AMCON Distributing Company and Subsidiaries

Notes to Condensed Consolidated Unaudited Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

AMCON Distributing Company and Subsidiaries ("AMCON" or the "Company") operate two business segments:

- Our wholesale distribution segment ("Wholesale Segment") distributes consumer products and provides a full range of programs and services to our customers that are focused on helping them manage their business and increase their profitability. We primarily operate in the Central, Rocky Mountain, and Southern regions of the United States.

- Our retail health food segment ("Retail Segment") operates 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 4,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

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

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

RETAIL SEGMENT

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

Table of Contents

We operate within the natural products retail industry, which is a subset of the U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers.

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

FINANCIAL STATEMENTS

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ("financial statements") contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2017, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to "we", "us", "our", the "Company", and "AMCON" shall mean AMCON Distributing Company and its subsidiari
Additionally, the three month fiscal periods ended March 31, 2018 and March 31, 2017 have been referred to throughout this quarterly report as Q2 2018 and Q2 2017, respectively. The fiscal balance sheet dates as of March 31, 2018 and September 30, 2017 have been referred to as March 2018 and September 2017, respectively.

ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This ASU and related amendments supersedes the revenue recognition requirements in "Accounting Standard Codification 605 - Revenue Recognition" and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017 (Fiscal 2019 for the Company), and for interim periods within that fiscal year. The Company is in the data aggregation and quantification phase of its review of this new standard, and is working to assess the impact and our approach towards adopting this ASU.

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

Table of Contents

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

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

2. INVENTORIES

At March 2018 and September 2017, inventories consisted of finished goods and are stated at the lower of cost (determined on a FIFO basis for our wholesale segment and using the retail method for our retail segment) or net realizable value. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods included total reserves of approximately $0.5 million at March 2018 and $0.8 million at September 2017. These reserves include the Company's obsolescence allowance, which reflects estimated unsalable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

Table of Contents

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	March 2018	September 2017
Wholesale Segment	$ 4,436,950	$ 4,436,950
Retail Segment	1,912,877	1,912,877
	$ 6,349,827	$ 6,349,827

Other intangible assets of the Company consisted of the following:

	March 2018	September 2017
Trademarks and tradenames (Retail Segment)	$ 3,373,269	$ 3,373,269
Customer relationships (Wholesale Segment) (less accumulated amortization of approximately $2.0 million at both March 2018 and September 2017)	72,917	121,042
	$ 3,446,186	$ 3,494,311

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

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

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

	March 2018
Fiscal 2018 (1)	$ 31,250
Fiscal 2019	41,667
	$ 72,917

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

4. DIVIDENDS

The Company paid cash dividends on its common stock during each of the three and six month periods ended March 2017 and March 2018 of $0.3 million and $0.5 million, respectively.

Table of Contents

5. EARNINGS PER SHARE

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

	For the three months ended March			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	689,480	689,480	678,938	678,938
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	7,926	—	9,078
Weighted average number of shares outstanding	689,480	697,406	678,938	688,016
Net income available to common shareholders	$ 338,899	$ 338,899	$ 488,483	$ 488,483
Net earnings per share available to common shareholders	$ 0.49	$ 0.49	$ 0.72	$ 0.71

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

	For the six months ended March			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	688,570	688,570	680,318	680,318
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	8,993	—	9,872
Weighted average number of shares outstanding	688,570	697,563	680,318	690,190
Net income available to common shareholders	$ 1,818,990	$ 1,818,990	$ 1,534,947	$ 1,534,947
	$ 2.64	$ 2.61	$ 2.26	$ 2.22

Net earnings per share available to common shareholders

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

10

Table of Contents

6. DEBT

The Company primarily finances its operations through a credit facility agreement (the “Facility”) and long-term debt agreements with banks. The Facility is provided through Bank of America acting as the senior agent and with BMO Harris Bank participating in a loan syndication.

The Facility included the following significant terms at March 2018:

- A November 2022 maturity date without a penalty for prepayment.
- $70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.
- A provision providing an additional $10.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.
- The Facility bears interest at either the bank’s prime rate, or at LIBOR plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company’s equipment, intangibles, inventories, and accounts receivable.
- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company’s availability has not fallen below 10% of the maximum loan limit and the Company’s fixed charge ratio is over 1.0 for the trailing twelve months.

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

Cross Default and Co-Terminus Provisions

The Company owns real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause it to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at March 2018. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

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

Table of Contents

7. INCOME TAXES

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

8. BUSINESS SEGMENTS

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

	Wholesale Segment	Retail Segment	Other	Consolidated
THREE MONTHS ENDED MARCH 2018				
External revenues:				
Cigarettes	$ 208,188,686	$ —	$ —	$ 208,188,686
Tobacco	39,536,595	—	—	39,536,595
Confectionery	17,257,066	—	—	17,257,066
Health food	—	6,813,088	—	6,813,088
Foodservice & other	23,411,851	—	—	23,411,851
Total external revenue	288,394,198	6,813,088	—	295,207,286
Depreciation	324,142	198,136	—	522,278
Amortization	15,625	—	—	15,625
Operating income (loss)	2,531,394	(193,545)	(1,428,996)	908,853
Interest expense	22,814	—	290,550	313,364
Income (loss) from operations before taxes	2,530,624	(190,879)	(1,716,846)	622,899
Total assets	118,169,883	14,358,012	120,862	132,648,757
Capital expenditures	613,476	461,973	—	1,075,449

THREE MONTHS ENDED MARCH 2017				
External revenue:				
Cigarettes	$ 209,646,918	$ —	$ —	$ 209,646,918
Tobacco	37,371,108	—	—	37,371,108
Confectionery	17,980,905	—	—	17,980,905
Health food	—	6,718,058	—	6,718,058
Foodservice & other	22,330,881	—	—	22,330,881
Total external revenue	287,329,812	6,718,058	—	294,047,870
Depreciation	346,264	117,456	—	463,720
Amortization	66,249	—	—	66,249
Operating income (loss)	2,737,099	(209,189)	(1,404,481)	1,123,429
Interest expense	25,428	—	122,482	147,910
Income (loss) from operations before taxes	2,722,619	(205,173)	(1,526,963)	990,483
Total assets	91,608,744	13,989,794	80,638	105,679,176
Capital expenditures	153,469	283,648	—	437,117

Table of Contents

	Wholesale Segment	Retail Segment	Other	Consolidated
SIX MONTHS ENDED MARCH 2018				
External revenue:				
Cigarettes	$ 431,454,264	$ —	$ —	$ 431,454,264
Tobacco	81,178,273	—	—	81,178,273
Confectionery	35,773,384	—	—	35,773,384
Health food	—	13,102,985	—	13,102,985
Foodservice & other	49,211,589	—	—	49,211,589
Total external revenue	597,617,510	13,102,985	—	610,720,495
Depreciation	634,627	386,156	—	1,020,783
Amortization	48,125	—	—	48,125
Operating income (loss)	5,720,377	(666,526)	(2,837,849)	2,216,002
Interest expense	46,522	—	469,033	515,555
Income (loss) from operations before taxes	5,698,556	(661,384)	(3,304,182)	1,732,990
Total assets	118,169,883	14,358,012	120,862	132,648,757
Capital expenditures	668,122	698,645	—	1,366,767
SIX MONTHS ENDED MARCH 2017				
External revenue:				
Cigarettes	$ 431,415,941	$ —	$ —	$ 431,415,941
Tobacco	76,056,934	—	—	76,056,934
Confectionery	36,581,352	—	—	36,581,352
Health food	—	12,957,362	—	12,957,362
Foodservice & other	47,140,510	—	—	47,140,510
Total external revenue	591,194,737	12,957,362	—	604,152,099
Depreciation	688,938	234,965	—	923,903
Amortization	132,499	—	—	132,499
Operating income (loss)	6,705,891	(507,675)	(2,983,553)	3,214,663
Interest expense	51,821	—	313,632	365,453
Income (loss) from operations before taxes	6,666,521	(499,388)	(3,297,186)	2,869,947
Total assets	91,608,744	13,989,794	80,638	105,679,176
Capital expenditures	320,244	517,651	—	837,895

9. COMMON STOCK REPURCHASE

The Company repurchased a total of 6,653 and 11,104 shares of its common stock during the six month periods ended March 2018 and March 2017, respectively, for cash totaling approximately $0.6 million and $1.0 million, respectively. All repurchased shares were recorded in treasury stock at cost.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," similar expressions. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions.

You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increasing competition in our wholesale and retail health food businesses and any associated impact on the carrying value of intangible assets within those businesses,
- that our repositioning strategy for our retail business will not be successful,
- risks associated with opening new retail stores,
- if online shopping formats such as Amazon continue to grow in popularity and further disrupt traditional sales channels, it may present a significant direct risk to brick and mortar retailers and potentially wholesale distributors,
- increases in fuel costs and expenses associated with operating a refrigerated trucking fleet,
- increases in state and federal excise taxes on cigarette and tobacco products and the potential impact on demand,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,

- regulation of cigarette, tobacco, and e-cigarette products by the FDA, in addition to existing state and federal regulations by other agencies,

- potential bans or restrictions imposed by the FDA, states, or local municipalities on the manufacture, distribution, and sale of certain cigarette 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,

- demand for the Company’s products, particularly cigarette and tobacco products,

- risks that product manufacturers may begin selling directly to convenience stores and bypass wholesale distributors,

- changes in laws and regulations and ongoing compliance related to health care and associated insurance,

- increasing health care costs for consumers and the potential impact on discretionary consumer spending,

· the ongoing trend of higher health care costs in our business which has impacted profitability,

· decreased availability of capital resources,

· domestic regulatory and legislative risks,

· poor weather conditions,

· consolidation trends within the convenience store, wholesale distribution, and retail health food industries,

· natural disasters and domestic or political unrest,

· the impact on the Company's financial statements as it relates to the accounting treatment and disclosure requirements under the new tax law (Tax Cut and Jobs Act) and the issuance of any new interpretive guidance,

· other risks over which the Company has little or no control, and any other factors not identified herein

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

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our annual report on Form 10-K for the fiscal year ended September 30, 2017, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the six months ended March 2018.

SECOND FISCAL QUARTER 2018 (Q2 2018)

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

Wholesale Segment

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

Table of Contents

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

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

Retail Segment

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

We operate within the natural products retail industry, which is a subset of the U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers.

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

Table of Contents

Business Update - Wholesale Segment

A number of macro trends continue to impact the convenience store industry and the wholesale distributors which serve this retail segment. First, the long term demand trend for cigarettes continues to decline as fewer individuals smoke, which we believe partially results from higher excise taxes placed on tobacco products in recent years. Secondly, the continued popularity of fast casual and on-the-go dining options is fueling interest by convenience stores owners to enhance their existing foodservice programs and build-out new revenue streams. Lastly, large consumer package goods manufacturers (“CPG’s”) are heavily focused on reinventing their product portfolios and replacing older lower margin offerings. This has resulted in a wave of innovation by CPG manufacturers around design, packaging, and the types of products offered within the convenience store channel. Accordingly, CPG companies continue to rely heavily on wholesale distributors to assist with market introduction and ultimately to obtain shelf space for these new products within the one of their most important sales channels (convenience stores).

At the wholesale distributor level, we continue to see brisk consolidation trends across the industry as the economics and capital requirements of the business has become challenging for many smaller distributors. Accordingly, we continue to carefully evaluate a range of acquisition opportunities and remain focused on maximizing our liquidity position which provides us the flexibility to move quickly as attractive opportunities arise.

Given these market dynamics, our long term strategic plan remains centered around three core areas: 1) expanding our geographic footprint either through strategic acquisitions or establishing new distribution centers, 2) expanding our foodservice platform, and 3) ongoing investments in our information technology applications as a means of differentiation and long term customer retention.

Business Update - Retail Segment

The food retailing sector continues to undergo a significant structural shift driven by increased competition, the types of products being demanded by consumers, and changes in how consumers shop and engage with retailers. These factors have resulted in a highly competitive and dynamic operating environment forcing retailers to continuously innovate with improved product offerings and services.

In the health food retailing sector in which our stores operate, a number of factors have impacted the performance of industry participants. First, a number of regional and national health food retailers such as Sprouts Farmers Market, Natural Grocers, Trader Joe’s, Lucky’s Market, and Fresh Thyme Farmers Market have all aggressively expanded their geographic reach into areas once dominated by independent health food store operators. Secondly, web-based shopping formats, conventional grocery stores, and mass merchants such as Kroger, Albertsons, Walmart, and Costco have all greatly expanded their offerings of natural products which has impacted sales volumes for many independent health food retailers. Most recently, the nation’s largest health food retailer (Whole Foods Market) was acquired by Amazon. All of these factors have contributed to a challenging operating environment for health food retailers, including our stores.

In light of the competitive landscape and as previously disclosed, the Company is implementing a multi-year repositioning strategy for its retail business. The core of this repositioning strategy is focused on four functional areas: 1) targeted closure of non-performing stores, 2) selectively remodeling existing stores and adding new stores which incorporate modern design themes and convenience shopping attributes, 3) the implementation of a comprehensive program to optimize our merchandising strategy, and 4) the use of a new multi-channel branding and marketing program.

While we can provide no assurances that our business repositioning strategy will be successful, we believe that many of the old tenants of successful retailing remain in place. Among these, having modern stores with strong locations that carry a differentiated product mix and offering a high level of consultative customer service, all remain important elements in driving repeat customer traffic and ultimately profitable unit economics. Accordingly, we continue to make investments in the aforementioned areas in conjunction with our repositioning strategy.

Table of Contents

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 2018:

	For the three months ended March 2018	2017	Incr (Decr)	% Change
CONSOLIDATED:				
Sales(1)	$ 295,207,286	$ 294,047,870	$ 1,159,416	0.4
Cost of sales	278,141,110	276,573,968	1,567,142	0.6
Gross profit	17,066,176	17,473,902	(407,726)	(2.3)
Gross profit percentage	5.8 %	5.9 %		
Operating expense	$ 16,157,323	$ 16,350,473	$ (193,150)	(1.2)
Operating income	908,853	1,123,429	(214,576)	(19.1)
Interest expense	313,364	147,910	165,454	111.9
Income tax expense (benefit)	284,000	502,000	(218,000)	(43.4)
Net income	338,899	488,483	(149,584)	(30.6)
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 288,394,198	$ 287,329,812	$ 1,064,386	0.4
Gross profit	14,194,141	14,591,820	(397,679)	(2.7)
Gross profit percentage	4.9 %	5.1 %		
Retail				
Sales	$ 6,813,088	$ 6,718,058	$ 95,030	1.4
Gross profit	2,872,035	2,882,082	(10,047)	(0.3)
Gross profit percentage	42.2 %	42.9 %		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $6.0 million in Q2 2018 and $5.8 million in Q2 2017.

SALES

Changes in sales are driven by two primary components:

(i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and

(ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

SALES – Q2 2018 vs. Q2 2017

Sales in our Wholesale Segment increased $1.1 million during Q2 2018 as compared to Q2 2017. Significant items impacting sales during Q2 2018 included a $6.6 million increase in sales related to price increases implemented by cigarette manufacturers and a $2.5 million increase in sales in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories ("Other Products"). These increases were partially offset by a $8.0 million decrease in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment increased $0.1 million for Q2 2018 as compared to Q2 2017. Significant items impacting sales in our Retail Segment for the three months ended March 2018 included a $0.5 million increase in sales related to the opening of a new store in our Florida market which was partially offset by a $0.4 million decrease in sales related to the closure of one non-performing store in our Midwest market and lower sales volumes in our existing stores which have experienced increased competition.

Table of Contents

GROSS PROFIT – Q2 2018 vs. Q2 2017

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

Gross profit in our Wholesale Segment decreased $0.4 million during Q2 2018 as compared to Q2 2017, primarily related to the volume and mix of cigarette cartons sold during the current period. Q2 2018 gross profit in our Retail Segment was even with Q2 2017. Significant items impacting our Q2 2018 Retail Segment gross profit included a $0.3 million increase in gross profit related to the opening of our new Florida market store which was offset by the impact of lower sales and gross profit in our existing stores.

OPERATING EXPENSE – Q2 2018 vs. Q2 2017

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, and insurance costs. Our Q2 2018 operating expenses decreased $0.2 million as compared to Q2 2017. Significant items impacting operating expenses during the current period included a $0.6 million decrease in health insurance costs, partially offset by a $0.2 million increase in employee benefit and other operating costs, and a $0.2 million increase in fuel costs.

INCOME TAX EXPENSE – Q2 2018 vs. Q2 2017

Significant items impacting the Company's Q2 2018 income tax expense included the impact of nondeductible compensation expense, partially offset by a decrease in the Company's federal income tax rate related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform") which was signed into law on December 22, 2017 and which reduced the corporate federal income tax rate from 35% to 21%.

Table of Contents

RESULTS OF OPERATIONS – SIX MONTHS ENDED MARCH 2018:

	For the six months ended March 2018	2017	Incr (Decr)	% Change
CONSOLIDATED:				
Sales(1)	$ 610,720,495	$ 604,152,099	$ 6,568,396	1.1
Cost of sales	575,462,557	568,362,211	7,100,346	1.2
Gross profit	35,257,938	35,789,888	(531,950)	(1.5)
Gross profit percentage	5.8 %	5.9 %		
Operating expenses	33,041,936	32,575,225	466,711	1.4
Operating income	2,216,002	3,214,663	(998,661)	(31.1)
Interest expense	515,555	365,453	150,102	41.1
Income tax expense (benefit)	(86,000)	1,335,000	(1,421,000)	(106.4)
Net income	1,818,990	1,534,947	284,043	18.5
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 597,617,510	$ 591,194,737	$ 6,422,773	1.1
Gross profit	29,672,436	30,160,403	(487,967)	(1.6)
Gross profit percentage	5.0 %	5.1 %		
Retail				
Sales	$ 13,102,985	$ 12,957,362	$ 145,623	1.1
Gross profit	5,585,502	5,629,485	(43,983)	(0.8)
Gross profit percentage	42.6 %	43.4 %		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $11.7 million for the six month period ended March 2018 and $11.3 million for the six month period ended March 2017.

SALES — Six months Ended March 2018

Sales in our Wholesale Segment increased $6.4 million for the six months ended March 2018 as compared to the same prior year period. Significant items impacting sales during the period included a $15.8 million increase in sales related to price increases implemented by cigarette manufacturers and a $6.4 million increase in sales in our Other Products categories. These increases were partially offset by a $15.8 million decrease in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment increased $0.1 million for the six months ended March 2018 as compared to the same prior year period. Significant items impacting sales during the current period included a $0.9 million increase in sales related to the opening of a new store in our Florida market which was partially offset by a $0.8 million decrease in sales related to the closure of one non-performing store in our Midwest market and lower sales volumes in our existing stores which have experienced increased competition.

GROSS PROFIT — Six months Ended March 2018

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

Table of Contents

Gross profit in our Wholesale Segment for the six month period ending March 2018 decreased $0.5 million as compared to the same prior year period. Significant items impacting gross profit during the current period included a $0.8 million decrease in gross profit related to the volume and mix of cigarette cartons sold, partially offset by a $0.3 million increase in gross profit related to higher sales in our Other Products categories.

Gross profit in our Retail Segment for the six month period ended March 2018 was even as compared to the same prior year period. Significant items impacting gross profit during the current period included a $0.5 million increase in gross profit related to the opening of our new Florida market store which was offset by the impact of lower sales and gross profit in our existing stores.

OPERATING EXPENSE — Six months Ended March 2018

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, and insurance costs. Operating expenses increased $0.5 million during the six months ended March 2018 as compared to the same prior year period. Significant items impacting operating expenses during the six months ended March 2018 included a $0.4 million increase in employee benefit and other operating costs, and a $0.4 million increase in fuel costs. These increases were partially offset by a $0.3 million decrease in health insurance costs.

INCOME TAX EXPENSE – Six months Ended March 2018

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

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

· A November 2022 maturity date without a penalty for prepayment.

· $70.0 million revolving credit limit.

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

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

Table of Contents

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

· The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company.

· Lending limits subject to accounts receivable and inventory limitations.

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

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

· A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's availability has not fallen below 10% of the maximum loan limit and the Company's fixed charge ratio is over 1.0 for the trailing twelve months.

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

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 March 2018 was $69.5 million, of which $30.5 million was outstanding, leaving $39.0 million available.

At March 2018, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.34% at March 2018. For the six months ended March 2018, our peak borrowings under the Facility were $48.9 million, and our average borrowings and average availability under the Facility were $24.6 million and $43.8 million, respectively.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause the loan to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at March 2018. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividends Payments

The Company paid cash dividends on its common stock during each of the three and six month periods ended March 2017 and March 2018 of \$0.3 million and \$0.5 million, respectively.

Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's annual report on Form 10-K for the fiscal period ended September 30, 2017.

Table of Contents

Other

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

Off-Balance Sheet Arrangements

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

Liquidity Risk

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of March 2018 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that

Table of Contents

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 March 31, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A "Risk Factors" of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017.

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

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
January 1 - 31, 2018	279	$ 89.48	279	49,721
February 1 - 28, 2018	614	$ 89.08	614	49,107
March 1 - 31, 2018	5,589	$ 98.24	5,589	43,518
Total	6,482	$ 97.09	6,482	43,518

*In December 2017, the Company's Board of Directors authorized purchases 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, filed pursuant to section 302 of the Sarbanes-Oxley Act
31.2	Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer filed pursuant to section 302 of the Sarbanes-Oxley Act
32.1	Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act
32.2	Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 906 of the Sarbanes-Oxley Act
101	Interactive Data File (filed herewith electronically)

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	AMCON DISTRIBUTING COMPANY (registrant)
Date: April 18, 2018	/s/ Christopher H. Atayan Christopher H. Atayan, Chief Executive Officer and Chairman
Date: April 18, 2018	/s/ Andrew C. Plummer Andrew C. Plummer, Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)