

AMCON DISTRIBUTING CO  
Form 10-Q  
January 19, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended December 31, 2011**

**OR**

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

**For the transition period from                      to**

**Commission File Number 1-15589**

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(Exact name of registrant as specified in its charter)

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

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

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

**68122**  
(Zip code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The Registrant had 625,271 shares of its \$.01 par value common stock outstanding as of January 16, 2012.



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**Form 10-Q**

**1st 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****December 31, 2011 and September 30, 2011**

|  | <b>December<br/>2011<br/>(Unaudited)</b> | <b>September<br/>2011</b> |
|--|--|---------------------------|
| <b>ASSETS</b>  |  |                           |
| Current assets:  |  |                           |
| Cash   | \$ 974,815                               | \$ 1,389,665              |
| Accounts receivable, less allowance for doubtful accounts of \$1.2 million at both December 2011 and September 2011  | 29,223,872                               | 32,963,693                |
| Inventories, net   | 47,940,028                               | 38,447,982                |
| Deferred income taxes  | 1,455,121                                | 1,707,889                 |
| Prepaid and other current assets   | 4,951,373                                | 6,073,536                 |
| Total current assets   | 84,545,209                               | 80,582,765                |
| Property and equipment, net  | 13,454,969                               | 13,713,238                |
| Goodwill   | 6,349,827                                | 6,349,827                 |
| Other intangible assets, net   | 5,459,727                                | 5,550,978                 |
| Other assets   | 1,243,000                                | 1,238,825                 |
|  | \$ 111,052,732                           | \$ 107,435,633            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |  |                           |
| Current liabilities:   |  |                           |
| Accounts payable   | \$ 15,845,825                            | \$ 18,439,446             |
| Accrued expenses   | 5,348,974                                | 7,153,672                 |
| Accrued wages, salaries and bonuses  | 1,900,367                                | 2,460,558                 |
| Income taxes payable   | 732,613                                  | 2,100,180                 |
| Current maturities of long-term debt   | 1,915,309                                | 1,384,625                 |
| Total current liabilities  | 25,743,088                               | 31,538,481                |
| Credit facility  | 28,768,119                               | 20,771,613                |
| Deferred income taxes  | 2,939,629                                | 2,743,238                 |
| Long-term debt, less current maturities  | 5,252,739                                | 6,194,195                 |
| Other long-term liabilities  | 427,501                                  | 429,513                   |
| 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 December 2011 and September 2011.          | 2,500,000                                | 2,500,000                 |
| Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized, 62,000 shares outstanding and a total liquidation preference of \$1.6 million at December 2011 and September 2011. | 1,550,000                                | 1,550,000                 |

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Shareholders' equity:

Preferred stock, \$0.01 par value, 1,000,000 shares authorized, 162,000 shares outstanding and issued in Series A and B referred to above

Common stock, \$.01 par value, 3,000,000 shares authorized, 625,271 shares outstanding at December 2011 and 609,320 shares outstanding at September 2011

|                            |                |                |
|----------------------------|----------------|----------------|
|                            | 6,252          | 6,093          |
| Additional paid-in capital | 10,892,578     | 9,981,055      |
| Retained earnings          | 32,972,826     | 31,721,445     |
| Total shareholders' equity | 43,871,656     | 41,708,593     |
|                            | \$ 111,052,732 | \$ 107,435,633 |

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 months ended December 31, 2011 and 2010**

|   | <b>2011</b>    | <b>2010</b>    |
|---|----------------|----------------|
| Sales (including excise taxes of \$90.5 million and \$81.3 million, respectively) | \$ 283,563,050 | \$ 244,957,161 |
| Cost of sales   | 264,925,373    | 227,349,439    |
| Gross profit  | 18,637,677     | 17,607,722     |
| Selling, general and administrative expenses                                      | 15,350,002     | 13,687,371     |
| Depreciation and amortization   | 613,494        | 497,583        |
|   | 15,963,496     | 14,184,954     |
| Operating income  | 2,674,181      | 3,422,768      |
| Other expense (income):   |                |                |
| Interest expense  | 424,110        | 384,583        |
| Other (income), net   | (151,264)      | (22,881)       |
|   | 272,846        | 361,702        |
| Income from operations before income taxes  | 2,401,335      | 3,061,066      |
| Income tax expense  | 963,000        | 1,229,000      |
| Net income  | 1,438,335      | 1,832,066      |
| Preferred stock dividend requirements   | (67,641)       | (74,867)       |
| Net income available to common shareholders                                       | \$ 1,370,694   | \$ 1,757,199   |
| Basic earnings per share available to common shareholders                         | \$ 2.21        | \$ 3.04        |
| Diluted earnings per share available to common shareholders                       | \$ 1.83        | \$ 2.41        |
| Basic weighted average shares outstanding   | 619,910        | 578,636        |
| Diluted weighted average shares outstanding                                       | 783,994        | 758,692        |

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 three months ended December 31, 2011 and 2010**

|  | 2011         | 2010         |
|--|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |              |              |
| Net income   | \$ 1,438,335 | \$ 1,832,066 |
| Adjustments to reconcile net income from operations to net cash flows from operating activities: |              |              |
| Depreciation   | 512,555      | 418,565      |
| Amortization   | 100,939      | 79,018       |
| Gain on sale of property and equipment   | (3,600)      | (2,315)      |
| Equity-based compensation  | 318,894      | 1,166,833    |
| Net excess tax benefit on equity-based awards  |              | (79,863)     |
| Deferred income taxes  | 449,159      | 422,825      |
| Provision (recoveries) for losses on doubtful accounts   | 87,735       | (625,000)    |
| Provision for losses on inventory obsolescence   | 46,563       | 81,416       |
| Other  | (2,012)      | (2,011)      |
| Changes in assets and liabilities:   |              |              |
| Accounts receivable  | 3,652,086    | 6,282,865    |
| Inventories  | (9,538,609)  | (1,135,707)  |
| Prepaid and other current assets   | 1,122,163    | (1,758,550)  |
| Other assets   | (4,175)      | (6,513)      |
| Accounts payable   | (2,586,190)  | (1,949,184)  |
| Accrued expenses and accrued wages, salaries and bonuses   | (1,731,517)  | (1,316,121)  |
| Income tax payable   | (1,367,567)  | (1,186,025)  |
| Net cash flows from operating activities   | (7,505,241)  | 2,222,299    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |              |              |
| Purchases of property and equipment  | (261,717)    | (293,037)    |
| Proceeds from sales of property and equipment  | 3,600        | 11,575       |
| Net cash flows from investing activities   | (258,117)    | (281,462)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |              |              |
| Net borrowings (payments) on bank credit agreements  | 7,996,506    | (1,647,706)  |
| Principal payments on long-term debt   | (410,772)    | (250,007)    |
| Net excess tax benefit on equity-based awards  |              | 79,863       |
| Dividends paid on convertible preferred stock  | (67,641)     | (74,867)     |
| Dividends on common stock  | (119,313)    | (103,935)    |
| Proceeds from exercise of stock options  | 1,180        |              |
| Withholdings on the exercise of equity-based awards  | (51,452)     |              |
| Net cash flows from financing activities   | 7,348,508    | (1,996,652)  |
| Net change in cash   | (414,850)    | (55,815)     |
| Cash, beginning of period  | 1,389,665    | 356,735      |
| Cash, end of period  | \$ 974,815   | \$ 300,920   |

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





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|   | 2011       |    | 2010      |
|---|------------|----|-----------|
| <b>Supplemental disclosure of cash flow information:</b>                                    |            |    |           |
| Cash paid during the period for interest  | \$ 401,312 | \$ | 372,376   |
| Cash paid during the period for income taxes  | 1,881,407  |    | 1,992,200 |
| <b>Supplemental disclosure of non-cash information:</b>                                     |            |    |           |
| Equipment acquisitions classified as accounts payable                                       | \$ 3,254   | \$ | 29,503    |
| Issuance of common stock in connection with the vesting and exercise of equity-based awards | 950,562    |    |           |

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

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**AMCON Distributing Company and Subsidiaries**

**Notes to Condensed Consolidated Unaudited Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

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

- Our wholesale distribution segment ( Wholesale Segment ) distributes consumer products in the Central, Rocky Mountain, and Southern regions of the United States. Additionally, our Wholesale Segment provides programs and services to assist our customers in managing their business and profitability.
- Our retail health food segment ( Retail Segment ) operates fourteen health food retail stores located throughout the Midwest and Florida.

**WHOLESALE SEGMENT**

Our wholesale segment is one of the largest wholesale distributors in the United States serving approximately 5,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products. We also provide consultative services in the areas of marketing, merchandising, inventory optimization, and information systems which are designed to enhance the ability of our customers to compete and maximize their profitability. Convenience stores represent our largest customer category. In October 2011, Convenience Store News ranked us as the sixth (6th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross-dock facilities, include approximately 601,000 square feet of permanent floor space. Our principal suppliers include Philip Morris USA, RJ Reynolds, Commonwealth Brands, Lorillard, Proctor & Gamble, Hershey, Mars, Quaker, and Nabisco. We also market private label lines of snuff, water, candy products, batteries, film, and other products. We do not maintain any long-term purchase contracts with these suppliers.

**RETAIL SEGMENT**

Our retail segment is comprised of fourteen retail health food stores which are operated as Chamberlin s Market & Café ( Chamberlin s ) and Akin s Natural Foods Market ( Akin s ). These stores carry over 30,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin s, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin s, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas ( Midwest ).

**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

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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, 2011, 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 December 31, 2011 and December 31, 2010 have been referred to throughout this quarterly report as Q1 2012 and Q1 2011, respectively. The fiscal balance sheet dates as of December 31, 2011, December 31, 2010, and September 30, 2011 have been referred to as December 2011, December 2010, and September 2011, respectively.

**2. ACQUISITION****ACQUISITION**

In May 2011, the Company, through its wholly-owned subsidiary, acquired the convenience store distribution assets of L.P. Shanks Company Inc. (LPS). LPS was a wholesale distributor to convenience stores in Tennessee, Kentucky, Georgia, Virginia, West Virginia, and North Carolina with annual sales of approximately \$200 million. In exchange for certain accounts receivable, inventory, property and equipment, and customer lists of LPS, the Company paid \$13.4 million in cash, issued a \$2.6 million note payable due to the seller due in quarterly installments over three years and bearing interest at 4% annually, and will also pay a total of \$0.5 million over five years in annual installments related to a non-competition agreement with the seller. The Company also entered into warehouse leases with the seller and assumed certain operating leases in conjunction with the transaction. No significant liabilities were assumed in connection with the transaction and the costs incurred to effectuate the acquisition were expensed as incurred. The transaction was funded through the Company's existing credit facility and the issuance of a note payable to the seller. The acquisition expands the Company's strategic footprint in the Southeastern portion of the United States and enhances our ability to service customers in that region.

The following table summarizes the consideration paid for the acquired assets and their related acquisition date fair values. The fair value of the assets acquired have been measured in accordance with Accounting Standards Codification (ASC) 805 Business Combinations. In valuing identifiable intangible assets, the Company has estimated the fair value using the discounted cash flows methodology. The acquired assets are reported as a component of our Wholesale Segment.

|   | <b>Amount</b><br><b>(in millions)</b> |
|---|---------------------------------------|
| <b>Total Consideration</b>                    |                                       |
| Cash  | \$ 13.4                               |
| Note payable                                  | 2.6                                   |
| Fair value of non-competition agreement       | 0.4                                   |
| Total fair value of consideration transferred | \$ 16.4                               |

**Recognized amounts of identifiable assets acquired**

| <b>Amount</b><br><b>(in millions)</b> | <b>Weighted</b><br><b>Average</b><br><b>Amortization</b><br><b>Period</b> |
|---------------------------------------|---|
|---------------------------------------|---|

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|  |    |       |         |
|--|----|-------|---------|
| Accounts receivable                    | \$ | 8.9   |         |
| Inventory                              |    | 4.6   |         |
| Property and equipment                 |    | 1.8   | 5 years |
| Identifiable intangible assets:        |    |       |         |
| Non-competition agreement              |    | 0.5   | 5 years |
| Customer relationships                 |    | 0.5   | 8 years |
| Liabilities                            |    | (0.1) |         |
| Total identifiable net assets          |    | 16.2  |         |
| Goodwill                               |    | 0.2   |         |
| Total identifiable assets and goodwill | \$ | 16.4  |         |

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Goodwill totaling approximately \$0.2 million arose from the acquisition and primarily represents synergies and economies of scale expected to be generated through reductions in selling, general, and administrative expenses. This goodwill has been assigned to the Company's Wholesale Segment and is expected to be deductible for tax purposes. No significant measurement adjustments related to this transaction were recorded during Q1 2012.

The following table sets forth the unaudited actual revenue and earnings included in the Company's statement of operations related to the acquisition and the pro forma revenue and earnings of the combined entity if the acquisition had occurred as of the beginning of the Company's prior fiscal year. These pro forma amounts do not purport to be indicative of the actual results that would have been obtained had the acquisition occurred at that time.

| (In millions) |                                | Three months ended |               |
|---------------|--------------------------------|--------------------|---------------|
|               |                                | December 2011      | December 2010 |
| Revenue       | Actual Results                 | \$ 283.6           | \$ 245.0      |
| Revenue       | Supplemental pro forma results | \$ 283.6           | \$ 292.6      |
| Net Income    | Actual Results                 | \$ 1.4             | \$ 1.8        |
| Net Income    | Supplemental pro forma results | \$ 1.4             | \$ 1.7        |

**3. CONVERTIBLE PREFERRED STOCK:**

The Company has two series of convertible preferred stock outstanding at December 2011 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  | \$ 1,550,000    |
| Number of shares:                                 | 100,000       | 62,000          |
| 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        | 62,880          |
| Dividend rate:                                    | 6.785%        | 6.37%           |

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

In the event of a liquidation of the Company, the holders of the Preferred Stock are 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

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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 is owned by Mr. Christopher Atayan, AMCON's Chief Executive Officer and Chairman of the Board. The Series B Preferred Stock is owned by an institutional investor which has 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. Christopher H. Atayan was first nominated and elected to this seat in 2004.



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Inventories consisted of finished goods at December 2011 and September 2011 and are stated at the lower of cost, determined on a First-in, First-out ( FIFO ) basis, or market. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods included total reserves of approximately \$1.0 million and \$0.9 million at December 2011 and September 2011, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

|                   | <b>December<br/>2011</b> | <b>September<br/>2011</b> |
|-------------------|--------------------------|---------------------------|
| Wholesale Segment | \$ 4,436,950             | \$ 4,436,950              |
| Retail Segment    | 1,912,877                | 1,912,877                 |
|                   | <b>\$ 6,349,827</b>      | <b>\$ 6,349,827</b>       |

Other intangible assets of the Company consisted of the following:

|   | <b>December<br/>2011</b> | <b>September<br/>2011</b> |
|---|--------------------------|---------------------------|
| Trademarks and tradenames   | \$ 3,373,269             | \$ 3,373,269              |
| Non-competition agreement (less accumulated amortization of approximately \$0.1 million at December 2011 and September 2011)                | 441,667                  | 466,667                   |
| Customer relationships (less accumulated amortization of \$0.5 million and \$0.4 million at December 2011 and September 2011, respectively) | 1,644,791                | 1,711,042                 |
|   | <b>\$ 5,459,727</b>      | <b>\$ 5,550,978</b>       |

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At December 2011, 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 in both Q1 2012 and Q1 2011.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at December 2011:

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|                 | December     |
|-----------------|--------------|
|                 | 2011         |
| Fiscal 2012 (1) | \$ 273,750   |
| Fiscal 2013     | 365,000      |
| Fiscal 2014     | 365,000      |
| Fiscal 2015     | 365,000      |
| Fiscal 2016     | 331,667      |
| Thereafter      | 386,041      |
|                 | \$ 2,086,458 |

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(1) Represents amortization for the remaining nine months of Fiscal 2012.

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The Company paid cash dividends on its common stock and convertible preferred stock issuances totaling approximately \$0.2 million during both Q1 2012 and Q1 2011.

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

|  | For the three months ended December |              |              |              |       |         |
|--|-------------------------------------|--------------|--------------|--------------|-------|---------|
|  | 2011                                |              | 2010         |              |       |         |
|  | Basic                               | Diluted      | Basic        | Diluted      | Basic | Diluted |
| Weighted average common shares outstanding   | 619,910                             | 619,910      | 578,636      | 578,636      |       |         |
| Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1) |                                     | 164,084      |              |              |       | 180,056 |
| Weighted average number of shares outstanding  | 619,910                             | 783,994      | 578,636      | 758,692      |       |         |
| Income from continuing operations  | \$ 1,438,335                        | \$ 1,438,335 | \$ 1,832,066 | \$ 1,832,066 |       |         |
| Deduct: convertible preferred stock dividends (2)  | (67,641)                            |              | (74,867)     |              |       |         |
| Net income available to common shareholders  | \$ 1,370,694                        | \$ 1,438,335 | \$ 1,757,199 | \$ 1,832,066 |       |         |
| Net earnings per share available to common shareholders  | \$ 2.21                             | \$ 1.83      | \$ 3.04      | \$ 2.41      |       |         |

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- (1) Diluted earnings per share calculation includes all stock options, convertible preferred stock, and restricted stock units deemed to be dilutive.
- (2) Diluted earnings per share calculation excludes dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

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**8. DEBT**

The Company primarily finances its operations through a credit facility agreement with Bank of America (the Facility ) and long-term debt agreements with banks.

The Facility included the following significant terms at December 2011:

- April 2014 maturity date and a \$70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by \$25.0 million.
- A provision providing an additional \$5.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of the original term of the agreement or the end of any renewal period.
- Prepayment penalty equal to one-half of one percent (1/2%) if the Company prepays the entire Facility or terminates it in year one of the agreement, and one-fourth of one percent (1/4%) if the Company prepays the entire Facility or terminates it in year two of the agreement. The prepayment penalty is calculated based on the original loan amount.
- The Facility bears interest at either the bank's prime rate or at LIBOR plus 175 basis points, at the election of the Company.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- Provides that the Company may not pay dividends on its common stock in excess of \$1.00 per share on an annual basis.
- A financial covenant requiring a fixed charge coverage ratio of at least 1.1 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement.

**Cross Default and Co-Terminus Provisions**

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse are financed through term loans with BMO Harris, NA ( BMO ) which is also a participant lender on the Company's revolving line of credit. The BMO loans contain cross default provisions which cause all loans with BMO to be considered in default if any one of the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at December 2011. In addition, the BMO loans contain 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.

Table of Contents**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 December 2011, awards with respect to a total of 108,425 shares had been awarded and currently outstanding pursuant to the Omnibus Plan and awards with respect to another 41,575 shares may be awarded under the plan.

**Stock Options**

During Q1 2012, the Company issued 6,000 incentive stock options to various employees pursuant to the provisions of the Company's Omnibus Plan. These awards vest in equal installments over a five year service period and have an exercise price of \$53.80 per share. The Company has estimated that the fair value of the incentive stock option awards was approximately \$0.1 million using the Black-Scholes option pricing model. This amount is being amortized to compensation expense on a straight-line basis over the five year service period. The following assumptions were used in connection with the Black-Scholes option pricing calculation:

| <b>Stock Option Pricing<br/>Assumptions</b> |        |
|---|--------|
| Risk-free interest rate                     | 2.39%  |
| Dividend yield                              | 1.10%  |
| Expected volatility                         | 27.90% |
| Expected life in years                      | 6      |

The stock options issued by the Company expire ten years from the grant date and include graded vesting schedules up to five years in length. Stock options issued and outstanding at December 2011 are summarized as follows:

|             | Exercise<br>Price | Number<br>Outstanding | Remaining<br>Weighted-Average<br>Contractual Life | Weighted-Average<br>Exercise Price | Number<br>Exercisable | Exercisable<br>Weighted-Average<br>Exercise Price |
|-------------|-------------------|-----------------------|---|------------------------------------|-----------------------|---|
| Fiscal 2003 | \$ 28.80          | 42                    | 0.82 years  | \$ 28.80                           | 42                    | \$ 28.80  |
| Fiscal 2007 | \$ 18.00          | 25,000                | 4.95 years  | \$ 18.00                           | 25,000                | \$ 18.00  |
| Fiscal 2010 | \$ 51.50          | 5,500                 | 8.33 years  | \$ 51.50                           | 1,100                 | \$ 51.50  |
| Fiscal 2012 | \$ 53.80          | 6,000                 | 9.82 years  | \$ 53.80                           |                       |   |
|             |                   | 36,542                |   | \$ 28.93                           | 26,142                | \$ 19.43  |

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The following is a summary of stock options activity for the three months ended December 2011:

|                               | <b>Number<br/>of<br/>Shares</b> |    | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|-------------------------------|---------------------------------|----|--|
| Outstanding at September 2011 | 30,583                          | \$ | 24.05  |
| Granted                       | 6,000                           |    | 53.80  |
| Exercised                     | (41)                            |    | 28.80  |
| Forfeited/Expired             |                                 |    |  |
| Outstanding at December 2011  | 36,542                          | \$ | 28.93  |

Table of Contents**Restricted Stock Units**

During Q1 2012, the Company issued 15,900 restricted stock unit awards to members of its management team pursuant to the provisions of the Company's Omnibus Plan. Restricted stock units issued and outstanding at December 2011 are as follows:

|   | <b>Restricted Stock Units (1)</b> | <b>Restricted Stock Units (2)</b> | <b>Restricted Stock Units (3)</b> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Date of award:                                    | November 22, 2010                 | November 22, 2010                 | October 26, 2011                  |
| Original number of awards issued:                 | 38,400                            | 12,000                            | 15,900                            |
| Service period:                                   | 24 months                         | 36 months                         | 36 months                         |
| Estimated fair value of award at grant date:      | \$ 2,765,000                      | \$ 864,000                        | \$ 855,000                        |
| Fair value of non-vested awards at December 2011: | \$ 824,000                        | \$ 515,000                        | \$ 1,024,000                      |

- 
- (1) 12,800 of the restricted stock unit awards vested during Q1 2012. The remaining 12,800 restricted stock units will vest on October 26, 2012.
  - (2) 4,000 of the restricted stock units vested during Q1 2012. The remaining 8,000 restricted stock units will vest in equal amounts (4,000 per year) on November 22, 2012 and November 22, 2013.
  - (3) The 15,900 restricted stock units will vest in equal amounts (5,300 per year) on October 25, 2012, October 25, 2013, and October 25, 2014.

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 Statement of Operations reflects the amortization of these awards over their respective service life. The awards and their related compensation and amortization expense are also adjusted to fair value at each reporting date until vested. The following summarizes restricted stock unit activity under the Omnibus Plan for the three months ended December 2011:

|  | <b>Number<br/>of<br/>Shares</b> | <b>Weighted Average<br/>Fair Value</b> |
|--|---------------------------------|--|
| Nonvested restricted stock units at September 2011 | 37,600                          | \$ 57.00                               |
| Granted  | 15,900                          | \$ 53.80                               |
| Vested and exercised                               | (16,800)                        | \$ 56.58                               |
| Expired  |                                 | \$                                     |
| Nonvested restricted stock units at December 2011  | 36,700                          | \$ 64.40                               |

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



During Q1 2012, net income before income taxes included compensation expense of \$0.3 million related to the amortization of all equity-based compensation awards. Total unamortized compensation expense for these awards at December 2011 was approximately \$2.3 million.

Table of Contents**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<br>Segment | Retail<br>Segment | Other       | Consolidated   |
|---|----------------------|-------------------|-------------|----------------|
| <b>THREE MONTHS ENDED DECEMBER 2011:</b>              |                      |                   |             |                |
| External revenue:                                     |                      |                   |             |                |
| Cigarettes  | \$ 206,172,858       | \$                | \$          | \$ 206,172,858 |
| Confectionery   | 17,498,941           |                   |             | 17,498,941     |
| Health food   |                      | 8,533,427         |             | 8,533,427      |
| Tobacco, food service & other                         | 51,357,824           |                   |             | 51,357,824     |
| Total external revenue                                | 275,029,623          | 8,533,427         |             | 283,563,050    |
| Depreciation  | 410,582              | 101,036           | 937         | 512,555        |
| Amortization  | 100,939              |                   |             | 100,939        |
| Operating income (loss)                               | 3,368,146            | 413,163           | (1,107,128) | 2,674,181      |
| Interest expense                                      | 135,067              | 82,994            | 206,049     | 424,110        |
| Income (loss) from continuing operations before taxes | 3,281,094            | 335,002           | (1,214,761) | 2,401,335      |
| Total assets  | 97,403,795           | 12,710,053        | 938,884     | 111,052,732    |
| Capital expenditures                                  | 227,391              | 34,326            |             | 261,717        |
| <b>THREE MONTHS ENDED DECEMBER 2010:</b>              |                      |                   |             |                |
| External revenue:                                     |                      |                   |             |                |
| Cigarettes  | \$ 175,772,237       | \$                | \$          | \$ 175,772,237 |
| Confectionery   | 15,869,052           |                   |             | 15,869,052     |
| Health food   |                      | 9,092,449         |             | 9,092,449      |
| Tobacco, food service & other                         | 44,223,423           |                   |             | 44,223,423     |
| Total external revenue                                | 235,864,712          | 9,092,449         |             | 244,957,161    |
| Depreciation  | 310,232              | 107,396           | 937         | 418,565        |
| Amortization  | 79,018               |                   |             | 79,018         |
| Operating income (loss)                               | 4,936,987            | 792,089           | (2,306,308) | 3,422,768      |
| Interest expense                                      | 111,069              | 103,550           | 169,964     | 384,583        |
| Income (loss) from continuing operations before taxes | 4,828,640            | 694,085           | (2,461,659) | 3,061,066      |
| Total assets  | 74,723,959           | 12,939,325        | 952,270     | 88,615,554     |
| Capital expenditures                                  | 247,747              | 45,290            |             | 293,037        |

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

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," "should" or similar expressions. For these statements, protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increases in state and federal excise taxes on cigarette and tobacco products,
- integration risk related to acquisitions or other efforts to expand,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,
- regulation of cigarette and tobacco products by the FDA, in addition to existing state and federal regulations by other agencies,
- potential bans imposed by the FDA on the manufacture, distribution, and sale of certain cigarette and tobacco products,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,
- changes in promotional and incentive programs offered by manufacturers,
- decreased availability of capital resources,
- demand for the Company's products, particularly cigarette and tobacco products,
- new business ventures or acquisitions,
- domestic regulatory and legislative risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- consolidation trends within the convenience store and wholesale distribution industries,
- other risks over which the Company has little or no control, and any other factors not identified herein,
- natural disasters and domestic unrest.

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.

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**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, 2011, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during our fiscal quarter ended December 2011.

**FIRST FISCAL QUARTER 2012 (Q1 2012)**

The following discussion and analysis includes the Company's results of operations for the three months ended December 2011 and December 2010.

**Wholesale Segment**

Our wholesale segment is one of the largest wholesale distributors in the United States serving approximately 5,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2011, Convenience Store News ranked us as the sixth (6th) largest convenience store distributor in the United States based on annual sales.

We currently distribute over 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products. We also provide consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems which are designed to enhance the ability of our customers to compete and maximize their profitability. Convenience stores represent our largest customer category.

**Retail Segment**

The Company's retail health food stores, which are operated as Chamberlin's Market & Café and Akin's Natural Foods Market, carry over 30,000 different national and regionally branded and private label products. These products include 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 first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

**Business Update Wholesale Segment**

The competitive landscape in our wholesale distribution business remains intense. Convenience stores, which constitute the largest portion of our customer base, continue to remake their businesses, focusing on food service offerings such as hot on-the-go meals and over-sized beverage and coffee bars. Most recently, higher food commodity and fuel prices have begun to stress discretionary consumer spending, squeezing profit margins for our customers. These factors continue to drive consolidation among convenience stores, as business owners seek to maximize economies of scale. Wholesale distributors who service convenience stores are challenged by the same structural and macro-economic issues. Declining revenue streams from tobacco products, higher inventory carrying costs, gross margin compression, and access to capital have accelerated consolidation among wholesale distributors.

Despite these issues, we believe the current market conditions offer opportunities. The ability of smaller distributors to compete into the future will be difficult, presenting our Company with potential opportunities to expand both organically and through acquisitions. The convenience industry remains highly fragmented with independent single-store operators accounting for more than 63% of all stores according to the National Association of Convenience Stores ( NACS ), a market segment our Company specializes in serving.

Table of Contents**Business Update Retail Segment**

Our Florida market stores continue to show improved sales results as that region of the United States gradually recovers from the depths of the recession. Our Akin's stores, which are located in the Midwest, are experiencing increased competition from the expansion of several national health food chains which negatively impacted sales during Q1 2012. On a longer term basis, however, we still believe our stores are well positioned to compete. Consumers of natural products tend to be a better educated customer segment who demand a higher level of product and dietary knowledge by in-store associates; a level of service which is difficult for mass merchandisers to deliver in a big box retail format. This is particularly true in product categories such as vitamin supplements which involve a high degree of expert consultation and personal interaction throughout the sales engagement process.

**RESULTS OF OPERATIONS**

|                           | For the three months ended December |                |                |  | % Change |
|---------------------------|-------------------------------------|----------------|----------------|--|----------|
|                           | 2011                                | 2010           | Incr<br>(Decr) |  |          |
| <b>CONSOLIDATED:</b>      |                                     |                |                |  |          |
| Sales (1)                 | \$ 283,563,050                      | \$ 244,957,161 | \$ 38,605,889  |  | 15.8     |
| Cost of sales             | 264,925,373                         | 227,349,439    | 37,575,934     |  | 16.5     |
| Gross profit              | 18,637,677                          | 17,607,722     | 1,029,955      |  | 5.8      |
| Gross profit percentage   | 6.6%                                | 7.2%           |                |  |          |
| Operating expense         | 15,963,496                          | 14,184,954     | 1,778,542      |  | 12.5     |
| Operating income          | 2,674,181                           | 3,422,768      | (748,587)      |  | (21.9)   |
| Interest expense          | 424,110                             | 384,583        | 39,527         |  | 10.3     |
| Income tax expense        | 963,000                             | 1,229,000      | (266,000)      |  | (21.6)   |
| Net income                | 1,438,335                           | 1,832,066      | (393,731)      |  | (21.5)   |
| <b>BUSINESS SEGMENTS:</b> |                                     |                |                |  |          |
| <b>Wholesale</b>          |                                     |                |                |  |          |
| Sales                     | \$ 275,029,623                      | \$ 235,864,712 | \$ 39,164,911  |  | 16.6     |
| Gross profit              | 15,057,558                          | 13,708,441     | 1,349,117      |  | 9.8      |
| Gross profit percentage   | 5.5%                                | 5.8%           |                |  |          |
| <b>Retail</b>             |                                     |                |                |  |          |
| Sales                     | \$ 8,533,427                        | \$ 9,092,449   | \$ (559,022)   |  | (6.1)    |
| Gross profit              | 3,580,119                           | 3,899,281      | (319,162)      |  | (8.2)    |
| Gross profit percentage   | 42.0%                               | 42.9%          |                |  |          |

- (1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$4.0 million in Q1 2012 and \$3.8 million in Q1 2011.

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**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 Q1 2012 vs. Q1 2011**

Sales in our Wholesale Segment increased \$39.2 million during Q1 2012 as compared to Q1 2011. Significant items impacting sales during Q1 2012 included a \$46.3 million increase in sales related to our acquisition of LPS in May 2011 and a \$6.4 million increase in sales related to price increases implemented by cigarette manufactures. These increases were partially offset by a \$12.8 million decrease in sales primarily related to the volume and mix of cigarette cartons sold and a \$0.7 million decrease in sales in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories ( Other Products ).

Sales in our Retail Segment decreased approximately \$0.6 million in Q1 2012 as compared to Q1 2011. The change in sales is primarily related to lower sales in our Akin s retail stores which have experienced increased competition from the expansion of national health food chains, partially offset by higher sales in our Florida market stores which continue to show improved results coming off the depths of the severe recession in that region.

**GROSS PROFIT Q1 2012 vs. Q1 2011**

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 \$1.3 million in Q1 2012 as compared to Q1 2011. Of this increase, approximately \$2.4 million related to our acquisition of LPS. Partially offsetting this increase was \$1.1 million reduction in gross profit related to lower cigarette and Other Product sales volume and mix.

Gross profit for the Retail Segment decreased \$0.3 million in Q1 2012 as compared to Q1 2011. This decrease was primarily related to lower sales volumes in our Akin s retail stores.



**OPERATING EXPENSE Q1 2012 vs. Q1 2011**

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.

Q1 2012 operating expenses increased \$1.8 million as compared to Q1 2011. Significant items impacting operating expenses during Q1 2012 included an additional \$2.3 million in operating expenses related to servicing our new business added in conjunction with the LPS acquisition, a \$0.6 million increase in bad expense, and a \$0.2 million increase in fuel expense. These increases in operating expenses were partially offset by \$1.3 million decrease in compensation expense and other operating expenses.

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**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.** During Q1 2012, the Company used cash of approximately \$7.5 million for operating activities. Significant uses of cash during Q1 2012 included a net increase in inventory and reductions in accounts payable, accrued expenses, and income taxes payable. These uses of cash were partially offset by the impact of net earnings and reductions in accounts receivable and other assets.

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.

- **Investing Activities.** The Company used approximately \$0.3 million of cash during Q1 2012 for investing activities, primarily related to capital expenditures for property and equipment.
- **Financing Activities.** The Company generated cash of \$7.3 million from financing activities during Q1 2012. Of this amount, approximately \$8.0 million related to net borrowings on the Company's credit facility. Offsetting this was \$0.4 million related to payments on long-term debt, \$0.2 million related to dividends on the Company's common and preferred stock, and \$0.1 million related to the vesting and exercise of equity based awards.
- **Cash on Hand/Working Capital.** At December 2011, the Company had cash on hand of \$1.0 million and working capital (current assets less current liabilities) of \$58.8 million. This compares to cash on hand of \$1.4 million and working capital of \$49.0 million at September 2011.

**CREDIT AGREEMENT**

The Company primarily finances its operations through a credit facility agreement with Bank of America (the Facility) and long-term debt agreements with banks.

The Facility included the following significant terms at December 2011:

- April 2014 maturity date and a \$70.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the credit facility agreement by \$25.0 million.
- A provision providing an additional \$5.0 million of credit advances for certain inventory purchases.
-

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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 the original term of the agreement or the end of any renewal period.

- Prepayment penalty equal to one-half of one percent (1/2%) if the Company prepays the entire Facility or terminates it in year one of the agreement, and one-fourth of one percent (1/4%) if the Company prepays the entire Facility or terminates it in year two of the agreement. The prepayment penalty is calculated based on the original loan amount.
- The Facility bears interest at either the bank's prime rate or at LIBOR plus 175 basis points, at the election of the Company.
- Lending limits subject to accounts receivable and inventory limitations.

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- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- Provides that the Company may not pay dividends on its common stock in excess of \$1.00 per share on an annual basis.
- A financial covenant requiring a fixed charge coverage ratio of at least 1.1 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement.

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 December 2011 was \$63.4 million, of which \$28.8 million was outstanding, leaving \$34.6 million available.

At December 2011, 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 2.79% at December 2011.

At December 2011, the Company had \$7.2 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the Company's long-term debt approximated its carrying value at December 2011.

During Q1 2012, our peak borrowings under the Facility were \$50.7 million, and our average borrowings and average availability under the Facility were \$38.8 million and \$27.7 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.

**Cross Default and Co-Terminus Provisions**

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse are financed through term loans with BMO Harris, NA (BMO) which is also a participant lender on the Company's revolving line of credit. The BMO loans contain cross default provisions which cause all loans with BMO to be considered in default if any one of the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at December 2011. In addition, the BMO loans contain 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 issuances totaling approximately \$0.2 million during both Q1 2012 and Q1 2011.

**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, 2011.

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**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.

The Company believes its liquidity position going forward will be adequate to sustain operations. However, a precipitous change in market conditions 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 the design and operation of our disclosure controls and procedures as of June 30, 2011 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.

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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 December 31, 2011, 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, 2011.

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

On October 25, 2011, our company awarded restricted stock units ( RSUs ) under the AMCON Distributing Company 2007 Omnibus Incentive Plan (the Plan ) to four executives of our company (namely: Christopher H. Atayan, Andrew C. Plummer, Eric J. Hinkefent, and Philip E. Campbell). The RSUs provide the award recipient with the right to receive, subject to being employed on the applicable vesting date, (i) an amount of cash equal to the per share fair market value of our company's common stock as of the vesting date multiplied by the number of shares underlying the RSUs then becoming vested and held by the award recipient or (ii) a number of shares of common stock equal to the whole number of shares underlying the RSUs then becoming vested and held by the award recipient, as elected by the award recipient. Subject to earlier forfeiture under certain limited circumstances, the RSUs vest as to one-third of the RSU award on each of October 25, 2012, October 25, 2013, and October 25, 2014. If all RSUs were to fully vest and be settled in shares of our company's common stock, a total of 15,900 shares of our company's common stock would be issued.



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On October 26, 2011, our company issued a total of 12,394 shares of common stock, par value \$.01 per share, pursuant to the settlement of restricted stock units previously awarded under the Plan to four executives of our company (namely: Christopher H. Atayan, Andrew C. Plummer, Eric J. Hinkfent, and Philip E. Campbell).

On November 22, 2011, our company issued a total of 3,531 shares of common stock, par value \$.01 per share, pursuant to the settlement of restricted stock units previously awarded under the Plan to four executives of our company (namely: Christopher H. Atayan, Andrew C. Plummer, Eric J. Hinkfent, and Philip E. Campbell).

The securities described in this item were issued for services and in furtherance of the Plan's purpose of encouraging employees of our company and its affiliates to acquire a proprietary and vested interest in the growth and performance of our company. The securities were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for transactions not involving any public offering. Our company received no payment in connection with such issuances. No underwriters were involved with the issuance of the securities described in this item and no commissions were paid in connection with such issuances. There was no advertisement or general solicitation made in connection with the issuance of the securities described in this item.

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**Item 3. Defaults Upon Senior Securities**

Not Applicable

**Item 4. (Removed and Reserved)**

**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
- 101 Interactive Data File (filed herewithin electronically).

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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: January 19, 2012

/s/ Christopher H. Atayan  
Christopher H. Atayan,  
Chief Executive Officer and Chairman

Date: January 19, 2012

/s/ Andrew C. Plummer  
Andrew C. Plummer,  
Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)