AMCON DISTRIBUTING CO
Form 10-Q
January 18, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2017
OR

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

For the transition period from ___________to _________

Commission File Number 1-15589

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(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction<br>of incorporation or organization) | 47-0702918<br>(I.R.S. Employer<br>Identification No.) |
| 7405 Irvington Road, Omaha NE<br>(Address of principal executive offices) | 68122<br>(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<br>(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 690,486 shares of its $.01 par value common stock outstanding as of January 15, 2018.

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1st Quarter

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMCON Distributing Company and Subsidiaries

Condensed Consolidated Balance Sheets

December 31, 2017 and September 30, 2017

| | December 2017 (Unaudited) | September 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 570,560 | $ 523,065 |
| Accounts receivable, less allowance for doubtful accounts of $0.8 million at both December 2017 and September 2017 | 30,511,104 | 30,690,403 |
| Inventories, net | 49,699,948 | 72,909,996 |
| Prepaid and other current assets | 7,982,638 | 4,218,811 |
| Total current assets | 88,764,250 | 108,342,275 |
| | | |
| Property and equipment, net | 13,014,903 | 13,307,986 |
| Goodwill | 6,349,827 | 6,349,827 |
| Other intangible assets, net | 3,461,811 | 3,494,311 |
| Other assets | 323,643 | 310,488 |
| Total assets | $ 111,914,434 | $ 131,804,887 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 15,022,223 | $ 17,631,552 |
| Accrued expenses | 6,735,349 | 7,553,089 |
| Accrued wages, salaries and bonuses | 1,555,176 | 3,477,966 |
| Income taxes payable | 657,095 | 544,069 |
| Current maturities of long-term debt | 376,478 | 373,645 |
| Total current liabilities | 24,346,321 | 29,580,321 |
| | | |
| Credit facility | 12,638,221 | 29,037,182 |
| Deferred income tax liability, net | 1,854,151 | 2,336,263 |
| Long-term debt, less current maturities | 2,552,935 | 2,648,179 |
| Other long-term liabilities | 35,089 | 34,100 |
| | | |
| Shareholders' equity: | | |
| Preferred stock, $.01 par value, 1,000,000 shares authorized | — | — |

| | | |
|---|---|---|
| Common stock, $.01 par value, 3,000,000 shares authorized, 690,486 shares outstanding at December 2017 and 678,006 shares outstanding at September 2017 | 8,441 | 8,314 |
| Additional paid-in capital | 22,009,620 | 20,825,919 |
| Retained earnings | 62,086,133 | 60,935,911 |
| Treasury stock at cost | (13,616,477) | (13,601,302) |
| Total shareholders’ equity | 70,487,717 | 68,168,842 |
| Total liabilities and shareholders' equity | $ 111,914,434 | $ 131,804,887 |

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Operations

for the three months ended December 31, 2017 and 2016

| | For the three months ended December | |
|---|---|---|
| | 2017 | 2016 |
| Sales (including excise taxes of $88.6 million and $91.0 million, respectively) | $ 315,513,209 | $ 310,104,229 |
| Cost of sales | 297,321,447 | 291,788,243 |
| Gross profit | 18,191,762 | 18,315,986 |
| Selling, general and administrative expenses | 16,353,608 | 15,698,319 |
| Depreciation and amortization | 531,005 | 526,433 |
| | 16,884,613 | 16,224,752 |
| Operating income | 1,307,149 | 2,091,234 |
| | | |
| Other expense (income): | | |
| Interest expense | 202,191 | 217,543 |
| Other (income), net | (5,133) | (5,773) |
| | 197,058 | 211,770 |
| Income from operations before income tax expense | 1,110,091 | 1,879,464 |
| Income tax expense (benefit) | (370,000) | 833,000 |
| Net income available to common shareholders | $ 1,480,091 | $ 1,046,464 |
| | | |
| Basic earnings per share available to common shareholders | $ 2.15 | $ 1.54 |
| Diluted earnings per share available to common shareholders | $ 2.13 | $ 1.52 |
| | | |
| Basic weighted average shares outstanding | 687,679 | 681,668 |
| Diluted weighted average shares outstanding | 695,950 | 688,676 |
| | | |
| Dividends declared and paid per common share | $ 0.18 | $ 0.18 |

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Cash Flows

for the three months ended December 31, 2017 and 2016

| | December 2017 | December 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 1,480,091 | $ 1,046,464 |
| Adjustments to reconcile net income from operations to net cash flows from operating activities: | | |
| Depreciation | 498,505 | 460,183 |
| Amortization | 32,500 | 66,250 |
| Gain on sale of property and equipment | (300) | (23,559) |
| Equity-based compensation | 334,256 | 459,278 |
| Deferred income taxes | (482,112) | 406,972 |
| Provision (recovery) for losses on doubtful accounts | (3,000) | 183 |
| Provision for losses on inventory obsolescence | 30,660 | 58,776 |
| Other | 989 | 319 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 182,299 | 3,605,673 |
| Inventories | 23,179,388 | (1,385,731) |
| Prepaid and other current assets | (3,763,827) | 1,969,853 |
| Other assets | (13,155) | 24,074 |
| Accounts payable | (2,523,433) | (2,179,939) |
| Accrued expenses and accrued wages, salaries and bonuses | (2,011,951) | (2,370,918) |
| Income taxes payable | 113,026 | 28,134 |
| Net cash flows from operating activities | 17,053,936 | 2,166,012 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (291,318) | (400,778) |
| Proceeds from sales of property and equipment | 300 | 31,478 |
| Net cash flows from investing activities | (291,018) | (369,300) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings under revolving credit facility | 305,522,554 | 319,265,456 |
| Repayments under revolving credit facility | (321,921,515) | (319,998,237) |
| Principal payments on long-term debt | (92,411) | (89,662) |
| Repurchase of common stock | (15,175) | (1,038,060) |
| Dividends on common stock | (129,026) | (127,713) |
| Withholdings on the exercise of equity-based awards | (79,850) | (82,456) |
| Net cash flows from financing activities | (16,715,423) | (2,070,672) |
| Net change in cash | 47,495 | (273,960) |

| | | |
|---|---|---|
| Cash, beginning of period | 523,065 | 605,380 |
| Cash, end of period | $ 570,560 | $ 331,420 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | $ 199,423 | $ 223,802 |
| Cash paid during the period for income taxes | — | 397,894 |
| | | |
| Supplemental disclosure of non-cash information: | | |
| Equipment acquisitions classified in accounts payable | 15,465 | 2,128 |
| Dividends declared, not paid | 200,843 | 194,173 |
| 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.

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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 and provides a full range of programs and services to our customers 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.

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.

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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 December 31, 2017 and December 31, 2016 have been referred to throughout this quarterly report as Q1 2018 and Q1 2017, respectively. The fiscal balance sheet dates as of December 31, 2017 and September 30, 2017 have been referred to as December 2017 and September 2017, respectively.

ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. This ASU is effective for fiscal years beginning after December 15, 2016 (Fiscal 2018 for the Company). The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, “Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of how companies account for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statements of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 (Fiscal 2018 for the Company) and early adoption is permitted. The adoption of this ASU did not have a material impact on our consolidated financial statements.

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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.

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 December 2017 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 $0.8 million at both December 2017 and 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.

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3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| | December 2017 | 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:

| | December 2017 | 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 December 2017 and September 2017) | 88,542 | 121,042 |
| | $ 3,461,811 | $ 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 December 2017, 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.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at December 2017:

| | December 2017 |
|---|---|
| Fiscal 2018 (1) | $ 46,875 |
| Fiscal 2019 | 41,667 |
| | $ 88,542 |

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

4. DIVIDENDS

The Company paid cash dividends on its common stock totaling $0.1 million in each of the three month periods ended December 2017 and December 2016.

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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 December | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Basic | Diluted | Basic | Diluted |
| Weighted average common shares outstanding | 687,679 | 687,679 | 681,668 | 681,668 |
| Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1) | — | 8,271 | — | 7,008 |
| Weighted average number of shares outstanding | 687,679 | 695,950 | 681,668 | 688,676 |
| Net income available to common shareholders | $ 1,480,091 | $ 1,480,091 | $ 1,046,464 | $ 1,046,464 |
| Net earnings per share available to common shareholders | $ 2.15 | $ 2.13 | $ 1.54 | $ 1.52 |

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

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 December 2017:

· 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.

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· 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 capital 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 December 2017. 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.

7. EQUITY-BASED INCENTIVE AWARDS

Omnibus Plan

The Company has two equity-based incentive plans, the 2007 Omnibus Incentive Plan and 2014 Omnibus Incentive Plan (collectively "the Omnibus Plans"), which provide for equity incentives to employees. Each 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 Plans together permit the issuance of up to 225,000 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 Plans 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 2017, awards with respect to a total of 208,815 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plans and awards with respect to another 16,185 shares may be awarded under the Omnibus Plans.

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Stock Options

The Company issued 6,000 incentive stock options during both Q1 2018 and Q1 2017 to various employees pursuant to the provisions of the Company's 2014 Omnibus Plan. The stock options issued by the Company expire ten years from the grant date and include a five year graded annual vesting schedule. The awards had an estimated grant date fair value of approximately $0.2 million in Q1 2018 and $0.1 million in Q1 2017 using the Black Scholes option pricing model. The following assumptions were used in connection with the Black Scholes option pricing calculation as it relates to the Q1 2018 and Q1 2017 incentive stock option awards:

| | Stock Option Pricing Assumptions 2018 | | Stock Option Pricing Assumptions 2017 | |
|---|---|---|---|---|
| Risk-free interest rate | 2.41 | % | 2.12 | % |
| Dividend yield | 0.8 | % | 0.6 | % |
| Expected volatility | 33.00 | % | 22.40 | % |
| Expected life in years | 6 | | 6 | |

The following is a summary of stock option activity during Q1 2018:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at September 2017 | 28,300 | $ 74.75 |
| Granted | 6,000 | 90.50 |
| Exercised | — | — |
| Forfeited/Expired | — | — |
| Outstanding at December 2017 | 34,300 | $ 77.50 |

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Restricted Stock Units

At December 2017, the Compensation Committee of the Board of Directors had authorized and approved the following restricted stock unit awards to members of the Company's management team pursuant to the provisions of the Company's Omnibus Plans:

| | Restricted Stock Units(1) | Restricted Stock Units(2) | Restricted Stock Units(3) | Restricted Stock Units(4) |
|---|---|---|---|---|
| Date of award: | October 2013 | October 2015 | October 2016 | October 2017 |
| Original number of awards issued: | 17,600 | 13,250 | 13,000 | 13,000 |
| Service period: | 36 - 60 months | 36 - 60 months | 36 months | 36 months |
| Estimated fair value of award at grant date: | $ 1,486,000 | $ 1,112,000 | $ 1,191,000 | $ 1,177,000 |
| Non-vested awards outstanding at December 31, 2017: | 660 | 4,484 | 8,667 | 13,000 |
| Fair value of non-vested awards at December 31, 2017 of approximately: | $ 65,000 | $ 439,000 | $ 848,000 | $ 1,272,000 |

(1)16,940 restricted stock units were vested as of December 2017. The remaining 660 restricted stock units will vest in October 2018.

(2)8,766 of the restricted stock units were vested as of December 2017. 4,334 restricted stock units will vest in October 2018. The remaining 150 restricted stock units will vest in equal annual amounts in October 2018 through October 2020.

(3)4,333 restricted stock units were vested as of December 2017. 4,333 restricted stock units will vest in October 2018 and 4,334 will vest in October 2019.

(4)The 13,000 restricted stock units will vest in equal amounts in October 2018, October 2019, and October 2020.

There is no direct cost to the recipients of the restricted stock units, except for any applicable taxes. The restricted stock units are subject 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 Statement of Operations reflects the straight  line amortized fair value based on the period end closing price under the liability method.

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The following summarizes restricted stock unit activity under the Omnibus Plans during Q1 2018:

| | Number of Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested restricted stocks units at September 2017 | 27,521 | $ 92.25 |
| Granted | 13,000 | 90.50 |
| Vested | (13,710) | 90.97 |
| Expired | — | — |
| Nonvested restricted stocks units at December 2017 | 26,811 | $ 97.85 |

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

Net income before income taxes included compensation expense of approximately $0.3 million and $0.5 million during Q1 2018 and Q1 2017, respectively, related to the amortization of all equity-based compensation awards. Total unamortized compensation expense related to these awards at December 2017 and September 2017 was approximately $2.7 million and $1.5 million, respectively.

8. INCOME TAXES

The Company's Q1 2018 results of operations 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 the reduction of the corporate federal income tax rate from 35% to 21%. In Q1 2018, the Company applied the newly enacted corporate federal income tax rate of 21% resulting in approximately a $0.9 million income tax benefit which is reflected in the Company's Q1 2018 Statement Of Operations. This tax benefit was primarily the result of applying the new lower income tax rates to the Company's net long term deferred tax liabilities recorded on its Consolidated Balance Sheet. 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.

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9. 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 DECEMBER 2017 | | | | |
| External revenue: | | | | |
| Cigarettes | $ 223,265,578 | $ — | $ — | $ 223,265,578 |
| Tobacco | 41,641,678 | — | — | 41,641,678 |
| Confectionery | 18,516,318 | — | — | 18,516,318 |
| Health food | — | 6,289,897 | — | 6,289,897 |
| Foodservice & other | 25,799,738 | — | — | 25,799,738 |
| Total external revenue | 309,223,312 | 6,289,897 | — | 315,513,209 |
| Depreciation | 310,485 | 188,020 | — | 498,505 |
| Amortization | 32,500 | — | — | 32,500 |
| Operating income (loss) | 3,188,983 | (472,981) | (1,408,853) | 1,307,149 |
| Interest expense | 23,708 | — | 178,483 | 202,191 |
| Income (loss) from operations before taxes | 3,167,932 | (470,505) | (1,587,336) | 1,110,091 |
| Total assets | 97,487,611 | 14,302,363 | 124,460 | 111,914,434 |
| Capital expenditures | 54,646 | 236,672 | — | 291,318 |
| THREE MONTHS ENDED DECEMBER 2016 | | | | |
| External revenue: | | | | |
| Cigarettes | $ 221,769,023 | $ — | $ — | $ 221,769,023 |
| Tobacco | 38,685,826 | — | — | 38,685,826 |
| Confectionery | 18,600,447 | — | — | 18,600,447 |
| Health food | — | 6,239,304 | — | 6,239,304 |
| Foodservice & other | 24,809,629 | — | — | 24,809,629 |
| Total external revenue | 303,864,925 | 6,239,304 | — | 310,104,229 |
| Depreciation | 342,674 | 117,509 | — | 460,183 |
| Amortization | 66,250 | — | — | 66,250 |
| Operating income (loss) | 3,968,792 | (298,486) | (1,579,072) | 2,091,234 |

| | | | | |
|---|---|---|---|---|
| Interest expense | 26,393 | — | 191,150 | 217,543 |
| Income (loss) from operations before taxes | 3,943,902 | (294,215) | (1,770,223) | 1,879,464 |
| Total assets | 93,912,144 | 13,038,299 | 85,364 | 107,035,807 |
| Capital expenditures | 166,775 | 234,003 | — | 400,778 |

10. COMMON STOCK REPURCHASE

The Company repurchased a total of 171 and 11,104 shares of its common stock during Q1 2018 and Q1 2017, respectively, for cash totaling approximately $0.1 million and $1.0 million, respectively. All repurchased shares are recorded in treasury stock at cost.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis 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,

- 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,
- risks associated with opening new retail stores,
- 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,

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- 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 our fiscal quarter ended December 2017.

FIRST FISCAL QUARTER 2017 (Q1 2018)

The following discussion and analysis includes the Company's results of operations for the three months ended December  2017 and December 2016:

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.

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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.

Business Update - Wholesale Segment

A number of trends continue to impact the convenience store industry. First, the long term demand trend for cigarettes continues to decline as fewer individuals smoke, in part because of the impact of higher excise taxes. Most recently, one of the world's largest tobacco product manufacturers (Philip Morris), announced a long term strategic plan to primarily focus on alternative smoking products (i.e. vaporized tobacco delivery systems) and to reduce its long term reliance on the sale of cigarettes. Secondly, the lines between convenience stores and other retail formats continues to blur as quick serve restaurants ("QSRs"), drugstores, dollar stores, and smaller footprint grocery stores all add competing products and services.

In response, the convenience store industry is migrating towards higher end offerings such as foodservice and is increasingly using digital technologies to help run and promote their businesses. Long term, we believe these trends benefit larger distributors such as our Company which have built robust foodservice and technology platforms. We also believe these trends will result in additional consolidation amongst industry distributors which may provide the Company with opportunities to expand its geographic footprint via strategic acquisitions.

Forward looking, we remain optimistic about the opportunities available to the Company. While retailers across all consumer sectors face a challenging operating environment, many of the trends impacting independent convenience stores operators will likely only heighten the demand for the services offered by the most progressive distributors.

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Business Update - Retail Segment

The food retailing sector continues to undergo significant change, creating a highly competitive operating environment. Specific to the health and natural products sector, conventional grocery stores and mass merchants such as Krogers, Albertsons, and Costco have all aggressively moved into certain product lines traditionally dominated by health food retailers. Additionally, both regional and national health food stores such as Whole Foods Market (now owned by AMAZON), Trader Joe’s, Sprouts Farmers Market, Natural Grocers, Vitamin Shoppe, Lucky’s Market, and Fresh Thyme Farmers Market continue to expand.

In response to this operating environment, we previously disclosed as long term strategic plan to reposition our 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.

An important long term element of our turnaround plan will be the deployment of a flexible store operating model for each location. As consumer shopping habits and preferences change, we are also exploring a range of programs and initiatives to enhance the level of engagement with customers.

In connection with the aforementioned strategic plan, during Q1 2018 we opened one new store in our Florida market. We also anticipate completing two additional remodeling projects in existing stores during fiscal 2018.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 2017:

| | For the three months ended December | | | |
|---|---|---|---|---|
| | 2017 | 2016 | Incr (Decr) | % Change |
| CONSOLIDATED: | | | | |
| Sales(1) | $ 315,513,209 | $ 310,104,229 | $ 5,408,980 | 1.7 |
| Cost of sales | 297,321,447 | 291,788,243 | 5,533,204 | 1.9 |
| Gross profit | 18,191,762 | 18,315,986 | (124,224) | (0.7) |
| Gross profit percentage | 5.8 % | 5.9 % | | |
| | | | | |
| Operating expense | $ 16,884,613 | $ 16,224,752 | $ 659,861 | 4.1 |
| Operating income | 1,307,149 | 2,091,234 | (784,085) | (37.5) |

| | | | | |
|---|---|---|---|---|
| Interest expense | 202,191 | 217,543 | (15,352) | (7.1) |
| Income tax expense (benefit) | (370,000) | 833,000 | (1,203,000) | (144.4) |
| Net income | 1,480,091 | 1,046,464 | 433,627 | 41.4 |
| | | | | |
| BUSINESS SEGMENTS: | | | | |
| Wholesale | | | | |
| Sales | $ 309,223,312 | $ 303,864,925 | $ 5,358,387 | 1.8 |
| Gross profit | 15,478,295 | 15,568,583 | (90,288) | (0.6) |
| Gross profit percentage | 5.0 % | 5.1 % | | |
| Retail | | | | |
| Sales | $ 6,289,897 | $ 6,239,304 | $ 50,593 | 0.8 |
| Gross profit | 2,713,467 | 2,747,403 | (33,936) | (1.2) |
| Gross profit percentage | 43.1 % | 44.0 % | | |

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $5.6 million in Q1 2018 and $5.5 million in Q1 2017.

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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 2018 vs. Q1 2017

Sales in our Wholesale Segment increased $5.4 million during Q1 2018 as compared to Q1 2017. Significant items impacting sales included $9.2 million increase in sales related to price increases implemented by cigarette manufacturers and a $3.9 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 $7.7 million decrease in sales related to the volume and mix of cigarette cartons sold. Sales in our Retail Segment increased $0.1 million in Q1 2018 as compared to Q1 2017. Significant items impacting our Q1 2018 Retail Segment sales included a 0.4 million increase in sales related to the opening of a new store in our Florida market, which was partially offset by lower sales in our existing stores, which have experienced increased competition.

GROSS PROFIT – Q1 2018 vs. Q1 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 $0.1 million during Q1 2018 as compared to Q1 2017. Significant items impacting gross margins during Q1 2018 included a $0.3 million decrease in gross profit primarily related to the volume and mix of cigarette cartons sold, partially offset by a $0.2 increase in gross profit related to higher sales in our Other Products category. Q1 2018 gross profit in our Retail Segment was even with Q1 2017. Significant items impacting our Q1 2018 Retail Segment gross profit included a $0.2 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 as previously discussed.

OPERATING EXPENSE – Q1 2018 vs. Q1 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 Q1 2018 operating expenses increased $0.7 million as compared to Q1 2017. Significant items impacting operating expenses during the current period included a $0.4 million increase in employee benefits and compensation costs including health insurance costs, a $0.2 million increase in fuel costs, and a $0.1 million increase in operating costs in our Retail Segment primarily related to the opening of our new Florida market store.

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INCOME TAX EXPENSE – Q1 2018 vs. Q1 2017

The Company's Q1 2018 results of operations 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 the reduction of the corporate federal income tax rate from 35% to 21%. In Q1 2018, the Company applied the newly enacted corporate federal income tax rate of 21% resulting in approximately a $0.9 million income tax benefit which is reflected in the Company's Q1 2018 Statement Of Operations. This tax benefit was primarily the result of applying the new lower income tax rates to the Company's net long term deferred tax liabilities recorded on its Consolidated Balance Sheet. 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.

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 December 2017:

· 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.

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· Provides that the Company may pay up to $2.0 million of dividends on its capital 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 December 2017 was $64.2 million, of which $12.6 million was outstanding, leaving $51.6 million available.

At December 2017, 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 3.49% at December 2017. For the three months ended December 2017, our peak borrowings under the Facility were $35.6 million, and our average borrowings and average availability under the Facility were $17.3 million and $50.9 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 December 2017. 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 totaling $0.1 million in each of the three month periods ended December 2017 and December 2016.

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.

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 December 31, 2017 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control that occurred during the fiscal quarter ended December 31, 2017, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 December 2017:

| 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* |
|---|---|---|---|---|
| October 1 - 31, 2017 | — | — | — | 49,068 |
| November 1 - 30, 2017 | 171 | $ 88.70 | 171 | 48,897 |
| December 1 - 31, 2017 | — | — | — | 50,000 |
| Total | 171 | $ 88.70 | 171 | 50,000 |

*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

During Q1 2018, the Company renewed a labor agreement with approximately thirty wholesale delivery employees in its Quincy, Illinois distribution center who are represented by the International Association of Machinists and Aerospace Workers (“IAMAW”) which was due to expire at the end of December 2017. The new labor agreement was renewed on substantially the same terms as the expiring agreement and is effective through December 2020.

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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) |

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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<br>(registrant) |
| Date: January 18, 2018 | /s/ Christopher H. Atayan<br>Christopher H. Atayan,<br>Chief Executive Officer and Chairman |
| Date: January 18, 2018 | /s/ Andrew C. Plummer<br>Andrew C. Plummer,<br>Vice President, Chief Financial Officer<br>(Principal Financial and Accounting Officer) |