

AMCON DISTRIBUTING CO  
Form 10-K  
November 08, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

**For the fiscal year ended September 30, 2012**

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

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

**68122**  
(Zip Code)

Registrant's telephone number, including area code:

**(402) 331-3727**

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Securities registered pursuant to Section 12(b) of the Act:

**Title of Each Class**  
None

**Name of Each Exchange on Which Registered**  
None

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$.01 Par Value**  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2012 was \$23,525,645, computed by reference to the \$63.50 closing price of such common stock equity on March 31, 2012.

As of November 5, 2012 there were 633,793 shares of common stock outstanding.

Portions of the following document are incorporated by reference into the indicated parts of this report: definitive proxy statement for the December 2012 annual meeting of stockholders to be filed with the Commission pursuant to Regulation 14A Part III.

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**PART I**

For purposes of this report, unless the context indicates otherwise, all references to "we," "us," "our," "Company," and "AMCON" shall mean AMCON Distributing Company and its subsidiaries. The Company's 2012 and 2011 fiscal years ended September 30, are herein referred to as fiscal 2012 and fiscal 2011, respectively. The fiscal year-end balance sheet dates of September 30, 2012 and September 30, 2011 are referred to herein as September 2012 and September 2011, respectively. This report and the documents incorporated by reference herein, if any, contain forward looking statements, which are inherently subject to risks and uncertainties. See "Forward Looking Statements" under Item 7 of this report.

**ITEM 1. BUSINESS**

**COMPANY OVERVIEW**

AMCON Distributing Company was incorporated in Delaware in 1986 and our common stock is listed on NYSE MKT (formerly NYSE Amex Equities) under the symbol "DIT." The Company operates two business segments:

Our wholesale distribution segment ("Wholesale Segment") distributes consumer products in the Central, Rocky Mountain, and Southern regions of the United States. Additionally, our Wholesale Segment provides a full range of programs and services to assist our customers in managing their business and profitability.

Our retail health food segment ("Retail Segment") operates 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 foodservice products. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems that allow our customers to compete and maximize their profitability. Convenience stores represent our largest customer category. In October 2012, Convenience Store News ranked us as the ninth (9th) 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 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 a specialty retailer of natural and organic groceries and dietary supplements. We focus on providing high-quality products at affordable prices, exceptional customer service, nutrition education, and community outreach. We strive to generate long-term relationships with our customers based on transparency and trust by:

selling only natural and organic groceries and dietary supplements that meet our strict quality guidelines we do not approve for sale grocery products that are known to contain artificial colors, flavors, preservatives, sweeteners, or partially hydrogenated or hydrogenated oils;

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utilizing an efficient and flexible small-store format to offer affordable prices and a shopper-friendly retail environment; and

enhancing our customers' shopping experience by providing free science-based nutrition education to help our customers make well-informed health and nutrition choices.

We operate within the natural products retail industry, which is a subset of the large and stable U.S. grocery industry. This industry includes conventional, natural, gourmet and specialty food markets, mass and discount retailers, warehouse clubs, independent health food stores, dietary supplement retailers, drug stores, farmers markets, mail order and online retailers, and multi-level marketers. According to The Natural Foods Merchandiser, a leading industry trade publication, retail sales in the natural foods industry exceeded \$73 billion during the 2011 calendar year.

Our Retail Segment operates fourteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. 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 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. During fiscal 2012, we signed leases to open two new retail locations in Arkansas and Nebraska. These stores are scheduled to open during our 2013 fiscal year.

**COMPETITIVE STRENGTHS**

We believe that we benefit from a number of competitive strengths, including the following:

*Industry Experience*

The management teams for both of our business segments include substantial depth in the areas of logistics, sales, and marketing. This experience is beneficial for the management of vendor and customer relationships as well as overall operational execution.

*Flexible Distribution Capabilities and Customer Service Programs*

The size and flexibility of our wholesale distribution operations strategically position us to service a broad range of customers from independent retail outlets to large multi-location retailers. Our customizable customer service programs assist our customers in maximizing vendor promotions and by providing access to private label and custom foodservice programs, store layout and design consultation, and overall profitability consulting, all of which has proven to be popular.

*Unique Product Selection*

Our retail health foods business prides itself in carrying a broad and superior-quality selection of natural food products and vitamin supplements. The depth of our product offerings, combined with highly trained and knowledgeable in-store associates, has created a loyal customer following where our stores are sought out destinations, providing a personalized shopping experience.

**BUSINESS STRATEGY**

We have a three-pronged dynamic business strategy to create shareholder value. This strategy includes:

Maximizing liquidity in the short term.

Reducing debt and investing in information technology and foodservice offerings in the medium term.

Growing both organically and through acquisitions in the long term.

To execute this strategy, our Company has rigorous operational processes in place designed to control costs, manage credit risk, monitor inventory levels, and maintain maximum liquidity. The success of our



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strategy however, is ultimately dependent on our ability to provide superior service and leading edge technologies, while offering exceptional depth and breadth in our product offerings.

**PRINCIPAL PRODUCTS**

The sales of cigarettes represented 73% and 72% of our consolidated revenue in fiscal 2012 and fiscal 2011, respectively. Sales of candy, beverages, foodservice, groceries, health food products, paper products, health and beauty care products, and tobacco products represented approximately 27% and 28% of consolidated revenue in fiscal 2012 and fiscal 2011, respectively.

**INFORMATION ON SEGMENTS**

Information about our segments is presented in Note 15 to the Consolidated Financial Statements included in this Annual Report.

**COMPETITION Wholesale Segment**

Our Wholesale Segment has a significant presence in the regions in which we operate. There are, however, a number of both national and regional wholesale distributors operating in the same geographical regions as our Company, resulting in a highly competitive marketplace. Our principal competitors are national wholesalers such as McLane Co., Inc. (Temple, Texas) and Core-Mark International (San Francisco, California), as well as regional wholesalers such as Eby-Brown LLP (Chicago, Illinois) and Farner-Bocken (Carroll, Iowa), and H.T. Hackney (Knoxville, Tennessee) along with a host of smaller grocery and tobacco wholesalers.

Competition within the wholesale distribution industry is primarily based on the range and quality of the services provided, pricing, variety of products offered, and the reliability of deliveries. Our larger competitors principally compete on pricing and breadth of product offerings, while our smaller competitors focus on customer service and their delivery arrangements.

We believe our business model positions us to compete with a wide range of competitors including national, regional, and local wholesalers. As the ninth (9th) largest convenience store distributor in the United States based on annual sales (according to Convenience Store News), our wholesale distribution business has sufficient economies of scale to offer competitive pricing as compared to national wholesalers. Additionally, we believe our flexible distribution and support model allows us to provide a high level of customized merchandising solutions. This flexibility in program and service offerings has proven particularly attractive to mid-sized customers looking to expand.

**COMPETITION Retail Segment**

Natural food and supplement retailing is an intensely competitive business. We face competition from a variety of sales channels including local, regional, and national retailers, specialty supermarkets, membership clubs, farmers' markets, and other natural foods stores, each of which competes with us on the basis of product selection, quality, customer service, and price.

The natural food retail industry is highly fragmented. According to The Natural Foods Merchandiser ("NFM"), there are approximately 12,000 natural food retail stores operating independently or as part of small retail chains and nearly 36,000 stores when national chains such as Whole Foods Markets, General Nutrition Centers ("GNC"), Natural Grocers, Sprouts, and Vitamin World are included. The increasing demand for natural products has fueled an expansion by national chains which continue to add new stores and complete acquisitions. Additionally, in recent years conventional supermarkets have begun offering natural food products adding an additional layer of competition.

**SEASONALITY**

Sales in the wholesale distribution industry are somewhat seasonal and tend to be higher in warm weather months during which our convenience store customers experience increased customer traffic. The warm

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weather months generally fall within the Company's third and fourth fiscal quarters. Our retail health food business does not generally experience significant seasonal fluctuations in its business.

### **GOVERNMENT REGULATION**

AMCON is subject to regulation by federal, state and local governmental agencies, including the U.S. Department of Agriculture, the U.S. Food and Drug Administration ("FDA"), the Occupational Safety and Health Administration ("OSHA"), the Bureau of Alcohol Tobacco and Firearms ("ATF"), and the U.S. Department of Transportation ("DOT"). These regulatory agencies generally impose standards for product quality and sanitation, workplace safety, and security and distribution policies.

The Company operates in 23 states and is subject to state regulations related to the distribution and sale of cigarettes and tobacco products, generally in the form of licensing and bonding requirements. Additionally, both state and federal regulatory agencies have the ability to impose excise taxes on cigarette and tobacco products. In recent years a number of states, as well as the federal government, have increased the excise taxes levied on cigarettes and tobacco products. We expect this trend to continue as legislators look for alternatives to fund budget shortfalls and as a mechanism to discourage tobacco product use.

### **ENVIRONMENTAL MATTERS**

All of AMCON's facilities and operations are subject to state and federal environmental regulations. The Company believes it is in compliance with all such regulations and is not aware of any violations that could have a material adverse effect on its financial condition or results of operations. Further, the Company has not been notified by any governmental authority of any potential liability or other claim in connection with any of its properties. The costs and effect on the Company to comply with state and federal environmental regulations were not significant during either fiscal 2012 or fiscal 2011.

### **EMPLOYEES**

At September 2012, the Company had 775 full-time and 100 part-time employees, which together serve in the following areas:

Managerial	38
Administrative	96
Delivery	120
Sales & Marketing	298
Warehouse	323

Total Employees 875

Approximately thirty of our wholesale delivery employees in our Quincy, Illinois distribution center are represented by the International Association of Machinists and Aerospace Workers ("IAMAW"). The current labor agreement with the union is effective through December 2014.

### **CORPORATE AND AVAILABLE INFORMATION**

The Company's principal executive offices are located at 7405 Irvington Road, Omaha, Nebraska 68122. The telephone number at that address is 402-331-3727 and our website address is [www.amcon.com](http://www.amcon.com). We provide free access to the various reports we file with the United States Securities and Exchange Commission through our website. These reports include, but are not limited to, our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Please note that any internet addresses provided in this report are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.



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You may also read and copy any materials we file with the Commission at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. You can get information about the Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) which contains reports, proxies and other company information.

**ITEM 1A. RISK FACTORS**

**IN GENERAL**

You should carefully consider the risks described below before making an investment decision concerning our securities.

If any of the following risks actually materializes, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline substantially. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below and elsewhere in this Annual Report. See "Forward Looking Statements" under Item 7 of this report for a discussion of forward looking statements.

**RISK FACTORS RELATED TO THE WHOLESALE BUSINESS**

*Regulation of Cigarette and Tobacco Products by the FDA May Negatively Impact Our Operations.*

In 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law which granted the FDA the authority to regulate the production, distribution, and marketing of tobacco products in the United States. Specifically, the legislation established an FDA office to regulate changes to nicotine yields, chemicals, flavors, ingredients, and the labeling used to produce and market tobacco products. The FDA office is financed through user fees paid by tobacco companies, which is passed on to wholesale distributors and end consumers in the form of higher costs.

To date, most of the regulatory and compliance burden related to this legislation has fallen upon product manufacturers. However, if the FDA were to impose new regulations impacting wholesale distributors that we are not able to comply with, we could face remedial actions such as fines, suspension of product distribution rights, and/or termination of operations. Further, if the FDA were to issue product bans or product restrictions, our future revenue stream could materially decrease. If any of these items were to occur, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

*Our Sales Volume Is Largely Dependent upon the Distribution of Cigarette Products, Which is a Declining Sales Category.*

The distribution of cigarettes represents a significant portion of our business. During fiscal 2012, approximately 73% of our consolidated revenues came from the distribution of cigarettes which generated approximately 29% of our consolidated gross profit. Due to manufacturer price increases, restrictions on advertising and promotions, regulation, higher excise and other taxes, health concerns, smoking bans, and other factors, the demand for cigarettes may continue to decline. If this occurs, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

*Cigarettes and Other Tobacco Products Are Subject to Substantial Excise Taxes and If These Taxes Are Increased, Our Sales of Cigarettes and Other Tobacco Products Could Decline.*

Cigarette and tobacco products are subject to substantial excise taxes. Significant increases in cigarette-related taxes and fees have been imposed by city, state and federal governments in recent years. Further, the new regulatory responsibilities of the FDA are being funded by fees imposed on tobacco companies.

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These fees have been passed on to wholesale distributors and end consumers in the form of higher prices for cigarette and tobacco products.

Increases in excise taxes and fees imposed by the FDA may reduce the long-term demand for cigarette and tobacco products and/or result in a sales shift from higher margin premium cigarette and tobacco products to lower margin deep-discount brands, while at the same time increasing the Company's accounts receivable risk and inventory carrying costs. If any of these events were to occur, our results from operations, cash flow, liquidity position, and overall financial condition could be negatively impacted.

Divestiture and Consolidation Trends Within the Convenience Store Industry May Negatively Impact Our Operations.

Divestitures and consolidations within the convenience store industry reflect a trend that may result in customer losses for us if the acquiring entity is served by another wholesale distributor and we are unable to retain the business. If we were to lose a substantial volume of business because of these trends, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

Volatility in Fuel Prices Could Reduce Profit Margins and Adversely Affect Our Business.

Increases in fuel prices can and do have a negative impact on our profit margins. If fuel prices increase and we are not able to meaningfully pass on these costs to customers, it could adversely impact our results of operations, business, cash flow, and financial condition.

The Wholesale Distribution of Convenience Store Products Is Significantly Affected by Pricing Decisions and Promotional Programs Offered by Manufacturers.

We receive payments from the manufacturers of the products we distribute including allowances, discounts, volume rebates, and other merchandising incentives in connection with various incentive programs. In addition, we receive discounts from states in connection with the purchase of excise stamps for cigarettes. If the manufacturers or states change or discontinue these programs or we are unable to maintain the volume of our sales, our results of operations, business, cash flow, and financial condition could be negatively affected. There are no assurances that the manufacturers will maintain these programs.

Competition Within The Wholesale Distribution Industry May Have an Adverse Effect on Our Business.

The wholesale distribution industry is highly competitive. There are many distribution companies operating in the same geographical regions as our Company. Our Company's principal competitors are national and regional wholesalers, along with a host of smaller grocery and tobacco wholesalers. Most of these competitors generally offer a wide range of products at prices comparable to those offered by our Company. Some of our competitors have substantial financial resources and long-standing customer relationships. Heightened competition may reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, we may lose market share and our results of operations, business, cash flow, and financial condition could suffer.

We Occasionally Purchase Cigarettes From Manufacturers Not Covered by The Tobacco Industry's Master Settlement Agreement ("MSA"), Which May Expose Us to Certain Potential Liabilities and Financial Risks for Which We Are Not Indemnified.

In 1994, the Mississippi attorney general brought an action against various tobacco industry members on behalf of the state to recover state funds paid for health-care costs related to tobacco use. Subsequently, most other states sued the major U.S. cigarette manufacturers based on similar theories. The cigarette manufacturer defendants settled the first four of these cases with Mississippi, Florida, Texas and Minnesota by separate agreements. These states are referred to as non-MSA states. In November 1998, the major U.S. tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia and certain U.S. territories. The MSA and the other state settlement agreements settled health-care cost

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recovery actions and monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products, imposed a stream of future payment obligations on major U.S. cigarette manufacturers and placed significant restrictions on the ability to market and sell cigarettes. The payments required under the MSA resulted in the products sold by the participating manufacturers being priced at higher levels than the products sold by non-MSA manufacturers.

In order to limit our potential tobacco related liabilities, we try to limit our purchases of cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of liability limitations and indemnities we are entitled to under the MSA do not apply to sales of cigarettes manufactured by non-MSA manufacturers. From time-to-time, however, we find it necessary to purchase a limited amount of cigarettes from non-MSA manufacturers. For example, during a transition period while integrating distribution operations from an acquisition we may need to purchase and distribute cigarettes manufactured by non-MSA manufacturers to satisfy the demands of customers of the acquired business. With respect to sales of such non-MSA cigarettes, we could be subject to litigation that could expose us to liabilities for which we would not be indemnified.

If the Tobacco Industry's Master Settlement Agreement Is Invalidated, or Tobacco Manufacturers Cannot Meet Their Obligations to Indemnify Us, We Could Be Subject to Substantial Litigation Liability.

In connection with the MSA, we are indemnified by many of the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from the sale of the tobacco products that they supply to us. However, if litigation challenging the validity of the master settlement agreement were to be successful and all or part of the master settlement agreement is invalidated, we could be subject to substantial litigation due to the sales of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we continue to be indemnified by cigarette manufacturers that are parties to the master settlement agreement, future litigation awards against such cigarette manufacturers could be so large as to eliminate the ability of the manufacturers to satisfy their indemnification obligations. Our results of operations, business, cash flow, and overall financial condition could be negatively impacted due to increased litigation costs and potential adverse rulings against us.

We Face Competition From Sales of Deep-Discount Brands and Illicit and Other Low Priced Sales of Cigarettes.

Increased selling prices for cigarettes and higher cigarette taxes have resulted in the growth of deep-discount cigarette brands. Deep-discount brands are brands generally manufactured by companies that are not original participants to the MSA, and accordingly do not have cost structures burdened by the master settlement agreement. Since the MSA was signed, the category of deep-discount brands manufactured by smaller manufacturers or supplied by importers has grown substantially. If this growth continues, our results of operations, business cash flows, and overall financial condition would be negatively impacted.

**RISK FACTORS RELATED TO THE RETAIL BUSINESS**

Increases in Retail Health Food Store Competition May Have an Adverse Effect on Our Business.

In the retail health food business, our competitors include national natural foods supermarkets, such as Whole Foods Market, specialty supermarkets, regional natural foods stores, small specialty stores, and restaurants. In addition, conventional supermarkets and mass market outlets also offer natural products. Some of these potential competitors may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting, and selling their products. Increased competition may have a material adverse effect on our results of operations, business, cash flow, and

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financial condition as the result of lower sales, lower gross profits and/or greater operating costs such as marketing.

Part of Our Strategy Is to Expand Our Retail Health Food Business Through The Opening of New Stores, If We Are Unsuccessful it May Have an Adverse Effect on Our Business.

Our expansion strategy is dependent on finding suitable locations, and we face intense competition from other retailers for such sites. We also need to be able to open new stores timely and operate them successfully. In addition, our success is dependent on our ability to hire, train and integrate new qualified team members. Our success is also dependent on our ability to adapt our distribution, management information and other operating systems to adequately supply products to new stores at competitive prices so that we can operate the stores in a successful and profitable manner. If we are not able to find and open new store locations and close poor performing stores, this could have a material adverse impact on our results of operations, business, cash flow, and overall financial condition.

Changes in the Availability of Quality Natural and Organic Products Could Impact Our Business.

There is no assurance that quality natural and organic products including dietary supplements, fresh and processed foods and vitamins will be available to meet our stores future needs. If conventional supermarkets increase their natural and organic product offerings or if new laws require the reformulation of certain products to meet tougher standards, the supply of these products may be constrained. Any significant disruption in the supply of quality natural and organic products could have a material adverse impact on our overall sales and product costs.

Perishable Food Product Losses Could Materially Impact Our Results.

We believe our stores more heavily emphasize perishable products than conventional supermarket stores. Our Company's emphasis on perishable products may result in significant product inventory losses in the event of extended power outages, natural disasters or other catastrophic occurrences.

A Reduction in Traffic to Anchor Stores in the Shopping Areas in Close Proximity to Our Stores Could Significantly Reduce Our Sales and Leave Us With Unsold Inventory, Which Could Have a Material Adverse Effect on Our Business, Financial Condition and Results of Operations.

Many of our stores are located in close proximity to shopping areas that may also accommodate other well-known anchor stores. Sales at our stores are derived, in part, from the volume of traffic generated by the other anchor stores in the shopping areas where our stores are located. Customer traffic may be adversely affected by regional economic downturns, a general downturn in the local area where our store is located, long-term nearby road construction projects, the closing of nearby anchor stores or other nearby stores or the decline of the shopping environment in a particular shopping area. Any of these events would reduce our sales and leave us with excess inventory, which could have a material adverse impact on our business, financial condition, and results of operation. In response to such events, we may be required to increase markdowns or initiate marketing promotions to reduce excess inventory, which would further decrease our gross profits and net income.

If We Are Unable to Successfully Identify Market Trends and React to Changing Consumer Preferences in a Timely Manner, Our Sales May Decrease.

We believe our success depends, in substantial part, on our ability to:

anticipate, identify and react to natural and organic grocery and dietary supplement trends and changing consumer preferences in a timely manner;

translate market trends into appropriate, saleable product and service offerings in our stores before our competitors; and

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develop and maintain vendor relationships that provide us access to the newest merchandise on reasonable terms.

If we are unable to anticipate and satisfy consumer merchandise preferences in the regions where we operate, our sales may decrease, and we may be forced to increase markdowns of slow-moving merchandise, either of which could negatively impact our business, results of operations, cash flow, and financial condition.

If We or Our Third-Party Suppliers Fail to Comply With Regulatory Requirements, or are Unable to Provide Products that Meet our Specifications, our Business and our Reputation Could be Negatively Impacted.

If we or our third-party suppliers, including suppliers of our private label products, fail to comply with applicable regulatory requirements or to meet our specifications for quality, we could be required to take costly corrective action and our reputation could be negatively impacted. We do not own or operate any manufacturing facilities, and therefore depend upon independent third-party vendors to produce our private label branded products, such as vitamins, minerals, dietary supplements, body care products, food products and bottled water. Third-party suppliers of our private label products may not maintain adequate controls with respect to product specifications and quality. Such suppliers may be unable to produce products on a timely basis or in a manner consistent with regulatory requirements. Additionally, there are no assurances we would be successful in finding new third-party suppliers that meet our quality guidelines if needed. If any of these events were to occur, our results from operations, cash flow, liquidity position, and overall financial condition could be negatively impacted.

**RISK FACTORS RELATED TO THE OVERALL BUSINESS**

A Further Deterioration in Economic Conditions May Negatively Impact Sales in Both Our Business Segments

Our results of operations and financial condition are particularly sensitive to changes in the overall economy, including the level of consumer spending. Further changes in discretionary spending patterns may decrease demand from our convenience store customers and/or impact the demand for natural food products in our retail health food stores as customers purchase cheaper product alternatives.

Additionally, many of our wholesale segment customers are thinly capitalized and their access to credit in the current business environment may be impacted by their ability to operate as a going concern, presenting additional credit risk for the Company. If the economic downturn persists or the economy deteriorates further, it may result in lower sales and profitability as well as customer credit defaults.

Periods of Significant or Prolonged Inflation or Deflation Affect our Product Costs and Profitability

Volatile product costs have a direct impact on our business. Prolonged periods of product cost inflation may have a negative impact on our profit margins and earnings to the extent that we are unable to pass on all or a portion of such product cost increases to our customers, which may have a negative impact on our business and our profitability. In addition, product cost inflation may negatively impact consumer spending decisions, which could adversely impact our sales. Conversely, our business may be adversely impacted by periods of prolonged product cost deflation because we make a significant portion of our non-tobacco sales at prices that are based on the cost of products we sell plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant.

Technology Dependence Could Have a Material Negative Impact on Our Business

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology network. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks and to monitor and manage our

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business on a day-to-day basis. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs. While the Company has invested and continues to invest in technology initiatives, these measures cannot fully insulate us from a disruption that could result in adverse effects on operations and profits.

Adverse Publicity About Us or Lack of Confidence in The Products We Carry Could Negatively Impact Our Reputation and Reduce Earnings

Maintaining a good reputation and public confidence in the products we distribute is critical to our business. Anything that damages that reputation or the public's confidence in our products, whether or not justified, including adverse publicity about the quality, safety or integrity of our products, could quickly and adversely affect our revenues and profits. In addition, such adverse publicity may result in product liability claims, a loss of reputation, and product recalls which would have a material adverse effect on our sales and operations.

Capital Needed for Expansion May Not Be Available.

The acquisition of other distributors or existing retail stores, the opening of new retail stores, and the development of new production and distribution facilities requires significant amounts of capital. In the past, our growth has been funded primarily through proceeds from bank debt, private placements of equity and debt and internally generated cash flow. These and other sources of capital may not be available to us in the future, which could impair our ability to further expand our business.

Covenants in Our Revolving Credit Facility May Restrict Our Ability to React to Changes Within Our Business or Industry.

Our revolving credit facility imposes certain restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability, among other things, to incur additional indebtedness, make distributions, pay dividends, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets.

Failure to Meet Restrictive Covenants in Our Revolving Credit Facility Could Result in Acceleration of the Facility and We May not be Able to Find Alternative Financing.

Under our credit facility, we are required to maintain a minimum debt service ratio if our excess availability falls below 10% of the maximum loan limit as defined in our revolving credit agreement. Our ability to comply with this covenant may be affected by factors beyond our control. If we breach, or if our lender contends that we have breached this covenant or any other restrictions, it could result in an event of default under our revolving credit facility, which would permit our lenders to declare all amounts outstanding thereunder to be immediately due and payable, and our lenders under our revolving credit facility could terminate their commitments to make further extensions of credit under our revolving credit facility. Additionally, our real estate note payable includes a cross-default provision that would cause it to be in default and due immediately if our credit facility was deemed to be in default.

We May Not Be Able to Obtain Capital or Borrow Funds to Provide Us with Sufficient Liquidity and Capital Resources Necessary to Meet Our Future Financial Obligations.

We expect that our principal sources of funds will be cash generated from our operations and if necessary, borrowings under our revolving credit facility. However, the current and future conditions in the credit markets may impact the availability of capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs for the foreseeable future. We may require additional equity or debt financing to meet our working capital requirements or to fund our capital expenditures. We may not be able to obtain financing on terms satisfactory to us, or at all.

We Depend on Relatively Few Suppliers for a Large Portion of Our Products, and Any Interruptions in the Supply of the Products That We Sell Could Adversely Affect Our Results of Operations and Financial Condition.

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We do not have any long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the products we sell in the quantities we request or on favorable terms. Because we do not control the actual production of the products we sell, we are also subject to delays caused by interruption in production based on conditions beyond our control. These conditions include job actions or strikes by employees of suppliers, inclement weather, transportation interruptions, and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of the products we sell as a result of any of the foregoing factors or otherwise, could cause us to fail to meet our obligations to our customers.

**We Would Lose Business if Cigarette or Other Manufacturers That We Use Decide to Engage in Direct Distribution of Their Products.**

In the past, some large manufacturers have decided to engage in direct distribution of their products and eliminate distributors such as our Company. If other manufacturers make similar product distribution decisions in the future, our revenues and profits would be adversely affected and there can be no assurance that we will be able to take action to compensate for such losses.

**We May Be Subject to Product Liability Claims Which Could Adversely Affect Our Business.**

We may face exposure to product liability claims in the event that the use of products sold by us is alleged to cause injury or illness. With respect to product liability claims, we believe that we have sufficient liability insurance coverage and indemnities from manufacturers. However, product liability insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying the products we sell, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insurance limits of any insurance provided by suppliers. If we do not have adequate insurance or if contractual indemnification is not available or if the counterparty cannot fulfill its indemnification obligation, product liability relating to allegedly defective products could materially adversely impact our results of operations, business, cash flow, and overall financial condition.

**We Depend on Our Senior Management and Key Personnel.**

We depend on the continued services and performance of our senior management and other key personnel. While we maintain key person life insurance policies and have employment agreements with certain key personnel, the loss of service from any of our executive officers or key employees could harm our business.

**We Operate in a Competitive Labor Market and a Number of Our Employees Are Covered by Collective Bargaining Agreements.**

We compete with other businesses in each of our markets with respect to attracting and retaining qualified employees. A shortage of qualified employees could require us to enhance our wage and benefits packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees.

In addition, at September 2012 approximately thirty of our delivery drivers in our Wholesale Segment are covered by a collective bargaining agreement with a labor organization, which expires in December 2014. If we were not able to renew our future labor agreements on similar terms, we may be unable to recover labor cost increases through increased prices or may suffer business interruptions as a result of strikes or other work stoppages.

**We Are Subject to Significant Governmental Regulation and If We Are Unable to Comply with Regulations That Affect Our Business or If There Are Substantial Changes in These Regulations, Our Business Could Be Adversely Affected.**

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As a distributor and retailer of food products, we are subject to regulation by the FDA. Our operations are also subject to regulation by OSHA, the Department of Transportation and other federal, state and local agencies. Each of these regulatory authorities has broad administrative powers with respect to our operations. If we fail to adequately comply with government regulations or regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action including imposing fines or shutting down our operations or we could be subject to increased audit and compliance costs. If any of these events were to occur, our results of operations, business, cash flow, and financial condition would be adversely affected.

We cannot predict the impact that future laws, regulations, interpretations or applications, the effect of additional government regulations or administrative orders, when and if promulgated, or disparate federal, state and local regulatory schemes would have on our business in the future. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. While we do not manufacture any products, any of the aforementioned items could disrupt the supply levels of inventory that we sell. Any or all of such requirements could have an adverse effect on our results of operations, business, cash flow, and financial condition.

**RISK FACTORS RELATED TO OUR COMMON STOCK**

The Company Has Few Shareholders of Record And, If this Number Drops below 300, the Company Will No Longer Be Obligated to Report under the Securities Exchange Act of 1934 and in Such Case We May Be Delisted from NYSE MKT, Reducing the Ability of Investors to Trade in Our Common Stock.

If the number of owners of record (including direct participants in the Depository Trust Company) of our common stock falls below 300, our obligations to file reports under the Securities Exchange Act of 1934 could be suspended. If we take advantage of this right we will likely reduce administrative costs of complying with public company rules, but periodic and current information updates about the Company would not be available to investors. In addition, the common stock of the Company would be removed from listing on NYSE MKT. This would likely impact investors' ability to trade in our common stock.

We Have Various Mechanisms in Place to Discourage Takeover Attempts, Which May Reduce or Eliminate Our Stockholders' Ability to Sell Their Shares for a Premium in a Change of Control Transaction.

Various provisions of our bylaws and of corporate law may discourage, delay or prevent a change in control or takeover attempt of our company by a third party that is opposed by our management and Board of Directors. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change of control or change in our management and Board of Directors. These provisions include:

classification of our directors into three classes with respect to the time for which they hold office;

supermajority voting requirements to amend the provision in our certificate of incorporation providing for the classification of our directors into three such classes;

non-cumulative voting for directors;

control by our Board of Directors of the size of our Board of Directors;

limitations on the ability of stockholders to call special meetings of stockholders; and

advance notice requirements for nominations of candidates for election to our Board of Directors or for proposing matters that can be acted upon by our stockholders at stockholder meetings.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**



Not applicable.

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The location and approximate square footage of the Company's six distribution centers and fourteen retail stores at September 2012 are set forth below:

Location	Square Feet
Distribution IL, MO, ND, NE, SD, & TN	601,000
Retail FL, KS, MO, NE, & OK	140,900
<b>Total Square Footage</b>	<b>741,900</b>

Our Quincy, Illinois; Bismarck, North Dakota; and Rapid City, South Dakota distribution facilities are owned by our Company, and are subject to first mortgages granted to BMO Harris, NA ("BMO"). The Company leases its remaining distribution facilities, retail stores, offices, and certain equipment under noncancellable operating leases. Management believes that its existing facilities are adequate for the Company's present level of operations, however, larger facilities and additional cross-dock facilities and retail stores may be required if the Company experiences growth in certain market areas.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers of our Company are appointed by the Board of Directors and serve at the discretion of the Board. The following table sets forth certain information with respect to all executive officers of our Company, as well as Eric J. Hinkefent, an executive officer of two of our subsidiaries.

Name	Age	Position
Christopher H. Atayan	52	Chairman of the Board, Chief Executive Officer, Director
Kathleen M. Evans	65	President, Director
Andrew C. Plummer	38	Vice President, Chief Financial Officer, and Secretary

Eric J. Hinkefent

51 President of Chamberlin's Market and Cafe and Akin's Natural Foods Market

*CHRISTOPHER H. ATAYAN* has served in various senior executive positions with the Company since 2006, including his service as Chairman of the Board since January 2008 and Chief Executive Officer since October 2006, and has been a director of AMCON since 2004. Mr. Atayan has served as the Senior Managing Director of Slusser Associates, a private equity and investment banking firm, since 1988, and has been engaged in private equity and investment banking since 1982. He also serves on the Board of Eastek Holdings LLC, a manufacturing company.

*KATHLEEN M. EVANS* has been President of the Company since 1991. Prior to that time, Ms. Evans served as Vice President of the AMCON Corporation from 1985 to 1991. From 1978 to 1985, Ms. Evans acted in various capacities with AMCON Corporation and its operating subsidiaries.

*ANDREW C. PLUMMER* has served as the Company's Chief Financial Officer and Secretary since January 2007. From 2004 to 2007, Mr. Plummer served the Company in various roles including Acting Chief Financial Officer, Corporate Controller, and Manager of SEC Compliance. Prior to joining AMCON in 2004, Mr. Plummer practiced public accounting, primarily with the accounting firm Deloitte and Touche, LLP.

Although not an executive officer of our Company, Eric J. Hinkefent is an executive officer of two of our subsidiaries. His business experience is as follows:

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*ERIC J. HINKEFENT* has served as President of both Chamberlin's Natural Foods, Inc. and Health Food Associates, Inc. since October 2001. Prior to that time, Mr. Hinkent served as President of Health Food Associates, Inc.

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The Company's common stock trades on NYSE MKT (formerly NYSE Amex Equities) under the trading symbol "DIT". As of October 31, 2012, the closing price of our common stock on NYSE MKT was \$62.98 and there were 633,793 common shares outstanding. As of that date, the Company had approximately 715 persons holding common shares beneficially of which approximately 165 are shareholders of record (including direct participants in the Depository Trust Company). The following table reflects the range of the high and low closing prices per share of the Company's common stock reported by NYSE MKT for fiscal 2012 and 2011.

	Fiscal 2012		Fiscal 2011	
	High	Low	High	Low
4th Quarter	\$ 70.00	\$ 59.00	\$ 71.11	\$ 56.03
3rd Quarter	67.50	56.21	83.59	66.36
2nd Quarter	69.11	57.66	83.90	74.25
1st Quarter	64.40	52.31	80.50	60.11

**DIVIDEND POLICY**

On a quarterly basis, the Company's Board of Directors evaluates the potential declaration of dividend payments on the Company's common stock. Our dividend policy is intended to return capital to shareholders when it is most appropriate. The Company's revolving credit facility provides that it may not pay dividends on its common shares in excess of \$1.00 per common share on an annual basis.

Our Board of Directors could decide to alter our dividend policy or not pay quarterly dividends at any time in the future. Such an action by the Board of Directors could result from, among other reasons, changes in the marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions in the capital markets, or other events affecting our business, liquidity or financial position. The Company paid cash dividends of \$0.5 million or \$0.72 per common share during fiscal 2012, and \$0.4 million or \$0.72 per common share during fiscal 2011.

The Company has Series A and B Convertible Preferred Stock ("Convertible Preferred Stock") outstanding at September 2012 which are not registered under the Securities and Exchange Act of 1934. The Company paid cash dividends on the Series A and Series B Convertible Preferred Stock totaling \$0.3 million during both fiscal 2012 and fiscal 2011. See Note 3 to Consolidated Financial Statements included in this Annual Report for further information regarding these securities.

**REPURCHASE OF COMPANY SHARES**

The Board of Directors of the Company authorized the repurchase of up to 50,000 shares of the Company's common stock in open market or privately negotiated transactions. During fiscal 2012, the Company repurchased 17,000 shares of its common stock in a privately negotiated transaction for \$918,000, or \$54.00 per share. The share repurchase was funded with cash from operations and through the Company's revolving credit facility. All repurchased shares were recorded in treasury stock at cost. Subsequent to the fiscal 2012 share repurchase, the Company's Board of Directors reauthorized common stock repurchases up to 50,000 shares. During the fourth quarter of fiscal 2012, the Company did not repurchase any shares of its common stock.

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***EQUITY COMPENSATION PLAN INFORMATION***

We refer you to Item 12 of this report for the information required by Item 201(d) of SEC Regulation S-K.

***ISSUANCE OF COMPANY SHARES***

Pursuant to the conversion rights contained in the Series B Convertible Preferred Stock, on September 26 and 27, 2012, a total of 4,000 shares of the Series B Convertible Preferred Stock were converted into 4,056 shares of our Company's common stock.

The shares of common stock described above were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, which exemption is available for transactions involving securities exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange. Our company received no payment in connection with the issuances of such shares. No underwriters were involved with the issuance of the shares of common stock described above 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 shares of common stock described above.

**ITEM 6. *SELECTED FINANCIAL DATA***

Not applicable.

**ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

**Overview**

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements under Item 8 and other information in this report, including Critical Accounting Policies and Cautionary Information included at the end of this Item 7. The following discussion and analysis includes the results of operations for the twelve month periods ended September 2012 and September 2011. For more information regarding our business segments, see Item 1 "Business" of this Annual Report.

**Business Update Wholesale Segment**

The demand for convenience shopping in the United States remains strong. The convenience store industry, which represents the largest portion of our customer base, continues to show long term growth and has demonstrated considerable resiliency compared to that of the general economy. According to a January 2012 publication by the National Association of Convenience Stores ("NACS"), the total number of convenience stores in the United States grew 1.2% for the 2011 calendar year to over 148,000 locations, up from 124,500 stores in 2001. The convenience store footprint in the United States is quite substantial. According to NACS, convenience stores outnumber all other competing retail formats such as supermarkets, drug stores, tobacco outlets, and mass merchants combined. The industry continues to be highly fragmented and is largely dominated by single-store independent operators which represent approximately 63% of all stores according to NACS. In recent years, however, the industry has experienced significant consolidation among mid-sized convenience store chains.

The strength of the convenience store market has increasingly attracted the attention of new market entrants such as well capitalized national drug and dollar stores, which are re-imaging their store layouts similar to that of convenience stores. While not direct competitors, these new retail formats collectively impact in-store sales as they each target different product categories currently carried in convenience stores. At the same time, convenience stores themselves are continuing an ongoing, multi-year effort to remake their business.

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The sale of cigarette and tobacco products, which once represented the most profitable category for convenience stores, have been in a long term sales decline since the 1980's. In response, convenience stores have undertaken a number of structural changes from updating their physical locations to overhauling the type of products they sell. Similar to popular fast-casual restaurant chains, convenience stores are developing higher quality product offerings. Gourmet sandwiches and wraps, specialty drinks and juices, yogurts, fresh baked goods, and a full range of hot on-the-go meals are now becoming more common place in convenience stores.

While the convenience store channel continues to grow, a number of significant trends and challenges exist for the wholesale distributors that serve them.

**Industry consolidation** Both convenience stores and their wholesale distributors will increasingly require larger economies of scale to compete. Accordingly, both convenience stores and wholesale distributors are consolidating. While this creates opportunities for our Company to acquire smaller competitors, we also face a significant risk that our customers may be acquired by convenience store chains not serviced by us.

**Demand for cigarettes** The sale of cigarettes still represents approximately 38% of total in-store sales for convenience stores according to NACS. During fiscal 2012, cigarette sales accounted for approximately 73% of our consolidated revenues. The demand for cigarettes has been decreasing since the 1980's due to a general decline in the number of smokers in the United States and the impact of legislative actions such as smoking bans and higher excise and other taxes.

**Technology** Convenience stores increasingly are relying on technology to manage their business and effectively compete. The ability of distributors to provide capabilities such as inventory scanning, electronic price books, sku rationalization, category management, and access to robust management reporting to their convenience store customers is rapidly growing in importance.

Both the convenience store industry and the wholesale distributors that serve them are undergoing significant structural changes (i.e. consolidation, product diversification, increasing reliance on technology etc.). We believe the future of wholesale distribution will be less about transporting highly commoditized products and will be more about providing differentiated merchandising and technology solutions to customers. While we expect the operating environment to remain highly competitive, we believe our long legacy of serving independent and fast growing small convenience store operations positions us well to capitalize on these changes.

**Business Update Retail Segment**

The retail health food industry continues to prosper with sales totaling over \$73 billion during the 2011 calendar year, up 10% from the prior year according to The Natural Foods Merchandiser ("NFM"), which is a leading industry trade publication. NFM estimates that approximately 41% of these sales were made through independent natural food retailers such as our retail stores, 40% through conventional mass market retailers, and 19% through all other retail channels (internet, mail order, multi-level marketing etc.).

Industry-wide, we believe a number of key factors are influencing the demand for natural products. In particular, over the past several years increased media coverage regarding possible linkages between food additives and disease, as well as premature development in children, has created tremendous awareness about the benefits of natural products. Food additives such as sugars, aspartame included in diet sodas, and the use of growth hormones and antibiotics in the production of chicken, beef, and dairy products are coming under increased scrutiny in terms of dietary consumption. Further, we are beginning to see the emergence of a new class of customers which could significantly lift overall demand. Traditionally, baby boomers were one of our stronger customers segments. We are now beginning to see millennials (individuals born between 1980 and 2000) embrace natural products. As a market segment, we believe they are highly educated consumers accustomed to reading product labels and demanding quality ingredients.

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Many millennials are now starting families and view natural foods and vitamin supplements as a means to maintain a healthy lifestyle amongst the demands of their fast-paced lives.

Other factors contributing to the strength of the natural health food market include:

heightened awareness about the role that food and nutrition play in long-term health;

increasing concerns over food safety due to the presence of pesticide residues, growth hormones, and artificial ingredients found in foods purchased through traditional retail outlets;

growing focus on the impact of chemical additives included in consumer products such as household cleaning agents;

the impact of chemicals used in consumer goods on the environment, particularly the potential for water and soil contamination; and

an aging population with a desire to maintain good health and a high quality of life.

While industry-wide sales have grown, the expansion of national and regional health food chains combined with higher food commodity prices have pressured sales in several of our markets. Even so, we believe the long-term sales trend remains promising. Natural products continue to gain wider acceptance from main stream consumers and existing consumers who had traded down during the recent recession are now returning to the natural products market. Additionally, we believe natural product customers tend to be better educated and demand a higher level of product and dietary knowledge by in-store customer associates, a level of service difficult to deliver for mass merchandisers.

Forward looking, we will continue to face a highly competitive environment. However, we believe significant opportunities for new store expansion still exist, particularly in many mid-market cities. We believe these markets are currently under-served and are well suited for our business model which differentiates itself by emphasizing unique product lines and highly trained store associates.

For over 75 years, our health food stores have succeeded with a simple value proposition; helping our customers maintain good health. While consumer tastes and product offerings will evolve and change over time, we feel the value offered by our stores will remain in demand.

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### **Results of Operations**

The following table sets forth an analysis of various components of the Company's Statement of Operations as a percentage of sales for fiscal years 2012 and 2011:

	Fiscal Years	
	2012	2011
Sales	100.0%	100.0%
Cost of sales	93.3	92.9
Gross profit	6.7	7.1
Selling, general and administrative expenses	5.4	5.4
Depreciation and amortization	0.2	0.2
Operating income	1.1	1.5
Interest expense	0.1	0.1
Income before income taxes	1.0	1.4
Income tax expense	0.4	0.6
Net income	0.6	0.8
Preferred stock dividend requirements		
Net income available to common shareholders	0.6%	0.8%

(In millions)	Fiscal Years			
	2012(2)	2011(2)	Incr (Decr)(2)	% Change(2)
<b>CONSOLIDATED:</b>				
Sales(1)	\$ 1,174.2	\$ 1,041.6	\$ 132.5	12.7%
Cost of Sales	1,095.1	967.5	127.6	13.2
Gross profit	79.1	74.2	4.9	6.6
Gross profit percentage	6.7%	7.1%		
Operating expense	65.6	58.6	7.0	12.0
Operating income	13.4	15.6	(2.1)	(13.7)
Interest expense	1.4	1.4	(0.1)	(5.2)
Income tax expense	5.0	6.3	(1.2)	(19.9)
Net income	7.4	8.1	(0.7)	(8.6)
<b>BUSINESS SEGMENTS:</b>				
<b>Wholesale</b>				
Sales(1)	\$ 1,136.8	\$ 1,003.8	\$ 133.0	13.3%
Gross profit	63.0	57.9	5.1	8.8
Gross profit percentage	5.5%	5.8%		
<b>Retail</b>				
Sales	\$ 37.3	\$ 37.8	\$ (0.5)	(1.3)%
Gross profit	16.0	16.2	(0.2)	(1.1)
Gross profit percentage	43.0%	42.9%		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$17.2 million in fiscal 2012 and \$15.3 million in fiscal 2011.

(2) Amounts calculated based on actual changes in the Consolidated Financial Statements.





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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 Fiscal 2012 vs. Fiscal 2011**

Sales in our Wholesale Segment increased \$133.0 million during fiscal 2012 as compared to fiscal 2011. Significant items impacting sales during fiscal 2012 included a \$120.0 million increase in sales related to our acquisition of LP Shanks Company, Inc. ("LPS") in May 2011, a \$25.4 million increase in sales related to price increases implemented by cigarette manufacturers, a \$4.6 million increase in sales related to increases in state excise taxes, and a \$5.1 million increase related to higher 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 \$22.1 million decrease in sales primarily related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment decreased approximately \$0.5 million during fiscal 2012 as compared to fiscal 2011. Significant items impacting sales during the period were a \$1.6 million increase in our Chamberlin's retail stores, offset by a \$2.1 million decrease in sales in our Akin's retail stores. Sales in our Chamberlin's stores continue to show improved results during fiscal 2012 coming off the depths of the recession in the Florida region, while sales in our Akin's retail stores have been impacted by increased competition from the expansion of national and regional health food chains in our markets.

**GROSS PROFIT Fiscal 2012 vs. Fiscal 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 \$5.1 million in fiscal 2012 as compared to fiscal 2011. Of this increase, approximately \$6.4 million related to our acquisition of LPS and \$2.6 million related to increases in manufacturer pricing and state excise taxes. Partially offsetting this was a \$3.9 million decrease in gross profit primarily related our cigarette sales volume and mix.

Gross profit for the Retail Segment decreased \$0.2 million in fiscal 2012 as compared to fiscal 2011. Significant items impacting gross profit during fiscal 2012 included a \$0.9 million decrease in gross margin related to lower sales volumes in our Akin's retail stores and a \$0.7 million increase in gross margin related to higher sales in our Chamberlin's retail stores.

**OPERATING EXPENSE Fiscal 2012 vs. Fiscal 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 and facility costs, equipment leases, transportation costs, fuel costs, insurance, and professional fees.

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Operating expenses increased approximately \$7.0 million in fiscal 2012 as compared to fiscal 2011. Significant items impacting operating expenses during fiscal 2012 included a \$5.9 million increase in operating expenses related to servicing our new business acquired as part of the LPS acquisition, a \$0.4 million net increase in bad debt expense, a \$0.4 million increase in our Retail Segment operating expenses, and a \$0.3 million increase other operating expenses.

### **INCOME TAX EXPENSE Fiscal 2012 vs. Fiscal 2011**

The effective income tax rate for fiscal 2012 was 40.6% as compared to 43.8% in fiscal 2011. The decrease in effective tax rates from fiscal 2012 to fiscal 2011 was primarily related to changes in the amount of nondeductible expenses under the Internal Revenue Service Code.

### **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 fiscal 2012, the Company generated cash of \$9.9 million from operating activities. The cash generated primarily resulted from current year earnings, partially offset by the impact of higher prepaid assets and decreases in accounts payable and accrued expenses.

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 cash of \$1.4 million during fiscal 2012 for investing activities, primarily related to capital expenditures for property and equipment.

*Financing Activities.* The Company used cash of \$9.4 million from financing activities during fiscal 2012. Of this amount, approximately \$6.4 million related to net payments on the Company's credit facility, \$1.3 million related to repayments on long-term debt, \$0.9 million related to the repurchase of the Company's common shares, and \$0.8 million related to dividends on the Company's common and preferred stock.

*Cash on Hand/Working Capital.* At September 2012, the Company had cash on hand of \$0.5 million and working capital (current assets less current liabilities) of \$49.9 million. This compares to cash on hand of \$1.4 million and working capital of \$49.0 million at September 2011.

The Company primarily finances its operations through a credit agreement (the "Facility") with Bank of America. The Facility included the following significant terms at September 2012:

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.

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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 maximum loan limit.

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.

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 September 2012 was \$63.2 million, of which \$14.4 million was outstanding, leaving \$48.8 million available.

At September 2012, 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 2.37% at September 2012.

During fiscal 2012, our peak borrowings under the Facility were \$50.7 million and our average borrowings and average availability was \$31.7 million and \$32.3 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, is financed through a term loan with BMO Harris, NA ("BMO") which is also a participant lender on the Company's revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at September 2012. In addition, the BMO loan 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**

The Company has issued a letter of credit for \$0.4 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

**Off-Balance Sheet Arrangements**

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

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**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.

***OTHER MATTERS Critical Accounting Estimates***

***GENERAL***

The Consolidated Financial Statements of the Company are prepared in accordance with U.S. generally accepted accounting principles, which require the Company to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements. Our critical accounting estimates are set forth below and have not changed during fiscal 2012.

***ALLOWANCE FOR DOUBTFUL ACCOUNTS***

***NATURE OF ESTIMATES REQUIRED.*** The allowance for doubtful accounts represents our estimate of uncollectible accounts receivable at the balance sheet date. We monitor our credit exposure on a daily basis and regularly assess the adequacy of our allowance for doubtful accounts. Because credit losses can vary significantly over time, estimating the required allowance requires a number of assumptions that are uncertain.

***ASSUMPTIONS AND APPROACH USED.*** We estimate our required allowance for doubtful accounts using the following key assumptions.

Historical collections Represented as the amount of historical uncollectible accounts as a percent of total accounts receivable.

Specific credit exposure on certain accounts Identified based on management's review of the accounts receivable portfolio and taking into account the financial wherewithal of particular customers that management deems to have a higher risk of collection.

Market conditions We consider a broad range of industry trends and macro-economic issues which may impact the creditworthiness of our customers.

***INVENTORIES***

***NATURE OF ESTIMATES REQUIRED.*** In our businesses, we carry large quantities and dollar amounts of inventory. Inventories primarily consist of finished products purchased in bulk quantities to be sold to our customers. Given the large quantities and broad range of products we carry, there is a risk that inventory may become impaired because it has become unsaleable or unrefundable, slow moving, obsolete,

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or because it has been discontinued. The use of estimates is required in determining the salvage value of this inventory.

**ASSUMPTIONS AND APPROACH USED.** We estimate our inventory obsolescence reserve at each balance sheet date based on the following criteria:

Slow moving products Items identified as slow moving are evaluated on a case-by-case basis for impairment.

Obsolete/discontinued inventory Products identified that are near or beyond their expiration dates. We may also discontinue carrying certain product lines for our customers. As a result, we estimate the market value of this inventory as if it were to be liquidated.

Estimated salvage value/sales price The salvage value of the inventory is estimated using management's evaluation of the congestion in the distribution channels and experience with brokers and inventory liquidators to determine the salvage value of the inventory.

**DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived assets consist primarily of property and equipment, intangible assets, and goodwill acquired in business combinations. Property and equipment and amortizable identified intangible assets are assigned useful lives ranging from 2 to 40 years. Indefinite-lived intangible assets and goodwill are not amortized. Impairment of the Company's long-lived assets is assessed during the Company's fourth fiscal quarter or whenever events or circumstances change that indicate the carrying value of such long-lived assets may not be recoverable. The Company recorded no impairment charges during either fiscal 2012 or fiscal 2011.

**NATURE OF ESTIMATES REQUIRED.** Management has to estimate the useful lives of the Company's long lived assets. In regard to the Company's impairment analysis, the most significant assumptions include management's estimate of the annual growth rate used to project future sales and expenses.

**ASSUMPTIONS AND APPROACH USED.** For property and equipment, depreciable lives are based on our accounting policy which is intended to mirror the expected useful life of the asset. In determining the estimated useful life of amortizable intangible assets, such as customer lists, we rely on our historical experience to estimate the useful life of the applicable asset and consider industry norms as a benchmark. If impairment indicators arise, we then evaluate the potential impairment of property and equipment and amortizable identifiable intangible assets using an undiscounted future cash flow approach, in addition to other public and private company information.

When evaluating the potential impairment of non-amortizable indefinite-lived assets and goodwill we first assess a range of qualitative factors, including but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel, and the overall financial performance for each of the Company's reporting units. If after completing this assessment, it is determined that it is more than likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment testing methodology using the income approach (discounted cash flow method).

A discounted cash flow methodology requires estimation in (i) forecasting future earnings (ii) determining the discount rate applicable to the earnings stream being discounted, and (iii) computing a terminal value at some point in the future. The forecast of future earnings is an estimate of future financial performance based on current year results and management's evaluation of the market potential for growth. The discount rate is a weighted average cost of capital using a targeted debt-to-equity ratio using the industry average under the assumption that it represents our optimal capital structure and can be achieved in a reasonable time period. The terminal value is determined using a commonly accepted growth model.

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**INSURANCE**

The Company's insurance for workers' compensation, general liability and employee-related health care benefits are provided through high-deductible or self-insured programs. As a result, the Company accrues for its workers' compensation liability based upon claim reserves established with the assistance of a third-party administrator, which are then trended and developed. The reserves are evaluated at the end of each reporting period. Due to the uncertainty involved with the realization of claims incurred but unreported, management is required to make estimates of these claims.

**ASSUMPTIONS AND APPROACH USED.** In order to estimate our reserve for incurred but unreported claims we consider the following key factors:

*Employee Health Insurance Claims*

Historical claims experience We review loss runs for each month to calculate the average monthly claims experience.

Lag period for reporting claims Based on our analysis, our experience is such that we have a minimum of a one month lag period in which claims are reported.

*Workers' Compensation Insurance Claims*

Historical claims experience We review prior years' loss runs to estimate the average annual expected claims and review monthly loss runs to compare our estimates to actual claims.

Lag period for reporting claims We review claims trends and use standard insurance industry loss models to develop reserves on reported claims in order to estimate the amount of incurred but unreported claims.

**INCOME TAXES**

The Company accounts for its income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. These expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations.

On a periodic basis, we assess the likelihood that our deferred tax assets will be recovered from future taxable income and establish a related valuation allowance as appropriate. In performing our evaluation, we consider all available evidence, both positive and negative, to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance, the reversal of deferred tax liabilities and tax planning strategies. When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized.

**ASSUMPTIONS AND APPROACH USED.** In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part upon management's judgments regarding future events.

In making that estimate we consider the following key factors:

our current financial position;



historical financial information;

future reversals of existing taxable temporary differences;

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future taxable income exclusive of reversing temporary differences and carryforwards;

taxable income in prior carryback years; and

tax planning strategies.

**REVENUE RECOGNITION**

We recognize revenue in our Wholesale Segment when products are delivered to customers (which generally is the same day products are shipped) and in our retail health food segment when products are sold to consumers. Sales are shown net of returns, discounts, and sales incentives to customers.

*NATURE OF ESTIMATES REQUIRED.* We estimate and reserve for anticipated sales discounts. We also estimate and provide a reserve for anticipated sales incentives to customers when earned under established program requirements.

*ASSUMPTIONS AND APPROACH USED.* We estimate the sales reserves using the following criteria:

**Sales discounts** We use historical experience to estimate the amount of accounts receivable that will not be collected due to customers taking advantage of authorized term discounts.

**Volume sales incentives** We use historical experience in combination with quarterly reviews of customers' sales progress in order to estimate the amount of volume incentives due to the customers on a periodic basis.

Our estimates and assumptions for each of the aforementioned critical accounting estimates have not changed materially during the periods presented, nor are we aware of any reasons that they would be reasonably likely to change in the future.

**BUSINESS COMBINATIONS**

*NATURE OF ESTIMATES REQUIRED.* We allocate the purchase price of acquired companies to the tangible assets acquired, liabilities assumed, and intangible assets acquired, based on their estimated fair values. The excess of the purchase price over these fair values is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

*ASSUMPTIONS AND APPROACH USED.* Critical estimates in valuing certain intangible assets include but are not limited to the projected growth factors, future expected cash flows, discount rates, potential competitive and regulatory environment developments, and changes in the market for the Company's products and services. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Additionally, estimates associated with the accounting for acquisitions may change as new information becomes available regarding the assets acquired and liabilities assumed.

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS**

During the fourth quarter of fiscal 2012, the Company adopted Financial Accounting Standards Board Accounting Standards Update ("FASB ASU") 2012-02 ("Testing Indefinite-Lived Intangible Assets for Impairment") which permits an entity to use an optional qualitative assessment when determining if indefinite-lived intangibles assets have been impaired. The adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

**FORWARD LOOKING STATEMENTS**

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections, contains forward-looking statements that are



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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, 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:

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 or restrictions imposed by the FDA on the manufacture, distribution, and sale of certain cigarette and tobacco products,

increases in manufacturer prices,

increases in inventory carrying costs and customer credit risk,

changes in promotional and incentive programs offered by manufacturers,

decreased availability of capital resources,

demand for the Company's products, particularly cigarette and tobacco products,

new business ventures or acquisitions,

domestic regulatory and legislative risks,

competition,

poor weather conditions,

increases in fuel prices,

consolidation trends within the convenience store and wholesale distribution industry,

natural disasters and domestic unrest,

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

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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<u>Report of Independent Registered Public Accounting Firm</u>	<u>30</u>
<u>Consolidated Balance Sheets as of September 2012 and September 2011</u>	<u>31</u>
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors  
AMCON Distributing Company  
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of AMCON Distributing Company and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMCON Distributing Company and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Omaha, Nebraska  
November 8, 2012

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## AMCON Distributing Company and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

	September 30,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash	\$ 491,387	\$ 1,389,665
Accounts receivable, less allowance for doubtful accounts of \$1.2 million at both 2012 and 2011	32,681,835	32,963,693
Inventories, net	38,364,621	38,447,982
Deferred income taxes	1,916,619	1,707,889
Prepaid and other current assets	6,476,702	6,073,536
<b>Total current assets</b>	<b>79,931,164</b>	<b>80,582,765</b>
Property and equipment, net	13,083,912	13,713,238
Goodwill	6,349,827	6,349,827
Other intangible assets, net	5,185,978	5,550,978
Other assets	1,258,985	1,238,825
	<b>\$ 105,809,866</b>	<b>\$ 107,435,633</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 17,189,208	\$ 18,439,446
Accrued expenses	6,931,859	7,153,672
Accrued wages, salaries and bonuses	2,503,361	2,460,558
Income taxes payable	2,194,966	2,100,180
Current maturities of long-term debt	1,182,829	1,384,625
<b>Total current liabilities</b>	<b>30,002,223</b>	<b>31,538,481</b>
Credit facility	14,353,732	20,771,613
Deferred income taxes	3,633,390	2,743,238
Long-term debt, less current maturities	5,075,680	6,194,195
Other long-term liabilities	336,186	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 September 2012 and September 2011	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized, 58,000 shares issued and outstanding at September 30, 2012 and 62,000 shares issued and outstanding at September 30, 2011, and a total liquidation preference of \$1.5 million and \$1.6 million at September 2012 and September 2011, respectively	1,450,000	1,550,000
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, 158,000 and 162,000 shares outstanding and issued in Series A and B referred to above		
Common stock, \$0.01 par value, 3,000,000 shares authorized, 612,327 shares issued and outstanding at September 2012 and 609,320 shares issued and outstanding at September 2011	6,293	6,093
Additional paid-in capital	11,021,109	9,981,055
Retained earnings	38,349,253	31,721,445
Treasury stock, 17,000 shares at cost	(918,000)	
<b>Total shareholders' equity</b>	<b>48,458,655</b>	<b>41,708,593</b>



\$ 105,809,866 \$ 107,435,633

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

Table of Contents**AMCON Distributing Company and Subsidiaries****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Fiscal Years Ended September</b>	
	<b>2012</b>	<b>2011</b>
Sales (including excise taxes of \$371.3 million and \$340.6 million, respectively)	\$ 1,174,167,758	\$ 1,041,631,892
Cost of sales	1,095,105,573	967,467,852
<b>Gross profit</b>	<b>79,062,185</b>	<b>74,164,040</b>
Selling, general and administrative expenses	63,250,681	56,374,612
Depreciation and amortization	2,392,414	2,234,814
	65,643,095	58,609,426
<b>Operating income</b>	<b>13,419,090</b>	<b>15,554,614</b>
Other expense (income):		
Interest expense	1,359,241	1,433,790
Other (income), net	(340,713)	(225,212)
	1,018,528	1,208,578
Income from operations before income tax expense	12,400,562	14,346,036
Income tax expense	5,033,000	6,282,000
<b>Net income</b>	<b>7,367,562</b>	<b>8,064,036</b>
Preferred stock dividend requirements	(269,095)	(286,397)
<b>Net income available to common shareholders</b>	<b>\$ 7,098,467</b>	<b>\$ 7,777,639</b>
<b>Basic earnings per share available to common shareholders:</b>	<b>\$ 11.56</b>	<b>\$ 13.09</b>
<b>Diluted earnings per share available to common shareholders:</b>	<b>\$ 9.40</b>	<b>\$ 10.44</b>
<b>Basic weighted average shares outstanding</b>	<b>614,046</b>	<b>594,185</b>
<b>Diluted weighted average shares outstanding</b>	<b>784,108</b>	<b>772,589</b>

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

Table of Contents**AMCON Distributing Company and Subsidiaries****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance, October 1, 2010	577,432	\$ 5,774		\$	\$ 8,376,640	\$ 24,392,390	\$ 32,774,804
Dividends on common stock, \$0.72 per share						(448,584)	(448,584)
Dividends on convertible preferred stock						(286,397)	(286,397)
Compensation expense and issuance of stock in connection with equity-based awards	13,633	136			1,014,912		1,015,048
Conversion of Series B Convertible Preferred Stock to common stock by holders	18,255	183			449,817		450,000
Net excess tax benefit on equity-based awards					139,686		139,686
Net income						8,064,036	8,064,036
Balance, September 30, 2011	609,320	6,093			9,981,055	31,721,445	41,708,593
Dividends on common stock, \$0.72 per share						(470,659)	(470,659)
Dividends on convertible preferred stock						(269,095)	(269,095)
Compensation expense and issuance of stock in connection with equity-based awards	15,951	159			940,095		940,254
Conversion of Series B Convertible Preferred Stock to common stock by holders	4,056	41			99,959		100,000
Purchase of common stock			(17,000)	(918,000)			(918,000)
Net income						7,367,562	7,367,562
Balance, September 30, 2012	629,327	\$ 6,293	(17,000)	\$ (918,000)	\$ 11,021,109	\$ 38,349,253	\$ 48,458,655

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

Table of Contents**AMCON Distributing Company and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Fiscal Years Ended September</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,367,562	\$ 8,064,036
Adjustments to reconcile income from operations to net cash flows from operating activities:		
Depreciation	2,017,726	1,850,231
Amortization	374,688	384,583
Gain on sale of property and equipment	(36,900)	(45,848)
Equity-based compensation	1,426,848	1,851,457
Net excess tax benefit on equity-based awards		(139,686)
Deferred income taxes	681,422	1,865,462
Recoveries of losses on doubtful accounts	(5,243)	(437,757)
(Recoveries) provision for losses on inventory obsolescence	(20,512)	114,000
Other	(8,045)	(8,045)
Changes in assets and liabilities, net of effect of business acquisition:		
Accounts receivable	287,101	4,259,181
Inventories	103,873	1,015,604
Prepaid and other current assets	(403,166)	(3,025,051)
Other assets	(20,160)	(169,775)
Accounts payable	(1,250,790)	1,810,710
Accrued expenses and accrued wages, salaries and bonuses	(710,302)	(1,256,553)
Income taxes payable	94,786	(126,801)
<b>Net cash flows from operating activities</b>	<b>9,898,888</b>	<b>16,005,748</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,480,782)	(1,988,139)
Proceeds from sales of property and equipment	129,834	94,525
Acquisition		(13,368,057)
<b>Net cash flows from investing activities</b>	<b>(1,350,948)</b>	<b>(15,261,671)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (payments) borrowings on bank credit agreements	(6,417,881)	1,954,904
Principal payments on long-term debt	(1,320,311)	(1,093,147)
Repurchase of common stock	(918,000)	
Net excess tax benefit on equity-based awards		139,686
Dividends paid on convertible preferred stock	(269,095)	(286,397)
Dividends on common stock	(470,659)	(448,584)
Proceeds from exercise of stock options	1,180	22,391
Withholdings on the exercise of equity-based awards	(51,452)	
<b>Net cash flow from financing activities</b>	<b>(9,446,218)</b>	<b>288,853</b>
<b>Net change in cash</b>	<b>(898,278)</b>	<b>1,032,930</b>
Cash, beginning of year	1,389,665	356,735
<b>Cash, end of year</b>	<b>\$ 491,387</b>	<b>\$ 1,389,665</b>

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

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## AMCON Distributing Company and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Fiscal Years	
	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,393,470	\$ 1,419,636
Cash paid during the year for income taxes	4,256,794	4,543,338
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified as accounts payable	\$ 11,237	\$ 10,685
Issuance of common stock in connection with the vesting and exercise of equity based awards	950,562	
Conversion by holders of Series B Convertible Preferred Stock to common stock	100,000	450,000
Business acquisition (see Note 2):		
Accounts receivable	\$	\$ 8,881,428
Inventories		4,571,629
Property and equipment		1,795,859
Prepaid asset		35,000
Fair value of non-competition agreement		500,000
Customer relationships intangible asset		500,000
Goodwill		200,659
Accrued expenses		(120,000)
Note payable		(2,552,090)
Amount due under non-competition agreement		(444,428)

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**(a) Company Operations:**

AMCON Distributing Company and Subsidiaries ("AMCON" and "the Company") is primarily engaged in the wholesale distribution of consumer products in the Central, Rocky Mountain, and Southern regions of the United States.

AMCON's wholesale distribution business includes six distribution centers that sell approximately 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 foodservice products. The Company distributes products primarily to retailers such as convenience stores, discount and general merchandise stores, grocery stores, drug stores, and gas stations. In addition, the Company services institutional customers, including restaurants and bars, schools, sports complexes, as well as other wholesalers.

AMCON also operates six retail health food stores in Florida under the name Chamberlin's Market & Café ("Chamberlin's") and eight in the Midwest under the name Akin's Natural Foods Market ("Akin's"). These stores carry natural supplements, groceries, health and beauty care products, and other food items.

The Company's operations are subject to a number of factors which are beyond the control of management, such as changes in manufacturers' cigarette pricing, state excise tax increases, or the opening of competing retail stores in close proximity to the Company's retail stores. While the Company sells a diversified product line, it remains dependent upon the sale of cigarettes which accounted for approximately 73% of our consolidated revenue and 29% of our consolidated gross profit during fiscal 2012. In fiscal 2011, sales of cigarettes which accounted for approximately 72% of our consolidated revenue and 27% of our consolidated gross profit.

**(b) Accounting Period:**

The Company's fiscal year ends on September 30 and the fiscal years ended September 30, 2012 and September 30, 2011 have been included herein.

**(c) Principles of Consolidation and Basis of Presentation:**

The Consolidated Financial Statements include the accounts of AMCON and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

**(d) Cash and Accounts Payable:**

AMCON utilizes a cash management system under which an overdraft is the normal book balance in the primary disbursing accounts. Overdrafts included in accounts payable at fiscal 2012 and fiscal 2011 totaled approximately \$2.0 million and \$1.3 million, respectively, and reflect checks drawn on the disbursing accounts that have been issued but have not yet cleared through the banking system. The Company's policy has been to fund these outstanding checks as they clear with borrowings under its revolving credit facility (see Note 8). These outstanding checks (book overdrafts) are classified as cash flows from operating activities in the Consolidated Statements of Cash Flows.

**(e) Accounts Receivable:**

Accounts receivable consist primarily of amounts due to the Company from its normal business activities. An allowance for doubtful accounts is maintained to reflect the expected uncollectibility of accounts

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

receivable based on past collection history, evaluation of economic conditions as they may impact our customers, and specific risks identified in the portfolio. The Company determines the past due status of trade receivables based on our terms with each customer. Account balances are charged off against the allowance for doubtful accounts when collection efforts have been exhausted and the account receivable is deemed worthless. Any subsequent recoveries of charged off account balances are recorded as income in the period received.

**(f) Inventories:**

At September 2012 and September 2011, inventories consisted of finished goods and are stated at the lower of cost (determined on a FIFO basis) or market. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods included total reserves of approximately \$0.9 million at both September 2012 and September 2011. 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.

**(g) Prepaid Expenses and Other Current Assets:**

A summary of prepaid expenses and other current assets is as follows (in millions):

	September 2012		September 2011
Prepaid expenses	\$ 1.1	\$	1.2
Prepaid inventory	5.4		4.9
	\$ 6.5	\$	6.1

Prepaid inventory represents inventory in-transit that has been paid for but not received.

**(h) Property and Equipment:**

Property and equipment are stated at cost less accumulated depreciation or amortization. Major renewals and improvements are capitalized and charged to expense over their useful lives through depreciation or amortization charges. Repairs and maintenance are charged to expense in the period incurred. The straight-line method of depreciation is used to depreciate assets over the estimated useful lives as follows:

	Years
Buildings	40
Warehouse equipment	5 - 7
Furniture, fixtures and leasehold improvements	2 - 12
Vehicles	5

Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts, and the resulting gains or losses are reported as a component of operating income.

The Company reviews property and equipment for indicators of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Cash flows expected to be generated by the related assets are estimated over the asset's useful life based on updated projections on



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

an undiscounted basis. If the evaluation indicates that the carrying value of the asset may not be recoverable, the potential impairment is measured at fair value.

***(i) Goodwill and Intangible Assets:***

Our goodwill consists of the excess purchase price paid in business combinations over the fair value of assets acquired. Our intangible assets consist of trademarks, tradenames, customer relationships, and the value of non-competition agreements acquired as part of acquisitions. Goodwill, trademarks, and tradenames are considered to have indefinite lives.

The Company employs the non-amortization approach to account for purchased intangible assets having indefinite useful lives and goodwill. Under the non-amortization approach, goodwill and intangible assets having indefinite useful lives are not amortized into the results of operations, but instead are reviewed annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired, to assess whether their fair value exceeds their carrying value. The Company performs its annual goodwill and intangible asset impairment assessment during the fourth fiscal quarter of each year.

When evaluating the potential impairment of non-amortizable indefinite-lived assets and goodwill we first assess a range of qualitative factors, including but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors such as strategy and changes in key personnel, and the overall financial performance for each of the Company's reporting units. The Company's reporting units which are tested for impairment are Akin's, Chamberlin's, and the Springfield, MO, Quincy, IL, and Crossville, TN divisions of our Wholesale Segment. Both Akin's and Chamberlin's are components of our Retail Segment. If after completing this assessment, it is determined that it is more than likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment testing methodology using the income approach (discounted cash flow method).

In the first step of this testing methodology, we compare the carrying value of the reporting unit, including goodwill, with its fair value, as determined by its estimated discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, we then complete the second step of the impairment test to determine the amount of impairment to be recognized. In the second step, we estimate an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference in that period.

When required, we arrive at our estimates of fair value using a discounted cash flow methodology which includes estimates of future cash flows to be generated by particular assets, as well as selecting a discount rate to measure the present value of those anticipated cash flows. Estimating future cash flows requires significant judgment and includes making assumptions about projected growth rates, industry-specific factors, working capital requirements, weighted average cost of capital, and current and anticipated operating conditions. The use of different assumptions or estimates for future cash flows could produce different results.

Identifiable intangible assets with finite lives are amortized over their estimated useful lives and are assessed for impairment at least annually or whenever events or circumstances change which may indicate that the carrying amount of the assets may not be recoverable. Identifiable intangible assets that are

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

subject to amortization are evaluated for impairment using a process similar to that used in evaluating the elements of property and equipment. If impaired, the related asset is written down to its fair value.

No impairments of goodwill, indefinite-lived assets, or identifiable intangible assets with finite lives were recorded during either fiscal 2012 or fiscal 2011.

**(j) Revenue Recognition:**

AMCON recognizes revenue when title passes to our customers. In our Wholesale Segment, this occurs when products are delivered to customers (which generally is the same day products are shipped) and in our retail health food segment when products are sold to consumers. Sales are shown net of returns, discounts, and sales incentives to customers.

**(k) Insurance:**

The Company's workers' compensation, general liability, and employee-related health care benefits are provided through high-deductible or self-insurance programs. As a result, the Company accrues for its workers' compensation and general liability based upon a claim reserve analysis. The Company has issued a letter of credit in the amount of \$0.4 million to its workers' compensation insurance carrier as part of its loss control program. The reserve for incurred, but not reported, employee health care benefits is based on approximately one month of claims, calculated using the Company's historical claims experience rate, plus specific reserves for large claims. The reserves associated with the exposure to these liabilities are reviewed by management for adequacy at the end of each reporting period.

**(l) Income Taxes:**

The Company uses the asset and liability method to calculate deferred income taxes. Deferred tax assets and liabilities are recognized on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when we do not consider it more likely than not that some portion or all of the deferred tax assets will be realized.

**(m) Share-Based Compensation:**

The Company recognizes expense for its share-based compensation based on the fair value of the awards that are granted. The fair value of the stock options is estimated at the date of grant using the Black-Scholes option pricing model. Option pricing methods require the input of highly subjective assumptions, including the expected stock price volatility. The fair value of restricted stock awards is based on the Company's stock price on the grant date and the fair value of restricted stock units is based on the Company's period ending closing price. Measured compensation cost is recognized ratably over the vesting period of the related share-based compensation award and is reflected in our Consolidated Statement of Operations under "selling, general and administrative expenses."

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**(n) Customer Sales Incentives:**

The Company provides sales rebates or discounts to our wholesale customers. These incentives are recorded as a reduction of sales revenue as earned by the customer.

**(o) Per-share results:**

Basic earnings or loss per share data are based on the weighted-average number of common shares outstanding during each period. Diluted earnings or loss per share data are based on the weighted-average number of common shares outstanding and the effect of all dilutive potential common shares including stock options and conversion features of the Company's preferred stock issuances.

**(p) Use of Estimates:**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(q) Adoption of New Accounting Standards:**

During the fourth quarter of fiscal 2012, the Company adopted FASB ASU 2012-02 ("Testing Indefinite-Lived Intangible Assets for Impairment") which permits an entity to use an optional qualitative assessment when determining if indefinite-lived intangibles assets have been impaired. The adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

**2. ACQUISITIONS**

During fiscal 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, inventories, fixed assets, 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 \$0.5 million in quarterly installments over five years 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 in addition to a range of qualitative considerations such as macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (Continued)**

developments, entity specific factors such as strategy and changes in key personnel, and historical financial performance. The acquired assets are reported as a component of our Wholesale Segment.

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

**Recognized amounts of identifiable net assets acquired**

	<b>Amount (in millions)</b>	<b>Weighted Average Amortization Period</b>
Accounts Receivable	\$ 8.9	
Inventories	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 net assets and goodwill	 \$ 16.4	

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 was assigned to the Company's Wholesale Segment and is deductible for tax purposes. No significant measurement adjustments related to this transaction were recorded during either fiscal 2012 or fiscal 2011.

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.

<b>(In millions)</b>	<b>Twelve Months Ended September</b>	
	<b>2012</b>	<b>2011</b>
Revenue Actual Results	\$ 1,174.2	\$ 1,041.6
Revenue Supplemental pro forma results	\$ 1,174.2	\$ 1,175.4
Net Income Actual Results	\$ 7.4	\$ 8.1
Net Income Supplemental pro forma results	\$ 7.4	\$ 7.9

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. CONVERTIBLE PREFERRED STOCK:**

The Company had two series of convertible preferred stock outstanding at September 2012 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	\$1,450,000
Number of shares:	100,000	58,000
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	58,824
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 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. During fiscal 2012, the holders of the Series B Preferred Stock converted 4,000 Series B shares into 4,056 common shares of the Company.

**4. 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. Shares of common stock underlying outstanding stock options and restricted stock unit awards at September 2012 that were anti-dilutive were not included in the computations of diluted earnings per share. Such anti-dilutive awards relating to a total of 5,950 shares of common stock having an average exercise price of \$54.53 per share were excluded from the computation of diluted earnings per share at

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. EARNINGS PER SHARE: (Continued)**

September 2012. There were no anti-dilutive stock options or potential common stock options at September 2011.

	For Fiscal Years	
	2012	2011
	Basic	Basic
Weighted average number of shares outstanding	614,046	594,185
Income from operations	\$ 7,367,562	\$ 8,064,036
Deduct: convertible preferred stock dividends	(269,095)	(286,397)
Net income available to common shareholders	\$ 7,098,467	\$ 7,777,639
Net earnings per share available to common shareholders	\$ 11.56	\$ 13.09

	2012	2011
	Diluted	Diluted
Weighted average common shares outstanding	614,046	594,185
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock(1)	170,062	178,404
Weighted average number of shares outstanding	784,108	772,589
Income from operations	\$ 7,367,562	\$ 8,064,036
Deduct: convertible preferred stock dividends(2)		
Net income available to common shareholders	\$ 7,367,562	\$ 8,064,036
Net earnings per share available to common shareholders	\$ 9.40	\$ 10.44

(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 dividend payments for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. PROPERTY AND EQUIPMENT, NET:**

Property and equipment at September 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Land	\$ 648,818	\$ 648,818
Buildings and improvements	9,154,544	9,148,547
Warehouse equipment	10,839,751	10,351,120
Furniture, fixtures and leasehold improvements	9,545,001	9,500,450
Vehicles	2,512,347	1,878,158
Construction in progress	132,253	96,941
	<b>32,832,714</b>	<b>31,624,034</b>
Less accumulated depreciation and amortization:		
Owned buildings and equipment	(19,748,802)	(17,910,796)
	<b>\$ 13,083,912</b>	<b>\$ 13,713,238</b>

**6. GOODWILL AND OTHER INTANGIBLE ASSETS:**

Goodwill by reporting segment at September 2012 and September 2011 was as follows:

	<b>2012</b>	<b>2011</b>
Wholesale	\$ 4,436,950	\$ 4,436,950
Retail	1,912,877	1,912,877
	<b>\$ 6,349,827</b>	<b>\$ 6,349,827</b>

Other intangible assets at fiscal year ends 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Non-competition agreement (less accumulated amortization of approximately \$0.1 million at both September 2012 and 2011, respectively)	366,667	466,667
Customer relationships (less accumulated amortization of \$0.7 million and \$0.4 million at September 2012 and 2011, respectively)	1,446,042	1,711,042
	<b>\$ 5,185,978</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 September 2012, 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 totaled was \$0.4 million in fiscal 2012 and \$0.3 million in fiscal 2011. In connection with our acquisition of LPS during fiscal 2011, the Company allocated approximately \$0.2 million of the purchase price to deductible goodwill and approximately \$1.0 million to finite lived intangible assets (all of which is presented in our Wholesale Segment).

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. GOODWILL AND OTHER INTANGIBLE ASSETS: (Continued)**

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at September 2012:

Fiscal 2013	\$	365,000
Fiscal 2014		365,000
Fiscal 2015		365,000
Fiscal 2016		331,667
Fiscal 2017		265,000
Thereafter		121,042
	\$	1,812,709

**7. OTHER ASSETS:**

Other assets at September 2012 and September 2011 consisted of the following:

	2012		2011
Cash surrender value of life insurance policies	\$ 836,224	\$	824,751
Other	422,761		414,074
	\$ 1,258,985	\$	1,238,825

**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.

**CREDIT FACILITY**

	2012		2011
Revolving portion of the Facility, interest payable at 2.37% at September 2012	\$ 14,353,732	\$	20,771,613

The Facility included the following significant terms at September 2012:

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 maximum loan limit.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. DEBT: (Continued)**

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.

**LONG-TERM DEBT**

In addition to the Facility, the Company also had the following long-term obligations at fiscal 2012 and fiscal 2011 as follows:

	2012	2011
Note payable to a bank ("Real Estate Loan"), interest payable at a fixed rate of 2.99% with monthly installments of principal and interest of \$38,344 through June 2017 with remaining principal due July 2017, collateralized by three distribution facilities	\$ 4,729,031	\$
Note payable to a bank ("Real Estate Loan"), interest payable at a fixed rate of 6.75% with monthly installments of principal and interest of \$58,303 through May 2013 with remaining principal due June 2013, collateralized by two owned distribution facilities(1)		4,448,486
Note payable to a bank, interest payable monthly at a fixed rate of 5.21% plus monthly principal payments of \$4,237 through December 2012 at which time the remaining principal is due, collateralized by the Rapid City building and equipment(1)		673,630
Note payable, interest payable at a fixed rate of 4.00%, with quarterly installments of principal and interest of \$226,874 through June 2014	1,526,821	2,352,234
Note payable, interest payable at a fixed rate of 5.00%, with quarterly installments of principal and interest of \$66,067 through October 2011		63,092
Obligation payable, interest payable at a fixed rate of 4.96% with monthly installments of principal and interest of \$448, through April 2013	2,657	10,764
Note payable, interest payable discounted at a rate of 8.25% with quarterly installments of principal and interest of \$31,250 - \$46,875 through October 2011		30,614
	6,258,509	7,578,820
Less current maturities	1,182,829	1,384,625
	\$ 5,075,680	\$ 6,194,195

(1)

Note payable was refinanced during fiscal 2012 into the Real Estate Note due in July 2017.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. DEBT: (Continued)**

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years following September 2012 are as follows:

<b>Fiscal Year Ending</b>	
2013	\$ 1,182,829
2014	998,787
2015	341,191
2016	351,383
2017	3,384,319
	\$ 6,258,509

Market rate risk for fixed rate debt is estimated as the potential increase in fair value of debt obligations resulting from decreases in interest rates. 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 September 2012.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, is financed through a term loan with BMO Harris, NA ("BMO") which is also a participant lender on the Company's revolving line of credit. The BMO loan contains cross default provisions which cause the loan with BMO to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at September 2012. In addition, the BMO loan 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.

**9. OTHER INCOME, NET:**

Other income, net consisted of the following for fiscal 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Interest income	\$ 32,686	\$ 45,144
Other	308,027	180,068
	\$ 340,713	\$ 225,212

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. INCOME TAXES:**

The components of income tax expense from operations for fiscal 2012 and fiscal 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Current: Federal	\$ 3,731,414	\$ 3,754,455
Current: State	620,164	662,083
	4,351,578	4,416,538
Deferred: Federal	625,137	1,711,375
Deferred: State	56,285	154,087
	681,422	1,865,462
<b>Income tax expense</b>	<b>\$ 5,033,000</b>	<b>\$ 6,282,000</b>

The difference between the Company's income tax expense in the accompanying consolidated financial statements and that which would be calculated using the statutory income tax rate of 35% for both fiscal 2012 and fiscal 2011 on income before income taxes is as follows:

	<b>2012</b>	<b>2011</b>
Tax at statutory rate	\$ 4,340,196	\$ 5,021,112
Amortization of goodwill and other intangibles	(5,207)	(5,207)
Nondeductible business expenses	339,872	1,071,984
State income taxes, net of federal tax benefit	418,316	479,883
Valuation allowance, net operating losses	(4,389)	(165,460)
Other	(55,788)	(120,312)
	\$ 5,033,000	\$ 6,282,000

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. INCOME TAXES: (Continued)**

Temporary differences between the financial statement carrying balances and tax basis of assets and liabilities giving rise to the net deferred tax asset (liabilities) at fiscal year ends 2012 and 2011 relate to the following:

	2012	2011
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	\$ 427,450	\$ 425,373
Accrued expenses	1,208,999	1,095,108
Inventory	457,844	460,684
Other	92,384	8,392
	2,186,677	1,989,557
Noncurrent:		
Property and equipment	\$ 93,428	\$ 198,907
Net operating loss carry forwards federal	425,884	471,926
Net operating loss carry forwards state	623,434	627,823
	1,142,746	1,298,656
Total deferred tax assets	3,329,423	3,288,213
Valuation allowance	(613,188)	(617,577)
Net deferred tax assets	\$ 2,716,235	\$ 2,670,636
Deferred tax liabilities:		
Current:		
Trade discounts	\$ 270,058	\$ 281,668
	270,058	281,668
Noncurrent:		
Property and equipment	2,165,674	1,729,853
Goodwill	968,024	886,943
Intangible assets	1,029,250	807,521
	4,162,948	3,424,317
Total deferred tax liabilities	\$ 4,433,006	\$ 3,705,985
Net deferred tax assets (liabilities):		
Current	\$ 1,916,619	\$ 1,707,889
Noncurrent	(3,633,390)	(2,743,238)
	\$ (1,716,771)	\$ (1,035,349)

At September 2012, the Company had a \$0.4 million noncurrent deferred tax asset related to federal net operating loss carryforwards. These federal net operating loss carryforwards totaled approximately \$1.3 million and were primarily attributable to the Company's fiscal 2002 purchase of Hawaiian Natural Water Company, Inc. ("HNWC"), a wholly owned subsidiary of the Company. The utilization of HNWC's net operating losses is limited by Internal Revenue Code Section 382 to approximately \$0.1 million per year through 2022.

At September 2012, the Company had a valuation allowance of approximately \$0.6 million against certain state net operating losses, which more likely than not will not be utilized. The Company had no material unrecognized tax benefits, interest, or penalties during either fiscal 2012 or fiscal 2011, and the Company does not anticipate any such items during the next twelve months. The Company's policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statements of Operations. The Company files income tax returns in the U.S. and various states and the tax years 2009 and forward remain open under U.S. and state statutes.



Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. PROFIT SHARING PLAN:**

The Company sponsors a profit sharing plan (i.e. a section 401(k) plan) covering substantially all employees. The plan allows employees to make voluntary contributions up to 100% of their compensation, subject to Internal Revenue Service limits. The Company matches 50% of the first 4% contributed and 100% of the next 2% contributed for a maximum match of 4% of employee compensation. The Company made matching contributions to the profit sharing plan of approximately \$0.6 million (net of employee forfeitures) in both fiscal 2012 and fiscal 2011.

**12. RELATED PARTY TRANSACTIONS:**

The Company's Series A Preferred Stock is owned by Mr. Christopher Atayan, AMCON's Chief Executive Officer and Chairman of the Board. During both fiscal 2012 and fiscal 2011, the Company paid Mr. Atayan cash dividends of approximately \$0.2 million related to his ownership of the Series A Preferred Stock.

Our Retail Segment leases warehouse space from TIP Properties, LLC, which is owned by Eric Hinkfent, President of Chamberlin's Natural Foods, Inc. and Health Food Associates, and another Company employee. Annual rental payments related to this lease were approximately \$0.1 million in both fiscal 2012 and fiscal 2011.

**13. COMMITMENTS AND CONTINGENCIES:****Lease Obligations**

The Company leases various office and warehouse facilities and equipment under noncancellable operating leases. Rents charged to expense under these operating leases totaled approximately \$5.2 million in fiscal 2012 and \$4.3 million in fiscal 2011.

At September 2012 the minimum future lease commitments were as follows:

Fiscal Year Ending	Operating Leases
2013	\$ 4,481,290
2014	3,373,977
2015	2,983,243
2016	2,453,104
2017	1,437,699
Thereafter	3,419,206
Total minimum lease payments	\$ 18,148,519

**Liability Insurance**

The Company carries property, general liability, vehicle liability, directors and officers' liability and workers' compensation insurance. Additionally, the Company carries an umbrella liability policy to provide excess coverage over the underlying limits of the aforementioned primary policies.

The Company's insurance programs for workers' compensation, general liability, and employee related health care benefits are provided through high deductible or self-insured programs. Claims in excess of self-insurance levels are fully insured subject to policy limits. Accruals are based on historical claims experience, actual claims filed, and estimates of claims incurred but not reported.



Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. COMMITMENTS AND CONTINGENCIES: (Continued)**

The Company's liabilities for unpaid and incurred, but not reported claims, for workers' compensation, general liability, and health insurance at September 2012 and 2011 was \$1.4 million and \$1.6 million, respectively. These amounts are included in accrued expenses in the accompanying Consolidated Balance Sheets. While the ultimate amount of claims incurred is dependent on future developments, in the Company's opinion, recorded reserves are adequate to cover the future payment of claims previously incurred. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims.

Adjustments, if any, to claims estimates previously recorded, resulting from actual claim payments, are reflected in operations in the periods in which such adjustments are known.

A summary of the activity in the Company's self-insured liabilities reserve is set forth below (in millions):

	2012	2011
Beginning balance	\$ 1.6	\$ 1.7
Charged to expense	5.1	4.4
Payments	5.3	4.5
Ending balance	\$ 1.4	\$ 1.6

**14. 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 September 2012, awards with respect to a total of 108,925 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plan and awards with respect to another 41,075 shares may be awarded under the plan.

**Stock Options**

During fiscal 2012, the Company issued 6,500 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 had an estimated fair value of approximately \$0.1 million using the Black-Scholes option

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. EQUITY-BASED INCENTIVE AWARDS: (Continued)**

pricing model. The following assumptions were used in connection with the Black-Scholes option pricing calculation:

<b>Stock Option Pricing 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 September 2012 are summarized as follows:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Exercisable Weighted-Average Exercise Price
Fiscal 2003	\$28.80	42	0.07 years	\$ 28.80	42	\$ 28.80
Fiscal 2007	\$18.00	25,000	4.20 years	\$ 18.00	25,000	\$ 18.00
Fiscal 2010	\$51.50	5,500	7.58 years	\$ 51.50	2,200	\$ 51.50
Fiscal 2012	\$53.80 - \$65.97	6,500	9.09 years	\$ 54.74		\$
		37,042		\$ 29.43	27,242	\$ 20.72

The following is a summary of stock option activity during fiscal 2012:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 2011	30,583	\$ 24.05
Granted	6,500	54.74
Exercised	(41)	28.80
Forfeited/Expired		
Outstanding at September 2012	37,042	\$ 29.43

At September 2012, total unamortized compensation expense related to stock options was approximately \$0.1 million. This unamortized compensation expense is expected to be amortized over approximately the next 40 months.

The aggregate intrinsic value of stock options outstanding was approximately \$1.3 million and \$1.0 million at September 2012 and September 2011, respectively. The aggregate intrinsic value of stock options exercisable was approximately \$1.2 million and \$1.0 million at September 2012 and September 2011, respectively.

The total intrinsic value of stock options exercised during fiscal 2012 was less than \$0.1 million and was \$0.1 million during fiscal 2011. The total fair value of stock options vested was approximately \$0.1 million in both fiscal 2012 and fiscal 2011.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. EQUITY-BASED INCENTIVE AWARDS: (Continued)****Restricted Stock Units**

At September 2012, 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 Plan:

	Restricted Stock Units(1)	Restricted Stock Units(2)	Restricted Stock Units(3)
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
Awards outstanding at September 2012	12,800	8,000	15,900
Fair value of non-vested awards at September 2012:	\$832,000	\$520,000	\$1,034,000

- (1) 25,600 of the restricted stock unit awards were vested as of September 2012. The remaining 12,800 restricted stock units will vest on October 26, 2012.
- (2) 4,000 of the restricted stock units were vested as of September 2012. The remaining 8,000 restricted stock units will vest in equal amounts on November 22, 2012 and November 22, 2013.
- (3) The 15,900 restricted stock units will vest in equal amounts 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 straight-line amortized fair value based on the period end closing price.

Net income before income taxes included compensation expense related to the amortization of the Company's restricted stock unit awards of approximately \$1.4 million and \$1.8 million during fiscal 2012 and fiscal 2011, respectively. The tax benefit related to this compensation expense was approximately \$0.5 million and \$0.7 million during fiscal 2012 and 2011, respectively. The total intrinsic value of restricted stock units vested during fiscal 2012 and fiscal 2011 was approximately \$1.0 million and \$0.9 million, respectively.

Total unamortized compensation expense for these awards based on the September 2012 closing price was approximately \$1.1 million. This unamortized compensation expense, plus any changes in the fair value of the awards through the settlement date, are expected to be amortized over approximately the next

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. EQUITY-BASED INCENTIVE AWARDS: (Continued)**

20 months (the weighted-average period). The following summarizes restricted stock unit activity under the Omnibus Plan during fiscal 2012:

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stock units at September 2011	37,600	\$ 57.00
Granted	15,900	\$ 53.80
Vested	(16,800)	\$ 56.58
Expired		\$
Nonvested restricted stock units at September 2012	36,700	\$ 65.00

**15. 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 Distribution	Retail	Other	Consolidated
<b>FISCAL YEAR ENDED 2012:</b>				
External revenues:				
Cigarettes	\$ 853,534,304	\$	\$	\$ 853,534,304
Confectionery	75,282,741			75,282,741
Health food		37,323,138		37,323,138
Tobacco, foodservice & other	208,027,575			208,027,575
Total external revenues	1,136,844,620	37,323,138		1,174,167,758
Depreciation	1,620,389	393,588	3,749	2,017,726
Amortization	374,688			374,688
Operating income (loss)	15,382,674	2,900,145	(4,863,729)	13,419,090
Interest expense	490,045	291,401	577,795	1,359,241
Income (loss) from operations before taxes	15,010,846	2,629,452	(5,239,736)	12,400,562
Total assets	92,109,694	12,724,908	975,264	105,809,866
Capital expenditures	1,288,504	192,278		1,480,782

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. BUSINESS SEGMENTS: (Continued)**

	Wholesale Distribution	Retail	Other	Consolidated
<b>FISCAL YEAR ENDED 2011:</b>				
External revenues:				
Cigarettes	\$ 751,189,309	\$	\$	\$ 751,189,309
Confectionery	68,748,154			68,748,154
Health food		37,800,391		37,800,391
Tobacco, foodservice & other	183,894,038			183,894,038
<b>Total external revenues</b>	<b>1,003,831,501</b>	<b>37,800,391</b>		<b>1,041,631,892</b>
Depreciation	1,423,683	422,799	3,749	1,850,231
Amortization	384,583			384,583
Operating income (loss)	17,695,115	3,402,124	(5,542,625)	15,554,614
Interest expense	479,523	382,334	571,933	1,433,790
Income (loss) from operations before taxes	17,284,552	3,042,442	(5,980,958)	14,346,036
<b>Total assets</b>	<b>93,593,738</b>	<b>12,860,354</b>	<b>981,541</b>	<b>107,435,633</b>
Capital expenditures	1,761,781	226,358		1,988,139

**16. REPURCHASE OF COMPANY SHARES:**

The Board of Directors of the Company authorized the repurchase of up to 50,000 shares of the Company's common stock in open market or privately negotiated transactions. During fiscal 2012, the Company repurchased 17,000 shares of its common stock in a privately negotiated transaction for \$918,000, or \$54.00 per share. The share repurchase was funded with cash from operations and through the Company's revolving credit facility. All repurchased shares were recorded in treasury stock at cost. Subsequent to the fiscal 2012 share repurchase, the Company's Board of Directors reauthorized common stock repurchases up to and totaling 50,000 shares.

**17. SUBSEQUENT EVENT:**

On October 23, 2012, the Compensation Committee of the Company's Board of Directors awarded 16,500 restricted stock units to members of the Company's Executive Management Team. The restricted stock units provide that the award recipients can elect, at their option, to receive either common stock in the Company, or a cash settlement, at the time of vesting. The awards vest in equal amounts on October 23, 2013, October 23, 2014, and October 23 2015.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

NONE

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

As required by Rules 13a-15(b) and 15d-15(b) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2012 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.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures

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that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

We have completed our evaluation and testing of our internal control over financial reporting as required by Section 404 of Sarbanes-Oxley and Item 308(a) of Regulation S-K. Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of September 30, 2012. In making this assessment, we used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2012.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control that occurred during the fiscal quarter ended September 30, 2012, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Registrant's Proxy Statement to be used in connection with the December 2012 Annual Meeting of Shareholders (the "Proxy Statement") will contain under the captions "Item 1: Election of Directors What is the structure of our board and how often are directors elected?", "Item 1: Election of Directors Who are this year's nominees?", "Item 1: Election of Directors What is the business experience of the nominees and of our continuing board members and the basis for the conclusion that each such person should serve on our board?", "Section 16(a) Beneficial Ownership Reporting Compliance", "Corporate Governance and Board Matters Code of Ethics", and "Corporate Governance and Board Matters Committees of the Board Audit Committee", certain information required by Item 10 of Form 10-K and such information is incorporated herein by this reference.

The information appearing under the caption "Executive Officers of the Registrant" in Part I of this report also is incorporated herein by reference. Our Board of Directors has adopted a code of ethical conduct that applies to our executive officers, including our principal executive officer and our principal financial officer. This code of ethical conduct is available without charge to any person who requests it by writing to our corporate secretary. It also is available on our internet website ([www.amcon.com](http://www.amcon.com)) by clicking on the "Corporate Governance" tab under "Investor Relations". Any substantive amendment to, or waiver from, a provision of this code that applies to our principal executive officer or principal financial officer will be disclosed on our internet website and, if required by rules of the SEC or NYSE MKT, on the reports we file with the SEC.

**ITEM 11. EXECUTIVE COMPENSATION**

The Registrant's Proxy Statement will contain under the captions "Executive Compensation and Related Matters" and "Corporate Governance and Board Matters Director Compensation" the information required by Item 11 of Form 10-K, and such information is incorporated herein by this reference. Rules of the Securities and Exchange Commission permit the Company to omit the disclosure contemplated by Item 407(e)(4) and (e)(5) relating to "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report", respectively, and this annual report does not include such disclosure.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The Registrant's Proxy Statement will contain under the captions "Ownership of Our Common Stock by Our Directors and Executive Officers and Other Principal Stockholders" and "Executive Compensation and Related Matters Equity Compensation Plan Information" the information required by Item 12 of Form 10-K and such information is incorporated herein by this reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The Registrant's Proxy Statement will contain under the captions "Certain Relationships and Related Party Transactions", "Item 1: Election of Directors What is the structure of our board and how often are directors elected?" and "Corporate Governance and Board Matters Committees of the Board", the information required by Item 13 of Form 10-K and such information is incorporated herein by this reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The Registrant's Proxy Statement will contain under the caption "Independent Auditor Fees and Services", the information required by Item 14 of Form 10-K and such information is incorporated herein by this reference.



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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements, Financial Statement Schedules, and Exhibits

(1) *Financial Statements*

The financial statements filed as part of this filing are listed on the index to Consolidated Financial Statements under Item 8.

(2) *Financial Statement Schedules*

Not Applicable.

(3) *Exhibits*

- 3.1 Restated Certificate of Incorporation of AMCON Distributing Company, as amended May 12, 2004 (incorporated by reference to Exhibit 3.1 of AMCON's Annual Report on Form 10-K filed November 7, 2008)
- 3.2 Certificate of Amendment of Certificate of Incorporation dated March 18, 2005 (incorporated by reference to Exhibit 3.2 of AMCON's Annual Report on Form 10-K filed November 7, 2008)
- 3.3 Second Corrected Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock of AMCON Distributing Company dated August 5, 2004 (incorporated by reference to Exhibit 3.3 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 3.4 Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of AMCON Distributing Company dated October 8, 2004 (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 3.5 Amended and Restated Bylaws of AMCON Distributing Company dated January 29, 2008 (incorporated by reference to Exhibit 3.2 of AMCON's Current Report on Form 8-K filed on February 4, 2008).
- 4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of AMCON's Registration Statement on Form S-1 (Registration No. 33-82848) filed on August 15, 1994)
- 4.2 Specimen Series A Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 4.3 Specimen Series B Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 4.3 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 4.4 Securities Purchase Agreement dated October 8, 2004 between AMCON Distributing Company and Spencer Street Investments, Inc. (incorporated by reference to Exhibit 4.5 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 10.1 Second Amended and Restated Loan and Security Agreement, date April 18, 2011, between AMCON Distributing Company and Bank of America, as agent (incorporated by reference to Exhibit 10.1 of AMCON's Quarterly Report on Form 10-Q filed on April 19, 2011)
- 10.2 Consent and First Amendment to Second Amended and Restated Credit Agreement dated May 27, 2011 (incorporated by reference to Exhibit 10.2 of AMCON's Form 8-K filed on May 31, 2011)



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- 10.3 First Amended and Restated AMCON Distributing Company 1994 Stock Option Plan (incorporated by reference to Exhibit 10.17 of AMCON's Quarterly Report on Form 10-Q filed on August 4, 2000)\*
- 10.4 AMCON Distributing Company Profit Sharing Plan (incorporated by reference to Exhibit 10.8 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 33-82848) filed on November 8, 1994)\*
- 10.5 2007 Omnibus Incentive Plan dated April 17, 2007 (incorporated herein by reference to Exhibit 10.12 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)\*
- 10.6 Nonqualified Stock Option Agreement for Christopher H. Atayan dated December 12, 2006 (incorporated herein by reference to Exhibit 10.13 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)\*
- 10.7 Agreement, dated December 10, 2004 between AMCON Distributing Company and William F. Wright with respect to split dollar life insurance (incorporated by reference to Exhibit 10.6 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)\*
- 10.8 Agreement, dated December 15, 2004 between AMCON Distributing Company and Kathleen M. Evans with respect to split dollar life insurance (incorporated by reference to Exhibit 10.7 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)\*
- 10.9 Security Agreement by and between AMCON Distributing Company and (predecessor to BMO Harris, NA); (incorporated by reference to Exhibit 10.24 of AMCON's Quarterly Report on Form 10-Q filed on February 14, 2005)
- 10.10 Change of Control Agreement between the Company and Christopher H. Atayan, dated December 29, 2006 (incorporated by reference to Exhibit 10.40 of AMCON's Annual Report on Form 10-K filed on December 29, 2006)\*
- 10.11 Change of Control Agreement between the Company and Kathleen M. Evans, dated December 29, 2006 (incorporated by reference to Exhibit 10.41 of AMCON's Annual Report on Form 10-K filed on December 29, 2006)\*
- 10.12 Executive Restricted Stock Award Agreement under the 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.45 to AMCON's Annual Report on Form 10-K filed on November 7, 2008)\*
- 10.13 Director Restricted Stock Award Agreement under the 2007 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.46 of AMCON's Annual Report on Form 10-K filed on November 7, 2008)
- 10.14 Form of Stock Option Award Agreement under the 2007 Omnibus Incentive Plan, together with a schedule identifying individual award recipients and the related terms (incorporated by reference to Exhibit 10.2 of AMCON's Quarterly Report on Form 10-Q filed on April 19, 2011)
- 10.15 Form of Restricted Stock Unit Award Agreement under the 2007 Omnibus Incentive Plan, together with a schedule identifying individual award recipients and the related terms (incorporated by reference to Exhibit 10.3 of AMCON's Quarterly Report on Form 10-Q filed on April 19, 2011)
- 10.16 L.P. Shanks Company Inc. Asset Purchase Agreement dated March 26, 2011 (incorporated by reference to Exhibit 10.1 of AMCON's Form 8-K filed on May 31, 2011)
- 10.17 Term Real Estate Promissory Note, dated July 17, 2012, issued by AMCON Distributing Company to BMO Harris, NA; (incorporated by reference to Exhibit 10.1 of AMCON's Quarterly Report on Form 10-Q filed on July 19, 2012)

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- 11.1 Statement re: computation of per share earnings (incorporated by reference to Note 4 to the Consolidated Financial Statements included as a part of this report on Form 10-K under Item 8)
  - 21.1 Subsidiaries of the Company
  - 23.1 Consent of Independent Registered Public Accounting Firm (McGladrey LLP)
  - 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 and Chief 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 and Chief Financial Officer, furnished pursuant to section 906 of the Sarbanes-Oxley Act.
  - 101 Interactive Data File (filed herewithin electronically).
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Represents management contract or compensation plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

November 8, 2012

AMCON DISTRIBUTING COMPANY  
(registrant)

By:           /s/ CHRISTOPHER H. ATAYAN

Christopher H. Atayan,  
*Chief Executive Officer and Chairman*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

November 8, 2012

          /s/ CHRISTOPHER H. ATAYAN

Christopher H. Atayan,  
*Chief Executive Officer  
Chairman of the Board and Director  
(Principal Executive Officer)*

November 8, 2012

          /s/ KATHLEEN M. EVANS

Kathleen M. Evans  
*President and Director*

November 8, 2012

          /s/ ANDREW C. PLUMMER

Andrew C. Plummer  
*Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)*

November 8, 2012

          /s/ JEREMY W. HOBBS

Jeremy W. Hobbs  
*Director*

November 8, 2012

          /s/ JOHN R. LOYACK

John R. Loyack  
*Director*

November 8, 2012

          /s/ RAYMOND F. BENTELE

Raymond F. Bentele  
*Director*

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November 8, 2012

/s/ STANLEY MAYER

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Stanley Mayer  
*Director*

November 8, 2012

/s/ TIMOTHY R. PESTOTNIK

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Timothy R. Pestotnik  
*Director*