

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2021
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 1-15589



(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

68122
(Zip Code)

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.01 Par Value	DIT	NYSE American

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

None
(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 No

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 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data file required to be submitted 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 such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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, 2021 was \$17,542,562 computed by reference to the \$114.70 closing price of such common stock equity on March 31, 2021.

As of November 4, 2021, there were 582,789 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 January 2022 annual meeting of stockholders to be filed with the Commission pursuant to Regulation 14A—Part III.

AMCON DISTRIBUTING COMPANY
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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 2021 and 2020 fiscal years ended September 30, are herein referred to as fiscal 2021 and fiscal 2020, respectively. The fiscal year-end balance sheet dates of September 30, 2021 and September 30, 2020 are referred to herein as September 2021 and September 2020, 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 American under the symbol “DIT.” The Company operates two business segments:

- Our wholesale distribution segment (“Wholesale Segment”) distributes consumer products and provides a full range of programs and services to our customers that are focused on helping them manage their business and increase their profitability. We serve customers in 26 states and primarily operate in the Central, Rocky Mountain, and Mid-South regions of the United States.
- Our retail health food segment (“Retail Segment”) operates twenty health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,100 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 17,700 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and refrigerated products and institutional foodservice products. Convenience stores represent our largest customer category. In December 2020, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

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

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross-dock facilities, include approximately 685,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, ITG Brands, Hershey, Kelloggs, Kraft, and Mars Wrigley. We also market private label lines of water, candy products, batteries, and other products. We do not maintain any long-term purchase contracts with our suppliers.

RETAIL SEGMENT

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

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

Our Retail Segment operates twenty retail health food stores as Chamberlin's Natural Foods (Chamberlin's), Akin's Natural Foods (Akin's), and Earth Origins Market (EOM). These stores carry over 35,000 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, has a total of seven locations in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of six locations in Arkansas, Missouri, and Oklahoma. EOM has a total of seven locations in Florida.

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 finance, information technology, business development, retail store support, 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

Wholesale distributors typically provide convenience store retailers access to a broad product line, the ability to place small quantity orders, inventory management, and access to trade credit. As a large, full-service wholesale distributor, we offer retailers a wide array of manufacturer and Company sponsored sales and marketing programs, merchandising and product category management services, and the use of information systems that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales and profit.

The wholesale distribution industry is highly fragmented and historically has consisted of a small number of large, full service wholesale distributors serving multiple geographic regions and a large number of small, privately-owned businesses. Relative to smaller competitors, large distributors such as our Company benefit from several competitive advantages including: increased purchasing power, the ability to service large chain accounts, economies of scale in sales and operations, and the resources to invest in information technology and other productivity-enhancing technologies.

Broad Product Selection

Our retail health foods business prides itself in carrying a broad and superior-quality selection of organic and natural food products and vitamin supplements. The breadth 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

Our business strategy focuses on short, medium, and long term objectives designed to create shareholder value. Our strategic objectives are:

- Maximizing liquidity and generating cash flow from operations in the short term.
- Developing new customer focused technology applications, expanding our foodservice platform, and investing in our infrastructure in the medium term.
- Growing both organically and through acquisitions, and expanding our geographic footprint 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 strategy, however, is ultimately dependent on our ability to provide superior service, develop leading edge technologies, and maintain an exceptional array of product offerings.

PRINCIPAL PRODUCTS

The sales of cigarettes represented approximately 68% and 69% of our consolidated revenue in fiscal 2021 and fiscal 2020, respectively. Sales of candy, beverages, foodservice, groceries, health food products, paper products, health and beauty care products, and tobacco products represented approximately 32% and 31% of our consolidated revenue in fiscal 2021 and fiscal 2020, respectively.

INFORMATION ON SEGMENTS

Information about our segments is presented in Note 12 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 Holding Company, LLC (Westlake, Texas), as well as regional wholesalers such as Eby-Brown Company, LLC (Naperville, Illinois), H.T. Hackney Company (Knoxville, Tennessee) and Imperial Super Regional Distributors (Elmwood, Louisiana) along with a host of smaller grocery and tobacco wholesalers. We also face competition from Amazon™ which pursues a vertical, multi-channel sales strategy whereby both retail consumers and business level customers are targeted.

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 seventh (7th) 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 service and customized merchandising solutions.

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, other natural foods stores, and internet and/or digital direct-to-consumer retailers, 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 10,400 natural food retail stores operating independently or as part of small retail chains and nearly 24,200 stores when national chains are included. These competitors include companies such as Whole Foods Market, Sprouts Farmers Market, Natural Grocers, General Nutrition Centers and Vitamin Shoppe. We also face competition from Amazon™ and other online competitors which continue to pursue vertical, multi-channel sales strategies whereby both retail consumers and business level customers are targeted. We also compete with specialty supermarkets, other independent natural foods stores chains, small specialty stores, and restaurants. In recent years, conventional supermarkets and mass market outlets such as Kroger, Albertsons, Walmart, Publix, Aldi, Trader Joe’s and Costco have significantly increased their offerings of organic and natural products adding another 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 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 but not limited to the U.S. Department of Agriculture (“USDA”), 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 26 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 2021 or fiscal 2020.

EMPLOYEES

At September 2021, the Company had 749 full-time and 185 part-time employees, which together serve in the following areas:

Managerial	49
Administrative	85
Delivery	145
Sales & Marketing	362
Warehouse	293
Total Employees	<u>934</u>

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 November 2023.

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. We provide free access to the various reports we file with the United States Securities and Exchange Commission (“SEC”) 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. The SEC also maintains a website at 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 materialize, 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, Tobacco and Tobacco Related 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 on cigarettes, tobacco or other nicotine delivery devices, 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.

- The Regulation of Electronic Cigarettes (e-cigarettes) and Vaping Products May Negatively Impact Our Results of Operations.

The regulation of e-cigarettes and related vaping product categories by federal, state, and local governmental agencies, as well as potential litigation against product manufacturers and/or entities which distribute or sell such products may negatively impact our sales, costs, results of operations, and cash flows should the current regulatory environment persist or expand, or if related litigation should arise.

- 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 2021 approximately 68% of our consolidated revenues came from the distribution of cigarettes which generated approximately 16% 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 (including vaping and e-cigarette products) are subject to substantial excise taxes and legislation currently under consideration could significantly increase such taxes. Significant increases in cigarette and tobacco-related taxes and fees have been imposed by city, state, and federal governments in recent years. Further, the evolving regulatory responsibilities of the FDA are being funded by fees imposed on tobacco companies. 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 or decreases in fuel prices can and do have an impact on our profit margins. If 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 and State Taxing Authorities.

We are subject to changes in pricing strategies utilized by manufacturers of the products we distribute. We also receive payments from these manufacturers 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 pricing strategies of the manufacturers change or the manufacturers or states change or discontinue these promotional 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 or states will maintain these promotional 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. We also face competition from Whole Foods Market and/or its parent company Amazon™ which pose a threat to the supply chains of food and grocery retailers as well as convenience stores served by wholesale distribution companies as they continue to pursue a vertical, multi-channel sales strategy whereby both retail consumers and business level customers are targeted. 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. This competition may reduce our margins and/or cause a loss in market share, adversely impacting our results of operations, cash flow, and financial condition.

- 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 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 whom 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 MSA were to be successful and all or part of the MSA 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 MSA, 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 cigarette 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 MSA. 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

- Increased Competition in the Retail Health Food Industry May Have an Adverse Effect on Our Business.

In our retail health food business, we compete with a wide range of well financed regional and national competitors such as Whole Foods Markets, Trader Joe's, Sprouts Farmers Market, Natural Grocers, Fresh Thyme Farmers Market, General Nutrition Centers, Vitamin Shoppe, and other online competitors such as Amazon™ all who have embarked on aggressive expansion strategies. Additionally, we compete with specialty supermarkets, other and independent natural foods stores chains, small specialty stores, and restaurants. Conventional supermarkets and mass market outlets such as Kroger, Albertsons, Walmart, and Costco have also significantly increased their offerings of organic and natural products providing another layer of competition. Finally, if online shopping, direct-to-consumer, and home delivery models continue to grow in popularity and further disrupts traditional sales channels, it may present a significant direct risk to brick and mortar retailers, including the Company. We face competition from Whole Foods Market and/or its parent company Amazon™ which pose a threat to the supply chains of the grocery and natural foods business as they continue to pursue a vertical, multi-channel sales strategy whereby both retail consumers and business level customers are targeted. Most of these competitors may have greater financial and marketing resources than our Company and may be able to devote greater resources to sourcing, promoting, and selling their products. In response to heightened competition, the Company is implementing a repositioning strategy for our retail business. This repositioning strategy calls for a wide range of initiatives including the possible addition of one or more of our new retail store prototypes per year into the foreseeable future. The opening of new retail stores inherently brings additional risk to the business. Further, if our repositioning strategy in response to this increase in competition is not successful, it may have a material adverse effect on our results of operations, business, cash flow, and financial condition, and could potentially result in the impairment of assets within this business segment.

- 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.

Our retail stores carry many perishable products which may result in significant product inventory losses in the event of extended power outages, natural disasters, or other catastrophic occurrences.

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- 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 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
- 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 that 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 ALL OF OUR BUSINESSES

- A Major Epidemic or Pandemic or other Widespread Public Health Issue Could Adversely Affect Our Results of Operations and Financial Condition.

The emergence and spread of a major epidemic or pandemic (such as COVID-19) or other widespread public health issue could affect our employees, suppliers and/or customers and cause disruption in our operations including, but not limited to, travel restrictions, temporary closing of one or more of our distribution warehouses or retail stores, labor shortages, supply chain interruptions, business shutdowns, or regional quarantines. These disruptions could negatively affect our ability to service our customers, could contribute to adverse economic conditions including decreases in demand for the products we distribute, resulting in lower sales and profitability, or could present increased credit risk to the Company from customer credit defaults resulting from an economic downturn. In addition to the potential operational risks described above, disruptions caused by a widespread public health issue could present increased reputational risk to the Company or result in legal claims or costly response measures.

- Risk Associated with Equity Investments or the Acquisition of Assets or New Businesses.

From time to time, one or both of the Company's business segments may acquire assets from other businesses, may acquire all or a portion of another business, or may make an equity investment in another business through the purchase of stock or other means. The purchase of assets or of all or part of a business or an equity investment in another business can bring significant risks to the Company in a number of areas including purchase price, amount of equity investment, business valuation and recording risks, customer retention risks, risks associated with the assumption of liabilities or obligations, integration risks, technology risks, risks associated with the addition of new employees such as health care costs, and a wide range of other risks and considerations. While the Company strives to minimize the risks associated with its acquisition or equity investment activities, issues may arise which could have a material negative impact on the Company's results of operations, balance sheet, and cash flows.

- Risks Associated with Trade Tariffs.

The Company purchases products from a wide range of vendors in both of its businesses. Some of our vendors may import certain products as part of their manufacturing processes and could be impacted by higher costs resulting from trade tariffs. Further, the impact of higher costs at the retail level may negatively impact consumer disposable income and demand. In the event that our product purchase costs from our vendors increase and we cannot pass on those price increases or if the retail level demand for the products we sell decreases, the Company's results of operations, balance sheet, and cash flows could be negatively impacted.

- Employee Healthcare Benefits Represent a Significant Expense for Our Company and May Negatively Affect Our Profitability.

Healthcare represents a significant expense item for our Company and there is a general upward trend in healthcare costs nationwide. While we strive to control these costs through modifications to insurance coverage, including co-pays and deductibles, there can be no assurance that we will be as successful in controlling such costs in the future. Continued increases in healthcare costs, as well as changes in laws, regulations, and assumptions used to calculate health and benefit expenses, may adversely affect our business, financial position and results of operations.

- 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. 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 have a material adverse impact on our results of operations, cash flow, business, and overall financial condition.

- Risk Associated with Insurance Plans Claims.

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability, and employee health care benefits. Liabilities associated with these risks are estimated by the Company, in part, by considering historical claims experience, demographic factors, severity factors, and other assumptions. Our results could be materially impacted by claims and other expenses related to such insurance plans if future occurrences and claims differ from these assumptions and historical trends.

- A 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. 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 less expensive 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. In a period of economic downturn or if the economy deteriorates, it could 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 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.

- We Rely Heavily on Our Information Technology Systems to Operate Our Business. Any Disruptions to These Technology Systems Including Security Breaches, Cyber-Attacks, Malware, or Other Methods by Which Our Information Systems Could Be Compromised, May Have a Material Negative Impact on Our Business.

We rely extensively on our information technology systems to run all aspects of our business. If any of our information technology systems are damaged or made unavailable due to a wide range of issues such as power outages, computer and telecommunications failures, computer viruses, security breaches, malware, or compromised by any other method, it could have a material negative impact on our 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 the products we carry, 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.

- Impairment Charges for Goodwill or Other Intangible Assets Could Adversely Affect Our Financial Condition and Results of Operations.

We annually test goodwill and intangible assets with indefinite useful lives to determine if impairment has occurred. Additionally, interim reviews must be performed whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made.

The testing of goodwill and other intangible assets for impairment requires management to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including potential changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in our stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates of our future performance, may affect the fair value of goodwill or other intangible assets, which may result in impairment charges. Additionally, we may not be able to accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, our financial condition and results of operations may be adversely affected.

- Capital Needed for Expansion May Not Be Available.

The acquisition of other distributors or existing retail stores, the development and opening of new retail stores and distribution facilities, and the expansion of existing 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.

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- 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.

We do not have any significant long-term contracts with suppliers in our wholesale business 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, labor shortages, supply chain and transportation disruptions, inclement weather, drought, natural disasters, epidemics, pandemics or other widespread public health issues, or other catastrophic events and the adverse effects of climate change. 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 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 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 Some 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, particularly in the area of truck drivers and warehouse workers. 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 2021 approximately thirty of our delivery drivers in our Wholesale Segment are covered by a collective bargaining agreement with a labor organization, which expires in November 2023.

- 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.

As a distributor and retailer of food products, we are subject to regulation by the FDA. Our operations are also subject to regulation by the USDA, OSHA, ATF, DOT 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, as was true as of September 30, 2021, 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 American, 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, as was true as of September 30, 2021, our obligation 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 American. 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.

ITEM 2. PROPERTIES

The location and approximate square footage of the Company’s six distribution centers and twenty retail stores at September 2021 are set forth below:

Location	Square Feet
Distribution—IL, MO, ND, NE, SD, & TN	685,000
Retail—AR, FL, MO, & OK	195,200
Total Square Footage	<u>880,200</u>

The Company leases certain distribution facilities, retail stores, offices, and certain equipment under noncancellable operating leases. Our Quincy, Illinois; both of our Bismarck, North Dakota; and our Rapid City, South Dakota distribution facilities are owned by our Company, and some are subject to first mortgages by banks and other lenders. 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.

Name	Age	Position
Christopher H. Atayan	61	Chairman of the Board, Chief Executive Officer, Director
Andrew C. Plummer	47	President, Chief Operating Officer, Director
Charles J. Schmaderer	52	Vice President, Chief Financial Officer, Secretary

CHRISTOPHER H. ATAYAN has served in various senior executive positions with the Company since 2006, including his service as Chairman of the Board since 2008 and Chief Executive Officer since 2006, and has been a director of the Company since 2004. Mr. Atayan served as Senior Managing Director of Slusser Associates, Inc., a private equity and investment banking firm, from 1988 to 2020, and had been engaged in private equity and investment banking since 1982. He also serves on the Board of Eastek Holdings, LLC a contract manufacturing company.

ANDREW C. PLUMMER has served as our President and Chief Operating Officer since October 2018, as our Chief Financial Officer from January 2007 to October 2020, and as our Secretary from January 2007 to October 2018. From 2004 to 2007, Mr. Plummer served our company in various roles including Acting Chief Financial Officer, Corporate Controller, and Manager of SEC Compliance. Prior to joining our company in 2004, Mr. Plummer practiced public accounting, primarily with the accounting firm Deloitte and Touche, LLP (now Deloitte).

CHARLES J. SCHMADERER has served as the Company’s Chief Financial Officer since October 2020, as Vice President since April 2018, as Secretary since October 2018 and as Corporate Controller from April 2018 to October 2020. From 2006 to 2018, Mr. Schmaderer served the Company in various roles including as the Vice President of Financial Reporting and Assistant Secretary, and as the Director of Financial and SEC Reporting. Prior to joining AMCON in 2006, Mr. Schmaderer held financial management roles with Hewlett Packard (HP) and before that practiced public accounting, primarily with the accounting firm Grant Thornton, LLP. Mr. Schmaderer also holds a Master of Business Administration (MBA) from the University of Nebraska-Omaha.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON STOCK

The Company's common stock trades on NYSE American under the trading symbol "DIT". As of November 4, 2021, the closing price of our common stock on NYSE American was \$127.28 and there were 582,789 common shares outstanding. As of that date, the Company had approximately 778 persons holding common shares beneficially of which approximately 128 are shareholders of record (including direct participants in the Depository Trust Company).

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 the Company may not pay dividends on its common shares in excess of \$3.5 million on an annual basis. There is no limit on dividend payments provided that certain excess availability measurements have been maintained for the thirty day period immediately prior to the payment of any such dividends or distributions, and immediately after giving effect to any such dividend or distribution payments, the Company has a fixed charge coverage ratio of at least 1.0 to 1.0 as defined in the credit facility agreement.

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 \$3.4 million, or \$5.72 per common share during fiscal 2021, and \$0.6 million, or \$1.00 per common share during fiscal 2020.

During the fiscal years ended September 30, 2021 and September 30, 2020, the Company did not sell any unregistered securities. The Company issued unregistered securities to certain members of the Company's management team in relation to the vesting of restricted stock units as described in Note 11 of Part II, Item 8. These issuances were exempt from registration under Section 4(a)(2) of the Securities Act of 1933.

REPURCHASE OF COMPANY SHARES

The Company repurchased a total of 68 and 28,727 shares of its common stock during fiscal 2021 and fiscal 2020, respectively, for cash totaling less than \$0.1 million and approximately \$2.0 million, respectively. All repurchased shares were recorded in treasury stock at cost. At September 2021, 74,932 shares of the Company's common shares remained authorized for repurchase in either the open market or privately negotiated transactions, as previously approved by the Company's Board of Directors. The Company did not repurchase any shares of its common stock during the fourth quarter of fiscal 2021. In October 2021, our Board of Directors renewed the repurchase authorization for up to 75,000 shares of the Company's common stock.

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.

ITEM 6. [RESERVED]

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 Estimates 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 2021 and September 2020. For more information regarding our business segments, see Item 1 “Business” of this Annual Report.

Business Update

While the Company experienced strong fiscal 2021 results, it remains cautious moving into fiscal 2022 and beyond based on a range of considerations including, but not limited to, those described below.

First, since the onset of the COVID-19 pandemic, both of our businesses have experienced an increase in demand and sales across a broad range of products. It remains unclear, however, if these demand trends will remain intact or if they will eventually revert back to more historical levels over time.

Secondly, worldwide supply chains continue to remain highly disrupted, which has impacted product availability and resulted in product pricing inflation and may impact long term demand trends.

Finally, the United States is experiencing an acute workforce shortage, which has also impacted the Company, particularly as it relates to filling warehouse and transportation roles.

All of these factors have contributed to an inflationary environment resulting in higher labor costs and an overall increase in the Company's cost structure.

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 2021 and 2020:

	Fiscal Years	
	2021	2020
Sales	100.0 %	100.0 %
Cost of sales	94.0	94.2
Gross profit	6.0	5.8
Selling, general and administrative expenses	4.7	5.0
Depreciation	0.2	0.2
Operating income	1.1	0.6
Interest expense	0.1	0.1
Income before income taxes	1.0	0.5
Income tax expense	0.3	0.1
Equity method investment earnings, net of tax	0.2	—
Net income available to common shareholders	0.9 %	0.4 %

(\$ in millions)	Fiscal Years		Incr (Decr) (2)
	2021	2020	
CONSOLIDATED:			
Sales(1)	\$ 1,672.4	\$ 1,521.3	\$ 151.1
Cost of sales	1,571.8	1,433.5	138.3
Gross profit	100.5	87.7	12.8
Gross profit percentage	6.0 %	5.8 %	
Operating expense	\$ 82.7	\$ 78.7	\$ 4.0
Operating income	17.8	9.1	8.7
Interest expense	1.3	1.7	(0.4)
Income tax expense	4.5	2.1	2.4
Equity method investment earnings, net of tax	3.4	0.2	3.2
Net income available to common shareholders	15.5	5.5	10.0
BUSINESS SEGMENTS:			
Wholesale			
Sales	\$ 1,625.1	\$ 1,475.3	\$ 149.8
Gross profit	82.6	71.6	11.0
Gross profit percentage	5.1 %	4.9 %	
Retail			
Sales	\$ 47.3	\$ 46.0	\$ 1.3
Gross profit	17.9	16.1	1.8
Gross profit percentage	37.8 %	35.0 %	

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$30.1 million and \$26.8 million in fiscal 2021 and fiscal 2020, respectively.

(2) Calculated based on rounded numbers as presented in the table.

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 and mix 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 2021 vs. Fiscal 2020

Sales in our Wholesale Segment increased \$149.8 million during fiscal 2021 as compared to fiscal 2020. Significant items impacting sales during fiscal 2021 included a \$69.8 million increase in sales related to price increases implemented by cigarette manufacturers, a \$65.2 million increase in sales related to higher sales volume in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories (“Other Products”), and a \$14.8 million increase in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment increased \$1.3 million in fiscal 2021 as compared to fiscal 2020. Significant items impacting sales during fiscal 2021 included a \$2.3 million increase in sales related to higher sales volumes in our existing stores, partially offset by a \$1.0 million decrease in sales related to the closure of two non-performing stores on a comparative basis.

Sales in both of our business segments benefitted from higher consumer demand across a range of product categories.

GROSS PROFIT—Fiscal 2021 vs. Fiscal 2020

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 \$11.0 million during fiscal 2021 as compared to fiscal 2020. Of this change, approximately \$9.4 million related to higher sales in our Other Products category, \$1.4 million related to an increase in the benefit recognized from cigarette manufacturer price increases, and a \$0.2 million increase related to the volume and mix of cigarettes sold. Gross profit in our Retail Segment increased \$1.8 million in fiscal 2021 as compared to fiscal 2020. This change was primarily related to higher sales and gross margins in our existing stores resulting from operational enhancements and variations in volume and product mix between the comparative periods, partially offset by the closure of two non-performing stores on a comparative basis.

OPERATING EXPENSE—Fiscal 2021 vs. Fiscal 2020

Operating expense includes selling, general and administrative expenses and depreciation. Selling, general, and administrative expenses primarily consist of costs related to our sales, warehouse, delivery and administrative departments, including purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders. Our most significant expenses relate to costs associated with employees, facility and equipment leases, transportation, fuel, and insurance.

Our fiscal 2021 consolidated operating expenses increased \$4.1 million as compared to fiscal 2020. Our fiscal 2021 Wholesale Segment operating expenses increased \$5.9 million as compared to fiscal 2020. Significant items impacting operating expenses in our Wholesale Segment during fiscal 2021 included a \$4.1 million increase in employee compensation and benefit costs resulting in part due to a highly competitive labor market which has increased wage levels

across all functional areas of the Company, particularly for warehouse associates and transportation roles. Additionally, the Company experienced a \$1.3 million increase in health and other insurance costs, a \$0.4 million increase in fuel costs primarily related to higher diesel fuel prices, and a \$0.5 million increase in other general operating expenses. These increases were partially offset by a \$0.4 million decrease in our customer bad debt expense on a comparative basis.

Our fiscal 2021 Retail Segment operating expenses decreased \$1.8 million as compared to fiscal 2020. Significant items impacting operating expenses in our Retail Segment during fiscal 2021 included a \$1.0 million decrease in operating expenses related to the closure of two non-performing stores on a comparative basis, a decrease of \$0.5 million related to impairment charges between the comparative periods, and a \$0.3 million decrease in other operating expenses.

INCOME TAX EXPENSE —Fiscal 2021 vs. Fiscal 2020

The change in the Company's income tax rate between the comparative fiscal periods was primarily related to non-deductible compensation expense in relation to the amount of income from operations before income tax expense between the comparative periods.

Liquidity and Capital Resources

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

In general, the Company finances its operations through a credit facility agreement (the "Facility") with Bank of America acting as the senior agent and with BMO Harris Bank ("BMO") participating in the loan syndication. The Facility included the following significant terms at September 2021:

- A March 2025 maturity date without a penalty for prepayment.
- \$110.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the Facility by \$25.0 million.
- A provision providing an additional \$10.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.
- The Facility bears interest at either the bank's prime rate, or at LIBOR (or equivalent rate index) plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company. For these purposes, in no event shall LIBOR be less than 50 basis points.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent ($1/4\%$) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.

- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's fixed charge coverage ratio was over 1.0 for the trailing twelve months.
- Provides that the Company may use up to \$3.5 million annually, on a collective basis, for the payment of dividends on its common stock, or other distributions or investments, provided the Company is not in default before or after such dividends, distributions or investments. Additionally, the Company may pay dividends on its common stock, or make other distributions or investments in excess of \$3.5 million annually provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after such dividends, distributions or investments.

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 2021 was \$109.5 million, of which \$43.7 million was outstanding, leaving \$65.8 million available.

At September 2021, 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 1.89% at September 2021.

During fiscal 2021, our peak borrowings under the Facility were \$71.7 million and our average borrowings and average availability were \$44.3 million and \$46.5 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 owns real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause it to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at September 2021. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividend Payments

The Company paid cash dividends of \$3.4 million, or \$5.72 per common share during fiscal 2021, and \$0.6 million, or \$1.00 per common share during fiscal 2020.

Other

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

Off-Balance Sheet Arrangements

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

Liquidity Risk

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

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

While the Company believes its liquidity position going forward will be adequate to sustain operations, 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 2021.

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, or because it has been discontinued. The use of estimates is required in determining either the net realizable value (for our wholesale business) or the lower of cost or market ("LCM") under the retail method (for our retail business) 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 either the net realizable value or the LCM of this inventory as if it were to be liquidated.
- Estimated net realizable value—For our wholesale business, the net realizable 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 net realizable value of the inventory.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF LONG-LIVED ASSETS, INCLUDING GOODWILL AND LEASED RIGHT-OF-USE ASSETS

Long-lived assets consist primarily of property and equipment, leased right-of-use (“ROU”) assets, intangible assets, and goodwill acquired in business combinations. Property and equipment, ROU assets and amortizable identified intangible assets are assigned useful lives ranging from 1 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 using both qualitative and quantitative analysis, or whenever events or circumstances change that indicate the carrying value of such long-lived assets may not be recoverable.

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 ROU assets and amortizable intangible assets such as customer lists, we rely on our historical experience in addition to estimates of how long certain assets will generate cash flows. If impairment indicators arise, we then evaluate the potential impairment of property and equipment, ROU assets and amortizable identifiable intangible assets using an undiscounted future cash flow approach.

When evaluating the potential impairment of non-amortizable indefinite-lived assets and goodwill, the Company first assesses 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, market prices, 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, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative evaluation is performed using the income approach (discounted cash flow method).

A discounted cash flow methodology requires the estimation of a wide range of factors including but not limited to: (i) forecasting future earnings and cash flows (ii) determining the discount rate applicable to the earnings stream being discounted, and (iii) computing a terminal value at some point in the future. These estimations require significant judgment and include making assumptions such as sales growth rates including the addition of new retail stores, future store profitability, planned capital expenditures, our ability to control costs, the successful implementation of initiatives designed to enhance sales and improve inventory management, gross profit estimates, 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, 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.

The Company's retail reporting unit recorded ROU asset and fixed asset impairment charges of approximately \$0.5 million during fiscal 2020 (See Notes 1 and 4). These impairment charges arose from a range of considerations including, but not limited to, heightened competition in the industry, retail sector market conditions, and earning shortfalls which impacted the Company's projections of future cash flows to be generated from such assets. To the extent that management's estimates of future performance for the Company's retail reporting unit are not realized, our business plans for future operations change, or if there is a further deterioration in the macro retailing operating environment, the future assumptions used in calculating the fair value of assets in the retail unit could differ and result in additional impairment charges.

Goodwill recorded on the Company's consolidated balance sheet represents amounts allocated to its wholesale reporting unit which totaled \$4.4 million at both September 2021 and September 2020. The Company determined that the estimated fair value of its wholesale reporting unit exceeded its carrying value at both September 2021 and September 2020.

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;
- 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 both our Wholesale Segment and our Retail Segment when the performance obligation is satisfied, which is the point at which control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods and services. For the majority of our customer arrangements, control transfers to customers at a point-in-time when goods have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods and services transfers to the customer. 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.

ACCOUNTING PRONOUNCEMENTS

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which introduces a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to understand the entity’s assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2022 (fiscal 2024 for the Company) with early adoption permitted. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting as the market transitions from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The amendments in this update were effective upon issuance for all entities through December 31, 2022. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

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 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(s),” “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.

It should be understood 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:

- risks associated with the Company’s business model which since the onset of the COVID-19 pandemic has experienced both higher sales volumes and labor costs, and the related risk of sales returning to more historical levels without the Company being able to offset increases in its cost structure,
- risks associated with the threat or occurrence of epidemics or pandemics (such as COVID-19) or other public health issues, including the continued health of our employees and management, the imposition of governmental orders restricting our operations and the activities of our employees, suppliers and customers and the reduced demand for our goods and services, in particular, disruptions to our supply chain or our ability to procure products or fulfill orders due to disruptions in our warehouse operations, or increased credit risk from customer credit defaults resulting from an economic downturn,
- risks associated with the acquisition of assets or new businesses or investments in equity investees by either of our business segments including, but not limited to, risks associated with purchase price and business valuation risks,

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vendor and customer retention risks, employee and technology integration risks, and risks related to the assumption of certain liabilities or obligations,

- increasing competition and market conditions in our wholesale and retail health food businesses and any associated impact on the carrying value and any potential impairment of assets (including intangible assets) within those businesses,
- that our repositioning strategy for our retail business will not be successful,
- risks associated with opening new retail stores,
- if online shopping formats such as Amazon™ continue to grow in popularity and further disrupt traditional sales channels, it may present a significant direct risk to our brick and mortar retail business and potentially to our wholesale distribution business,
- the potential impact that ongoing, decreasing, or changing trade tariffs and trade policies may have on our product costs or on consumer disposable income and demand,
- increasing product and operational costs resulting from ongoing COVID-19 related supply chain disruptions, an intensely competitive labor market with a limited pool of qualified workers, and higher incremental costs associated with the handling and transportation of certain product categories such as foodservice,
- increases in state and federal excise taxes on cigarette and tobacco products and the potential impact on demand, particularly as it relates to current legislation under consideration which could significantly increase such taxes,
- higher commodity prices and general inflation which could impact food ingredient costs and demand for many of the products we sell,
- regulations, potential bans and/or litigation related to the manufacturing, distribution, and sale of certain cigarette, tobacco, and e-cigarette/vaping products by the United States Food and Drug Administration (“FDA”), state or local governmental agencies, or other parties,
- increases in inventory carrying costs and customer credit risks,
- changes in pricing strategies and/or promotional/incentive programs offered by cigarette and tobacco manufacturers,
- demand for the Company’s products, particularly cigarette, tobacco and e-cigarette/vaping products,
- risks that product manufacturers may begin selling directly to convenience stores and bypass wholesale distributors,
- changes in laws and regulations and ongoing compliance related to health care and associated insurance,
- increasing health care costs for both the Company and consumers and its potential impact on discretionary consumer spending,
- decreased availability of capital resources,
- domestic regulatory and legislative risks,
- poor weather conditions, and the adverse effects of climate change,
- consolidation trends within the convenience store, wholesale distribution, and retail health food industries,

- natural disasters and domestic or political unrest, or any restrictions, regulations, or security measures implemented by governmental bodies in response to these items,
- 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of AMCON Distributing Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AMCON Distributing Company and its subsidiaries (the Company) as of September 30, 2021 and 2020, the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of goodwill

As described in Notes 1 and 5 to the financial statements, the Company performs goodwill impairment testing on an annual basis, or whenever events and changes in circumstances indicate that goodwill may be impaired. The Company's goodwill impairment testing is performed using the income approach (discounted cash flow method). To estimate fair value, the income approach requires the estimation of a wide range of factors including, but not limited to, forecasting future earnings and cash flows, determining the appropriate discount rate, and computing a terminal value at some point in the future. Significant judgment is needed in performing this analysis.

We identified the valuation of goodwill as a critical audit matter because of the significant assumptions used by the Company in determining fair value, including revenue and gross margin projections, terminal values and the discount rate. Auditing management's assumptions of revenue and gross margin projections, terminal values and the discount rate

involves a high degree of auditor judgment and the use of valuation specialists as changes in these assumptions could have significant impacts on the fair value of the reporting unit.

Our audit procedures related to the valuation of goodwill included the following, among others:

- We utilized a valuation specialist to evaluate the valuation model used by management to estimate fair value and evaluate whether it is reasonable in the circumstances by:
 - Developing independent estimates of the discount rates based on publicly available market data and comparing the resulting reporting unit fair values to management's estimates.
 - Testing the mathematical accuracy of the calculation.
- We tested the reasonableness of management's projections by comparing management's prior forecasts of future revenue and gross margins to historical results.
- We evaluated the reasonableness of management's assumptions related to the growth rate and gross margin by comparing to historical results and available market data.

RSM US LLP

We have served as the Company's auditor since 2006.

Omaha, Nebraska
November 8, 2021

AMCON Distributing Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 2021	September 2020
ASSETS		
Current assets:		
Cash	\$ 519,591	\$ 661,195
Accounts receivable, less allowance for doubtful accounts of \$0.9 million at September 2021 and September 2020	35,844,163	34,278,429
Inventories, net	95,212,085	98,971,773
Prepaid expenses and other current assets	4,999,125	2,091,645
Total current assets	<u>136,574,964</u>	<u>136,003,042</u>
Property and equipment, net	16,012,524	17,497,274
Operating lease right-of-use assets, net	17,846,529	18,936,126
Note receivable, net of current portion	3,325,000	3,500,000
Goodwill	4,436,950	4,436,950
Other intangible assets, net	500,000	500,000
Equity method investment	9,380,343	6,744,095
Other assets	334,819	383,786
Total assets	<u>\$ 188,411,129</u>	<u>\$ 188,001,273</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 24,235,042	\$ 22,108,299
Accrued expenses	11,468,955	8,306,160
Accrued wages, salaries and bonuses	4,489,852	4,761,020
Income taxes payable	867,160	567,408
Current operating lease liabilities	5,513,390	5,607,098
Current maturities of long-term debt	561,202	516,850
Total current liabilities	<u>47,135,601</u>	<u>41,866,835</u>
Credit facility	43,650,865	61,971,682
Deferred income tax liability, net	1,531,228	1,806,575
Long-term operating lease liabilities	12,669,157	14,028,606
Long-term debt, less current maturities	5,054,265	2,608,794
Other long-term liabilities	757,387	927,241
Shareholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized	—	—
Common stock, \$.01 par value, 3,000,000 shares authorized, 551,369 shares outstanding at September 2021 and 537,715 shares outstanding at September 2020	8,834	8,697
Additional paid-in capital	24,918,781	24,282,058
Retained earnings	83,552,298	71,362,334
Treasury stock at cost	(30,867,287)	(30,861,549)
Total shareholders' equity	<u>77,612,626</u>	<u>64,791,540</u>
Total liabilities and shareholders' equity	<u>\$ 188,411,129</u>	<u>\$ 188,001,273</u>

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

AMCON Distributing Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended September	
	2021	2020
Sales (including excise taxes of \$403.9 million and \$393.3 million, respectively)	\$ 1,672,378,581	\$ 1,521,278,763
Cost of sales	1,571,829,805	1,433,544,831
Gross profit	100,548,776	87,733,932
Selling, general and administrative expenses	79,631,140	75,051,227
Depreciation	3,093,017	3,116,449
Impairment charges	—	485,270
	82,724,157	78,652,946
Operating income	17,824,619	9,080,986
Other expense (income):		
Interest expense	1,339,560	1,693,251
Other (income), net	(203,228)	(114,276)
	1,136,332	1,578,975
Income from operations before income taxes	16,688,287	7,502,011
Income tax expense	4,501,000	2,143,000
Equity method investment earnings, net of tax	3,357,978	183,579
Net income available to common shareholders	\$ 15,545,265	\$ 5,542,590
Basic earnings per share available to common shareholders	\$ 28.24	\$ 9.88
Diluted earnings per share available to common shareholders	\$ 27.36	\$ 9.76
Basic weighted average shares outstanding	550,551	561,166
Diluted weighted average shares outstanding	568,103	567,961
Dividends declared and paid per common share	\$ 5.72	\$ 1.00

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

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, 2019	856,039	\$ 8,561	(303,425)	\$ (28,831,855)	\$ 23,165,639	\$ 66,414,397	\$ 60,756,742
Dividends on common stock, \$1.00 per share	—	—	—	—	—	(594,653)	(594,653)
Compensation expense and issuance of stock in connection with equity-based awards	13,828	136	—	—	1,116,419	—	1,116,555
Repurchase of common stock	—	—	(28,727)	(2,029,694)	—	—	(2,029,694)
Net income	—	—	—	—	—	5,542,590	5,542,590
Balance, September 30, 2020	869,867	\$ 8,697	(332,152)	\$ (30,861,549)	\$ 24,282,058	\$ 71,362,334	\$ 64,791,540
Dividends on common stock, \$5.72 per share	—	—	—	—	—	(3,355,301)	(3,355,301)
Compensation expense and issuance of stock in connection with equity-based awards	13,722	137	—	—	636,723	—	636,860
Repurchase of common stock	—	—	(68)	(5,738)	—	—	(5,738)
Net income	—	—	—	—	—	15,545,265	15,545,265
Balance, September 30, 2021	<u>883,589</u>	<u>\$ 8,834</u>	<u>(332,220)</u>	<u>\$ (30,867,287)</u>	<u>\$ 24,918,781</u>	<u>\$ 83,552,298</u>	<u>\$ 77,612,626</u>

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

AMCON Distributing Company and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 2021	September 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,545,265	\$ 5,542,590
Adjustments to reconcile net income from operations to net cash flows from (used in) operating activities:		
Depreciation	3,093,017	3,116,449
Equity method investment earnings, net of tax	(3,357,978)	(183,579)
Impairment charges	—	485,270
(Gain) loss on sales of property and equipment	(9,864)	105,039
Equity-based compensation	2,415,156	1,085,287
Deferred income taxes	(275,347)	(16,798)
Provision for losses on doubtful accounts	50,000	(21,000)
Inventory allowance	37,708	(322,240)
Changes in assets and liabilities:		
Accounts receivable	(1,615,734)	(9,591,809)
Inventories	3,721,980	3,693,984
Prepaid and other current assets	(2,732,480)	4,794,469
Equity method investment distributions	1,392,730	—
Other assets	48,967	(110,207)
Accounts payable	1,998,494	3,529,980
Accrued expenses and accrued wages, salaries and bonuses	1,164,828	1,353,113
Other long-term liabilities	(169,854)	885,230
Income taxes payable and receivable	(371,248)	857,270
Net cash flows from (used in) operating activities	<u>20,935,640</u>	<u>15,203,048</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,525,882)	(3,356,573)
Proceeds from sales of property and equipment	55,728	43,600
Investment in equity method investee	—	(6,500,000)
Issuance of note receivable	—	(3,500,000)
Net cash flows from (used in) investing activities	<u>(1,470,154)</u>	<u>(13,312,973)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	1,663,751,276	1,515,476,055
Repayments under revolving credit facility	(1,682,072,093)	(1,513,881,087)
Proceeds from borrowings on long-term debt	3,000,000	—
Principal payments on long-term debt	(510,177)	(532,747)
Proceeds from exercise of stock options	—	25,750
Repurchase of common stock	(5,738)	(2,029,694)
Dividends on common stock	(3,355,301)	(594,653)
Settlement and withholdings of equity-based awards	(415,057)	(30,208)
Net cash flows from (used in) financing activities	<u>(19,607,090)</u>	<u>(1,566,584)</u>
Net change in cash	(141,604)	323,491
Cash, beginning of period	661,195	337,704
Cash, end of period	<u>\$ 519,591</u>	<u>\$ 661,195</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,353,985	\$ 1,743,098
Cash paid during the period for income taxes	5,138,454	1,302,528
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified in accounts payable	\$ 128,249	\$ —
Issuance of common stock in connection with the vesting and exercise of equity-based awards	949,812	990,653

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Company Operations:

AMCON Distributing Company and Subsidiaries (“AMCON” or “the Company”) serves customers in 26 states and is primarily engaged in the wholesale distribution of consumer products in the Central, Rocky Mountain, and Mid-South regions of the United States.

AMCON’s wholesale distribution business includes six distribution centers that sell approximately 17,700 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and refrigerated 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, through its Healthy Edge Inc. subsidiary, operates twenty retail health food stores as Chamberlin’s Natural Foods (“Chamberlin’s”), Akin’s Natural Foods (“Akin’s”), and Earth Origins Market (“EOM”). These stores carry natural supplements, organic and natural 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 68% and 69% of the Company’s consolidated revenue during fiscal 2021 and fiscal 2020, respectively, and 16% and 17% of the Company’s consolidated gross profit during fiscal 2021 and fiscal 2020, respectively.

(b) Accounting Period:

The Company’s fiscal year ends on September 30 and the fiscal years ended September 30, 2021 and September 30, 2020 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 September 2021 and September 2020 totaled approximately \$1.0 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 7). 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, including trade receivables from customers and other receivables primarily related to various rebate and promotional incentives with the Company's suppliers. An allowance for doubtful accounts is maintained to reflect the expected uncollectibility of accounts 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. As of September 2021 and September 2020, receivables from transactions with customers, less allowance for doubtful accounts were \$34.3 million and \$33.3 million, respectively.

(f) Inventories:

At September 2021 and September 2020, inventories in our wholesale segment consisted of finished goods and are stated at the lower of cost or net realizable value determined on a FIFO basis. Inventories in our retail segment consisted of finished goods and are stated at the lower of cost or market using the retail method. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods included total reserves of approximately \$0.8 million and \$0.7 million at September 2021 and September 2020, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

(g) Prepaid Expenses and Other Current Assets:

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

	September 2021	September 2020
Prepaid expenses	\$ 1.6	\$ 1.6
Prepaid inventory	3.2	0.5
Note receivable, current portion	0.2	—
	<u>\$ 5.0</u>	<u>\$ 2.1</u>

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 and improvements	5 - 40
Warehouse equipment	3 - 15
Furniture, fixtures and leasehold improvements	1 - 12
Vehicles	2 - 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 asset group are estimated over the asset's useful life of the primary asset and based on updated projections on an undiscounted basis. If the evaluation indicates that the carrying value of the asset group may not be recoverable, the potential impairment is

determined based on the amount by which the carrying value of the asset group exceeds the fair value of the asset group. There was no impairment of any property and equipment during fiscal 2021. The Company recorded impairment charges of approximately \$0.5 million during fiscal 2020 related to a non-performing store in our retail reporting unit, of which \$0.2 million was related to fixed assets.

(i) Leases:

Lease liabilities are equal to the present value of the remaining fixed lease payments. Right-of-use (“ROU”) assets are determined based on the amount of the lease liability, plus initial direct costs incurred less lease incentives. The Company determines its incremental borrowing rates based on information available at the lease commencement date in calculating the present value of its lease payments. The Company does not recognize assets or liabilities for leases with an initial term of twelve months or less and these short-term lease payments are recognized in the consolidated statements of operations on a straight-line basis over the lease term. The Company elected the practical expedient to account for non-lease components as part of the lease for all asset classes. The Company reviews its ROU lease assets for indicators of impairment in the same manner as its other property and equipment as described above in *(h) Property and Equipment*.

(j) Goodwill and Intangible Assets:

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

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, the Company first assesses 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, market prices, 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, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative evaluation is performed using the income approach (discounted cash flow method).

A discounted cash flow methodology requires the estimation of a wide range of factors including but not limited to: (i) forecasting future earnings and cash flows, (ii) determining the discount rate applicable to the earnings stream being discounted, and (iii) computing a terminal value at some point in the future. These estimations require significant judgment and include making assumptions such as sales growth rates including the addition of new retail stores, future store profitability, planned capital expenditures, our ability to control costs, the successful implementation of initiatives designed to enhance sales and improve inventory management, gross profit estimates, 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, 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.

For goodwill impairment testing, the Company utilizes the guidance in ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” whereby a reporting unit’s carrying value is compared to its fair value and impairment charges are recognized for an amount by which a reporting unit’s carrying amount exceeds its fair value.

The Company's identifiable intangible assets with finite lives are amortized over their estimated useful lives and are assessed for impairment whenever events or circumstances change which may indicate that the carrying amount of the assets may not be recoverable. Identifiable intangible assets which are 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 assets are written down to their estimated fair value.

(k) Equity Method Investment:

The Company uses the equity method to account for its investment in an investee if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. The Company's proportionate share of the net income or loss (net of income taxes) of the investee is included in consolidated net earnings. Judgment regarding the level of influence over its equity method investment includes considering key factors such as the Company's ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions. The Company evaluates its equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Factors considered by the Company when reviewing its equity method investment for impairment include the length of time (duration) and the extent (severity) to which the fair value of the equity method investment has been less than cost, the investee's financial condition and future prospects, and the intent and ability to hold the investment for a period of time sufficient to allow for anticipated recovery. An impairment that is other-than-temporary is recognized in the period identified. See Note 6 (Equity Method Investment) for further information relating to the Company's equity method investment.

(l) Revenue Recognition:

The Company recognizes revenues when the performance obligation is satisfied, which is the point where control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. For the majority of the Company's customer arrangements, control transfers to customers at a point-in-time when goods have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customer. The timing of satisfaction of the performance obligation is not subject to significant judgment due to the simultaneous nature of the Company's customer arrangements (same day creation and fulfillment). After the completion of its performance obligations, the Company has an unconditional right of payment from customers with varying collection and payment terms based on region, credit risk, and other situational factors. Customer receivables are included on the consolidated balance sheets less an allowance for doubtful accounts. The Company has elected the practical expedient permitting it to disregard financing components which may be deemed to be part of its transaction price as its customary payments terms are less than one year. See Note 12 "Business Segments" for the disaggregation of net sales for each of our business segments.

(m) 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 \$0.5 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 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.

(n) 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.

(o) 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 stock options are 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 units is based on the period ending closing price of the Company's common stock. 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."

(p) Customer Sales Incentives:

The Company provides consideration to customers, such as sales allowances or discounts on a regular basis. In accordance with ASC 606, the Company estimates customer sales incentives due as sales are made and records them as a reduction of net sales.

(q) Excise Taxes:

Under ASC 606, the Company is primarily responsible for excise taxes levied on cigarette and other tobacco products and presents excise taxes as a component of revenue.

(r) Contract Costs:

Under ASC 606, the Company expenses as incurred any incremental costs to obtain and fulfill customer contracts as the related amortization period would be one year or less.

(s) 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 restricted stock units.

(t) 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.

(u) Fair Value Measurements:

The Company's financial assets and liabilities are recognized or disclosed at fair value in the financial statements on a recurring basis. The carrying amount of trade accounts receivable, other receivables, trade accounts payable, accounts payable and other accrued liabilities approximates fair value because of the short maturity of these financial instruments. The carrying amount of the Company's variable and fixed rate debt also approximates fair value.

(v) Accounting Pronouncements:

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which introduces a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands the disclosure requirements to enable users of financial statements to

understand the entity’s assumptions, models and methods for estimating expected credit losses. This guidance is effective for fiscal years beginning after December 15, 2022 (fiscal 2024 for the Company) with early adoption permitted. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting as the market transitions from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The amendments in this update were effective upon issuance for all entities through December 31, 2022. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

2. EARNINGS PER SHARE:

Basic earnings per share available to common shareholders is calculated by dividing net income by the weighted average number of common shares outstanding for each period. Diluted earnings per share available to common shareholders is calculated by dividing income from operations by the sum of the weighted average number of common shares outstanding and the weighted average dilutive equity awards.

	For Fiscal Years	
	2021 Basic	2020 Basic
Weighted average number of common shares outstanding	550,551	561,166
Net income available to common shareholders	\$ 15,545,265	\$ 5,542,590
Net earnings per share available to common shareholders	\$ 28.24	\$ 9.88

	For Fiscal Years	
	2021 Diluted	2020 Diluted
Weighted average number of common shares outstanding	550,551	561,166
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock (1)	17,552	6,795
Weighted average number of shares outstanding	568,103	567,961
Net income available to common shareholders	\$ 15,545,265	\$ 5,542,590
Net earnings per share available to common shareholders	\$ 27.36	\$ 9.76

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

3. PROPERTY AND EQUIPMENT, NET:

Property and equipment at September 2021 and September 2020 consisted of the following:

	2021	2020
Land	\$ 773,068	\$ 773,068
Buildings and improvements	12,616,923	12,605,512
Warehouse equipment	15,859,084	15,409,944
Furniture, fixtures and leasehold improvements	13,426,684	13,539,336
Vehicles	4,085,971	3,846,227
Construction in progress	93,162	33,149
	46,854,892	46,207,236
Less accumulated depreciation:	(30,842,368)	(28,709,962)
Owned property and equipment	\$ 16,012,524	\$ 17,497,274

4. LEASES:

The Company's wholesale segment leases certain warehouse facilities, office space, vehicles and office equipment. The Company's retail segment leases store space in various shopping center complexes. Certain of the warehouse and retail store leases include one or more options to renew or terminate the applicable lease agreement, with the exercise of such options at the Company's discretion. The Company's leases do not contain any significant residual value guarantees nor do they impose any significant restrictions or covenants other than those customarily found in similar types of leases.

The operating ROU lease assets and liabilities recorded on the Company's consolidated balance sheets consist of fixed lease payments. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets and are expensed on a straight-line basis over the lease term. Additionally, certain leases contain variable payments such as vehicle leases with per-mile charges or retail leases with an additional rent payment based on store performance. These variable payments are expensed as incurred. The Company combines lease components and non-lease components for all asset classes for purposes of recognizing lease assets and liabilities. The Company determines its incremental borrowing rates based on information available at the lease commencement date in calculating the present value of lease payments. The Company reviews its ROU lease assets for indicators of impairment in the same manner as its other property and equipment as described in Note 1. The Company recorded impairment charges of approximately \$0.5 million during fiscal 2020 related to a non-performing store in our retail reporting unit, of which \$0.3 million was related to a ROU asset.

Leases consist of the following:

Assets	Classification	September 2021	September 2020
Operating	Operating lease right-of-use assets	<u>\$ 17,846,529</u>	<u>\$ 18,936,126</u>
Liabilities			
Current:			
Operating	Operating lease liabilities	\$ 5,513,390	\$ 5,607,098
Non-current:			
Operating	Long-term operating lease liabilities	<u>12,669,157</u>	<u>14,028,606</u>
Total lease liabilities		<u>\$ 18,182,547</u>	<u>\$ 19,635,704</u>

The components of lease costs were as follows:

	Fiscal Year 2021	Fiscal Year 2020
Operating lease cost	\$ 6,152,332	\$ 6,757,206
Short-term lease cost	64,054	261,708
Variable lease cost	<u>472,097</u>	<u>350,313</u>
Net lease cost	<u>\$ 6,688,483</u>	<u>\$ 7,369,227</u>

Maturities of lease liabilities as of September 2021 were as follows:

	Operating Leases
2022	\$ 6,095,915
2023	5,121,599
2024	3,623,968
2025	2,365,515
2026	1,407,790
2027 and thereafter	966,600
Total lease payments	<u>19,581,387</u>
Less: interest	<u>(1,398,840)</u>
Present value of lease liabilities	<u>\$ 18,182,547</u>

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Weighted-average remaining lease term and weighted-average discount rate information regarding the Company's leases were as follows:

Lease Term	September 2021	September 2020
Weighted-average remaining lease term (years):		
Operating	4.0	4.2
Discount Rate		
Weighted-average discount rate:		
Operating	3.82 %	4.04 %

Other information regarding the Company's leases were as follows:

	Fiscal Year 2021	Fiscal Year 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used by operating leases	\$ 6,490,457	\$ 6,661,365
Lease liabilities arising from obtaining new ROU assets:		
Operating leases	\$ 1,873,972	\$ 3,116,737

5. GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill at September 2021 and September 2020 was as follows:

	September 2021	September 2020
Wholesale Segment	<u>\$ 4,436,950</u>	<u>\$ 4,436,950</u>

Other intangible assets at September 2021 and September 2020 consisted of the following:

	September 2021	September 2020
Trademarks and tradenames (Retail Segment)	<u>\$ 500,000</u>	<u>\$ 500,000</u>

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets.

Goodwill recorded on the Company's consolidated balance sheets represents amounts allocated to its wholesale reporting unit which totaled \$4.4 million at both September 2021 and September 2020. The Company determined that the estimated fair value of its wholesale reporting unit exceeded its carrying value at both September 2021 and September 2020.

6. EQUITY METHOD INVESTMENT:

In April 2020, the Company completed a transaction with Chas. M. Sledd Company ("Sledd"), a West Virginia wholesale distributor serving the convenience store industry, to jointly own and operate Team Sledd, LLC ("Team Sledd"), a limited liability company formed for the purpose of owning and operating Sledd's wholesale distribution business. Sledd contributed substantially all of its assets and stated liabilities to Team Sledd, while the Company contributed \$10.0 million in cash, of which \$6.5 million was structured as equity and \$3.5 million was structured as a secured loan to Team Sledd which is subordinate to the liens of Team Sledd's existing secured lenders.

At September 2021 and September 2020, AMCON owned approximately 49% and 44% of Team Sledd's outstanding equity, respectively, with a carrying value of \$9.4 million and \$6.7 million, respectively. The Company recognized equity in earnings (net of income taxes) from its investment in Team Sledd of approximately \$3.4 million and \$0.2 million during fiscal 2021 and fiscal 2020, respectively. The Company's secured loan to Team Sledd had a carrying value of \$3.5 million at both September 2021 and September 2020. As of September 2021, approximately \$0.2 million of the secured loan

balance is recorded as a component of prepaid expenses and other current assets on the consolidated balance sheets. Pursuant to an operating agreement between the Company and Sledd, certain membership interests in Team Sledd may be redeemed over a period of years, with such redemptions being funded from the operations of Team Sledd. Any such redemptions would result in a corresponding increase in the percentage of the outstanding equity of Team Sledd owned by AMCON.

Team Sledd’s summarized financial data for the periods ended September 2021 and September 2020 was as follows:

	For the year ended September 2021	For the six months ended September 2020
Sales	\$ 684,539,392	\$ 350,685,407
Gross profit	34,962,326	14,218,204
Net income before income taxes	8,597,997	551,280
Net income attributable to AMCON, net of tax	3,357,978	183,579

7. DEBT:

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

CREDIT FACILITY

	2021	2020
Revolving portion of the Facility, interest payable at 1.89% at September 2021	\$ 43,650,865	\$ 61,971,682

The Facility included the following significant terms at September 2021:

- A March 2025 maturity date without a penalty for prepayment.
- \$110.0 million revolving credit limit.
- Loan accordion allowing the Company to increase the size of the Facility by \$25.0 million.
- A provision providing an additional \$10.0 million of credit advances for certain inventory purchases.
- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.
- The Facility bears interest at either the bank’s prime rate, or at LIBOR (or equivalent successor rate index) plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company. For these purposes, in no event shall LIBOR be less than 50 basis points.
- Lending limits subject to accounts receivable and inventory limitations.
- An unused commitment fee equal to one-quarter of one percent ($1/4\%$) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Secured by collateral including all of the Company’s equipment, intangibles, inventories, and accounts receivable.
- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company’s fixed charge coverage ratio was over 1.0 for the trailing twelve months.

- Provides that the Company may use up to \$3.5 million annually, on a collective basis, for the payment of dividends on its common stock, or other distributions or investments, provided the Company is not in default before or after such dividends, distributions or investments. Additionally, the Company may pay dividends on its common stock, or make other distributions or investments in excess of \$3.5 million annually provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after such dividends, distributions or investments.

During fiscal 2021, total borrowings and repayments on the Facility were approximately \$1.7 billion and \$1.7 billion, respectively, resulting in net payments of \$18.3 million. Total borrowings and repayments on the Facility during fiscal 2020 were approximately \$1.5 billion and \$1.5 billion, respectively, resulting in net advances of \$1.6 million.

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 2021 was \$109.5 million, of which \$43.7 million was outstanding, leaving \$65.8 million available.

LONG-TERM DEBT

In addition to the Facility, the Company also had the following long-term obligations at September 2021 and September 2020.

	<u>2021</u>	<u>2020</u>
Real Estate Loan, interest payable at a fixed rate of 3.625% with monthly installments of principal and interest of \$47,399 through February 2025 with remaining principal due March 2025, collateralized by three distribution facilities	\$ 4,498,213	\$ 1,866,231
Note payable, interest payable at a fixed rate of 4.50% with quarterly installments of principal and interest of \$49,114 through June 2023 with remaining principal due September 2023	1,117,254	1,259,413
	<u>5,615,467</u>	<u>3,125,644</u>
Less current maturities	(561,202)	(516,850)
	<u>\$ 5,054,265</u>	<u>\$ 2,608,794</u>

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

<u>Fiscal Year Ending</u>	
2022	\$ 561,202
2023	1,396,332
2024	443,508
2025	3,214,425
2026	—
	<u>\$ 5,615,467</u>

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 2021.

Cross Default and Co-Terminus Provisions

The Company owns real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term Real Estate Loan with BMO which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause the loan to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at September 2021. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

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

8. INCOME TAXES:

The components of income tax expense from operations for fiscal 2021 and fiscal 2020 consisted of the following:

	2021	2020
Current: Federal	\$ 3,631,619	\$ 1,690,956
Current: State	1,144,728	468,842
	<u>4,776,347</u>	<u>2,159,798</u>
Deferred: Federal	(233,907)	(14,270)
Deferred: State	(41,440)	(2,528)
	<u>(275,347)</u>	<u>(16,798)</u>
Income tax expense	<u>\$ 4,501,000</u>	<u>\$ 2,143,000</u>

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 21% for both fiscal 2021 and fiscal 2020 on income before income taxes is as follows:

	2021	2020
Tax at statutory rate	\$ 3,504,540	\$ 1,575,422
Non deductible business expenses	232,684	230,571
State income taxes, net of federal tax benefit	867,567	376,262
Other	(103,791)	(39,255)
	<u>\$ 4,501,000</u>	<u>\$ 2,143,000</u>

Temporary differences between the financial statement carrying balances and tax basis of assets and liabilities giving rise to net deferred tax assets (liabilities) at September 2021 and September 2020 relates to the following:

	2021	2020
Deferred tax assets:		
Allowance for doubtful accounts	\$ 223,094	\$ 210,734
Accrued expenses	1,369,467	1,243,132
Inventory	362,466	365,417
Intangible assets	—	15,803
Other	114,206	—
Net operating loss carry forwards - federal	7,108	35,545
Net operating loss carry forwards - state	697,013	716,241
Total gross deferred tax assets	<u>2,773,354</u>	<u>2,586,872</u>
Less: Valuation allowance	(697,013)	(716,241)
Total net deferred tax assets	<u>2,076,341</u>	<u>1,870,631</u>
Deferred tax liabilities:		
Trade discounts	356,901	318,070
Property and equipment	2,101,463	2,437,337
Goodwill	921,799	921,799
Other	187,164	—
Intangible assets	40,242	—
Total deferred tax liabilities	<u>3,607,569</u>	<u>3,677,206</u>
Total net deferred income tax liability	<u>\$ 1,531,228</u>	<u>\$ 1,806,575</u>

At September 2021, the Company had noncurrent deferred tax assets related to federal net operating loss carryforwards in an amount less than \$0.1 million. These federal net operating loss carryforwards totaled an amount less than \$0.1 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.

The Company had a valuation allowance of approximately \$0.7 million at both September 2021 and September 2020, 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 fiscal 2021 or fiscal 2020, 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 2018 and forward remain open under U.S. and state statutes.

9. 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 100% of the first 2% contributed and 50% of the next 4% contributed for a maximum match of 4% of employee compensation. The Company made matching contributions to the profit sharing plan of approximately \$1.0 million and \$0.9 million (net of employee forfeitures) in fiscal 2021 and fiscal 2020, respectively.

10. COMMITMENTS AND CONTINGENCIES:

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.

The Company’s liabilities for unpaid and incurred, but not reported claims, for workers’ compensation, general liability, and health insurance was \$1.5 million at both September 2021 and September 2020. 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):

	2021	2020
Beginning balance	\$ 1.5	\$ 1.5
Charged to expense	7.9	6.6
Payments	(7.9)	(6.6)
Ending balance	<u>\$ 1.5</u>	<u>\$ 1.5</u>

11. EQUITY-BASED INCENTIVE AWARDS:

Omnibus Plans

The Company has two equity-based incentive plans, the 2014 Omnibus Incentive Plan and 2018 Omnibus Incentive Plan (collectively “the Omnibus Plans”), which provide for equity incentives to employees. Each Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus Plans together permit the issuance of up to 135,000 shares of the Company’s common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares, and dividend share awards payable in the form of common stock or cash. The number of shares issuable under the Omnibus Plans is subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company’s common stock. At September 2021, awards with respect to a total of 116,951 shares, net of forfeitures, had been awarded pursuant to the Omnibus Plans and awards with respect to another 18,049 shares may be awarded under the Omnibus Plans.

Stock Options

No incentive stock options awards were issued during fiscal 2021 or fiscal 2020. Stock options issued by the Company expire ten years from the grant date and include a five year graded vesting schedule. At September 2021, the Company had 22,250 stock options outstanding with a weighted average exercise price of \$86.76 per share and 15,680 stock options which were exercisable with a weighted average exercise price of \$86.33 per share.

The following is a summary of stock option activity during fiscal 2021:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 2020	34,350	\$ 80.33
Granted	—	—
Exercised	(11,600)	67.84
Forfeited/Expired	(500)	84.00
Outstanding at September 2021	<u>22,250</u>	<u>\$ 86.76</u>

Net income before income taxes included compensation expense related to the amortization of the Company’s stock option awards of \$0.1 million during both fiscal 2021 and fiscal 2020. At September 2021, 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 20 months.

The aggregate intrinsic value of stock options outstanding was approximately \$1.1 million at September 2021 and less than \$0.1 million at September 2020. The aggregate intrinsic value of stock options exercisable was approximately \$0.9 million at September 2021 and less than \$0.1 million at September 2020.

The total intrinsic value of stock options exercised was approximately \$0.9 million in fiscal 2021 and less than \$0.1 million in fiscal 2020. The total fair value of stock options vested was approximately \$0.7 million during fiscal 2021 and approximately \$0.4 million during fiscal 2020.

Restricted Stock Units

At September 2021, the Compensation Committee of the Board of Directors had authorized and approved the following restricted stock unit awards to members of the Company’s management team pursuant to the provisions of the Company’s Omnibus Plans:

	<u>Restricted Stock Units(1)</u>	<u>Restricted Stock Units(2)</u>	<u>Restricted Stock Units(3)</u>
Date of award:	October 2018	October 2019	October 2020
Original number of awards issued:	15,050	14,550	20,500
Service period:	36 months	36 months	36 months
Estimated fair value of award at grant date:	\$ 1,264,000	\$ 1,007,000	\$ 1,415,000
Non-vested awards outstanding at September 30, 2021:	5,019	9,701	20,500
Fair value of non-vested awards at September 30, 2021 of approximately:	\$ 748,000	\$ 1,445,000	\$ 3,054,000

- (1) 10,031 of the restricted stock units were vested as of September 2021. The remaining 5,019 restricted stock units will vest in October 2021.
- (2) 4,849 of the restricted stock units were vested as of September 2021. 4,850 restricted stock units will vest in October 2021 and 4,851 will vest in October 2022.
- (3) The 20,500 restricted stock units will vest in equal amounts in October 2021, October 2022, and October 2023.

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 Statement of Operations reflects the straight-line amortized fair value based on the liability method under “ASC 718 – Compensation – Stock Compensation”.

Net income before income taxes included compensation expense related to the amortization of the Company’s restricted stock unit awards of approximately \$2.3 million and \$1.0 million during fiscal 2021 and fiscal 2020, respectively. These amounts were recorded as accrued expenses in the Company’s Consolidated Balance Sheets at both September 2021 and September 2020. The tax benefit related to this compensation expense was approximately \$0.6 million and \$0.2 million in fiscal 2021 and fiscal 2020, respectively. The total intrinsic value of restricted stock units vested during fiscal 2021 and fiscal 2020 was approximately \$2.1 million and \$0.9 million, respectively.

At September 2021, total unamortized compensation expense for these awards based on the grant date fair value price was approximately \$2.8 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 16 months (the weighted-average period).

The following summarizes restricted stock unit activity under the Omnibus Plans during fiscal 2021:

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stocks units at September 2020	28,971	\$ 64.59
Granted	20,500	69.01
Vested	(14,251)	68.65
Expired	—	—
Nonvested restricted stocks units at September 2021	<u>35,220</u>	<u>\$ 148.98</u>

12. BUSINESS SEGMENTS:

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

	Wholesale Segment	Retail Segment	Other	Consolidated
FISCAL YEAR ENDED 2021:				
External revenues:				
Cigarettes	\$ 1,130,297,314	\$ —	\$ —	\$ 1,130,297,314
Tobacco	264,453,836	—	—	264,453,836
Confectionery	92,353,240	—	—	92,353,240
Health food	—	47,321,449	—	47,321,449
Foodservice & other	137,952,742	—	—	137,952,742
Total external revenue	1,625,057,132	47,321,449	—	1,672,378,581
Depreciation	1,905,270	1,187,747	—	3,093,017
Operating income (loss)	24,477,037	1,797,250	(8,449,668)	17,824,619
Interest expense	199,392	—	1,140,168	1,339,560
Income (loss) from operations before taxes	24,354,719	1,809,130	(9,475,562)	16,688,287
Equity method investment earnings, net of tax	—	—	3,357,978	3,357,978
Total assets	157,038,710	18,179,614	13,192,805	188,411,129
Capital expenditures	1,251,617	402,514	—	1,654,131
FISCAL YEAR ENDED 2020:				
External revenue:				
Cigarettes	\$ 1,045,661,081	\$ —	\$ —	\$ 1,045,661,081
Tobacco	227,807,266	—	—	227,807,266
Confectionery	82,910,260	—	—	82,910,260
Health food	—	46,010,692	—	46,010,692
Foodservice & other	118,889,464	—	—	118,889,464
Total external revenue	1,475,268,071	46,010,692	—	1,521,278,763
Depreciation	1,791,414	1,325,035	—	3,116,449
Operating income (loss)	17,291,306	(1,824,416)	(6,385,904)	9,080,986
Interest expense	128,672	—	1,564,579	1,693,251
Income (loss) from operations before taxes	17,207,935	(1,814,850)	(7,891,074)	7,502,011
Equity method investment earnings, net of tax	—	—	183,579	183,579
Total assets	158,292,477	19,124,233	10,584,563	188,001,273
Capital expenditures	2,071,956	1,215,364	—	3,287,320

13. TREASURY STOCK:

The Company repurchased a total of 68 and 28,727 shares of its common stock during fiscal 2021 and fiscal 2020, respectively, for cash totaling less than \$0.1 million and approximately \$2.0 million, respectively. All repurchased shares were recorded in treasury stock at cost.

14. IMPACT OF COVID-19:

The Company continues to monitor a wide range of health, safety, and regulatory matters related to the COVID-19 pandemic including its impact on our business operations. In particular, ongoing supply chain disruptions at consumer packaged goods (CPG) companies have impacted product availability across all markets including the convenience distribution industry in which our company operates. Additionally, the United States is experiencing an acute workforce shortage which has created a hyper-competitive wage environment and has increased the Company's operating costs and impacted its operations. Accordingly, ongoing and/or future disruptions to consumer demand, our supply chain, product inflation, the ability to attract employees, wage structures, or our ability to procure products or fulfill orders, could negatively impact our results from operations and financial position.

15. SUBSEQUENT EVENTS:

On October 26, 2021, the Compensation Committee of the Company's Board of Directors awarded 15,100 shares of restricted stock to members of the Company's executive management team, which include a three-year graded vesting schedule. At the same time, the Company's Board of Directors replenished the number of shares authorized for repurchase under AMCON's existing Common Stock repurchase program. The program provides for periodic repurchases of up to 75,000 shares of AMCON's common stock in open market or privately negotiated transactions.

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 ("SEC") 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, 2021 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 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, 2021. 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 2013). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2021.

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 SEC that permit the Company to provide only management's report in this annual report.

Other

As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of equity method investees and (ii) internal control over the preparation of any financial statement schedules which would be required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to equity method investees did include controls over the recording of amounts related to our investment that are recorded in the consolidated financial statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2021, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. *OTHER INFORMATION*

Not applicable.

ITEM 9C. *DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS*

Not applicable.

PART III

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

The Registrant’s Proxy Statement to be used in connection with the January 2022 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) 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 American, in 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 ACCOUNTANT 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.

PART IV

ITEM 15. EXHIBITS AND 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 (incorporated by reference to Exhibit 3.1 of AMCON's Annual Report on Form 10-K filed on November 9, 2020)
- 3.2 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 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)
- 4.3 Description of Registrant's Securities (incorporated by reference to Exhibit 4.3 of AMCON's Annual Report on Form 10-K filed on November 9, 2020)
- 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)
- 10.3 Second Amendment to Second Amended and Restated Loan and Security Agreement, date July 16, 2013, between AMCON Distributing Company and Bank of America, (incorporated by reference to Exhibit 10.1 of AMCON's Quarterly Report on Form 10-Q filed on July 18, 2013)
- 10.4 Third Amendment to Second Amended and Restated Loan and Security Agreement, dated November 6, 2017, between AMCON Distributing Company and Bank of America (incorporated by reference to Exhibit 10.16 of AMCON's Annual Report on Form 10-K filed on November 8, 2017).
- 10.5 Fourth Amendment to Second Amended and Restated Loan and Security Agreement, dated March 20, 2020, between AMCON Distributing Company and Bank of America (incorporated by reference to Exhibit 10.1 of AMCON's Form 8-K filed on March 24, 2020)
- 10.6 Fifth Amendment to Second Amended and Restated Loan and Security Agreement, dated December 22, 2020, between AMCON Distributing Company and Bank of America (incorporated by reference to Exhibit 10.2 of AMCON's Quarterly Report on Form 10-Q filed on January 19, 2021)
- 10.7 Amended and Restated Term Real Estate Promissory Note, dated September 30, 2016, issued by AMCON Distributing Company to BMO Harris, NA (incorporated by reference to Exhibit 10.13 of AMCON's Annual Report on form 10-K filed on November 8, 2016)
- 10.8 Second Amended and Restated Term Real Estate Promissory Note, dated December 22, 2020, 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 January 19, 2021)
- 10.9 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)*

- 10.10 Security Agreement by and between AMCON Distributing Company and Gold Bank (predecessor to BMO Harris Bank); (incorporated by reference to Exhibit 10.24 of AMCON’s Quarterly Report on Form 10-Q filed on February 14, 2005)
- 10.11 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)*
- 10.12 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.1 to AMCON’s Current Report on Form 8-K filed on December 22, 2014)*
- 10.13 Form of Restricted Stock Unit Award Agreement under the 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to AMCON’s Current Report on Form 8-K filed on December 22, 2014)*
- 10.14 2018 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.1 to AMCON’s Quarterly Report on Form 10-Q filed on January 18, 2019)*
- 10.15 Form of Restricted Stock Unit Award Agreement under the 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to AMCON’s Quarterly Report on Form 10-Q filed on January 18, 2019)*
- 10.16 Form of Stock Option Award Agreement under the 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 of AMCON’s Quarterly Report on Form 10-Q filed on January 18, 2019)*
- 21.1 Subsidiaries of the Company
- 31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, pursuant to section 302 of the Sarbanes-Oxley Act
- 31.2 Certification by Charles J. Schmaderer, Vice President, Chief Financial Officer and Secretary, 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 Charles J. Schmaderer, Vice President, Chief Financial Officer and Secretary, furnished pursuant to section 906 of the Sarbanes-Oxley Act
- 101 Inline XBRL Interactive Data File (filed herewith electronically).
- 104 Cover Page Interactive Data File – formatted in Inline XBRL and included as Exhibit 101

* Represents management contract or compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None

