

AMCON DISTRIBUTING CO
Form 10-K
November 08, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended September 30, 2012

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

**For the transition period from _____ to _____
Commission File Number 1-15589**

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)
7405 Irvington Road,
Omaha NE
(Address of principal executive offices)

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

68122
(Zip Code)

Registrant's telephone number, including area code:

(402) 331-3727

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

Title of Each Class
None

Name of Each Exchange on Which Registered
None

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 2012 and 2011 fiscal years ended September 30, are herein referred to as fiscal 2012 and fiscal 2011, respectively. The fiscal year-end balance sheet dates of September 30, 2012 and September 30, 2011 are referred to herein as September 2012 and September 2011, respectively. This report and the documents incorporated by reference herein, if any, contain forward looking statements, which are inherently subject to risks and uncertainties. See "Forward Looking Statements" under Item 7 of this report.

ITEM 1. BUSINESS

COMPANY OVERVIEW

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

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

Our retail health food segment ("Retail Segment") operates fourteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 5,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. We also provide a full range of consultative services to our customers in the areas of marketing, merchandising, inventory optimization, and information systems that allow our customers to compete and maximize their profitability. Convenience stores represent our largest customer category. In October 2012, Convenience Store News ranked us as the ninth (9th) largest convenience store distributor in the United States based on annual sales.

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

RETAIL SEGMENT

Our Retail Segment is a specialty retailer of natural and organic groceries and dietary supplements. We focus on providing high-quality products at affordable prices, exceptional customer service, nutrition education, and community outreach. We strive to generate long-term relationships with our customers based on transparency and trust by:

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

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

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

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

Our Retail Segment operates fourteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 30,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas. During fiscal 2012, we signed leases to open two new retail locations in Arkansas and Nebraska. These stores are scheduled to open during our 2013 fiscal year.

COMPETITIVE STRENGTHS

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

Industry Experience

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

Flexible Distribution Capabilities and Customer Service Programs

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

Unique Product Selection

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

BUSINESS STRATEGY

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

Maximizing liquidity in the short term.

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

Growing both organically and through acquisitions in the long term.

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

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

PRINCIPAL PRODUCTS

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

INFORMATION ON SEGMENTS

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

COMPETITION Wholesale Segment

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

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

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

COMPETITION Retail Segment

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

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

SEASONALITY

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

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

GOVERNMENT REGULATION

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

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

ENVIRONMENTAL MATTERS

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

EMPLOYEES

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

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

Total Employees 875

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

CORPORATE AND AVAILABLE INFORMATION

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

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

ITEM 1A. RISK FACTORS

IN GENERAL

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

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

RISK FACTORS RELATED TO THE WHOLESALE BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS RELATED TO THE RETAIL BUSINESS

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

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

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

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

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

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

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

Perishable Food Product Losses Could Materially Impact Our Results.

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS RELATED TO THE OVERALL BUSINESS

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

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

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

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

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

Technology Dependence Could Have a Material Negative Impact on Our Business

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

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

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

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

Capital Needed for Expansion May Not Be Available.

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

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

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

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

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

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

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

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

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

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

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

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

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

We Depend on Our Senior Management and Key Personnel.

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

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

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

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

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

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

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

RISK FACTORS RELATED TO OUR COMMON STOCK

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

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

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

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

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

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

non-cumulative voting for directors;

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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

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

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

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

Eric J. Hinkefent

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

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

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

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

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

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

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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 MKT (formerly NYSE Amex Equities) under the trading symbol "DIT". As of October 31, 2012, the closing price of our name. If your shares of Common Stock are registered in your own name, please vote today by signing, dating and returning the enclosed **GOLD** proxy card in the postage-paid envelope provided. Execution and delivery of a proxy by a record holder of shares of Common Stock will be presumed to be a proxy with respect to all shares held by such record holder unless the proxy specifies otherwise.

Shares beneficially owned or held in "street" name. If you hold your shares of Common Stock in "street" name with a broker, bank, dealer, trust company, or other nominee, only that nominee can exercise the right to vote with respect to the shares of Common Stock that you beneficially own through such nominee and only upon receipt of your specific instructions. Accordingly, it is critical that you promptly give instructions to your broker, bank, dealer, trust company, or other nominee to vote in favor of the election of the Nominees. Please follow the instructions to vote provided on the enclosed **GOLD** proxy card. If your broker, bank, dealer, trust company, or other nominee provides for proxy instructions to be delivered to them by telephone or Internet, instructions will be included on the enclosed **GOLD** proxy card. We urge you to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions by emailing them to info@okapipartners.com or mailing them to The Sandell Group, c/o Okapi Partners LLC., 437 Madison Avenue, 28th Floor, New York, New York 10022, so that we will be aware of all instructions given and can attempt to ensure that such instructions are followed.

Note: Shares of Common Stock represented by properly executed **GOLD** proxy cards will be voted at the Annual Meeting as marked and, in the absence of specific instructions, "FOR ALL" six of the Nominees listed in Proposal 1, "FOR" Proposal 2, "AGAINST" Proposals 3-5, and "FOR" Proposal 6.

How should I vote on each proposal?

The Sandell Group recommends that you vote your shares on the **GOLD** proxy card as follows:

"FOR ALL" six Nominees standing for election to the Board named in this Proxy Statement (Proposal 1);

"FOR" the ratification of the Company's selection of independent registered public accounting firm (Proposal 2);

"AGAINST" the advisory proposal to approve the compensation of the Company's executive officers (Proposal 3);

"AGAINST" the proposal to approve the Company's Stock Incentive Plan (Proposal 4);

“AGAINST” the proposal to approve the Incentive Components of the CEO’s compensation (Proposal 5); and
“FOR” the proposal to amend the Charter to remove the Continuing Director Provision (Proposal 6).

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How many shares must be present to hold the Annual Meeting?

Under the Bylaws, the presence in person or represented by proxy of holders entitled to cast at least one-third of all the votes generally entitled to be cast at the Annual Meeting shall constitute a quorum for the transaction of business at the Annual Meeting. According to the Company's Proxy Statement, abstentions, withheld votes, and shares held of record by a brokerage firm, bank, or similar organization, or its nominee ("Broker Shares"), pursuant to a signed proxy or voting instruction card that are voted on any matter (including an abstention or withheld vote) are included in determining the number of shares present. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present. For more information on broker non-votes, see "What are "broker non-votes" and what effect do they have on the proposals?" below.

What vote is needed to approve each proposal?

Proposal 1 – Election of Directors. According to the Company's Proxy Statement, the affirmative vote of a majority of all of the votes present, in person or by proxy, at the Annual Meeting and entitled to vote on the election of directors is required for the election of each director nominee. Abstentions will be treated as shares that are present and entitled to vote and therefore will count as votes against the director nominees. Broker non-votes will not be counted as votes present and entitled to vote and therefore will not be counted in determining the outcome of this proposal. Under Delaware law, if neither the Nominees nor the Company's director nominees receive the affirmative vote of a majority of all of the votes present at the Annual Meeting, then the incumbent directors will serve as "holdover" directors and continue to serve on the Board until their successors are elected and qualify or until their earlier resignation or removal. However, under the Company's Director Policy and Standards, any incumbent directors that are not reelected at the Annual Meeting will resign from the Board.

THE ONLY WAY TO SUPPORT ALL SIX OF THE NOMINEES IS TO SUBMIT YOUR VOTING INSTRUCTIONS "FOR ALL" THE NOMINEES ON THE GOLD PROXY CARD. PLEASE DO NOT SIGN OR RETURN A WHITE PROXY CARD FROM THE COMPANY, EVEN IF YOU INSTRUCT TO "ABSTAIN" ON THEIR DIRECTOR NOMINEES. DOING SO WILL REVOKE ANY PREVIOUS VOTING INSTRUCTIONS YOU PROVIDED ON THE GOLD PROXY CARD.

Proposal 2–5. According to the Company's Proxy Statement, the approval of each of Proposals 2 through 5 requires the affirmative vote of a majority of all of the votes present, in person or by proxy, at the Annual Meeting and entitled to vote thereon. Brokers are not permitted to vote on this proposal without instructions from the beneficial owner, so if you hold your shares through a broker or other nominee, your shares will not be voted on this proposal unless you affirmatively vote your shares in accordance with the voting instructions provided by such broker or other nominee. Abstentions will be treated as shares that are present and entitled to vote and therefore will count as votes against Proposals 2 through 5. Broker non-votes will not be counted as votes present and entitled to vote and therefore will not be counted in determining the outcome of Proposals 2 through 5.

Proposal 6 – Charter amendment to remove Continuing Director Provision. According to the Company's Proxy Statement, the approval of Proposal 6 requires the affirmative vote of the holders of not less than sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of all of the outstanding shares of Common Stock entitled to vote, in person or by proxy. Abstentions and broker non-votes will be counted as outstanding shares and therefore will count as votes against Proposal 6.

What are “broker non-votes” and what effect do they have on the proposals?

Generally, broker non-votes occur when shares held by a broker, bank, or other nominee in “street name” for a beneficial owner are not voted with respect to a particular proposal because the broker, bank, or other nominee has not received voting instructions from the beneficial owner and lacks discretionary voting power to vote those shares with respect to that particular proposal. If your shares are held in the name of a brokerage firm, and the brokerage firm has not received voting instructions from the beneficial owner of the shares with respect to that proposal, the brokerage firm cannot vote the shares on that proposal unless it is a “routine” matter. Under the rules and interpretations of the New York Stock Exchange, there are no “routine” proposals in a contested proxy solicitation such as this one. Because the Sandell Group has initiated a contested proxy solicitation, there will be no “routine” matters at the Annual Meeting.

Broker non-votes, if any, with respect to the proposals set forth in this Proxy Statement will not count as votes present and entitled to vote and therefore will not be counted in determining the outcome of any Proposals 1 through 5. Broker non-votes will count as shares outstanding and will therefore count as votes against Proposal 6 .

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What should I do if I receive a proxy card from the Company?

You may receive proxy solicitation materials from Ethan Allen, including an opposition proxy statement and white proxy card. We are not responsible for the accuracy of any information contained in any proxy solicitation materials used by the Company or any other statements that it may otherwise make.

We do not endorse any of the Company's nominees and recommend that you disregard any proxy card or solicitation materials that may be sent to you by the Company. Voting "AGAINST" any of the Company's nominees or voting "ABSTAIN" on its proxy card is not the same as voting for the Nominees because a vote against any of the Company's nominees or abstaining on its proxy card will count as a vote present and will therefore be equivalent to a vote "AGAINST" the Nominees. If you have already voted using the Company's white proxy card, you have every right to change your vote by completing and mailing the enclosed GOLD proxy card in the enclosed pre-paid envelope or by voting via Internet or by telephone by following the instructions on the GOLD proxy card. Only the latest validly executed proxy that you submit will be counted; any proxy may be revoked at any time prior to its exercise at the Annual Meeting by following the instructions below under "Can I change my vote or revoke my proxy?" If you have any questions or require any assistance with voting your shares, please contact our proxy solicitor, Okapi Partners LLC, toll free at (877) 285-5990 or collect at (212) 297-0720.

Can I change my vote or revoke my proxy?

If you are the stockholder of record, you may change your proxy instructions or revoke your proxy at any time before your proxy is voted at the Annual Meeting. Proxies may be revoked by any of the following actions:

- signing, dating and returning the enclosed **GOLD** proxy card (the latest dated proxy is the only one that counts);
- delivering a written revocation or a later dated proxy for the Annual Meeting to The Sandell Group, c/o Okapi Partners LLC, 437 Madison Avenue, 28th Floor, New York, New York 10022 or to the secretary of the Company; or
- attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy).

If your shares are held in a brokerage account by a broker, bank, or other nominee, you should follow the instructions provided by your broker, bank, or other nominee. If you attend the Annual Meeting and you beneficially own shares of Common Stock but are not the record owner, your mere attendance at the Annual Meeting WILL NOT be sufficient to revoke your prior given proxy card. You must have written authority from the record owner to vote your shares held in its name at the meeting. Contact Okapi Partners LLC toll free at (877) 285-5990 or collect at (212) 297-0720 for assistance or if you have any questions.

IF YOU HAVE ALREADY VOTED USING THE COMPANY'S WHITE PROXY CARD, WE URGE YOU TO REVOKE IT BY FOLLOWING THE INSTRUCTIONS ABOVE. Although a revocation is effective if delivered to the Company, we request that either the original or a copy of any revocation be mailed to The Sandell Group, c/o Okapi Partners LLC, 437 Madison Avenue, 28th Floor, New York, New York 10022, so that we will be aware of all revocations.

Who is making this Proxy Solicitation and who is paying for it?

The solicitation of proxies pursuant to this proxy solicitation is being made by the Sandell Group and the Nominees. Proxies may be solicited by mail, facsimile, telephone, telegraph, Internet, in person and by advertisements. The Sandell Group will solicit proxies from individuals, brokers, banks, bank nominees and other institutional holders. The Sandell Group has requested banks, brokerage houses and other custodians, nominees and fiduciaries to forward all solicitation materials to the beneficial owners of the shares of Common Stock they hold of record. The Sandell Group will reimburse these record holders for their reasonable out-of-pocket expenses in so doing. It is anticipated that certain regular employees of the Sandell Group will also participate in the solicitation of proxies in support of the Nominees. Such employees will receive no additional consideration if they assist in the solicitation of proxies.

SAMC has retained Okapi Partners LLC ("Okapi") to provide solicitation and advisory services in connection with this solicitation. Okapi will be paid a fee not to exceed \$360,000 based upon the campaign services provided. In addition, SAMC will reimburse Okapi for its reasonable out-of-pocket expenses and will indemnify Okapi against certain liabilities and expenses, including certain liabilities under the federal securities laws. Okapi will solicit proxies from individuals, brokers, banks, bank nominees and other institutional holders. It is anticipated that Okapi will employ up to 45 persons to

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solicit the Company's stockholders as part of this solicitation. Okapi does not believe that any of its directors, officers, employees, affiliates or controlling persons, if any, is a "participant" in this proxy solicitation.

The entire expense of soliciting proxies is being borne by SAMC. Costs of this proxy solicitation are currently estimated to be approximately \$[]. We estimate that through the date hereof, SAMC's expenses in connection with the proxy solicitation are approximately \$[]. If successful, SAMC may seek reimbursement of these costs from the Company. In the event that it decides to seek reimbursement of its expenses, SAMC does not intend to submit the matter to a vote of the Company's stockholders. The Board, which will consist of all six of the Nominees, if all are elected, and one of the incumbent Company directors, would be required to evaluate the requested reimbursement consistent with their fiduciary duties to the Company and its stockholders. Costs related to the solicitation of proxies include expenditures for attorneys, public relations and other advisors, solicitors, printing, advertising, postage, transportation, litigation, and other costs incidental to the solicitation.

Where can I find additional information concerning Ethan Allen?

Pursuant to Rule 14a-5(c) promulgated under the Exchange Act, we have omitted from this proxy statement certain disclosure required by applicable law to be included in the Company's Proxy Statement in connection with the Annual Meeting. Such disclosure includes information regarding securities of the Company beneficially owned by the Company's directors, nominees and management; certain stockholders' beneficial ownership of more than 5% of the Company's voting securities; information concerning executive compensation; and information concerning the procedures for submitting stockholder proposals and director nominations intended for consideration at the 2016 annual meeting of stockholders and for consideration for inclusion in the proxy materials for that meeting. If the Company does not distribute the Company's Proxy Statement to stockholders at least ten days prior to the Annual Meeting, we will distribute to the stockholders a supplement to this proxy statement containing such disclosures at least ten days prior to the Annual Meeting. We take no responsibility for the accuracy or completeness of information contained in the Company's Proxy Statement. Except as otherwise noted herein, the information in this proxy statement concerning the Company has been taken from or is based upon documents and records on file with the SEC and other publicly available information. We do not take responsibility, except to the extent imposed by law, for the accuracy or completeness of statements in public documents and records that were not prepared by or on behalf of us, or for any failure of the Company to disclose in its public documents and records any events that may affect the significance or accuracy of the information contained herein.

This proxy statement and all other solicitation materials in connection with this proxy solicitation will be available on the internet, free of charge, at <http://www.RedesignEthanAllen.com>.

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CONCLUSION

We urge you to carefully consider the information contained in this proxy statement and then support our efforts by signing, dating, and returning the enclosed **GOLD** proxy card today.

Thank you for your support,

Castlerigg Master Investments, Ltd.	Sandell Asset Management Corp.	
Castlerigg Offshore Holdings, Ltd.	Castlerigg International Limited	Castlerigg International Holdings Limited
Castlerigg Active Investment Master Fund, Ltd.	Castlerigg Active Investment Fund, Ltd.	Castlerigg Active Investment Intermediate Fund, L.P.
Edward Glickman	Castlerigg Equity Event and Arbitrage Fund	Thomas E. Sandell
Annelise Osborne	Kathy Herbert	Richard Mansouri
	Ken Pilot	Alex Wolf

[], 2015

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ANNEX I: INFORMATION ON THE PARTICIPANTS

This proxy solicitation is being made by SAMC, Castlerigg Master Investments, Ltd. (“Castlerigg Master Investment”), Castlerigg International Limited (“Castlerigg International”), Castlerigg International Holdings Limited (“Castlerigg Holdings”), Castlerigg Offshore Holdings, Ltd. (“Castlerigg Offshore Holdings”), Castlerigg Active Investment Fund, Ltd. (“CAI Fund”), Castlerigg Active Investment Intermediate Fund, L.P. (“CAI Intermediate”), Castlerigg Active Investment Master Fund, Ltd. (“CAI Master”), Castlerigg Equity Event and Arbitrage Fund (“CEEAF”), and Thomas E. Sandell (collectively, the “Sandell Group”), and the Nominees.

As of October 13, 2015, the Participants may be deemed to beneficially own an aggregate of 1,563,854 shares Common Stock, constituting approximately 5.5% of the Company’s outstanding Common Stock. The percentages used herein are based upon the 28,414,297 shares of Common Stock outstanding as of October 5, 2015, the Record Date, as reported in the Company’s Proxy Statement.

Of the 1,563,854 shares of Common Stock deemed to be beneficially owned in the aggregate by the Participants: (a) Castlerigg Master Investment, Castlerigg International, Castlerigg Holdings, and Castlerigg Offshore Holdings may be deemed to beneficially own the 1,074,894 shares of Common Stock directly held by Castlerigg Master Investment; (b) CAI Master, CAI Fund, and CAI Intermediate may be deemed to beneficially own the 278,970 shares of Common Stock directly held by CAI Master, including the 1,000 shares of Common Stock held in record name by CAI Master; (c) CEEAF beneficially owns 16,092 shares of Common Stock; (d) SAMC may be deemed to beneficially own the 1,369,956 shares of Common Stock directly held by Castlerigg Master Investment, CAI Master and CEEAF by virtue of investment management agreements with each such entity; and (e) Mr. Sandell, a citizen of Sweden, may be deemed to beneficially own 1,563,854 shares of Common Stock by virtue of his direct and indirect control of SAMC and his indirect control over Merrill Lynch Investment Solutions SICAV, an umbrella fund with segregated liability between sub-funds acting for and on behalf of Merrill Lynch Investment Solutions – Castlerigg Equity Event and Arbitrage UCITS Fund (“UCITS”), which beneficially owns 193,898 shares of Common Stock.

By virtue of investment management agreements with Castlerigg Master Investment, CAI Master, and CEEAF, SAMC has the power to vote or direct the voting, and to dispose or direct the disposition, of all of the shares of Common beneficially owned by Castlerigg Master Investment, CAI Master, and CEEAF. By virtue of an investment management agreement with UCITS, Sandell Investment Services, L.L.C. (“SIS” and, together with UCITS, the Sandell Group and each of their respective associates, the “Sandell Parties”) has the power to vote or direct the voting, and to dispose or direct the disposition, of all of the shares of Common Stock beneficially owned by UCITS. By virtue of his direct and indirect control of SAMC and SIS, Mr. Sandell is deemed to have shared voting power and shared dispositive power with respect to all Common Stock as to which SAMC and SIS have voting power or dispositive power.

The Common Stock beneficially held by the Sandell Parties is or may be held in commingled margin accounts (the "Margin Accounts"), which may extend margin credit to the Sandell Parties from time to time, subject to applicable federal margin regulations, stock exchange rules, and credit policies. In such instances, the positions held in the Margin Accounts are pledged as collateral security for the repayment of debit balances in the Margin Accounts. The Margin Accounts bear interest at a rate based upon the broker's call rate from time to time in effect. Because other securities are held in the Margin Accounts, it is not possible to determine the amounts, if any, of margin used to purchase the Common Stock reported beneficially owned by the Sandell Parties.

The principal business of SAMC is to provide investment management services to private individuals and institutions. The principal business of Castlerigg Master Investment, Castlerigg International, Castlerigg Holdings, Castlerigg Offshore Holdings, CEEAF, CAI Fund, CAI Intermediate and CAI Master is to invest in securities. The principal business of Mr. Sandell is to serve as Chief Executive Officer of SAMC and as Managing Member of SIS.

The principal business address of Castlerigg Master Investment, Castlerigg International, Castlerigg Holdings, CAI Fund, CAI Intermediate, and CAI Master is c/o Maples Corporate Services (BVI) Limited, P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands. The principal business address of Castlerigg Offshore Holdings is c/o Maples Fund Services (Cayman) Limited, P.O. Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands. The principal business address of CEEAF is c/o Atlantic Fund Services, Three Canal Plaza, Suite 600 Portland, Maine 04101. The principal business address of SAMC and Mr. Sandell is 540 Madison Avenue, 36th Floor, New York, NY 10022.

Except as set forth in this Proxy Statement (including the Annexes), (i) during the past ten years, no Participant has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); (ii) no Participant in this proxy solicitation directly or indirectly beneficially owns any securities of the Company; (iii) no Participant owns any securities of the Company which are owned of record but not beneficially; (iv) no Participant has purchased or sold any securities of the Company during the past two years; (v) no part of the purchase price or market value of the securities of the Company

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owned by any Participant is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities; (vi) no Participant is, or within the past year was, a party to any contract, arrangements, or understandings with any person with respect to any securities of the Company, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (vii) no associate of any Participant owns beneficially, directly or indirectly, any securities of the Company; (viii) no Participant owns beneficially, directly or indirectly, any securities of any parent or subsidiary of the Company; (ix) no Participant or any of his, her, or its associates was a party to any transaction, or series of similar transactions, since the beginning of the Company's last fiscal year, or is a party to any currently proposed transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds \$120,000; (x) no Participant or any of his, her, or its associates has any arrangement or understanding with any person with respect to any future employment by the Company or its affiliates, or with respect to any future transactions to which the Company or any of its affiliates will or may be a party; and (xi) no person, including any of the Participants, who is a party to an arrangement or understanding pursuant to which the Nominees are proposed to be elected, has a substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted on as set forth in this Proxy Statement. There are no material proceedings to which any Participant or any of his, her, or its associates is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries. With respect to each of the Nominees, except as set forth in this Proxy Statement (including the Annexes), none of the events enumerated in Item 401(f)(1)-(8) of Regulation S-K of the Exchange Act occurred during the past ten years. Neither the Nominees nor any associate of a Nominee has served as a director or named executive officer of the Company at any point during the last three fiscal years of the Company.

Transactions by the Participants with respect to the Company's securities

The following tables set forth all transactions effected during the past two years by the Participants with respect to securities of the Company. The shares of Common Stock reported herein are held in either cash accounts or margin accounts in the ordinary course of business. Unless otherwise indicated, all transactions were effected on the open market.

Castlerigg Master Investment

Date Common Stock Acquired (Disposed)

02/24/15 39,745
 02/25/15 130,175
 02/26/15 29,996
 03/26/15 10,038
 03/27/15 73,170
 03/30/15 34,744
 03/31/15 27,293
 04/01/15 8,010
 04/02/15 5,170

04/06/15 25,930
04/14/15 5,120
04/17/15 21,100
04/20/15 36,349
04/21/15 26,590
04/21/15 6,206
04/22/15 7,376
04/23/15 4,860
04/24/15 140,820
04/30/15 23,510
05/01/15 7,920
05/04/15 5,690
05/05/15 7,910
05/06/15 11,870
05/13/15 5,690
05/14/15 1,350
05/15/15 1,980
05/18/15 3,000
06/01/15 1,681
06/05/15 2,770
06/08/15 8,590
06/09/15 16,990
06/10/15 1,497
06/11/15 850
06/17/15 98,836
07/13/15 27,537
07/14/15 56,088
07/15/15 9,130
07/29/15 6,780
07/30/15 3,290
07/31/15 1,380
08/03/15 1,490
08/04/15 1,670
08/05/15 1,920
08/06/15 2,350
08/07/15 1,630
08/10/15 3,570
08/12/15 62,693
08/13/15 62,540

CAI Master

Common Stock Acquired

Date

(Disposed)

02/24/2015 3,674
02/25/2015 12,005
02/26/2015 2,800

03/26/2015 865
03/27/2015 6,000
03/30/2015 3,076
03/31/2015 2,470
04/1/2015 720
04/2/2015 450
04/6/2015 2,420
04/14/2015 460
04/17/2015 1,900
04/20/2015 3,200
04/21/2015 2,390
04/21/2015 560
04/22/2015 700
04/23/2015 440
04/24/2015 12,610
04/30/2015 2,090
05/1/2015 700
05/4/2015 510
05/5/2015 700
05/6/2015 1,050
05/13/2015 510
05/14/2015 120
05/15/2015 180
05/18/2015 270

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06/1/2015 150
06/5/2015 240
06/8/2015 1,250
06/9/2015 2,480
06/10/2015 220
06/11/2015 120
07/13/2015 4,300
07/14/2015 8,760
07/15/2015 1,420
07/29/2015 46,331
07/30/2015 22,480
07/31/2015 9,419
08/3/2015 10,220
08/4/2015 11,400
08/5/2015 13,145
08/6/2015 16,100
08/7/2015 11,160
08/10/2015 24,405
08/12/2015 16,270
08/13/15 16,230

CEEAF

Date Common Stock Acquired (Disposed)

03/30/15 2,801
03/31/15 2,140
04/01/15 650
04/02/15 445
04/06/15 2,250
04/14/15 115
04/17/15 411
04/20/15 800
04/21/15 620
04/21/15 140
04/22/15 200
04/23/15 110
04/24/15 3,230
04/30/15 510
05/01/15 170
05/04/15 120
05/05/15 170
05/06/15 260
05/13/15 120
05/14/15 30
05/15/15 40

05/18/15 70
06/01/15 40
06/05/15 60
06/08/15 180
06/09/15 360
06/10/15 30
06/11/15 20

SAMC (by virtue of its indirect control over former funds and managed accounts)

Date Common Stock Acquired (Disposed)

02/24/2015 6,451
02/25/2015 21,115
02/26/2015 4,851
03/26/2015 1,567
03/27/2015 11,150
03/30/2015 5,487
03/31/2015 4,320
04/01/2015 1,255
04/02/2015 745
04/06/2015 3,760
04/14/2015 780
04/17/2015 3,200
04/20/2015 5,100
04/21/2015 4,690
04/22/2015 1,100
04/23/2015 690
04/24/2015 20,120
04/30/2015 3,590
05/01/2015 1,210
05/04/2015 880
05/05/2015 1,220
05/06/2015 1,820
05/13/2015 880
05/14/2015 200
05/15/2015 300
05/18/2015 460
06/01/2015 20
06/05/2015 30
06/08/2015 89
06/09/2015 170
06/10/2015 20
06/11/2015 10
06/16/2015 (1,600)
06/17/2015 (98,236)
07/13/2015 290
07/14/2015 580
07/15/2015 90

08/20/2015 (8,404)

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Mr. Sandell (as it relates to his indirect control over UCITS)

Date Common Stock Acquired (Disposed)

02/24/15 9,803
02/25/15 32,136
02/26/15 7,353
03/26/15 2,370
03/27/15 16,600
03/30/15 8,268
03/31/15 6,500
04/01/15 1,885
04/02/15 1,190
04/06/15 5,640
04/14/15 1,220
04/17/15 5,000
04/20/15 8,400
04/21/15 6,200
04/21/15 1,450
04/22/15 1,700
04/23/15 1,130
04/24/15 32,820
04/30/15 (19,700)
07/13/15 6,570
07/13/15 (1,500)
07/14/15 13,370
07/15/15 2,180
07/29/15 5,830
07/30/15 2,830
07/31/15 1,180
08/03/15 1,290
08/04/15 1,430
08/05/15 1,650
08/06/15 2,030
08/07/15 1,410
08/10/15 3,070
08/12/15 11,310
08/13/15 11,283

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IMPORTANT

Tell your Board what you think! **YOUR VOTE IS VERY IMPORTANT**, no matter how many or how few shares you own. Please give us your proxy **“FOR ALL”** of the Nominees by taking three steps:

SIGNING the enclosed **GOLD** proxy card,

DATING the enclosed **GOLD** proxy card, and

MAILING the enclosed **GOLD** proxy card TODAY in the envelope provided (no postage is required if mailed in the United States).

If any of your shares are held in the name of a broker, bank, bank nominee, or other institution, only it can vote your shares and only upon receipt of your specific instructions. Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. You may also vote by signing, dating and returning the enclosed **GOLD** voting form in the postage-paid envelope provided, and to ensure that your shares are voted, you should also contact the person responsible for your account and give instructions for a **GOLD** proxy card to be issued representing your shares.

After signing the enclosed **GOLD** proxy card, **DO NOT SIGN OR RETURN ETHAN ALLEN’S WHITE PROXY CARD UNLESS YOU INTEND TO CHANGE YOUR VOTE**, because only your latest dated proxy card will be counted.

If you have previously signed and returned a white proxy card to Ethan Allen, you have every right to change your vote. Only your latest dated proxy card will count. You may revoke any proxy card already sent to Ethan Allen by signing, dating and mailing the enclosed **GOLD** proxy card in the postage-paid envelope provided or by voting by telephone or Internet. Any proxy may be revoked at any time prior to the 2015 Annual Meeting by delivering a written notice of revocation or a later dated proxy for the 2015 Annual Meeting to Okapi Partners or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not in and of itself constitute a revocation.

If you have any questions concerning this proxy statement, would like to request additional copies of this proxy statement, or need help voting your shares, please contact our proxy solicitor:

[Form of Gold Proxy Card]

PRELIMINARY COPY – SUBJECT TO COMPLETION

Ethan Allen Interiors, Inc.

Proxy Card for 2015 Annual Meeting of Stockholders

Scheduled for November 24, 2015 (the “Annual Meeting”):

THIS PROXY SOLICITATION IS BEING MADE BY SANDELL ASSET MANAGEMENT CORP. AND CERTAIN OF ITS AFFILIATES (COLLECTIVELY, THE “SANDELL GROUP”, “WE” OR “US”) AND THE INDIVIDUALS NAMED IN PROPOSAL 1 (THE “NOMINEES”)

THIS BOARD OF DIRECTORS OF ETHAN ALLEN INTERIORS INC. IS NOT SOLICITING THIS PROXY

The undersigned appoints Bruce Goldfarb, Adam Hoffman, Eleazer Klein, Richard Mansouri, and each of them, attorneys and agents with full power of substitution to vote all shares of common stock of Ethan Allen Interiors Inc., a Delaware corporation (the “Company”), that the undersigned would be entitled to vote at the Annual Meeting of stockholders of the Company scheduled to be held on Tuesday, November 24, 2015 at 10:00 A.M., Eastern Time, at Ethan Allen International Corporate Headquarters, Ethan Allen Drive, Danbury, Connecticut 06811, including at any adjournments or postponements thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the instructions indicated herein, with discretionary authority as to any and all other matters that may properly come before the meeting or any adjournment, postponement, or substitution thereof that are unknown to the Sandell Group a reasonable time before this solicitation.

The undersigned hereby revokes any other proxy or proxies heretofore given to vote or act with respect to said shares, and hereby ratifies and confirms all action the herein named attorneys and proxies, their substitutes, or any of them may lawfully take by virtue hereof. This proxy will be valid until the sooner of one year from the date indicated on the reverse side and the completion of the Annual Meeting (including any adjournments or postponements thereof).

If this proxy is signed and returned, it will be voted in accordance with your instructions. If you do not specify how the proxy should be voted, this proxy will be voted “FOR ALL” six of the nominees listed in Proposal 1, “FOR” Proposal 2, “AGAINST” Proposals 3–5, and “FOR” Proposal 6. None of the matters currently intended to be acted upon pursuant to this proxy are conditioned on the approval of other matters.

INSTRUCTIONS: *VOTING RECOMMENDATIONS ARE INDICATED BY HIGHLIGHTED TEXT. OVER THE BOXES (FILL IN VOTING BOXES “©“ IN BLACK OR BLUE INK)*

We recommend that you vote **“FOR ALL”** six of the Nominees below:

Proposal 1 – Election of the six individuals nominated by the Sandell Group to serve as directors.

Nominees: **FOR ALL. WITHHOLD ALL FOR ALL EXCEPT**

Edward Glickman

Kathy Herbert

Richard Mansouri

Annelise Osborne q q q

Ken Pilot

Alexander Wolf

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the “For All Except” box above and write the name of the nominee(s) from which you wish to withhold in the space provided below.)

We recommend that you vote **“FOR”** Proposal 2:

	FOR.	AGAINST	ABSTAIN
Proposal 2 – Company proposal to ratify the selection of KPMG LLP as the Company’s independent registered public accounting firm for the 2016 fiscal year.	q	q	q

We recommend that you vote **“AGAINST”** Proposals 3, 4 & 5:

	FOR	AGAINST.	ABSTAIN
Proposal 3 – Company proposal to approve, on an advisory basis, the compensation of the Company’s Named Executive Officers.	q	q	q
Proposal 4 – Company proposal to approve the Stock Incentive Plan.	q	q	q
Proposal 5 – Company proposal to approve the Incentive Components of the CEO’s compensation.	q	q	q

We recommend that you vote **“FOR”** Proposal 6:

	FOR.	AGAINST	ABSTAIN
Proposal 6 – Company proposal to amend the Charter to remove the Continuing Director Provision	q	q	q

IN ORDER FOR YOUR PROXY TO BE VALID, IT MUST BE DATED.

Signature (Capacity) _____ Date _____

Signature (Joint Owner) (Capacity/Title) _____ Date _____

NOTE: Please sign exactly as your name(s) appear(s) on stock certificates or on the label affixed hereto. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners must each sign personally. **ALL HOLDERS MUST SIGN.** If a corporation or partnership, please sign in full corporate or partnership name by an authorized officer and give full title as such.

PLEASE SIGN, DATE AND PROMPTLY RETURN THIS PROXY IN THE ENCLOSED RETURN ENVELOPE THAT IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES