STREAMLINE HEALTH SOLUTIONS INC.
Form 424B5
December 28, 2011
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Filed pursuant to Rule 424(b)(5)

Registration No. 333-166843

Prospectus Supplement

(To Prospectus Dated July 20, 2010)

Streamline Health Solutions, Inc.

244,845 Shares of Common Stock

We are offering 244,845 shares of our common stock, par value $.01 per share, directly to Robert E. Watson, our President and Chief Executive Officer, and a member of our board of directors, to Jonathan R. Phillips, Richard C. Levy, M.D., Jay D. Miller, Andrew L. Turner and Edward J. VonderBrink, all members of our board of directors, to Richard D. Leach, our Senior Vice President and Chief Marketing Officer, to Stephen H. Murdock, our Senior Vice President and Chief Financial Officer, to Patricia K. Wharton, our Vice President of Account Management, and to James Rice and Robert M. Brooks, both members of our management team. The shares of our common stock are being offered at a per-share price of $1.65.

Our common stock is listed on the NASDAQ Capital Market under the ticker symbol STRM. On December 23, 2011, the last reported price of our common stock on the NASDAQ Capital Market was $1.45 per share.

As of December 23, 2011, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $14,336,070, or the public float, which was calculated based on 9,294,591 shares of outstanding common stock held by non-affiliates and on a price per share of $1.65, the closing price of our common stock on December 7, 2011. Pursuant to General Instruction I.B.6. of Form S-3, in no event will we sell our securities in a public primary offering with a value exceeding more than one-third of our public float in any 12-month period so long as our public float remains below $75.0 million. We have not offered any securities pursuant to General Instruction I.B.6 of Form S-3 during the 12 calendar months prior to and including the date of this prospectus.

Investing in our common stock involves risks. See <u>Risk Factors</u> beginning on page S-5 of this prospectus supplement as well as Risk Factors contained in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. See Incorporation of Certain Documents by Reference herein.

	Per Share	Total
Public Offering Price	$ 1.65	$ 403,994
Proceeds to Streamline Health Solutions, Inc. before expenses	$ 1.65	$ 403,994

Neither the Securities and Exchange Commission, any state securities commission, nor any regulatory authority has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The delivery of the shares of our common stock to the purchasers is expected to occur on or about December 28, 2011.

The date of this prospectus supplement is December 27, 2011.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters, and also updates and adds to the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about us and our securities that we may offer from time to time, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described below under the headings Where You Can Find More Information and Incorporation of Certain Documents by Reference. Generally, when we refer to this prospectus we mean this prospectus supplement together with the accompanying prospectus.

If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of such shares of our common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of our common stock and the distribution of this prospectus outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any shares of our common stock offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

This prospectus supplement and accompanying prospectus are part of a registration statement that we filed with the U.S. Securities and Exchange Commission, which we refer to as the SEC, using a shelf registration process. Under this shelf registration process, we may sell securities described in the accompanying prospectus in one or more offerings from time to time.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision. You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus may only be used where it is legal to sell the shares of our common stock described herein. You should not assume that the information that appears in this prospectus supplement, the accompanying prospectus or any document incorporated by reference into this prospectus supplement or the accompanying prospectus is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since the date of such information.

In this prospectus supplement, all references to Streamline Health Solutions, Inc., the Company, we, our, us, and similar terms refer to Streamline Health Solutions, Inc. and its consolidated subsidiaries unless otherwise stated or the context otherwise requires.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus supplement, the accompanying prospectus and in information incorporated by reference into this prospectus supplement and the accompanying prospectus that are not historical or current facts may constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, which we refer to as the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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The forward-looking statements contained herein are no guarantee of future performance and are subject to certain risks and uncertainties that are difficult to predict and actual results could differ materially from those reflected in the forward-looking statements. These risks and uncertainties include, but are not limited to, fluctuations in the market price of our common stock, the subordination of our common stock holders rights to the rights of our creditors and preferred stock holders, the possible negative effect our dividend policy may have on the market price of our common stock, certain provisions in our certificate of incorporation, our bylaws and Delaware law having an anti-takeover effect, possible substantial sales of our common stock after this offering or the perception that such sales could occur, the dilutive effect that the exercise of outstanding options and other convertible securities may have on the holders of our common stock and other risk factors that might cause such differences including those discussed herein, including, but not limited to, discussions in the section entitled Risk Factors.

In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of the Company. These statements, which are based on certain assumptions and describe our future plans, strategies, and expectations, can generally be identified by the use of words such as optimism, look-forward, bright, believe, expect, anticipate, intend, plan, estimate, potential, project, similar meaning, or future or conditional verbs such as will, would, should, could or may. Readers are cautioned not to place undue reliance these forward-looking statements, which reflect management s analysis only as of the date thereof. Except as required by law, we undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in this and other documents Streamline Health Solutions, Inc. files from time to time with the Securities and Exchange Commission, including the Annual Reports on Form 10-K, the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K. Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate the Company.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information and reporting requirements of the Exchange Act under which we file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy, at prescribed rates, any documents we have filed with the SEC at its Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We also file these documents with the SEC electronically. You can access the electronic versions of these filings free of charge on the SEC s Internet website found at http://www.sec.gov and on our Internet website address at http://www.streamlinehealth.net. You may also obtain free copies of the documents we have filed with the SEC (other than exhibits to such documents unless we specifically incorporate by reference an exhibit in this prospectus supplement) by contacting:

Streamline Health Solutions, Inc

10200 Alliance Road

Suite 200

Cincinnati, OH 45242-4716

Attention: Chief Financial Officer

(513) 794-7100

We have filed with the SEC an amended registration statement on Form S-3 (File No. 333-166843) relating to the securities covered by this prospectus supplement. This prospectus supplement is a part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus supplement to a contract or other document, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement or incorporated therein by reference for a copy of the contract or other document. You may review a copy of the registration statement or any such exhibit at the SEC s Public Reference Room or through the SEC s Internet website.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you without actually including the specific information in this prospectus supplement by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and later information that we file with the SEC will automatically update and supersede the information in this prospectus supplement.

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We incorporate by reference into this prospectus supplement the documents listed below, except to the extent any information contained in such filings is deemed furnished in accordance with SEC rules. Such furnished information is not deemed filed under the Exchange Act and is not incorporated in this prospectus supplement:

- Our Annual Report on Form 10-K for the year ended January 31, 2011, filed with the SEC on April 13, 2011;
- Our Definitive Proxy Statement on Schedule 14A (other than information furnished rather than filed), filed with the SEC on April 13, 2011;
- Our Quarterly Reports on Form 10-Q for the quarters ended April 30, 2011, July 31, 2011 and October 31, 2011, filed with the SEC on June 8, 2011, September 13, 2011 and December 6, 2011, respectively;
- Our Current Reports on Form 8-K, filed with the SEC on February 3, 2011, March 14, 2011, March 24, 2011, April 12, 2011, April 18, 2011, April 28, 2011, May 26, 2011, June 7, 2011, September 12, 2011, December 6, 2011, December 7, 2011 and December 8, 2011; and
- The description of our common stock set forth in Amendment No. 1 to our Registration Statement on Form 8-A, filed with the SEC on April 16, 1996.

All documents filed by us pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act (other than Current Reports on Form 8-K furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K, including any exhibits included with such information, unless otherwise indicated therein) after the date of this prospectus supplement and before the termination of the offering will also be deemed to be incorporated by reference. These additional documents will be deemed to be incorporated by reference, and to be a part of, this prospectus supplement from the date of their filing. These documents include proxy statements and periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and, to the extent they are considered filed, Current Reports on Form 8-K. Information incorporated by reference from later filed documents supersedes information that is included in this prospectus supplement or accompanying prospectus or information incorporated by reference from earlier documents, to the extent that they are inconsistent.

We will provide without charge to each person to whom this prospectus supplement is delivered, including any beneficial owner, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus supplement excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You can request those documents from:

Streamline Health Solutions, Inc.

10200 Alliance Road

Suite 200

Cincinnati, OH 45242-4716

Attention: Chief Financial Officer

(513) 794-7100

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or any free writing prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus supplement or accompanying prospectus. This prospectus supplement is dated December 27, 2011. You should not assume that the information contained in this prospectus supplement is accurate as of any date other than that date.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and may not contain all the information that you may need to consider in making your investment decision. To understand this offering fully, you should read this prospectus supplement and the accompanying prospectus carefully. You should carefully read the sections titled Risk Factors in this prospectus supplement and in the accompanying prospectus and the documents identified in the section Incorporation of Certain Documents by Reference.

Streamline Health Solutions, Inc.

Company Summary

Founded in 1989, we are a supplier of healthcare information technologies and services to healthcare organizations. We are focused on developing and licensing proprietary software solutions that increase efficiency, and reduce the cost of care by integrating multiple disparate systems, and improving the flow of information essential to the complete Electronic Health Record (EHR) used throughout the healthcare enterprise. We provide integrated tools and technologies including document workflow, document management, e-forms, connectivity, optical character recognition and business process integration. Our systems provide healthcare organizations with secure, convenient electronic access to many forms of patient information from many locations, and enhance larger existing transaction-centric hospital healthcare information systems. We sell our products and services in North America to remarketers, hospitals, clinical and ambulatory services through our direct sales force, and our reseller partnerships.

We integrate our customers historical information systems with our document management and workflow applications to increase efficiency, decrease cost, and ultimately improve the timeliness and quality of information used in patient care. Our document management solutions provide access to a complete patient medical record, including the structured data, such as laboratory results; and related unstructured data, such as a doctor s hand written notes, consent forms and outside correspondence. To complement and enhance our document management solutions, our workflow-based services offer solutions to inefficient and labor-intensive healthcare business processes throughout the revenue cycle, such as chart coding, abstracting and completion, remote physician referral, order processing, pre-admission registration scanning and signature capture, financial screening, preoperative processing, Medicare/Medicaid audit, private-payer audit, mitigation processing, secondary billing services, explanation of benefits processing, release of information processing, human resource administration and supply chain management.

Our software solutions are delivered to our customers either by purchased perpetual license which is installed locally in a customer s data center, or by subscription and accessed by our customers on our company-hosted software systems through a secured connection, which is a delivery method commonly referred to as software-as-a-service (SaaS) or cloud computing.

We operate primarily in one segment as a provider of health information technology solutions that improve healthcare processes and information flows within a healthcare facility.

Products

Our systems enable medical and administrative personnel to more efficiently capture, store, manage, route, retrieve and process vast amounts of clinical, financial, patient and other information. These systems have been specifically designed to integrate with any clinical information system through various means, thus enabling customers to use our systems without the expense of replacing entire software systems to gain our software functionality. Our systems deliver enterprise-wide access to fully updated patient information, which historically has been maintained on a variety of media, including paper, magnetic disk, optical disk, and microfilm.

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Our core technology, accessANYware, is a document management repository that provides access to a patient s document-based medical and financial records. The accessANYware software works complementary to, and can be seamlessly integrated with existing transaction-centric clinical, financial and management information systems. AccessANYware allows authorized users to perform document searching, retrieval, viewing, processing, printing and faxing, and report generation from a single login. AccessANYware also provides access to images such as digitized slides, videos and photographs. In addition, AccessANYware provides the ability to store and retrieve document images of voluminous paper records on a timely basis from the customer s desktop.

FolderView complements our accessANYware software by providing capture/indexing of non-patient centric documents, storage in a historical repository, document search/viewing, reporting, auditing and optional modules for patient financial services or administrative services applications.

Our departmental workflow-based solutions and services offer solutions to specific healthcare business processes within health information management and the revenue cycle. These solutions offer value to all of the constituents in the healthcare delivery process by enabling them to simultaneously access and utilize our advanced workflow applications to process information on a real-time basis from virtually any location using web-based technology.

We provide a full complement of professional services to implement and enhance our software applications. These services include implementation and training, project management, business process optimization, and custom software development.

THE OFFERING

Securities offered:	Shares of our common stock
Common stock:	
Common stock offered	244,845 shares
Common stock to be outstanding after this offering (1)	10,301,690 shares
Use of proceeds:	We intend to use the net proceeds from this offering to fund working capital and for other general corporate purposes. See the section entitled Use of Proceeds.
NASDAQ Capital Market symbol for our common stock:	STRM

(1) Based on 10,056,845 shares of common stock outstanding as of December 23, 2011 and assuming the issuance of 244,845 shares of common stock pursuant to this offering. Excludes 3,385,551 shares of common stock subject to warrants, options, restricted stock and convertible notes outstanding as of December 23, 2011.

RISK FACTORS

You should carefully consider the following information about risks and uncertainties that may affect us or our business, together with the other information appearing elsewhere in this prospectus supplement, accompanying prospectus and in our SEC filings, including our annual report on Form 10-K for the year ended January 31, 2011, and our quarterly reports on Form 10-Q for the quarters ended April 30, 2011, July 31, 2011 and October 31, 2011, all of which are incorporated by reference herein.

If any of the following events, described as risks, actually occur our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our securities. An investment in our securities is speculative and involves a high degree of risk. You should not invest in our securities if you cannot bear the economic risk of your investment for an indefinite period of time and cannot afford to lose your entire investment.

The risks listed below are not listed in any particular order or relative importance and no inferences should be given to the listing order. In addition, risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company, its financial condition and/or operating results.

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Risks Related to This Offering

The Market Price for Our Common Stock Varies, and You Should Purchase Common Stock for Long-Term Investment Only.

Although shares of our common stock are currently traded on the NASDAQ Capital Market, we cannot assure you that there will, at any time in the future, be an active trading market for shares of our common stock. Even if there is an active trading market for shares of our common stock, we cannot assure you that you will be able to sell all of your shares of common stock at one time or at a favorable price, if at all. As a result, you should purchase shares of common stock described herein only if you are capable of, and seeking to, make a long-term investment in our common stock.

Our Shares of Common Stock are Equity and are Subordinate to Our Existing and Future Indebtedness and Our Preferred Stock, and are Effectively Subordinated to all the Indebtedness and Other Non-Common Equity Claims Against our Subsidiaries.

Our shares of common stock are equity interests in us and do not constitute indebtedness. Accordingly, our common stock will rank junior to all of our indebtedness and to other non-equity claims on us with respect to assets available to satisfy claims on us. Additionally, although we currently have no shares of our preferred stock outstanding, holders of our common stock are subject to the prior dividend and liquidation rights of holders of our outstanding preferred stock if we should issue any shares of our preferred stock in the future.

In addition, our right to participate in any distribution of assets of any of our subsidiaries upon the subsidiary s liquidation or otherwise, and thus your ability as a holder of our common stock to benefit indirectly from such distribution, will be subject to the prior claims of creditors of that subsidiary and holders of any of that subsidiary s preferred stock, except to the extent that any of our claims as a creditor of such subsidiary may be recognized. As a result, our common stock will effectively be subordinated to all existing and future liabilities and obligations of our subsidiaries.

We Do Not Pay Dividends on Our Common Stock.

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are not required to declare dividends on our common stock and we have not declared any cash dividends on our common stock since our inception. Our current credit facility prohibits us from paying cash dividends on our common stock and we do not intend to pay any cash dividends in the foreseeable future. This could adversely affect the market price of our common stock.

Our Certificate of Incorporation, Our Bylaws, and Delaware General Corporate Law May have an Anti-Takeover Effect.

Provisions of our certificate of incorporation, our bylaws, and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may discourage others from initiating a potential merger, takeover or other change of control transaction, which, in turn, could adversely affect the market price of our common stock. For more information regarding these anti-takeover provisions, please see Description of Capital Stock in the accompanying prospectus.

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There May Be Substantial Sales of Our Common Stock After This Offering, Which Could Cause a Decline in Our Stock Price.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that such sales could occur, could have a material adverse effect on the market price of our common stock.

Our Outstanding Options and Convertible Securities may be Exercised in the Future, Which Would Increase the Number of Shares Eligible for Future Resale in the Public Market and Result in Dilution to our Stockholders.

As of December 23, 2011 we had outstanding options to purchase 1,885,551 shares of our common stock and a promissory note convertible into 1,500,000 shares of our common stock. To the extent such options and convertible securities are exercised, additional shares of our common stock will be issued, which will result in dilution to our stockholders and increase the number of shares of our common stock eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of such shares.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after estimated expenses, will be approximately $393,994. This assumes the deduction of an aggregate of $10,000 in estimated offering expenses payable by us for this offering.

We intend to use the net proceeds from the sale of shares of our common stock in this offering to fund working capital and for other general corporate purposes.

Our management will retain broad discretion in the allocation of the net proceeds of this offering. We may temporarily invest funds that we do not immediately need for these purposes in short-term marketable securities. The precise amounts and timing of our use of the net proceeds will depend upon market conditions and the availability of other funds, among other factors.

DILUTION

If you invest in shares of our common stock, your ownership interest will be diluted to the extent of the difference between the offering price per share and the net tangible book value per share of our common stock after this offering. Our net tangible book value as of October 31, 2011 was approximately $7.2 million, or approximately $.72 per share of common stock. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of common stock immediately after the closing of this offering.

After giving effect to the sale of the shares of common stock at an offering price of $1.65 per share in this offering, and after deducting the estimated offering expenses payable by us, our pro forma net tangible book value as of October 31, 2011 would have been approximately $7.6 million, or $.74 per share of common stock. This represents an immediate increase in net tangible book value of $.02 per share to existing stockholders and an immediate dilution of $.91 per share to new investors purchasing shares of our common stock in this offering at the offering price.

The following table illustrates this dilution on a per share basis:

Public offering price per share in this offering	$ 1.65
Net tangible book value per share as of October 31, 2011	$ .72
Increase in net tangible book value attributable to this offering	$ .02
Pro forma net tangible book value per share as of October 31, 2011 after giving effect to this offering	$ .74
Dilution per share to new investors in this offering	$ .91

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The calculations above are based on 10,053,980 shares of common stock outstanding as of October 31, 2011 and 10,298,825 shares of common stock outstanding as of October 31, 2011 after giving effect to the sale of the shares of our common stock in this offering. This number excludes (i) 1,885,551 shares of common stock subject to warrants, options and restricted stock units outstanding as of October 31, 2011 and (ii) 1,502,865 shares of common stock subject to the convertible note issued on December 7, 2011 and subject to options and restricted stock units issued after October 31, 2011.

DESCRIPTION OF OUR COMMON STOCK

Upon consummation of this offering, 10,301,690 shares of common stock will be outstanding. For a description of our common stock, please see Description of Capital Stock in the accompanying prospectus.

PLAN OF DISTRIBUTION

We will sell the shares of our common stock offered by this prospectus directly to Robert E. Watson, our President and Chief Executive Officer, and a member of our board of directors, to Jonathan R. Phillips, Richard C. Levy, M.D., Jay D. Miller, Andrew L. Turner and Edward J. VonderBrink, all members of our board of directors, to Richard D. Leach, our Senior Vice President and Chief Marketing Officer, to Stephen H. Murdock, our Senior Vice President and Chief Financial Officer, to Patricia K. Wharton, our Vice President of Account Management, and to James Rice and Robert M. Brooks, both members of our management team, pursuant to subscription agreements entered into with each of them. We have not engaged any underwriters, dealers or finders for this offering.

We estimate the total expenses of this offering to be approximately $10,000.

Our common stock is listed for trading on the NASDAQ Capital Market under the symbol STRM. We expect that the shares of our common stock will be delivered either by stock certificate or in book-entry form through Computershare Limited, Golden, Colorado, on or about December 28, 2011.

LEGAL MATTERS

The validity of the securities to be issued by us through this prospectus supplement will be passed upon for us by Benesch, Friedlander, Coplan & Aronoff, LLP, Cleveland, Ohio.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended January 31, 2011 have been so incorporated in reliance on the report of BDO Seidman, LLP, an independent registered certified public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

Streamline Health Solutions, Inc.

Common Stock

Preferred Stock

Warrants

Units

From time to time we may offer up to $20,000,000 of our common stock, preferred stock, warrants to purchase common stock, units or a combination of these securities in one or more transactions. We may also offer common stock upon exercise of warrants.

We will provide specific terms of these offerings and securities in one or more prospectus supplements to this prospectus. We may also authorize one or more free writing prospectuses to be provided to you in connection with these offerings. The prospectus supplement, and any documents incorporated by reference, may also add, update or change information contained in this prospectus. You should read this prospectus, the applicable prospectus supplement, any documents incorporated by reference and any related free writing prospectus carefully before buying any of the securities being offered.

Our common stock is listed on The NASDAQ Capital Market under the symbol STRM. On June 17, 2010, the last reported sale price of our common stock on The NASDAQ Capital Market was $1.53 per share. The applicable prospectus supplement will contain information, where applicable, as to any other listings, if any, on The NASDAQ Capital Market or any securities market or other exchange of the securities covered by the applicable prospectus supplement.

As of June 17, 2010, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $12,645,546, or the public float, which was calculated based on 8,265,063 shares of outstanding common stock held by non-affiliates and on a price per share of $1.53, the closing price of our common stock on June 17, 2010. Pursuant to General Instruction I.B.6 of Form S-3, in no event will we sell our securities in a public primary offering with a value exceeding more than one-third of our public float in any 12-month period so long as our public float remains below $75.0 million. We have not offered any securities pursuant to General Instruction I.B.6 of Form S-3 during the 12 calendar months prior to and including the date of this prospectus.

Investing in our securities involves a high degree of risk. You are urged to read the section entitled Risk Factors beginning on Page 3 of this prospectus, which describes specific risks and other information that should be considered before you make an investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 20, 2010

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Unless the context requires otherwise, references to Streamline Health, the Company or to we, us, our or similar terms are to Streamline Hea Solutions, Inc. and its subsidiaries.

ABOUT THIS PROSPECTUS

This prospectus is a part of a registration statement that we filed with the Securities and Exchange Commission (SEC) using a shelf registration process. Under this shelf registration statement, we may, from time to time, offer, either separately or together, shares of our common stock, shares of our preferred stock, warrants and units in one or more offerings, in amounts we will determine from time to time, up to a total dollar amount of $20,000,000.

This prospectus provides you with a general description of the securities we may offer. Each time we offer a type or series of securities described in this prospectus, we will provide a prospectus supplement, or information that is incorporated by reference into this prospectus, containing more specific information about the terms of the securities that we are offering. We may also authorize one or more free writing prospectuses to be provided to you that may contain material information relating to these offerings and securities. This prospectus, together with applicable prospectus supplements, any information incorporated by reference and any related free writing prospectuses, includes all material information relating to these offerings and securities. We may also add, update or change in the prospectus supplement any of the information contained in this prospectus or in the documents that we have incorporated by reference into this prospectus, including without limitation, a discussion of any risk factors or other special considerations that apply to these offerings or securities or the specific plan of distribution. If there is any inconsistency between the information in this prospectus and a prospectus supplement or information incorporated by reference having a later date, you should rely on the information in that prospectus supplement or incorporated information having a later date. We urge you to read carefully this prospectus, any applicable prospectus supplement and any related free writing prospectus, together with the information incorporated herein by reference as described under the heading Where You Can Find More Information, before buying any of the securities being offered.

You should rely only on the information we have provided or incorporated by reference in this prospectus, any applicable prospectus supplement and any related free writing prospectus. We have not authorized anyone to provide you with different information. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus, any applicable prospectus supplement or any related free writing prospectus.

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Neither the delivery of this prospectus nor any sale made under it implies that there has been no change in our affairs or that the information in this prospectus is correct as of any date after the date of this prospectus. You should assume that the information in this prospectus, any applicable prospectus supplement or any related free writing prospectus is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any related free writing prospectus, or any sale of a security.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under Where You Can Find More Information.

RISK FACTORS

You should carefully consider the following information about risks and uncertainties that may affect us or our business, together with the other information appearing elsewhere in this prospectus. If any of the following events, described as risks, actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment in our securities. An investment in our securities is speculative and involves a high degree of risk. You should not invest in our securities if you cannot bear the economic risk of your investment for an indefinite period of time and cannot afford to lose your entire investment.

The risks listed below are not listed in any particular order or relative importance and no inferences should be given to the listing order. In addition, risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company, its financial condition and/or operating results.

Risks Relating to the Securities the Company May Offer

The market price of the Company s common stock is likely to be highly volatile as the stock market in general can be highly volatile.

The public trading of the Company s common stock is based on many factors, which could cause fluctuation in the price of the Company s common stock. These factors may include, but are not limited to:

- General economic and market conditions;
- Actual or anticipated variations in quarterly operating results;
- Lack of research coverage by securities analysts;
- Conditions or trends in the healthcare information technology industry;
- Changes in the market valuations of other companies in the Company s industry;
- Announcements by the Company or its competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives;
- Capital commitments;

Ability to maintain listing of the Company s common stock on the NASDAQ Capital Market;

Additional or departures of key personnel; and

Sales and repurchases of the Company s common stock.

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Many of these factors are beyond the Company s control. These factors may cause the market price of the Company s common stock to decline, regardless of the Company s operating performance.

If equity research analysts do not publish research reports about the Company s business or if they issue unfavorable commentary or downgrade the Company s common stock, the price of the Company s common stock could decline.

The trading market for the Company s common stock may rely in part on the research and reports that equity research analysts publish about the Company and its business. The Company does not control the opinions of these analysts. The price of the Company s stock could decline if one or more equity analysts downgrade the Company s stock or if those analysts issue other unfavorable commentary or cease publishing reports about the Company or its business. Furthermore, if no equity research analysts conduct research or publish reports about the Company and its business, the price of the Company s stock could decline.

All of the Company s debt obligations and any preferred stock that it may issue, if any, will have priority over the Company s common shares with respect to payment in the event of a liquidation, dissolution or winding up.

In any liquidation, dissolution or winding up of Streamline Health, the Company s shares of common stock would rank below all debt claims against the Company and all of its outstanding shares of preferred stock, if any. As a result, holders of the Company s shares of common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation or dissolution until after the Company s obligations to its debt holders and holders of preferred stock have been satisfied.

There may be future sales or other dilution of the Company s equity, which may adversely affect the market price of the Company s shares of common stock.

The Company is generally not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent a right to receive, common stock or preferred stock or any substantially similar securities. The market price of the Company s common stock or preferred stock, if any, could decline as a result of sales of common stock or preferred stock or similar securities in the market made after an offering or the perception that such sales could occur.

The issuance of any series of preferred stock could adversely affect holders of shares of the Company s common stock, which may negatively impact your investment.

The Company s Board of Directors is authorized to issue classes or series of preferred stock without any action on the part of the stockholders. The Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including dividend rights and preferences over the shares of common stock with respect to dividends or upon the dissolution, winding-up and liquidation of the Company and other terms. If the Company issues preferred stock in the future that has a preference over the shares of the Company s common stock with respect to the payment of dividends or upon the dissolution, winding-up and liquidation of the Company, or if the Company issues preferred stock with voting rights that dilute the voting power of the shares of the Company s common stock, the rights of the holders of shares of the Company s common stock or the market price of shares of the Company s common stock could be adversely affected.

The Company does not currently intend to pay dividends on its common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of the Company s common stock.

The Company has never declared or paid any cash dividends on its common stock and does not currently intend to do so for the foreseeable future. The Company currently intends to invest its future earnings, if any, to fund the Company s growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of the Company s common stock will depend upon any future appreciation in its value. There is no guarantee that shares of the Company s common stock will appreciate in value or even maintain the price at which the Company s stockholders have purchased their shares.

Resales of shares of the Company s common stock in the public market may cause their market price to fall.

The issuance by the Company of shares of its common stock in an offering from time to time could have the effect of depressing the market price for shares of the Company s common stock. In addition, because the Company s common stock is thinly traded, resales of shares of the Company s common stock by its largest stockholders could have the effect of depressing market prices for shares of the Company s common stock.

Risks Relating to the Company s Business

The variability of the Company s quarterly operating results can be significant.

The Company s operating results have fluctuated from quarter to quarter in the past, and the Company may experience continued fluctuations in the future. Future revenues and operating results may vary significantly from quarter-to-quarter as a result of a number of factors, many of which are outside the control of the Company. These factors include: the relatively large size of customer agreements; unpredictability in the number and timing of system sales and sales of applications hosting services; length of the sales cycle; delays in installations; changes in customers financial condition or budgets; increased competition; the development and introduction of new products and services; the loss of significant customers or remarketing partners; changes in government regulations, particularly as to the healthcare industry; the size and growth of the overall healthcare information technology markets; any liability and other claims that may be asserted against the Company; the Company s ability to attract and retain qualified personnel; national and local general economic and market conditions; and other factors referenced or incorporated by reference in any other filings by the Company with the Securities and Exchange Commission.

The Company s sales have been concentrated in a small number of customers.

The Company s revenues have been concentrated in a relatively small number of large customers, and the Company has historically derived a substantial percentage of its total revenues from a few customers. There can be no assurance that a customer will not cancel all or any portion of a master agreement or delay installations. A termination or installation delay of one or more phases of an agreement, or the failure of the Company to procure additional agreements, could have a material adverse effect on the Company s business, financial condition, and results of operations.

In addition to direct sales, the Company relies on third party remarketing alliances for a substantial portion of its revenues.

The Company seeks to expand its distribution channels by creating remarketing alliances with third parties who are engaged in the sale of healthcare information systems, medical records management and outsourcing, and other healthcare information technology and patient care solutions. GE Healthcare and Telus Health, the Company s major remarketing partners, could choose to discontinue reselling the Company s products, and significant customers could elect to discontinue using the Company s products. The Company needs to ensure that it expands its distribution channels to reduce the reliance on a single major reseller.

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The Company could be less profitable than expected.

Because of the relatively fixed operating expenses and overhead, the future profitability of the Company is dependent on increasing revenues which may not materialize as anticipated. Because of the Company s anticipated shift in strategic focus towards remote application hosting services, upon obtaining new application hosting customers, the Company will have to expend a significant amount of costs and time before those new customers are able to begin using such services and the Company cannot begin to recognize revenues from those clients until the commencement of such services. Accordingly, the Company anticipates that its near term cash flow, revenue and profitability may be adversely affected by this shift in strategic focus until new hosting customers go into production. While the Company anticipates long term growth through increases in recurring subscription fees and significantly improved profit visibility, the Company s failure to successfully implement its focus on building its application hosting services business, or the failure of such initiative to result in improved profitability, could have a material adverse effect on the Company s liquidity, financial position and results of operations.

The Company needs to manage its costs while planning for growth.

The Company is currently experiencing a period of growth primarily through its remote application hosting line of business and this could continue to place a significant strain on the Company s cash flow. This could also strain the services and support operations, sales and administrative personnel and other resources as they are requested to handle the added work load with existing support resources. The Company believes that it must continue to focus on these remote hosting services, develop new products, enhance existing solutions and serve the needs of its existing and anticipated customer base. The Company s ability to successfully maintain and expand its operations will depend, in large part, upon its ability to attract and retain highly qualified employees. The Company s ability to manage its planned growth effectively also will require the Company to continue to improve its operational, management, and financial systems and controls, to train, motivate, and manage its employees and to judiciously manage its operating expenses in anticipation of increased future revenues.

The potential impact on the Company of new or changes in existing federal, state, and local regulations governing healthcare information could be substantial.

Healthcare regulations issued to date have not had a material adverse affect on the Company s business. However, the Company cannot predict the potential impact of new or revised regulations that have not yet been released or made final, or any other regulations that might be adopted. Congress may adopt legislation that may change, override, conflict with, or preempt the currently existing regulations and which could restrict the ability of customers to obtain, use, or disseminate patient health information. The Company believes that the features and architecture of its existing solutions are such that it currently supports or should be able to make the necessary modifications to its products, if required, to ensure support of HIPAA regulations, and other legislation or regulations, but there can be no assurances.

While provisions in the American Recovery and Reinvestment Act may increase the demand for healthcare information technology, including the solutions offered by the Company, such laws and regulations may have adverse consequences on the Company.

Legislation governing the dissemination of patient health information is also from time-to-time proposed and debated at the federal and state level including, but not limited to, the healthcare initiatives set forth in The American Recovery and Reinvestment Act of 2009 (the Stimulus Bill) signed into law by President Obama on February 17, 2009. Notwithstanding that the Stimulus Bill places substantial emphasis on the modernization of the U.S. healthcare system by using healthcare information technology, with a primary focus on electronic medical records, the Company s ability to benefit from such initiatives is uncertain at this time. The implementation of the provisions in the Stimulus Bill may create new requirements for healthcare information technology that would require the Company to incur additional research and development expenditures to modify or expand its solutions in order to be fully compliant. In addition, until it becomes more clear how the government will apply its anticipated substantial funding of these healthcare initiatives, hospitals and other healthcare providers may delay purchases of new solutions until additional details become known. In such event, the Company may experience delays in entering into new agreements with existing customers and potential new customers. The substantial sums of money contemplated by the Stimulus Bill to be spent on healthcare information technology further may increase competition by attracting new and financially stronger entities to this industry.

While provisions in the Patient Protection and Affordable Care Act may increase the demand for healthcare information technology, including the solutions offered by the Company, such laws and regulations may have adverse consequences on the Company.

Legislation governing the dissemination of patient health information is also from time-to-time proposed and debated at the federal and state level including, but not limited to, the healthcare initiatives set forth in the Patient Protection and Affordable Care Act (the Health Care Bill) signed into law by President Obama on March 23, 2010. Notwithstanding that the Health Care Bill places substantial emphasis on the expansion of health care coverage to 31 million currently uninsured Americans, and introduces a significant amount of new rules and regulations affecting the complete continuum of care, the Company s ability to benefit from such initiatives is uncertain at this time. The implementation of the provisions in the Health Care Bill may create new requirements for healthcare information technology that would require the Company to incur additional research and development expenditures to modify or expand its solutions in order to be fully compliant with any new regulations, or compete with other vendors. In addition, until it becomes clearer how the new rules and regulations will affect the administration, insurance and technology aspects of the delivery system, care providers may delay purchases of new solutions until additional details become known. In such event, the Company may experience delays in entering into new agreements with existing customers and potential new customers.

The Company faces significant competition, including from companies with significantly greater resources.

The Company currently competes with many other companies for the licensing of similar software solutions and related services. Several companies historically have dominated the clinical information systems software market and several of these companies have either acquired, developed or are developing their own document management and workflow technologies. The industry is undergoing consolidation and realignment as companies position themselves to compete more effectively. Many of these companies are larger than Streamline Health and have significantly more resources to invest in their business. In addition, information and document management companies serving other industries may enter the market. Suppliers and companies with whom Streamline Health may establish strategic alliances may also compete with Streamline Health. Such companies and vendors may either individually, or by forming alliances excluding Streamline Health, place bids for large agreements in competition with Streamline Health. A decision on the part of any of these competitors to focus additional resources in the image-enabling, workflow, and other markets addressed by the Company could have a material adverse effect on the Company.

The healthcare industry is evolving rapidly, which may make it more difficult for the Company to be competitive in the future.

The U.S. healthcare system is under intense pressure to improve in many areas, including modernization, universal access and controlling skyrocketing costs of care. The Company believes that the principal competitive factors in its market are customer recommendations and references, company reputation, system reliability, system features and functionality (including ease of use), technological advancements, customer service and support, breadth and quality of the systems, the potential for enhancements and future compatible products, the effectiveness of marketing and sales efforts, price and the size and perceived financial stability of the vendor. In addition, the Company believes that the speed with which companies in its market can anticipate the evolving healthcare industry structure and identify unmet needs are important competitive factors. There can be no assurance that the Company will be able to keep pace with changing conditions and new developments such that it will be able to compete successfully in the future against existing or potential competitors.

Rapid technology changes and short product life cycles could harm the Company s business.

The market for Streamline Health s solutions and services is characterized by rapidly changing technologies, regulatory requirements, evolving industry standards and new product introductions and enhancements that may render existing solutions obsolete or less competitive. As a result, the Company s position in the healthcare information technology market could change rapidly due to unforeseen changes in the features and functions of competing products, as well as the pricing models for such products. The Company s future success will depend, in part, upon the Company s ability to enhance its existing solutions and services and to develop and introduce new solutions and services to meet changing requirements. The Company needs to maintain an ongoing research and development program to continue to develop new solutions and apply new technologies to its existing products, but may not have sufficient funds with which to undertake such required research and development. If the Company is not able to foresee changes and/or to react in a timely manner to such developments, the Company may experience a material, adverse impact on its business, operating results, and financial condition.

The Company s intellectual property rights are valuable, and any inability to protect them could reduce the value of the Company s solutions and services.

The Company trademarks and copyrights its intellectual property, which represents an important asset to the Company. The Company does not have any patent protection on any of its software. The Company relies upon license agreements, employment agreements, confidentiality, nondisclosure agreements, etc. to maintain the confidentiality of the Company s proprietary information and trade secrets. Notwithstanding these precautions, others may copy, reverse engineer or design independently, technology similar to the Company s products. If the Company fails to adequately protect the intellectual property through trademarks and copyrights, license agreements, employment agreements, confidentiality, nondisclosure agreements, etc., the intellectual property rights may be misappropriated by others, invalidated, or challenged, and our competitors could duplicate the Company s technology or may otherwise limit any competitive technology advantage the Company may have. It may be necessary to litigate to enforce or defend the Company s proprietary technology or to determine the validity of the intellectual property rights of others. Any litigation, could be successful or unsuccessful, may result in substantial cost and require significant attention by management and technical personnel.

Due to the rapid pace of technology change, the Company believes its future success is likely to depend upon continued innovation, technical expertise, marketing skills and customer support and services rather than on legal protection of our property rights. However, the Company has in the past, and intends in the future, to aggressively assert its intellectual property rights when necessary.

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20,485,436

29,037,182

Deferred income tax liability, net

1,663,832

2,336,263

Long-term debt, less current maturities

2,360,276

2,648,179

Other long-term liabilities

37,067

34,100

Shareholders' equity:

Preferred stock, $.01 par value, 1,000,000 shares authorized

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Common stock, $.01 par value, 3,000,000 shares authorized, 615,988 shares outstanding at June 2018 and 678,006 shares outstanding at September 2017

8,441

8,314

Additional paid-in capital

22,042,155

20,825,919

Retained earnings

62,953,155

60,935,911

Treasury stock at cost

(21,305,694)

(13,601,302)

Total shareholders’ equity

63,698,057

68,168,842

Total liabilities and shareholders' equity

$

119,102,355

$

131,804,887

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Operations

for the three and nine months ended June 30, 2018 and 2017

	For the three months ended June		For the nine months ended June	
	2018	2017	2018	2017
Sales (including excise taxes of $96.2 million and $95.1 million, and $267.9 million and $271.8 million, respectively)	$ 349,043,200	$ 332,842,200	$ 959,763,695	$ 936,994,299
Cost of sales	329,930,190	314,818,453	905,392,747	883,180,664
Gross profit	19,113,010	18,023,747	54,370,948	53,813,635
Selling, general and administrative expenses	17,008,355	16,587,055	48,981,383	48,105,878
Depreciation and amortization	614,710	474,890	1,683,618	1,531,292
	17,623,065	17,061,945	50,665,001	49,637,170
Operating income	1,489,945	961,802	3,705,947	4,176,465
Other expense (income):				
Interest expense	261,510	180,266	777,065	545,719
Other (income), net	(18,615)	(16,513)	(51,158)	(37,250)
	242,895	163,753	725,907	508,469
Income from operations before income tax expense	1,247,050	798,049	2,980,040	3,667,996
Income tax expense	462,000	413,000	376,000	1,748,000
Net income available to common shareholders	$ 785,050	$ 385,049	$ 2,604,040	$ 1,919,996
Basic earnings per share available to common shareholders	$ 1.21	$ 0.57	$ 3.85	$ 2.82
Diluted earnings per share available to common shareholders	$ 1.18	$ 0.56	$ 3.79	$ 2.78
Basic weighted average shares outstanding	651,170	678,938	676,103	679,858
Diluted weighted average shares outstanding	664,688	691,701	686,576	690,840
Dividends declared and paid per common share	$ 0.18	$ 0.18	$ 0.82	$ 0.82

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

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AMCON Distributing Company and Subsidiaries

Condensed Consolidated Unaudited Statements of Cash Flows

for the nine months ended June 30, 2018 and 2017

	June 2018	June 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,604,040	$ 1,919,996
Adjustments to reconcile net income from operations to net cash flows from		
operating activities:		
Depreciation	1,619,868	1,332,542
Amortization	63,750	198,750
Gain on sale of property and equipment	(5,300)	(30,854)
Equity-based compensation	957,656	1,193,005
Deferred income taxes	(672,431)	120,367
Provision for losses on doubtful accounts	23,000	42,000
Inventory allowance	(267,389)	4,852
Other	2,967	2,296
Changes in assets and liabilities:		
Accounts receivable	(3,276,391)	(1,044,423)
Inventories	22,167,954	(701,279)
Prepaid and other current assets	(5,843,877)	771,870
Other assets	(4,928)	(38,358)
Accounts payable	1,584,358	322,325
Accrued expenses and accrued wages, salaries and bonuses	125,758	(659,813)
Income taxes payable	11,751	7,059
Net cash flows from operating activities	19,090,786	3,440,335
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,120,358)	(1,761,431)
Proceeds from sales of property and equipment	5,300	42,655
Net cash flows from investing activities	(2,115,058)	(1,718,776)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	1,043,415,401	950,104,143
Repayments under revolving credit facility	(1,051,967,147)	(950,313,271)
Principal payments on long-term debt	(279,339)	(271,031)
Repurchase of common stock	(7,704,392)	(1,038,060)
Dividends on common stock	(586,796)	(579,848)
Withholdings on the exercise of equity-based awards	(101,200)	(107,082)
Net cash flows from financing activities	(17,223,473)	(2,205,149)
Net change in cash	(247,745)	(483,590)

Cash, beginning of period	523,065	605,380
Cash, end of period	$ 275,320	$ 121,790
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 764,557	$ 545,719
Cash paid during the period for income taxes	1,036,680	1,620,574
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified in accounts payable	8,203	9,881
Issuance of common stock in connection with the vesting and exercise of		
equity-based awards	1,183,091	1,262,763

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

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AMCON Distributing Company and Subsidiaries

Notes to Condensed Consolidated Unaudited Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

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

- Our wholesale distribution segment ("Wholesale Segment") distributes consumer products and provides a full range of programs and services to our customers that are focused on helping them manage their business and increase their profitability. We primarily operate in the Central, Rocky Mountain, and Southern regions of the United States.

- Our retail health food segment ("Retail Segment") operates 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 4,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

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

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, ITG Brands, Hershey, Kelloggs, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. We do not maintain any long-term purchase contracts with our suppliers.

RETAIL SEGMENT

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

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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 fourteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 32,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates seven stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of seven locations in Arkansas, Missouri, Nebraska, and Oklahoma.

FINANCIAL STATEMENTS

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ("financial statements") contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2017, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to "we", "us", "our", the "Company", and "AMCON" shall mean AMCON Distributing Company and its subsidiari Additionally, the three month fiscal periods ended June 30, 2018 and June 30, 2017 have been referred to throughout this quarterly report as Q3 2018 and Q3 2017, respectively. The fiscal balance sheet dates as of June 30, 2018 and September 30, 2017 have been referred to as June 2018 and September 2017, respectively.

ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, "Revenue from Contracts with Customers." This ASU and related amendments supersedes the revenue recognition requirements in "Accounting Standard Codification 605 - Revenue Recognition" and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017 (Fiscal 2019 for the Company), and for interim periods within that fiscal year. The Company is in the data aggregation and quantification phase of its review of this new standard, and is working to assess the impact and our approach towards adopting this ASU.

In February 2016, FASB issued ASU No. 2016-02 "Leases” ("ASU 2016-02"). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases greater than one year in duration and classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (Fiscal 2020 for the Company), and for interim periods within that fiscal year. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements including the potential capitalization of all operating leases on the Company’s balance sheet.

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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, 2019 (fiscal 2021 for the Company) with early adoption permitted. The Company is currently reviewing this ASU and its potential impact on our consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). The new guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 requires goodwill impairment to be measured as the amount by which a reporting unit’s carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. ASU 2017-04 requires prospective application and is effective for annual periods beginning after December 15, 2019 (Fiscal 2021 for the Company) with early adoption permitted. The Company is currently evaluating this ASU and its potential impact on our consolidated financial statements.

2. INVENTORIES

Inventories consisted of finished goods and are stated at the lower of cost (determined on a FIFO basis for our wholesale segment and using the retail method for our retail segment) or net realizable value. The wholesale distribution and retail health food segment inventories consist of finished products purchased in bulk quantities to be redistributed to the Company’s customers or sold at retail. Finished goods included total reserves of approximately \$0.5 million at June 2018 and \$0.8 million at September 2017. These reserves include the Company’s obsolescence allowance, which reflects estimated unsalable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 2018	September 2017
Wholesale Segment	$ 4,436,950	$ 4,436,950
Retail Segment	1,912,877	1,912,877
	$ 6,349,827	$ 6,349,827

Other intangible assets of the Company consisted of the following:

	June 2018	September 2017
Trademarks and tradenames (Retail Segment)	$ 3,373,269	$ 3,373,269
Customer relationships (Wholesale Segment) (less accumulated amortization of approximately $2.1 million and $2.0 million at June 2018 and September 2017, respectively)	57,292	121,042
	$ 3,430,561	$ 3,494,311

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. At June 2018, identifiable intangible assets considered to have finite lives were represented by customer relationships which are being amortized over eight years. These intangible assets are evaluated for accelerated attrition or amortization adjustments if warranted.

At June 2018, goodwill allocated to our wholesale and retail reporting units totaled $4.4 million and $1.9 million, respectively. In conjunction with the Company’s annual impairment testing for the fiscal year ended September 30, 2017, the Company determined that the estimated fair value of these reporting units exceeded their carrying value at September 30, 2017. There has been no material changes to this assessment by the Company through June 2018.

Estimated future amortization expense related to identifiable intangible assets with finite lives is as follows at June 2018:

	June 2018
Fiscal 2018 (1)	$ 15,625
Fiscal 2019	41,667
	$ 57,292

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

4. DIVIDENDS

The Company paid cash dividends on its common stock during each of the three and nine month periods ended June 2017 and June 2018 of $0.1 million and $0.6 million, respectively.

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5. EARNINGS PER SHARE

Basic earnings per share available to common shareholders is calculated by dividing net income less preferred stock dividend requirements by the weighted average common shares outstanding for each period. Diluted earnings per share available to common shareholders is calculated by dividing income from operations less preferred stock dividend requirements (when anti-dilutive) by the sum of the weighted average common shares outstanding and the weighted average dilutive options.

	For the three months ended June			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	651,170	651,170	678,938	678,938
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	13,518	—	12,763
Weighted average number of shares outstanding	651,170	664,688	678,938	691,701
Net income available to common shareholders	$ 785,050	$ 785,050	$ 385,049	$ 385,049
Net earnings per share available to common shareholders	$ 1.21	$ 1.18	$ 0.57	$ 0.56

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

	For the nine months ended June			
	2018		2017	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	676,103	676,103	679,858	679,858
Weighted average net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock (1)	—	10,473	—	10,982
Weighted average number of shares outstanding	676,103	686,576	679,858	690,840
Net income available to common shareholders	$ 2,604,040	$ 2,604,040	$ 1,919,996	$ 1,919,996
	$ 3.85	$ 3.79	$ 2.82	$ 2.78

Net earnings per share available to common shareholders

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

6. DEBT

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

The Facility included the following significant terms at June 2018:

· A November 2022 maturity date without a penalty for prepayment.

· $70.0 million revolving credit limit.

· Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.

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· A provision providing an additional $10.0 million of credit advances for certain inventory purchases.

· Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.

· The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company.

· Lending limits subject to accounts receivable and inventory limitations.

· An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

· Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.

· A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's availability has not fallen below 10% of the maximum loan limit and the Company's fixed charge ratio is over 1.0 for the trailing twelve months.

· Provides that the Company may pay up to $2.0 million of dividends on its common stock provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after the dividend.

Cross Default and Co-Terminus Provisions

The Company owns real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause it to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2018. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Other

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

7. INCOME TAXES

The Company's results of operations for the nine months ended June 2018 included the impact of the enactment of the Tax Cuts and Jobs Act ("Tax Reform") which was signed into law on December 22, 2017. Among numerous provisions included in the new law was a reduction in the corporate federal income tax rate from 35% to 21% which resulted in a $0.9 million income tax benefit to the Company as reflected in our Statement of Operations for the nine months ended June 2018. This tax benefit primarily resulted from applying the new lower federal income tax rates to the Company's net long term deferred tax liabilities recorded on its Consolidated Balance Sheet. Because of the effective date of the new tax law in relation to the Company's fiscal year (October 1st - September 30th), the Company's fiscal 2018 results from operations will be taxed at a lower blended federal rate of approximately 24% for fiscal 2018, which reflects a portion of fiscal 2018 at the old federal tax rate and a portion of fiscal 2018 at the new federal tax rate. The final impact of Tax Reform may differ due to and among other things, changes in interpretations, assumptions made by the Company, the issuance of additional guidance, and actions Company may take as a result of Tax Reform.

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8. BUSINESS SEGMENTS

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

	Wholesale Segment	Retail Segment	Other	Consolidated
THREE MONTHS ENDED JUNE 2018				
External revenues:				
Cigarettes	$ 248,357,752	$ —	$ —	$ 248,357,752
Tobacco	44,598,270	—	—	44,598,270
Confectionery	21,437,432	—	—	21,437,432
Health food	—	6,246,691	—	6,246,691
Foodservice & other	28,403,055	—	—	28,403,055
Total external revenue	342,796,509	6,246,691	—	349,043,200
Depreciation	284,609	314,476	—	599,085
Amortization	15,625	—	—	15,625
Operating income (loss)	4,245,654	(1,078,191)	(1,677,518)	1,489,945
Interest expense	22,585	—	238,925	261,510
Income (loss) from operations before taxes	4,239,525	(1,076,032)	(1,916,443)	1,247,050
Total assets	104,905,403	13,994,013	202,939	119,102,355
Capital expenditures	468,995	284,596	—	753,591
THREE MONTHS ENDED JUNE 2017				
External revenue:				
Cigarettes	$ 236,433,449	$ —	$ —	$ 236,433,449
Tobacco	41,478,941	—	—	41,478,941
Confectionery	22,024,887	—	—	22,024,887
Health food	—	6,376,725	—	6,376,725
Foodservice & other	26,528,198	—	—	26,528,198
Total external revenue	326,465,475	6,376,725	—	332,842,200
Depreciation	292,294	116,345	—	408,639
Amortization	66,251	—	—	66,251
Operating income (loss)	3,096,128	(615,276)	(1,519,050)	961,802

Interest expense	25,279	—	154,987	180,266
Income (loss) from operations before taxes	3,082,982	(610,896)	(1,674,037)	798,049
Total assets	98,406,083	14,135,564	167,671	112,709,318
Capital expenditures	109,648	813,888	—	923,536

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	Wholesale Segment	Retail Segment	Other	Consolidated
NINE MONTHS ENDED JUNE 2018				
External revenue:				
Cigarettes	$ 679,812,016	$ —	$ —	$ 679,812,016
Tobacco	125,776,543	—	—	125,776,543
Confectionery	57,210,816	—	—	57,210,816
Health food	—	19,349,676	—	19,349,676
Foodservice & other	77,614,644	—	—	77,614,644
Total external revenue	940,414,019	19,349,676	—	959,763,695
Depreciation	919,236	700,632	—	1,619,868
Amortization	63,750	—	—	63,750
Operating income (loss)	9,966,031	(1,744,717)	(4,515,367)	3,705,947
Interest expense	69,107	—	707,958	777,065
Income (loss) from operations before taxes	9,938,081	(1,737,416)	(5,220,625)	2,980,040
Total assets	104,905,403	13,994,013	202,939	119,102,355
Capital expenditures	1,137,117	983,241	—	2,120,358
NINE MONTHS ENDED JUNE 2017				
External revenue:				
Cigarettes	$ 667,849,390	$ —	$ —	$ 667,849,390
Tobacco	117,535,875	—	—	117,535,875
Confectionery	58,606,239	—	—	58,606,239
Health food	—	19,334,087	—	19,334,087
Foodservice & other	73,668,708	—	—	73,668,708
Total external revenue	917,660,212	19,334,087	—	936,994,299
Depreciation	981,232	351,310	—	1,332,542
Amortization	198,750	—	—	198,750
Operating income (loss)	9,802,019	(1,122,951)	(4,502,603)	4,176,465
Interest expense	77,100	—	468,619	545,719
Income (loss) from operations before taxes	9,749,503	(1,110,284)	(4,971,223)	3,667,996
Total assets	98,406,083	14,135,564	167,671	112,709,318
Capital expenditures	429,892	1,331,539	—	1,761,431

9. COMMON STOCK REPURCHASE

The Company repurchased a total of 68,016 and 74,669 common shares during the three and nine month periods ended June 30, 2018, respectively, for cash totaling approximately $7.1 million and $7.7 million, respectively, and 11,104 common shares during the nine month period ended June 30, 2017 for cash totaling approximately $1.0 million. The Company made no share repurchases during Q3 2017. All repurchased shares were recorded in treasury stock at cost.

10. SUBSEQUENT EVENT

In July 2018, the Company’s wholly owned subsidiary, The Healthy Edge, Inc., through its newly formed wholly owned subsidiary, EOM Acquisition Corp, closed a transaction to acquire and operate eight leased retail health food stores located in Florida. In this transaction, EOM Acquisition Corp. will pay approximately $0.7 million in four installments through July 2019. The transaction will be funded through the Company’s existing credit facility. The acquisition expands the Company’s strategic footprint in the Florida market and enhances its ability to service customers in that region.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," similar expressions. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions.

You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increasing competition in our wholesale and retail health food businesses and any associated impact on the carrying value of intangible assets within those businesses,

- that our repositioning strategy for our retail business will not be successful,

- risks associated with opening or acquiring new retail stores,

- Challenges experienced in relation to the Company's recent acquisition of eight retail health food stores in Florida, including but not limited to lease renewals, employee integration, product acquisition and distribution, and customer retention during and after the full integration of the eight stores into the Company's Retail Health Food Segment.

- if online shopping formats such as Amazon continue to grow in popularity and further disrupt traditional sales channels, it may present a significant direct risk to brick and mortar retailers and potentially wholesale distributors,

- increases in fuel costs and expenses associated with operating a refrigerated trucking fleet,

- increases in state and federal excise taxes on cigarette and tobacco products and the potential impact on demand,
- higher commodity prices which could impact food ingredient costs for many of the products we sell,
- regulation of cigarette, tobacco, and e-cigarette/vaping products by the United States Food and Drug Administration ("FDA"), in addition to existing state and federal regulations by other agencies,
- potential bans or restrictions imposed by the FDA, states, or local municipalities on the manufacture, distribution, and sale of certain cigarette, tobacco, and e-cigarette/vaping products,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,
- changes in promotional and incentive programs offered by manufacturers,
- demand for the Company's products, particularly cigarette, 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 consumers and the potential impact on discretionary consumer spending,
- the ongoing trend of higher health care costs in our business which has impacted profitability,
- decreased availability of capital resources,
- domestic regulatory and legislative risks,
- poor weather conditions,
- consolidation trends within the convenience store, wholesale distribution, and retail health food industries,
- natural disasters and domestic or political unrest,
- the impact on the Company's financial statements as it relates to the accounting treatment and disclosure requirements under the new tax law (Tax Cut and Jobs Act) and the issuance of any new interpretive guidance,
- other risks over which the Company has little or no control, and any other factors not identified herein

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

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our annual report on Form 10-K for the fiscal year ended September 30, 2017, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the nine months ended June 2018.

THIRD FISCAL QUARTER 2018 (Q3 2018)

The following discussion and analysis includes the Company’s results of operations for the three and nine months ended June 2018 and June 2017:

Wholesale Segment

Our Wholesale Segment is one of the largest wholesale distributors in the United States serving approximately 4,000 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 16,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional foodservice products. Convenience stores represent our largest customer category. In November 2017, Convenience Store News ranked us as the seventh (7th) largest convenience store distributor in the United States based on annual sales.

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

Our Wholesale Segment operates six distribution centers located in Illinois, Missouri, Nebraska, North Dakota, South Dakota, and Tennessee. These distribution centers, combined with cross dock facilities, include approximately 641,000 square feet of permanent floor space. Our principal suppliers include Altria, RJ Reynolds, ITG Brands, Hershey, Kelloggs, Kraft, and Mars. We also market private label lines of water, candy products, batteries, and other products. We do not maintain any long-term purchase contracts with our suppliers.

Retail Segment

Our Retail Segment is a specialty retailer of natural/organic groceries and dietary supplements which focuses on providing high quality products at affordable prices, with an exceptional level of customer service and nutritional consultation. All of the products carried in our stores 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 fourteen retail health food stores as Chamberlin's Market & Café and Akin's Natural Foods Market. These stores carry over 32,000 different national and regionally branded and private label products including high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was established in 1935, operates seven stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of seven locations in Arkansas, Missouri, Nebraska, and Oklahoma.

As previously disclosed, the Company has implemented a multi-year strategic plan to reposition its Retail Segment. In conjunction with this competitive repositioning plan, the Company opened one new retail health food store in its Florida market during its first fiscal quarter of fiscal 2018 (Q1 2018) and closed two non-performing stores in its Midwestern market during Q3 2018.

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RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 2018:

	For the three months ended June			
	2018	2017	Incr (Decr)	% Change
CONSOLIDATED:				
Sales(1)	$ 349,043,200	$ 332,842,200	$ 16,201,000	4.9
Cost of sales	329,930,190	314,818,453	15,111,737	4.8
Gross profit	19,113,010	18,023,747	1,089,263	6.0
Gross profit percentage	5.5 %	5.4 %		
Operating expense	$ 17,623,065	$ 17,061,945	$ 561,120	3.3
Operating income	1,489,945	961,802	528,143	54.9
Interest expense	261,510	180,266	81,244	45.1
Income tax expense (benefit)	462,000	413,000	49,000	11.9
Net income	785,050	385,049	400,001	103.9
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 342,796,509	$ 326,465,475	$ 16,331,034	5.0
Gross profit	16,744,182	15,412,958	1,331,224	8.6
Gross profit percentage	4.9 %	4.7 %		
Retail				
Sales	$ 6,246,691	$ 6,376,725	$ (130,034)	(2.0)
Gross profit	2,368,828	2,610,789	(241,961)	(9.3)
Gross profit percentage	37.9 %	40.9 %		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $6.0 million in Q3 2018 and $6.1 million in Q3 2017.

SALES

Changes in sales are driven by two primary components:

(i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and

(ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

SALES – Q3 2018 vs. Q3 2017

Sales in our Wholesale Segment increased $16.3 million during Q3 2018 as compared to Q3 2017. Significant items impacting sales during Q3 2018 included a $8.3 million increase in sales related to price increases implemented by cigarette manufacturers, a $4.4 million increase in sales related to higher sales volumes in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, foodservice, and store supplies categories ("Other Products") and a $3.6 million increase in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment decreased $0.1 million for Q3 2018 as compared to Q3 2017. Significant items impacting sales in our Retail Segment for the three months ended June 2018 included a $0.4 million increase in sales related to the opening of a new store in our Florida market, offset by a $0.5 million decrease in sales related to the closure of two non-performing stores in our Midwest market and lower sales volumes in our existing stores which have experienced increased competition.

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GROSS PROFIT – Q3 2018 vs. Q3 2017

Our gross profit does not include fulfillment costs and costs related to the distribution network which are included in selling, general and administrative costs, and may not be comparable to those of other entities. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for the wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives we receive which are netted against such costs.

Gross profit in our Wholesale Segment increased $1.3 million during Q3 2018 as compared to Q3 2017. Significant items impacting gross profit during the period included a $0.8 million benefit related to cigarette manufacturer price increases, a $0.4 million increase in gross profit related to higher sales volumes in our Other Product category, and a $0.1 million increase in gross profit related to the volume and mix of cigarette cartons sold during the current period.

Q3 2018 gross profit in our Retail Segment decreased $0.2 million as compared to Q3 2017. Significant items impacting our Q3 2018 Retail Segment gross profit included a $0.2 million increase in gross profit related to the opening of our new Florida market store, offset by a $0.4 million decrease in gross profit related to the closure of two non-performing stores in our Midwest market and lower sales volumes and gross profits in our existing stores.

OPERATING EXPENSE – Q3 2018 vs. Q3 2017

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, and insurance costs. Our Q3 2018 operating expenses increased $0.6 million as compared to Q3 2017. Significant items impacting operating expenses during the current period included a $0.4 million increase in employee compensation and benefit costs, a $0.4 million increase in insurance and other costs, a $0.2 million increase in fuel costs, and a $0.2 million increase in expenses in our Retail Segment. These increases were partially offset by a $0.6 million decrease in health insurance costs.

INCOME TAX EXPENSE – Q3 2018 vs. Q3 2017

Significant items impacting the Company’s Q3 2018 income tax expense included the impact of nondeductible compensation expense, partially offset by a decrease in the Company’s federal income tax rate related to the enactment of the Tax Cuts and Jobs Act ("Tax Reform") which was signed into law on December 22, 2017 and which reduced the corporate federal income tax rate from 35% to 21%.

RESULTS OF OPERATIONS – NINE MONTHS ENDED JUNE 2018:

	For the nine months ended June			
	2018	2017	Incr (Decr)	% Change
CONSOLIDATED:				
Sales(1)	$ 959,763,695	$ 936,994,299	$ 22,769,396	2.4
Cost of sales	905,392,747	883,180,664	22,212,083	2.5
Gross profit	54,370,948	53,813,635	557,313	1.0
Gross profit percentage	5.7 %	5.7 %		
Operating expenses	50,665,001	49,637,170	1,027,831	2.1
Operating income	3,705,947	4,176,465	(470,518)	(11.3)
Interest expense	777,065	545,719	231,346	42.4
Income tax expense (benefit)	376,000	1,748,000	(1,372,000)	(78.5)
Net income	2,604,040	1,919,996	684,044	35.6
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 940,414,019	$ 917,660,212	$ 22,753,807	2.5
Gross profit	46,416,619	45,573,362	843,257	1.9
Gross profit percentage	4.9 %	5.0 %		
Retail				
Sales	$ 19,349,676	$ 19,334,087	$ 15,589	0.1
Gross profit	7,954,329	8,240,273	(285,944)	(3.5)
Gross profit percentage	41.1 %	42.6 %		

(1) Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $17.7 million for the nine month period ended June 2018 and $17.4 million for the nine month period ended June 2017.

SALES — Nine months Ended June 2018

Sales in our Wholesale Segment increased $22.8 million for the nine months ended June 2018 as compared to the same prior year period. Significant items impacting sales during the period included a $24.0 million increase in sales related to price increases implemented by cigarette manufacturers and a $10.8 million increase in sales in our Other Products categories. These increases were partially offset by a $12.0 million decrease in sales related to the volume and mix of cigarette cartons sold.

Sales in our Retail Segment for the nine months ended June 2018 were even as compared to the same prior year period. Significant items impacting sales during the current period included a $1.3 million increase in sales related to the opening of a new store in our Florida market which was offset by a $1.3 million decrease in sales related to the closure of two non-performing stores in our Midwest market and lower sales volumes in our existing stores.

GROSS PROFIT — Nine months Ended June 2018

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.

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Gross profit in our Wholesale Segment for the nine month period ending June 2018 increased $0.8 million as compared to the same prior year period, primarily related to higher sales in our Other Products categories. Gross profit in our Retail Segment decreased $0.3 million for the nine month period ended June 2018 as compared to the same prior year period. Significant items impacting gross profit during the current period included a $0.7 million increase in gross profit related to the opening of our new Florida market store, offset by a $1.0 million decrease in gross profit related to the closure of two non-performing stores in our Midwest market and lower sales volumes and gross profits in our existing stores.

OPERATING EXPENSE — Nine months Ended June 2018

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, and insurance costs. Operating expenses increased $1.0 million during the nine months ended June 2018 as compared to the same prior year period. Significant items impacting operating expenses during the nine months ended June 2018 included a $0.7 million increase in employee compensation and benefit costs, a $0.6 million increase in fuel costs, a $0.3 million increase in insurance and other costs, and a $0.3 million increase in expenses in our Retail Segment. These increases were partially offset by a $0.9 million decrease in health insurance costs.

INCOME TAX EXPENSE – Nine months Ended June 2018

Significant items impacting the Company’s income tax expense for the nine months ended June 2018 included the impact of the Tax Cuts and Jobs Act (“Tax Reform”) which was signed into law on December 22, 2017 and reduced the corporate federal income tax rate from 35% to 21% resulting in a $0.9 million income tax benefit to the Company as reflected in our Statement of Operations for the nine months ended June 2018. This decrease in income tax expense was partially offset by the impact of nondeductible compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

In general, the Company finances its operations through a credit agreement (the "Facility") with Bank of America acting as the senior agent and with BMO Harris Bank participating in the loan syndication. The Facility included the following significant terms at June 2018:

- A November 2022 maturity date without a penalty for prepayment.

- $70.0 million revolving credit limit.

- Loan accordion allowing the Company to increase the size of the credit facility agreement by $25.0 million.

- A provision providing an additional $10.0 million of credit advances for certain inventory purchases.

- Evergreen renewal clause automatically renewing the agreement for one year unless either the borrower or lender provides written notice terminating the agreement at least 90 days prior to the end of any original or renewal term of the agreement.

- The Facility bears interest at either the bank's prime rate, or at LIBOR plus 125 - 150 basis points depending on certain credit facility utilization measures, at the election of the Company.

- Lending limits subject to accounts receivable and inventory limitations.

- An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

- Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.

- A financial covenant requiring a fixed charge coverage ratio of at least 1.0 as measured by the previous twelve month period then ended only if excess availability falls below 10% of the maximum loan limit as defined in the credit agreement. The Company's availability has not fallen below 10% of the maximum loan limit and the Company's fixed charge ratio is over 1.0 for the trailing twelve months.

- Provides that the Company may pay up to $2.0 million of dividends on its common stock provided the Company meets certain excess availability and proforma fixed charge coverage ratios and is not in default before or after the dividend.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the credit limit of the Facility at June 2018 was $69.6 million, of which $20.5 million was outstanding, leaving $49.1 million available.

At June 2018, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.98% at June 2018. For the nine months ended June 2018, our peak borrowings under the Facility were $48.9 million, and our average borrowings and average availability under the Facility were $23.5 million and $45.1 million, respectively.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, which is financed through a single term loan with BMO Harris Bank (the "Real Estate Loan") which is also a participant lender on the Company's revolving line of credit. The Real Estate Loan contains cross default provisions which cause the loan to be considered in default if the loans where BMO is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2018. In addition, the Real Estate Loan contains co-terminus provisions which require all loans with BMO to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Dividends Payments

The Company paid cash dividends on its common stock during each of the three and nine month periods ended June 2017 and June 2018 of $0.1 million and $0.6 million, respectively.

Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's annual report on Form 10-K for the fiscal period ended September 30, 2017.

Other

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

Off-Balance Sheet Arrangements

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

Liquidity Risk

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

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

The Company believes its liquidity position going forward will be adequate to sustain operations. However, a precipitous change in operating environment could materially impact the Company's future revenue stream as well as its ability to collect on customer accounts receivable or secure bank credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of our disclosure controls and procedures as of June 2018 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control that occurred during the fiscal quarter ended June 30, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A "Risk Factors" of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017.

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

The following table summarizes the purchases made by or on behalf of our Company or certain affiliated purchasers of shares of our common stock during the quarterly period ended June 2018:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*
April 1 - 30, 2018	45	$ 90.36	45	49,955
May 1 - 31, 2018	67,677	$ 103.87	67,677	7,323
June 1 - 30, 2018	294	$ 86.71	294	7,029
Total	68,016	$ 103.79	68,016	7,029

*In April 2018, the Company's Board of Directors ("Board") replenished the existing share repurchase authority to provide for the purchase of up to 50,000 shares of the Company's common stock in open market or negotiated transactions. In May 2018, the Board replenished and expanded the share repurchase authority to provide for the purchase of up to 75,000 shares of the Company's common stock in open market or negotiated transactions. In each case, management was given discretion to determine the number and pricing of the shares to be purchased, as well as the timing of any such purchases.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

In July 2018, the Company's wholly owned subsidiary, The Healthy Edge, Inc., through its newly formed wholly owned subsidiary, EOM Acquisition Corp, closed a transaction to acquire and operate eight leased retail health food stores located in Florida. In this transaction, EOM Acquisition Corp. will pay approximately $0.7 million in four installments through July 2019. The transaction will be funded through the Company's existing credit facility. The acquisition expands the Company's strategic footprint in the Florida market and enhances its ability to service customers in that region.

Item 6. Exhibits

(a) Exhibits

31.1	Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, filed pursuant to section 302 of the Sarbanes-Oxley Act
31.2	Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer filed pursuant to section 302 of the Sarbanes-Oxley Act
32.1	Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act
32.2	Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 906 of the Sarbanes-Oxley Act
101	Interactive Data File (filed herewith electronically)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	AMCON DISTRIBUTING COMPANY (registrant)
Date: July 18, 2018	/s/ Christopher H. Atayan Christopher H. Atayan, Chief Executive Officer and Chairman
Date: July 18, 2018	/s/ Andrew C. Plummer Andrew C. Plummer, Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)

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