



Cigarette Distribution Logistics

Purchasing – Our wholesale purchasing buyer orders direct from all of the manufacturers based on their minimum order requirements. Purchase orders arrive at our Bismarck Distribution Center Monday through Thursday of every week. All of the manufacturers require EFT payment of the purchase order in most cases on the day the PO ships from the manufacturer. Sometimes that is 4 days prior to arrival in AMCON's distribution center. The major key to a successful wholesale distributor is just in time deliveries of purchase orders in order to maximize inventory turns.

Security – AMCON Distributing Company verifies all cigarette inventories to our main frame perpetual inventory counts every day of the work week. We also have a wide variety of electronic security measures including cameras to make sure we have a zero shrink of inventory.

Order processing – AMCON's cigarette & tobacco order processors work each retail customer's order to completion. Each and every retail customer's order is checked for accuracy to insure that it is complete and matches the order pick ticket. In the case of states that require stamping the order then proceeds to our cigarette stamping machine to apply the tax stamp by the proper taxing jurisdiction. Tax stamping increases our labor and equipment costs on all states except for ND. If ND requires tax stamping we will need to raise the price of the product in order to recover our production costs.

Order Delivery – All cigarettes are counted at the time of delivery jointly with the customer to insure accuracy. Counts are signed off on the delivery manifest.

Excise Tax Collecting – The cigarettes excise tax for the various state taxing jurisdictions is added to the price of the product on all invoices to the retailers. AMCON collects cigarette excise tax payment from the retailer based on the retail customer's terms with AMCON.

Excise Tax Payments – In the cases of the states that require stamping AMCON will purchase the stamp rolls in advance from the various taxing jurisdictions. The stamps are on rolls of 30,000 stamps per roll. The states that require stamping that AMCON – Bismarck distributes are MN, MT, SD, & WI. The stamps are priced @ \$1.53 each up to \$2.52 depending on the state. Payment to the various state department of revenue is either by a check with order or EFT with order. The ND cigarette excise tax is paid by the 15th of the month following month end.

Administration – Every wholesale distributor is required to provide a complete report to every state's department of revenue they distribute into. Reports are generated on our main frame computer system on demand by dates to facilitate with the individual reports. Some states require very detailed reports and some are primarily inventory sold. Detail reports are kept on our laser vault for the occasional Department of Revenue audits. Through our internal audits we are able to document every carton of cigarettes that passes through our facility with a 99.99% accuracy. Every week we also provide an electronic detail of every cigarette by stick by SKU number by retail customers to the STARS group. This documents all sales to match our manufacturer reporting requirements.

Types of Distributors – There are three types of wholesale cigarette distributors. There are wholesale distributors located in ND that only distribute within ND. There are out of the state of ND located wholesale distributors that distribute into ND. Finally there are wholesale distributors located in ND that distribute into multiple surrounding states in addition to ND. AMCON Distributing Company fits into the final category.