

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON DISTRIBUTING CO
Form 10-Q
April 18, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

/X/ Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

OR

/ / Transition report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-15589

AMCON Distributing Company

(Exact name of registrant as specified in its charter)

Delaware

47-0702918

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

7405 Irvington Road, Omaha NE

68122

(Address of principal executive offices)

(Zip code)

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

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

Yes X No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check
(if a smaller reporting company)

Smaller reporting company

X

Indicate by check mark whether the registrant is a shell company (as defined
in Rule 12b-2 of the Exchange Act)

Yes

No

X

The Registrant had 568,564 shares of its \$.01 par value common stock
outstanding as of April 14, 2008.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Form 10-Q
2nd Quarter

INDEX

	PAGE

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements:	

Condensed consolidated balance sheets at March 31, 2008 (unaudited) and September 30, 2007	3
Condensed consolidated unaudited statements of operations for the three and six months ended March 31, 2008 and 2007	4
Condensed consolidated unaudited statements of cash flows for the six months ended March 31, 2008 and 2007	5
Notes to condensed consolidated unaudited financial statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	36
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	37
Item 4. Submission of Matters to a Vote of Security Holders	37
Item 5. Other Information	37
Item 6. Exhibits	38

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON Distributing Company and Subsidiaries
 Condensed Consolidated Balance Sheets
 March 31, 2008 and September 30, 2007

	March 2008 (Unaudited)	Septemb 2007
ASSETS		
Current assets:		
Cash	\$ 503,006	\$ 717,
Accounts receivable, less allowance for doubtful accounts of \$0.5 million and \$0.3 million, respectively	21,741,714	27,848,
Inventories, net	33,119,315	29,738,
Deferred income taxes	1,478,222	1,446,
Current assets of discontinued operations	8,639	18,
Prepaid and other current assets	4,269,603	5,935,
Total current assets	61,120,499	65,705,
Property and equipment, net	11,302,945	11,190,
Goodwill	5,848,808	5,848,
Other intangible assets, net	3,380,204	3,400,
Deferred income taxes	1,489,579	2,768,
Non-current assets of discontinued operations	2,057,033	2,057,
Other assets	1,460,690	1,093,
	\$ 86,659,758	\$ 92,063,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,682,453	\$ 15,253,
Accrued expenses	4,951,361	5,293,
Accrued wages, salaries and bonuses	1,913,187	2,202,
Income taxes payable	235,683	367,
Current liabilities of discontinued operations	4,090,624	4,035,
Current maturities of credit facility	3,046,000	3,046,
Current maturities of long-term debt	713,059	568,
Total current liabilities	28,632,367	30,767,
Credit facility, less current maturities	30,483,506	35,808,
Long-term debt, less current maturities	6,981,633	7,123,
Noncurrent liabilities of discontinued operations	6,542,310	6,542,
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized and issued, liquidation preference \$25.00 per share	2,438,355	2,438,
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share	1,857,645	1,857,
Series C cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share	1,982,372	1,982,
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$.01 par, 1,000,000 shares authorized, 260,000 shares outstanding and issued in Series A, B and C		

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

referred to above		-
Common stock, \$.01 par value, 3,000,000 shares authorized, 568,564 shares outstanding at March 2008 and 529,436 shares outstanding at September 2007	5,686	5,
Additional paid-in capital	6,684,826	6,396,
Retained earnings (deficit)	1,051,058	(857,
	-----	-----
Total shareholders' equity	7,741,570	5,543,
	-----	-----
	\$ 86,659,758	\$ 92,063,
	=====	=====

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

3

AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Operations
for the three and six months ended March 31, 2008 and 2007

	For the three months ended March		For the six months ended March	
	2008	2007 (As Restated -See Note 1)	2008	(As -See Note 1)
	-----	-----	-----	-----
Sales (including excise taxes of \$46.3 million and \$48.4 million, and \$97.9 million and \$98.0 million, respectively)	\$ 190,411,670	\$ 201,176,501	\$ 401,074,907	\$ 410,074,907
Cost of sales	174,669,957	185,928,473	370,137,346	380,137,346
Gross profit	15,741,713	15,248,028	30,937,561	30,937,561
Selling, general and administrative expenses	12,696,507	13,045,926	24,907,082	25,907,082
Depreciation and amortization	339,809	456,204	702,283	702,283
	13,036,316	13,502,130	25,609,365	26,609,365
Operating income	2,705,397	1,745,898	5,328,196	3,328,196
Other expense (income):				
Interest expense	749,558	1,237,976	1,719,360	2,719,360
Other (income), net	(39,265)	(32,225)	(72,476)	(72,476)
	710,293	1,205,751	1,646,884	2,646,884
Income from continuing operations before income tax expense	1,995,104	540,147	3,681,312	1,681,312
Income tax expense	728,000	208,000	1,369,000	1,369,000
Income from continuing operations	1,267,104	332,147	2,312,312	332,312
Discontinued operations (Note 2)				
(Loss) gain on disposal of discontinued operations, net of income tax (benefit) expense of (\$0.04) million and \$0.6 million, respectively	-	(66,498)	-	(66,498)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Loss from discontinued operations, net of income tax (benefit) of (\$0.1) million and (\$0.1) million, and (\$0.1) million and (\$0.2) million, respectively	(97,445)	(124,283)	(193,440)	
(Loss) income on discontinued operations	(97,445)	(190,781)	(193,440)	
Net income	1,169,659	141,366	2,118,872	1
Preferred stock dividend requirements	(104,386)	(103,239)	(209,919)	
Net income available to common shareholders	\$ 1,065,273	\$ 38,127	\$ 1,908,953	\$ 1
Basic earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 2.16	\$ 0.43	\$ 3.92	\$
Discontinued operations	(0.18)	(0.36)	(0.36)	
Net basic earnings per share available to common shareholders	\$ 1.98	\$ 0.07	\$ 3.56	\$
Diluted earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 1.48	\$ 0.37	\$ 2.72	\$
Discontinued operations	(0.11)	(0.27)	(0.23)	
Net diluted earnings per share available to common shareholders	\$ 1.37	\$ 0.10	\$ 2.49	\$
Weighted average shares outstanding:				
Basic	537,064	527,062	535,473	
Diluted	851,370	694,431	850,314	

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

4

AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Cash Flows
for the six months ended March 31, 2008 and 2007

	2008	2007 (As restat -see Note
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,118,872	\$ 1,389,6
Deduct: (Loss) income from discontinued operations, net of tax	(193,440)	446,7
Income from continuing operations	2,312,312	942,9
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	682,417	894,1
Amortization	19,866	19,8
(Gain) on sale of property and equipment	(17,635)	(8,1
Stock based compensation	169,449	6,0
Deferred income taxes	1,246,631	907,2
Provision (benefit) for losses on doubtful accounts	182,909	(50,1

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Provision for losses on inventory obsolescence	13,993	11,6
Changes in assets and liabilities:		
Accounts receivable	5,924,315	1,286,4
Inventories	(3,394,581)	1,478,7
Prepaid and other current assets	1,665,605	3,7
Other assets	(367,540)	(34,4
Accounts payable	(1,571,109)	(2,950,3
Accrued expenses and accrued wages, salaries and bonuses	(631,969)	(71,5
Income tax payable	(132,090)	(19,5
	-----	-----
Net cash flows from operating activities - continuing operations	6,102,573	2,416,5
Net cash flows from operating activities - discontinued operations	(128,421)	(1,962,2
	-----	-----
Net cash flows from operating activities	5,974,152	454,2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(543,156)	(211,3
Proceeds from sales of property and equipment	43,821	17,6
	-----	-----
Net cash flows from investing activities - continuing operations	(499,335)	(193,6
Net cash flows from investing activities - discontinued operations	-	3,965,3
	-----	-----
Net cash flows from investing activities	(499,335)	3,771,7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on bank credit agreements	(5,324,674)	(2,858,0
Dividends paid on preferred stock	(209,919)	(208,7
Proceeds from exercise of stock options	119,637	
Principal payments on long-term debt	(274,409)	(288,5
	-----	-----
Net cash flows from financing activities - continuing operations	(5,689,365)	(3,355,4
Net cash flows from financing activities - discontinued operations	-	(789,8
	-----	-----
Net cash flows from financing activities	(5,689,365)	(4,145,2
	-----	-----
Net change in cash	(214,548)	80,7
Cash, beginning of period	717,554	481,1
	-----	-----
Cash, end of period	\$ 503,006	\$ 561,8
	=====	=====

5

Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,832,447	\$ 2,530,7
Cash paid during the period for income taxes	136,458	99,0
Supplemental disclosure of non-cash information:		
Buyer's assumption of HNWC lease in connection with the sale of HNWC's assets - discontinued operations	-	(225,5
Acquisition of equipment through capital leases	277,624	

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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

6

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" and "the Company") is primarily engaged in the wholesale distribution of consumer products in the Great Plains and Rocky Mountain regions. In addition, the Company operates thirteen retail health food stores in Florida and the Midwest.

AMCON's wholesale distribution business ("ADC") includes five distribution centers that sell approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products. The Company distributes products primarily to retailers such as convenience stores, discount and general merchandise stores, grocery stores and supermarkets, drug stores and gas stations. In addition, the Company services institutional customers, including restaurants and bars, schools, sports complexes and vendors, as well as other wholesalers.

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

Results for the interim period are not necessarily indicative of results to be expected for the entire 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 have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements contain all adjustments necessary to fairly present the financial information included therein, such adjustments consisting of normal recurring items. The Company believes that although the

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

disclosures are adequate to prevent the information presented from being misleading, these condensed consolidated unaudited financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2007, 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", "Company", and "AMCON" shall mean AMCON Distributing Company and its subsidiaries. The wholesale distribution segment of our Company will be separately referred to as "ADC". Additionally, the three month fiscal period ended March 31, 2008 and March 31, 2007 have been referred to throughout this quarterly report as Q2 2008 and Q2 2007, respectively. March 31, 2008, March 31, 2007, and September 30, 2007 have been referred to as March 2008, March 2007, and September 2007, respectively.

7

CHANGE IN ACCOUNTING PRINCIPLES

Income Taxes

On October 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"). FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The results of implementing FIN 48 identified no unrecognized tax benefits and did not impact the Company's financial statements. The Company's policy is to record interest and penalties directly related to income taxes as income tax expense in the condensed consolidated statements of operations. There were no material changes to unrecognized tax benefits, interest, or penalties for the three and six month periods ended March 31, 2008 and the Company does not anticipate any such material changes during the next twelve months. The Company files income tax returns in the U.S. and various states. The tax years 2004 and forward remain open under U.S. and state statutes.

Last-In First-Out (LIFO) Inventory Valuation Method

As previously disclosed in the Company's Fiscal 2007 Annual Report on Form 10-K, during the fourth quarter of fiscal 2007, the Company changed its inventory valuation method from the Last-In First-Out (LIFO) method to the First-In First-Out (FIFO) method. As required by U.S. generally accepted accounting principles, this change in accounting principle was reflected in the Company's financials statements through the retroactive application of the FIFO method and the restatement of prior fiscal periods, including the three and six month periods ended March 2007, which is included within this quarterly report on Form 10-Q.

Recently Issued Accounting Pronouncements

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

The Company is currently evaluating the impact of implementing the following new accounting standards:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company).

8

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company).

In March 2007, the FASB issued Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007 (fiscal 2009 for the Company).

2. DISPOSITION

Trinity Springs, Inc. (TSI)

During fiscal 2006, the Company discontinued the operations of Trinity Springs, Inc. ("TSI"), which operated a water bottling facility in Idaho, due to recurring losses, a lack of capital resources to sustain operations, and the litigation discussed in Note 10.

As described in Note 10, AMCON and TSI were parties to litigation with Crystal Paradise Holdings, Inc. ("CPH") regarding an April 24, 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from CPH. On September 30, 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") with CPH related to this litigation. The Settlement Agreement resulted in the mutual release and settlement of all outstanding and potential litigation and claims among and between AMCON, TSI, and CPH with respect to the Asset Purchase Agreement and the related acquisition.

The Settlement Agreement also restructured the Company's obligations arising from the Asset Purchase Agreement with CPH totaling approximately \$6.5 million into a new \$5.0 million note payable to CPH. The \$5.0 million note payable, plus accrued interest at 5.0%, is due in September 2012, if the

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

option discussed below is not exercised by CPH. Items restructured into the \$5.0 million note payable included CPH's minority interest in TSI, water royalties payable to CPH, notes payable to CPH, and accrued interest payable to CPH. Additionally, the Settlement Agreement provided CPH with an option to purchase TSI's assets for a price equivalent to the amount due CPH under the \$5.0 million note payable, plus accrued interest. The option expires in August 2008 and can be extended for an additional seven months at CPH's election. If CPH elects to exercise its purchase option, then CPH will cancel the \$5.0 million note payable, including the obligation to pay any accrued interest. Further, if CPH elects to exercise the additional seven month purchase option, CPH must also discharge all interest which accrued during the initial option period.

9

No monetary exchanges between the Company and CPH were required under the Settlement Agreement. The Company has recorded a \$1.5 million pre-tax deferred gain in connection with the above settlement. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Condensed Consolidated Balance Sheet. The deferred gain will be recognized upon the earlier of CPH's election to exercise its TSI asset purchase option or the expiration of the asset purchase option.

Hawaiian Natural Water Company, Inc. (HNWC)

Hawaiian Natural Water Company, Inc. ("HNWC"), which was headquartered in Pearl City, Hawaii, bottled, marketed and distributed Hawaiian natural artesian water, purified water and other limited production co-packaged products, in Hawaii, the mainland and foreign markets.

In November 2006, the Company sold all of the operating assets of HNWC for approximately \$3.8 million in cash plus the buyer's assumption of all operating and capital leases. The significant operating assets consisted of accounts receivable, inventory, furniture and fixtures, intellectual property and all of its bottling equipment. In connection with the sale, the Company recorded a \$1.6 million pre-tax gain on disposal of discontinued operations. HNWC remained a fully operational subsidiary of the Company through November 19, 2006.

A summary of discontinued operations is as follows:

	Three months ended March		Six months ended March	
	2008 /1/	2007 /2/	2008 /1/	2007 /2/
Sales	\$ -	\$ -	\$ -	\$ 86
Operating loss /3/	(42,695)	(112,305)	(81,940)	(42,695)
(Loss) gain on disposal of discontinued operations, before income taxes	-	(107,255)	-	1,45
Income tax (benefit) expense	(59,000)	(120,000)	(118,000)	39
(Loss) income from discontinued operations	(97,445)	(190,781)	(193,440)	44

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- /1/ Includes the results for operations of TSI.
- /2/ Includes the results of operations for TSI and HNWC. The residual assets and liabilities of HNWC were classified as continuing operations in October 2007 (Q1 2008).
- /3/ Operating loss is before interest expense on discontinued operations.

10

The carrying amounts (net of allowances) of the major classes of assets and liabilities included in discontinued operations are as follows (in millions):

	March 2008 /1/ -----	September 2007 /2/ -----
Fixed assets - Total noncurrent assets of discontinued operations	\$ 2.1 =====	\$ 2.1 =====
Accounts payable	\$ 0.6	\$ 0.7
Accrued expenses	0.7	0.5
Current portion of long-term debt due related party /3/	2.8 -----	2.8 -----
Total current liabilities of discontinued operations	\$ 4.1 =====	\$ 4.0 =====
Deferred gain on CPH settlement	\$ 1.5	\$ 1.5
Long-term debt, less current portion	5.0 -----	5.0 -----
Noncurrent liabilities of discontinued operations	\$ 6.5 =====	\$ 6.5 =====

- /1/ Includes the assets and liabilities of TSI.
- /2/ Includes the assets and liabilities for TSI and HNWC. HNWC was classified to continuing operations in October 2007 (Q1 2008).
- /3/ TSI's related party debt obligations were in default at March 2008 and September 2007. TSI has not obtained associated debt default waivers for the related party obligations and accordingly has classified these obligations as current liabilities of discontinued operations.

3. CONVERTIBLE PREFERRED STOCK

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

The Company had three series of Convertible Preferred Stock outstanding at March 2008 as identified in the following table:

	Series A	Series B	Series C
	-----	-----	-----
Date of issuance:	June 17, 2004	October 8, 2004	March 6, 2006
Optionally redeemable beginning	June 18, 2006	October 9, 2006	March 4, 2008
Par value (gross proceeds):	\$2,500,000	\$2,000,000	\$2,000,000
Number of shares:	100,000	80,000	80,000
Liquidation preference per share:	\$25.00	\$25.00	\$25.00
Conversion price per share:	\$30.31	\$24.65	\$13.62
Number of common shares in which to be converted:	82,481	81,136	146,842
Dividend rate:	6.785%	6.37%	6.00%

11

The Series A Convertible Preferred Stock ("Series A"), Series B Convertible Preferred Stock ("Series B"), and Series C Convertible Preferred Stock ("Series C"), collectively (the "Preferred Stock"), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted times a fraction equal to \$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, as and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock, are entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock. The Preferred Stock also contain redemption features which trigger based on certain circumstances such as a change of control, bankruptcy, or minimum ownership thresholds in AMCON by Mr. William Wright ("Mr. Wright") and his family. Mr. Wright is AMCON's founder, largest common shareholder, and a Company director. The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Company's credit facility prohibits the redemption of the Series A and Series B. Series C is only redeemable so long as no event of default is in existence at the time of, or would occur after giving effect to, any such redemption, and the Company has excess availability under the credit facility of not less than \$2.0 million after giving effect to any such redemption.

The Company believes that redemption of these securities by the holders is

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

not probable based on the following evaluation. Our executive officers and directors as a group beneficially own approximately 40% of the outstanding common stock at March 2008. Mr. Wright beneficially owns 24% of the outstanding common stock without giving effect to shares owned by his adult children. There is a substantial identity of interest among AMCON and its officers and directors for purposes of the determination of whether the triggering redemption events described above are within the control of AMCON since AMCON can only make decisions on control or other matters through those persons. Moreover, the Preferred Stock is in friendly hands with no expectation that there would be any effort by the holders of such Preferred Stock to seek optional redemption without the Board being supportive of the events that may trigger that right. The Series A is owned by Mr. Wright and a private equity firm (Draupnir, LLC) of which Mr. Hobbs, a director of the Company, is a member. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Chris Atayan, AMCON's Chief Executive Officer and Chairman of the Board of Directors pursuant to voting rights in the Certificate of Designation creating the Series B Preferred Stock. The Series C is owned by Draupnir Capital LLC, which is a subsidiary of Draupnir, LLC (the owner of Series A). Mr. Hobbs is also a Member of Draupnir Capital, LLC.

In view of the foregoing considerations, the Company believes it is not probable under Rule 5-02.28 of Regulation S-X that the Series A, Series B or Series C Preferred Stock will become redeemable in the foreseeable future.

12

4. INVENTORIES

Inventories consisted of the following at March 2008 and September 2007:

	March 2008	September 2007
Finished goods	\$ 33,119,315	\$ 29,738,727

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. The wholesale distribution inventories are stated at the lower of cost (first-in, first-out or "FIFO" method) or market and consist of the cost of finished goods. The retail health food operation utilizes the retail inventory method of accounting stated at the lower of cost (FIFO) or market and consists of the costs of finished goods.

Inventory also included total reserves of approximately \$0.5 million at March 2008 and September 2007. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	March 2008	September 2007
	-----	-----

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Wholesale	\$ 3,935,931	\$ 3,935,931
Retail	1,912,877	1,912,877
	-----	-----
	\$ 5,848,808	\$ 5,848,808
	=====	=====

Other intangible assets of the Company consisted of the following:

	March 2008	September 2007
	-----	-----
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Favorable leases (less accumulated amortization of \$479,065 and \$459,199)	6,935	26,801
	-----	-----
	\$ 3,380,204	\$ 3,400,070
	=====	=====

13

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. The Company performs annual impairment testing of goodwill and other intangible assets during the fourth fiscal quarter of each year.

Amortization expense for intangible assets that are considered to have finite lives was approximately \$9,900 for three months ended March 2008 and March 2007 and \$19,800 for the six months ended March 2008 and March 2007.

Amortization expense related to intangible assets held at March 2008 for each of the five years subsequent to September 30, 2007 is estimated as follows:

	Fiscal 2008/1/	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
	-----	-----	-----	-----	-----
Favorable leases	7,000	-	-	-	-
	=====	=====	=====	=====	=====

/1/ Represents amortization expense of intangible assets with finite lives for the remaining six months of Fiscal 2008.

6. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share available to common shareholders is calculated by dividing income (loss) from continuing operations less preferred stock dividend requirements and income (loss) from discontinued operations by the weighted average common shares outstanding for each period.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Diluted earnings (loss) per share available to common shareholders is calculated by dividing income (loss) from continuing operations less preferred stock dividend requirements (when anti-dilutive) and income (loss) from discontinued operations by the sum of the weighted average common shares outstanding and the weighted average dilutive options, using the treasury stock method.

Stock options and potential common stock outstanding at March 2008 and March 2007 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 12,279 for the three and six months ended March 2008, and 183,862 and 20,245 for the three and six months ended March 2007, respectively. The average exercise price of anti-dilutive options and potential common stock was \$44.09 for the three and six months ended March 2008, and \$28.74 and \$38.74 for the three and six months ended March 2007, respectively.

14

	For the three months ended March			
	2008		2007	
	Basic	Diluted	Basic	Diluted
1. Weighted average common shares outstanding	537,064	537,064	527,062	527,062
2. Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/	-	314,306	-	167,369
3. Weighted average number of shares outstanding	537,064	851,370	527,062	694,431
4. Income from continuing operations	\$ 1,267,104	\$ 1,267,104	\$ 332,147	\$ 332,147
Deduct: preferred stock				

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

dividend requirements /2/	(104,386)	-	(103,239)	(73,239)
	-----	-----	-----	-----
	1,162,718	1,267,104	228,908	258,908
	=====	=====	=====	=====
5. Loss from discontinued operations	\$ (97,445)	\$ (97,445)	\$ (190,781)	\$ (190,781)
	=====	=====	=====	=====
6. Net income available to common shareholders	\$ 1,065,273	\$ 1,169,659	\$ 38,127	\$ 68,127
	=====	=====	=====	=====
7. Income per share from continuing operations	\$ 2.16	\$ 1.48	\$ 0.43	\$ 0.37
	=====	=====	=====	=====
8. Loss per share from discontinued operations	\$ (0.18)	\$ (0.11)	\$ (0.36)	\$ (0.27)
	=====	=====	=====	=====
9. Net earnings per share available to common shareholders	\$ 1.98	\$ 1.37	\$ 0.07	\$ 0.10
	=====	=====	=====	=====

/1/ Diluted earnings per share calculation includes all stock options, Convertible Preferred Stock, and restricted stock deemed to be dilutive.

/2/ Diluted earnings per share calculation excludes dividend payments for Convertible Preferred Stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

15

	For the Six months ended March			
	2008		2007	
	Basic	Diluted	Basic	Diluted
	-----	-----	-----	-----
1. Weighted average common shares outstanding	535,473	535,473	527,062	527,062
2. Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of				

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

preferred stock /1/	-	314,841	-	329,528
	-----	-----	-----	-----
3. Weighted average number of shares outstanding	535,473	850,314	527,062	856,590
	=====	=====	=====	=====
4. Income from continuing operations	\$ 2,312,312	\$ 2,312,312	\$ 942,914	\$ 942,914
Deduct: preferred stock dividend requirements /2/	(209,919)	-	(208,772)	-
	-----	-----	-----	-----
	2,102,393	2,312,312	734,142	942,914
	=====	=====	=====	=====
5. (Loss) income from discontinued operations	\$ (193,440)	\$ (193,440)	\$ 446,760	\$ 446,760
	=====	=====	=====	=====
6. Net income available to common shareholders	\$ 1,908,953	\$ 2,118,872	\$ 1,180,902	\$ 1,389,674
	=====	=====	=====	=====
7. Income per share from continuing operations	\$ 3.92	\$ 2.72	\$ 1.39	\$ 1.10
	=====	=====	=====	=====
8. (Loss) income per share from discontinued operations	\$ (0.36)	\$ (0.23)	\$ 0.85	\$ 0.52
	=====	=====	=====	=====
9. Net earnings per share available to common shareholders	\$ 3.56	\$ 2.49	\$ 2.24	\$ 1.62
	=====	=====	=====	=====

/1/ Diluted earnings per share calculation includes all stock options, Convertible Preferred Stock, and restricted stock deemed to be dilutive.

/2/ Diluted earnings per share calculation excludes dividend payments for Convertible Preferred Stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

7. DEBT

Credit Agreement

The Company has a credit agreement with Bank of America (formerly LaSalle Bank) (the "Facility"), which includes the following significant terms:

- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A, discussed below, for a total credit facility limit of

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

\$55.5 million at March 2008. As a component of the credit agreement, the Company has a term note ("Term Note A") with Bank of America (formerly LaSalle Bank). Term Note A bears interest at the bank's prime rate and is payable in monthly installments of \$16,333. Term Note A had an outstanding balance of approximately \$0.5 million at March 2008.

- Bears interest at the bank's prime interest rate.
- Lending limits subject to accounts receivable and inventory limitations, an unused commitment fee equal to 0.25% per annum on the difference between the maximum loan limit and average monthly borrowings.
- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- A prepayment penalty of one percent (1%) of the prepayment loan limit of \$55.0 million if prepayment occurs on or before April 30, 2008.
- Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility also includes quarterly debt service and cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") financial covenants. A minimum debt service ratio of 1.0 to 1.0 must be maintained, as measured by the twelve month period then ended. The cumulative minimum EBITDA requirements are as follows:

- (a) \$1,000,000 for the three months ending December 31, 2008
- (b) \$2,000,000 for the six months ending March 31, 2008, and March 31, 2009 and;
- (c) \$4,500,000 for the nine months ending June 30, 2008 and;
- (d) \$7,000,000 for the twelve months ending September 30, 2008

The Company was in compliance with the required debt service and minimum EBITDA covenants at March 2008.

At March 2008, the available credit on the revolving portion of the Facility, including accounts receivable and inventory limitations, was \$42.0 million and the outstanding balance was \$33.1 million. The Facility bears interest at the bank's prime rate, which was 5.25% as of March 2008 and is collateralized by all of the Company's equipment, intangibles, inventories, and accounts receivable.

17

As discussed further in Item 2 - "Liquidity and Capital Resources", Mr. William Wright, the Company's founder, largest common shareholder, and a Company director has personally guaranteed a note payable issued in conjunction with the July 2007 Television Events and Marketing, Inc. ("TEAM") litigation settlement. AMCON pays Mr. Wright an annual fee equal to 2% of the guaranteed principal in return for his personal guarantee. The amount guaranteed in connection with this settlement at March 2008 was approximately \$0.6 million. This guarantee is secured by a pledge of the shares of Chamberlin's, Akin's, HNWC, and TSI.

Mr. Wright also formerly guaranteed the repayment of the Facility and Term Note A, up to a maximum of \$10.0 million, in exchange for a 2% annual

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

fee of the guaranteed principal. In March 2008, this personal guarantee was cancelled as it was no longer required by the Facility's lender, Bank of America. The Company paid Mr. Wright approximately \$0.1 million related to this personal guarantee for the fiscal year 2007.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank ("M&I"), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

OTHER

AMCON has issued a letter of credit for \$0.9 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.

8. STOCK PLANS

Stock Options

Prior to its expiration in June 2004, AMCON maintained a stock-based compensation plan ("the Stock Option Plan") which provided the Compensation Committee of the Board of Directors authorization to grant incentive stock options and non-qualified stock options, pursuant to the Stock Option Plan, of up to 550,000 shares. No shares have been issued under the Stock Option Plan since the end of fiscal 2003 and all associated compensation expense has been fully amortized.

18

In April 2007, the Company's shareholders approved the award of 25,000 non-qualified stock options to Christopher Atayan, Chief Executive Officer ("CEO"), Chairman, and a director of the Company. The stock options vest in equal installments over a three year period, have an exercise price of \$18.00 per share, and had a fair value of approximately \$347,000 at the date of shareholder approval, using the Black-Scholes option pricing model. At March 2008, 8,333 of the stock options had vested.

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

Stock Option Pricing Assumptions

April 2007 Awards

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Risk-free interest rate	4.69%
Dividend yield	1.65%
Expected volatility	46%
Expected life in years	7
Forfeiture rate	0%

Options issued and outstanding to management employees pursuant to the Stock Option Plan and the April 2007 stock option award to the Company's CEO are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable	Aggregate Intrinsic Value March 2008
Fiscal 1999	\$ 45.68 - \$ 51.14	6,591	6,591	-
Fiscal 2000	\$ 34.50	3,123	3,123	-
Fiscal 2003	\$ 28.80	3,212	3,212	6,617
Fiscal 2007	\$ 18.00	25,000	8,333	321,500
		-----	-----	-----
		37,926	21,259	\$328,117
		=====	=====	=====

At March 2008, there were 4,236 fully vested and exercisable options issued to outside directors, outside of the Stock Option Plan, as summarized below:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable	Aggregate Intrinsic Value March 2008
Fiscal 1999	\$ 36.82 - \$ 49.09	2,568	2,568	-
Fiscal 2002	\$ 26.94	834	834	3,269
Fiscal 2003	\$ 28.26	834	834	2,168
		-----	-----	-----
		4,236	4,236	\$ 5,437
		=====	=====	=====

19

The following summarizes stock options outstanding at March 2008:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Exercisable Weighted-Average Exercise Price
1999 Options	\$36.82-\$51.14	9,159	1.13 years	\$47.35	9,159	\$
2000 Options	\$34.50	3,123	2.15 years	\$34.50	3,123	\$
2002 Options	\$26.94	834	4.37 years	\$26.94	834	\$

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

2003 Options	\$28.26-\$28.80	4,046	4.74 years	\$28.69	4,046	\$
2007 Options	\$18.00	25,000	9.05 years	\$18.00	8,333	\$
		-----		-----	-----	
		42,162		\$26.80	25,495	\$
		=====		=====	=====	

The following is a summary of the activity of the stock plans during the quarter ended March 2008.

	March 2008	
	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at beginning of period	42,296	\$26.86
Granted	-	-
Exercised	-	-
Forfeited/Expired	(134)	45.92
	-----	-----
Outstanding at end of period	42,162	\$26.80
	=====	=====
Options exercisable at end of period	25,495	
	=====	

The Company's stock options have varying vesting schedules, ranging up to five years and expire ten years after the date of grant. Net income before incomes taxes included stock option compensation expense of approximately \$29,000 and \$58,000 for the three and six months ended March 2008, and \$3,000 and \$6,000 for three and six months ended March 2007. Total unamortized compensation expense related stock to options totaled approximately \$232,000 at March 2008.

Omnibus Plan

The Company's 2007 Omnibus Incentive Plan ("the Omnibus Plan") provides for equity incentives that are intended to encourage employees of the Company to acquire a vested interest in the growth and performance of the Company. The Omnibus Plan permits the issuance of up to 150,000 shares of the Company's common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares and dividend share awards payable in the form of common stock or cash.

Pursuant to the Omnibus Plan, the Compensation Committee of the Board of Directors has authorized and approved the restricted stock awards summarized below:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	Restricted Stock /1/ -----	Restricted Stock /2/ -----
Date of award:	December 6, 2007	January 29, 2008
Number of shares:	24,000	7,500
Service period:	34 months	36 months
Estimated fair value of award at grade date/3/:	\$963,000	\$229,000
Intrinsic value at March 2008:	\$740,640	\$231,450

/1/ Award vests one-third on October 16, 2008, one-third on October 16, 2009, and one-third on October 16, 2010.

/2/ Award vests one-third on January 29, 2009, one-third on January 29, 2010, and one-third on January 29, 2011.

/3/ Amount is net of estimated forfeitures.

There is no direct cost to the recipients of the restricted stock awards, except for any applicable taxes. The restricted stock held by recipients are entitled to full voting rights and the customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company's common stock. All cash dividends and/or distributions payable to restricted stock recipients will be held in escrow until all the conditions of vesting have been met.

The Company recognizes compensation expense related to restricted stock awards on a straight-line basis over the requisite service period. Accordingly, net income before incomes taxes included compensation expense of \$98,000 and \$112,000 for the three and six months ended March 2008. Total unamortized compensation expense related to restricted stock awards at March 2008 was approximately \$1,080,000.

The following summarizes restricted stock activity under the Omnibus Plan for the three months ended March 2008:

	March 2008 -----	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock at beginning of period	24,000	\$42.50
Granted	7,500	\$32.67
Vested/Issued	-	-
Forfeited/Expired	-	-

Nonvested restricted stock at end of period	31,500	\$40.14
	=====	

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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

	Wholesale Distribution -----	Retail -----	Other /1/ -----	Consolidated -----
THREE MONTHS ENDED MARCH 2008:				
External revenue:				
Cigarettes	\$ 132,066,675	\$ -	\$ -	\$ 132,066,675
Confectionery	13,513,561	-	-	13,513,561
Health food	-	10,529,463	-	10,529,463
Tobacco, food service & other	34,301,971	-	-	34,301,971
Total external revenue	179,882,207	10,529,463	-	190,411,670
Depreciation	242,555	86,824	497	329,876
Amortization	-	9,933	-	9,933
Operating income (loss)	2,321,460	1,377,648	(993,711)	2,705,397
Interest expense	181,730	258,320	309,508	749,558
Income (loss) from continuing operations before taxes	2,152,385	1,131,587	(1,288,868)	1,995,104
Total assets	68,732,684	11,680,923	6,246,151	86,659,758
Capital expenditures	138,238	124,299	-	262,537
THREE MONTHS ENDED MARCH 2007:				
External revenue:				
Cigarettes	\$ 143,291,673	\$ -	\$ -	\$ 143,291,673
Confectionery	13,485,184	-	-	13,485,184
Health food	-	9,812,607	-	9,812,607
Tobacco, food service & other	34,587,037	-	-	34,587,037
Total external revenue	191,363,894	9,812,607	-	201,176,501
Depreciation	307,568	138,703	-	446,271
Amortization	-	9,933	-	9,933
Operating income (loss)	2,226,141	994,113	(1,474,356)	1,745,898
Interest expense	282,711	373,975	581,290	1,237,976
Income (loss) from continuing operations before taxes	1,953,878	630,800	(2,044,531)	540,147
Total assets	70,416,127	12,295,312	8,095,107	90,806,546
Capital expenditures	33,251	7,280	-	40,531

/1/ Includes intercompany eliminations, charges incurred by the holding company, and assets of discontinued operations.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	Wholesale Distribution	Retail	Other /1/	Consolidated
	-----	-----	-----	-----
SIX MONTHS ENDED MARCH 2008:				
External revenue:				
Cigarettes	\$ 281,678,206	\$ -	\$ -	\$ 281,678,206
Confectionery	27,621,518	-	-	27,621,518
Health food	-	20,051,018	-	20,051,018
Tobacco, food service & other	71,724,165	-	-	71,724,165
	-----	-----	-----	-----
Total external revenue	381,023,889	20,051,018	-	401,074,907
Depreciation	474,320	207,143	954	682,417
Amortization	-	19,866	-	19,866
Operating income (loss)	5,134,092	2,189,022	(1,994,918)	5,328,196
Interest expense	411,965	582,526	724,869	1,719,360
Income (loss) from continuing operations before taxes	4,742,370	1,630,057	(2,691,115)	3,681,312
Total assets	68,732,684	11,680,923	6,246,151	86,659,758
Capital expenditures	407,470	135,686	-	543,156
SIX MONTHS ENDED MARCH 2007:				
External revenue:				
Cigarettes	\$ 294,149,869	\$ -	\$ -	\$ 294,149,869
Confectionery	26,923,892	-	-	26,923,892
Health food	-	18,891,317	-	18,891,317
Tobacco, food service & other	70,577,572	-	-	70,577,572
	-----	-----	-----	-----
Total external revenue	391,651,333	18,891,317	-	410,542,650
Depreciation	613,640	280,540	-	894,180
Amortization	-	19,867	-	19,867
Operating income (loss)	4,832,135	1,532,396	(2,387,286)	3,977,245
Interest expense	581,791	760,530	1,164,317	2,506,638
Income (loss) from continuing operations before taxes	4,265,256	791,752	(3,523,094)	1,533,914
Total assets	70,416,127	12,295,312	8,095,107	90,806,546
Capital expenditures	123,756	87,584	-	211,340

/1/ Includes interest expense previously allocated to HNWC, intercompany eliminations, charges incurred by the holding company, and assets of discontinued operations.

10. CONTINGENCIES

Trinity Springs, Inc. / Crystal Paradise Holdings, Inc. Litigation

The Company and its consolidated subsidiary, TSI, were involved in litigation

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

regarding an April 24, 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from Trinity Springs, Ltd. (which later changed its name to Crystal Paradise Holdings, Inc. ("CPH")). In September 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") with CPH related to this litigation. The Settlement Agreement resulted in the mutual release and settlement of all outstanding and potential litigation and claims among and between minority shareholder plaintiffs, CPH, AMCON, TSI, and Defendant Directors with respect to the Asset Purchase Agreement and the related acquisition. The presiding Court approved the settlement and dismissed the related lawsuit with prejudice. The Company faces no further known liability from that lawsuit or settlement.

23

In exchange for (i) a full and complete release from CPH, (ii) cancellation of the promissory notes issued in connection with the original acquisition, (iii) termination of the Asset Purchase Agreement and water royalty contained therein, and (iv) relinquishment of the TSI stock owned by CPH, (a) TSI issued a promissory note in the amount of \$5.0 million to CPH, with interest accruing at 5% and secured by the assets currently held by TSI (the "New Note"), (b) AMCON amended and restated the existing Guaranty and Suretyship Agreement to substitute the New Note for the cancelled notes, and (c) TSI granted CPH an eleven-month option to purchase the assets of TSI. If CPH elects to exercise its purchase option, then CPH will cancel the New Note, including the obligation to pay any accrued interest. The purchase option may be extended for an additional seven months upon the discharge of all accrued interest during the initial option period.

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 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," "should" or similar expressions. For these statements, we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward looking statements:

- increases in state and federal excise taxes on cigarette and tobacco products, including proposed legislation to renew and expand the State Children's Health Insurance Program ("SCHIP"), which would be largely funded through significant increases to federal excise taxes on cigarette and tobacco products
- changing market conditions with regard to cigarettes,

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- changes in promotional and incentive programs offered by manufacturers,
- credit risk associated with the Company's wholesale segment customers,
- future availability of capital,
- the demand for the Company's products,
- new business ventures,
- domestic regulatory and legislative risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- collection of guaranteed amounts,
- other risks over which the Company has little or no control, and
- any other factors not identified herein could also have such an effect.

24

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 Form 10-K for the fiscal year ended September 30, 2007, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the six months ended March 2008.

COMPANY OVERVIEW - SECOND FISCAL QUARTER 2008 (Q2 2008)

The following discussion and analysis includes the Company's results of operations from continuing operations for the three and six months ended March 2008 and March 2007. Continuing operations are comprised of our wholesale distribution and retail health food segments. A separate discussion of our discontinued operations has been presented following our analysis of continuing operations. Accordingly, the sales, gross profit (loss), selling, general and administrative, depreciation and amortization, direct interest, other expenses and income tax benefit from our discontinued operations have been aggregated and reported as income (loss) from discontinued operations and are not a component of the aforementioned continuing operations discussion.

During Q2 2008, the Company:

- experienced a \$1.5 million increase in income from continuing operations before income taxes as compared to Q2 2007.
- recognized income from continuing operations per basic share of \$2.16 and \$0.43 for the three months ended March 2008 and March 2007, respectively, and \$3.92 and \$1.39 for the six months ended March 2008 and March 2007, respectively.
- recognized (loss) income from discontinued operations per basic share

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

of (\$0.18) and (\$0.36) for the three months ended March 2008 and March 2007, respectively, and (\$0.36) and \$0.85 for the six months ended March 2008 and March 2007, respectively.

25

Wholesale Distribution Segment (ADC)

Our wholesale distribution segment represents approximately 95% of the Company's consolidated sales. ADC serves approximately 4,000 retail outlets in the Great Plains and Rocky Mountain regions and is ranked as a top ten convenience store supplier according to Convenience Store News. While we provide our retailers with a broad selection of merchandise in all product categories, we remain largely dependent on cigarette sales, which account for approximately 74% of ADC total sales. ADC is also focused on growing its sales of non-tobacco products, which offer higher profit margins and greater revenue stream diversity.

The wholesale distribution industry (the "Industry") is mature and highly competitive. To differentiate itself, ADC leverages a number of strategies focused around providing market leading customer service programs and offering flexible delivery capabilities. These strategies have helped position ADC as a distributor of choice for both small independent retail outlets and multi-location retail outlets.

ADC has significant alliances with the major cigarette manufacturers which we believe control over 90% of the cigarette industry volume. While some of our competitors have focused on the lower priced cigarette brands, ADC has made a conscious decision to support and grow our national brand segment and align our business with the major players in the industry. We believe that it is important not to compete against the major cigarette manufacturers because of their commitment to growing and maintaining their market share in a declining category. Additionally, we believe that consumers' preference for premium brands currently drives the category volume.

The Industry continues to experience significant changes driven by high fuel costs, higher excise taxes, the popularity of deep-discount cigarette brands, and consolidation within the Industry's customer base (particularly convenience stores and tobacco shops). Collectively, we expect these items will continue to pressure profit margins industry-wide and potentially diminish the Company's profits.

To capitalize on the industry-wide changes mentioned above, ADC aggressively manages its cost structure, heavily leverages inventory management strategies, and deploys new technologies and automation tools where possible. These actions have allowed ADC to maintain competitive pricing and position itself to capture new business, sell new services to our existing customers, explore acquisition opportunities, and further penetrate the convenience store market.

Retail Health Food Segment

AMCON's retail health food stores, which are operated as Chamberlin's Market

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

& Cafe ("Chamberlin's" or "CNF") and Akin's Natural Foods Market ("Akin's" or "ANF"), offer thousands of different product selections to their customers. Chamberlin's, which was first established in 1935, is an award-winning and highly-acclaimed chain of six health and natural product retail stores, all offering an extensive selection of natural supplements and herbs, baked goods, dairy products, and organic produce. Chamberlin's operates all of its stores in and around Orlando, Florida.

26

Akin's, established in 1935, is also an award winning chain of seven health and natural product retail stores, each offering an extensive line of natural supplements and herbs, dairy products, and organic produce. Akin's has locations in Tulsa and Oklahoma City, Oklahoma; Lincoln, Nebraska; Springfield, Missouri; and Topeka, Kansas.

The retail health food industry has experienced strong growth in recent years driven primarily by the demand for natural products and more health conscious consumers. Our retail health food segment has benefited from this trend, experiencing sales growth in many key product categories. Our management team continues to evaluate locations for new stores.

RESULTS OF OPERATIONS - Continuing Operations

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 by business segment for the three and six month periods ended March 2008 and March 2007 are as follows (dollars in millions):

	Three months ended March			Six months ended March		
	2008	2007	Incr. (Decr)	2008	2007	Incr. (Decr)
Wholesale distribution segment	\$179.9	\$191.4	\$(11.5)	\$381.1	\$391.6	\$(10.5)
Retail health food segment	10.5	9.8	0.7	20.0	18.9	1.1
	\$190.4	\$201.2	\$(10.8)	\$401.1	\$410.5	\$ (9.4)
	=====	=====	=====	=====	=====	=====

SALES - Q2 2008 vs. Q2 2007 (continuing operations)

Sales for Q2 2008 decreased \$10.8 million, or 5.4%, as compared to Q2 2007. Sales are reported net of costs associated with sales incentives provided to

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

retailers, totaling \$3.8 million and \$4.0 million, for Q2 2008 and Q2 2007, respectively.

Sales in our wholesale distribution segment ("wholesale") decreased \$11.5 million, or 6.0%, in Q2 2008 as compared to Q2 2007. This change included a \$11.2 million decrease in sales, primarily due to lower cigarette sales, and a \$0.3 million net decrease in our other product categories sales (tobacco, beverages, candy, grocery, health & beauty products, and food service).

27

Significant items impacting our Q2 2008 wholesale segment sales included:

- \$3.3 million increase in cigarette sales due to higher excise taxes.
- \$1.8 million increase in cigarette sales due to prices increases implemented by major manufacturers.
- \$16.3 million decrease in sales, primarily the result of a 11.1% decrease in cigarette shipment volumes.
- \$0.3 million net decrease in our other product category sales, primarily the result of lower sales volumes.

Rising fuel prices and weakening economic conditions have generally impacted discretionary spending, which has had the impact of reducing sales. In addition, recent legislative actions, including smoking bans and higher cigarette excise taxes, and a general decline in the number of cigarette consumers, has negatively impacted our sales of cigarettes.

Sales from our retail health food segment increased approximately \$0.7 million, or 7.1%, in Q2 2008 as compared to Q2 2007. Sales growth has been achieved in most product categories. We believe this growth is largely attributable to the continuing popularity of vitamin supplements and natural food products among more health conscious consumers. We continue to capitalize on this trend with more targeted promotional insert programs and recent online efforts.

SALES - Six Months Ended March 2008 (continuing operations)

Sales for the six month period ended March 2008 decreased \$9.4 million, or 2.3%, as compared to the same prior year period. Sales for the six months ended March 2008 and 2007, were net of costs associated with sales incentives provided to retailers, totaling \$7.3 million and \$7.9 million, respectively.

Sales from our wholesale segment decreased \$10.5 million for the six months ended March 2008 as compared to the same prior year period. This change included a \$12.3 million decrease in sales primarily related to lower cigarette sales, partially offset by a \$1.8 million net increase in our other product categories sales (tobacco, beverages, candy, grocery, health & beauty products, and food service).

Significant items impacting wholesale segment sales for the six months ended March 2008 included:

- \$9.6 million increase in cigarette sales due to higher excise taxes.
- \$6.5 million increase in cigarette sales due to prices increases implemented by major manufacturers.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- \$28.4 million decrease in sales, primarily the result of a 9.9% decrease in cigarette shipment volumes.
- \$1.8 million net increase in our other product category sales, primarily the result of higher tobacco and food service sales, partially offset by lower sales in our beverage category.

28

Rising fuel prices and weakening economic conditions have generally impacted discretionary spending, which has had the impact of reducing sales. In addition, recent legislative actions, including smoking bans and higher cigarette excise taxes, and a general decline in the number of cigarette consumers, has negatively impacted our sales of cigarettes.

Sales from our retail health food segment increased approximately \$1.1 million, or 5.8%, for the six month period ended March 2008, as compared to the same prior year period. Sales growth has been achieved in most product categories. We believe this growth is largely attributable to the continuing popularity of vitamin supplements and natural food products among more health conscious consumers. We continue to capitalize on this trend with more targeted promotional insert programs and recent online efforts.

GROSS PROFIT - Q2 2008 vs. Q2 2007 (continuing operations)

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 by business segment for the three and six month periods ended March 2008 and March 2007 are as follows (dollars in millions):

	Three Months ended March			Six Months ended March		
	2008	2007	Incr (Decr)	2008	2007	Incr (Decr)
Wholesale distribution segment	\$ 11.2	\$ 11.1	\$ 0.1	\$22.5	\$ 22.7	\$ (0.2)
Retail health food segment	4.5	4.1	0.4	8.4	7.6	0.8
	\$ 15.7	\$ 15.2	\$ 0.5	\$ 30.9	\$ 30.3	\$ 0.6

GROSS PROFIT - Q2 2008 vs. Q2 2007 (continuing operations)

Overall gross profit for Q2 2008 increased \$0.5 million, or 3.3%, as compared to Q2 2007.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Gross profit in our wholesale segment increased \$0.1 million, or 1.0%, as compared to the same prior year period. During Q2 2008, our wholesale gross profit benefited by approximately \$0.9 million as a result of price increases and higher manufacturer promotional allowances. These items were partially offset by a \$0.6 million reduction in benefits received from cigarette excise tax increases, as compared to Q2 2007. The remaining change in gross profit is primarily attributable to lower cigarette shipment volumes, offset by fluctuations in our product mix sold.

29

Gross profit for the retail health segment increased \$0.4 million in Q2 2008 as compared to Q2 2007. Of this increase, approximately \$0.3 million related to higher sales volume and improved sales mix, with the remaining change primarily attributable to higher vendor allowances.

GROSS PROFIT - Six months ended March 2008 (continuing operations)

Overall gross profit for the six months ended March 2008 increased \$0.6 million, or 2.0%, as compared to the same prior year period.

Gross profit in our wholesale segment decreased \$0.2 million, or 1.0%, for the six month period ended March 2008, as compared to the same period in the prior year. During Q2 2008, our wholesale gross profit benefited by approximately \$0.7 million as a result of price increases and lower product promotional spending, as compared to the same prior year period. These items were partially offset by a \$0.6 million reduction in benefits received from cigarette excise tax increases, as compared to the same prior year period. The remaining change in gross profit is primarily attributable to lower cigarette shipment volumes, partially offset by fluctuations in our product mix sold.

Gross profit for the retail health segment increased \$0.8 million for the six month period ended March 2008. Of this increase, approximately \$0.5 million related to higher sales volume and improved sales mix, with the remaining change primarily attributable to higher vendor allowances.

OPERATING EXPENSE - three and six months ended March 2008 comparison

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general and administrative 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, insurance and professional fees.

Q2 2008 operating expenses decreased approximately \$0.5 million as compared to Q2 2007. This decrease was primarily related to \$0.6 million reduction in professional and legal costs, a \$0.2 million reduction in compensation expense, and a \$0.1 million reduction in depreciation charges. These decreases were partially offset by higher fuel cost and bad debt expenses.

Operating expenses for the six month period ended March 2008 decreased approximately \$0.8 million as compared to the same period in the prior year. This decrease was primarily related to \$0.7 million reduction in professional and legal costs, a \$0.4 million reduction in compensation expense, and a \$0.2 million reduction in depreciation charges. These decreases were partially offset by higher fuel costs and bad debt expenses.

INTEREST EXPENSE - three and six months ended March 2008 comparison

Q2 2008 interest expense decreased approximately \$0.5 million as compared to Q2 2007, and interest expense for the six months ended March 2008 decreased approximately \$0.8 million as comparable to the prior year period. These decreases in interest expense were principally related to lower prime interest rates and lower average borrowings.

The Company primarily borrows at the prime interest rate. On average, the Company's borrowing rates on variable rate debt were 2.03% lower and the average borrowings on variable rate debt were \$13.9 million lower in Q2 2008 as compared to Q2 2007. For the six months ended March 2008, variable interest rates were on average 1.41% lower and average borrowings on variable rate debt were \$11.4 million lower as compared to the same prior year period.

DISCONTINUED OPERATIONS - three and six months ended March 2008 comparison

(Loss) income from discontinued operations totaled (\$0.1) million and (\$0.2) million for the three and six months ended March 2008 as compared to a loss of (\$0.2) million and a gain of \$0.4 million for the three and six month periods ended March 2007.

A summary of discontinued operations is as follows:

	Three months ended March		Six months ended March	
	2008 /1/	2007 /2/	2008 /1/	2007 /2/
Sales	\$ -	\$ -	\$ -	\$ 86
Operating loss /3/	(42,695)	(112,305)	(81,940)	(42,695)
(Loss) gain on disposal of discontinued operations, before income taxes	-	(107,255)	-	1,450
Income tax (benefit) expense	(59,000)	(120,000)	(118,000)	39,000
(Loss) income from discontinued operations	(97,445)	(190,781)	(193,440)	44,000

/1/ Includes the results for operations of TSI.

/2/ Includes the results of operations for TSI and HNWC. The residual assets and liabilities of HNWC were classified as continuing operations in October 2007 (Q1 2008). The six month period ended March 2007 also included a pre-tax gain of approximately \$1.6 million related to the November 2006 of HNWC's assets.

/3/ Operating loss is before interest expense on discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Operating Activities. The Company requires cash to pay operating expenses, purchase inventory, and make capital investments. In general, the Company finances its cash flow requirements with cash generated from operating activities and credit facility borrowings. During the six months ended March 2008, the Company generated cash of approximately \$6.0 million from operating activities. The cash generated primarily resulted from higher overall earnings, and a reduction in accounts receivable and deferred income tax balances. These items were partially offset by higher inventory purchases and a reduction in accounts payable.

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

Investing Activities. The Company used approximately \$0.5 million of cash during the six month period ended March 2008 for investing activities, primarily related to capital expenditures for property and equipment.

Financing Activities. The Company used net cash of \$5.7 million from financing activities during the six month period ended March 2008. Of this net change in cash, \$5.3 million related to payments on the Company's credit facility, \$0.2 million related to preferred stock dividend payments, \$0.1 million related to cash received on the exercise of stock options, and \$0.3 million related to principal payments on long-term debt.

Cash on Hand/Working Capital. At March 2008, the Company had cash on hand of \$0.5 million and working capital (current assets less current liabilities) of \$32.5 million. This compares to cash on hand of \$0.7 million and working capital of \$34.9 million as of September 2007.

TSI Financing

As previously disclosed, TSI has approximately \$2.8 million in related party debt obligations, which are in default at March 2008. TSI has not obtained associated debt default waivers for these related party obligations. At this time, the Company does not anticipate the defaults will materially

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

impact the Company's future liquidity position.

In September 2007 AMCON and TSI settled all litigation with Crystal Paradise Holdings, Inc. ("CPH") regarding an April 24, 2004 Asset Purchase Agreement under which TSI acquired certain assets from CPH. No monetary exchanges between the Company and CPH were required under the settlement agreement. The Company has recorded a \$1.5 million pre-tax deferred gain in connection with the above settlement. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the

32

Company's March 2008 condensed consolidated balance sheet. The deferred gain will be recognized upon the earlier of CPH's election to exercise its TSI asset purchase option or the expiration of the asset purchase option. With this final settlement, the Company does not expect its future cash flows to be significantly impacted by future litigation related to the April 24, 2004 Asset Purchase Agreement.

Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's Form 10-K for the fiscal period ended September 30, 2007.

CREDIT AGREEMENT

The Company's primary source of borrowing for liquidity purposes is its revolving credit facility with Bank of America (formerly LaSalle Bank) (the "Facility"). The significant terms of the Facility at March 2008 include:

- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A, discussed below, for a total credit facility limit of \$55.5 million at March 2008. As a component of the credit agreement, the Company has a term note ("Term Note A") with Bank of America (formerly LaSalle Bank). Term Note A bears interest at the bank's prime rate and is payable in monthly installments of \$16,333. Term Note A had an outstanding balance of approximately \$0.5 million at March 2008.
- Bears interest at the bank's prime interest rate.
- Lending limits subject to accounts receivable and inventory limitations, an unused commitment fee equal to 0.25% per annum on the difference between the maximum loan limit and average monthly borrowings.
- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- A prepayment penalty of one percent (1%) of the prepayment loan limit of \$55.0 million if prepayment occurs on or before April 30, 2008.
- Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility also includes quarterly debt service and cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") financial covenants. A minimum debt service ratio of 1.0 to 1.0 must be maintained, as measured by the twelve month period then ended. The cumulative minimum EBITDA requirements are as follows:

- (a) \$1,000,000 for the three months ending December 31, 2008

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- (b) \$2,000,000 for the six months ending March 31, 2008, and March 31, 2009 and;
- (c) \$4,500,000 for the nine months ending June 30, 2008 and;
- (d) \$7,000,000 for the twelve months ending September 30, 2008

The Company was in compliance with the required debt service and minimum EBITDA covenants at March 2008.

33

The Company's maximum available credit limit for the revolving portion of the Facility was \$42.0 million at March 2008, however, the amount available for use at any given time is subject to many factors including eligible accounts receivable and inventory balances which are evaluated on a daily basis. At March 2008, the outstanding balance on the revolving portion of the Facility was \$33.1 million. The Facility bears interest at a variable rate equal to the bank's prime rate, which was 5.25% at March 2008. Based on our collateral and loan limits as defined by the Facility agreement, the Company's excess availability under the Facility at March 2008 was approximately \$8.9 million.

For the six months ended March 2008, our peak borrowings under the Facility were \$42.4 million and our average borrowings and average availability were \$36.3 and \$9.7 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels go up because of the borrowing limitations that are placed on collateralized assets.

As part of the July 2007 Television Events & Marketing, Inc. ("TEAM") litigation settlement, the Company became obligated to pay \$187,500 in four equal quarterly installments of \$46,875 for the period January 2008 through October 2010, and \$125,000 in four equal quarterly installments of \$31,250 for the period January 2011 through October 2011. Mr. Wright has personally guaranteed these payment obligations, which totaled approximately \$0.6 million at March 2008. AMCON pays Mr. Wright an annual fee equal to 2% of the guaranteed principal in return for his personal guarantee. This guarantee is secured by a pledge of the shares of Chamberlin's, Akin's, HNWC, and TSI.

Mr. Wright also formerly guaranteed the repayment of the Facility and Term Note A, up to a maximum of \$10.0 million, in exchange for a 2% annual fee of the guaranteed principal. In March 2008, this personal guarantee was cancelled as it was no longer required by the Facility's lender, Bank of America. The Company paid Mr. Wright approximately \$0.1 million related to this personal guarantee for the fiscal year 2007.

Cross Default and Co-Terminus Provisions

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank ("M&I"), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

OTHER

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON has issued a letter of credit for \$0.9 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

34

Off-Balance Sheet Arrangements

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

Market Conditions and Future Outlook

Wholesale Segment - The wholesale distribution industry continues to experience a decline in the demand for cigarettes, resulting in part from legislative actions such as higher excise taxes and smoking bans, as well as a general decline in the number of smokers in the United States. Most recently, legislation has been proposed to significantly increase the federal excise taxes imposed on cigarette and tobacco products to fund the State Children's Health Insurance Program ("SCHIP"). If such legislation passed, it could further accelerate the declining demand for cigarettes and tobacco products. For the six months ended March 2008, sales of cigarette and tobacco products accounted for approximately 70% of the Company's consolidated sales and approximately 20% of its consolidated gross profit.

A weakening economy, higher food commodity and fuel costs, and the impact of higher credit card fees have negatively impacted the profit margins and purchasing patterns for our largest customer segment, convenience stores. These factors may decrease future sales and expose the Company to higher bad debt expense. While the Company believes its current accounts receivable reserve levels are adequate, management can give no assurances that a further deterioration in economic conditions will not result in higher bad debt costs.

In the short term, the Company believes the aforementioned market conditions will pressure wholesale profits, partially offset by lower operating expenses. The Company does not, however, believe such items will materially impact its liquidity position.

While these market conditions present risks, in the longer term the Company believes they create opportunities to enhance shareholder value, as smaller distributors are forced from the market, presenting opportunities to win market share and make strategic acquisitions at more attractive prices. The Company is also focused on diversifying its revenue streams through the growth of higher margin non-cigarette and non-tobacco product categories.

Retail Health Food Segment - Our retail segment continues to experience healthy sales growth. While we've enjoyed a loyal customer following in this business segment, weakening economic conditions, higher natural food costs, and increased competition from national retailers and mass merchandisers, may negatively impact future sales growth.

35

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to interest rate risk on its variable rate debt. At March 2008, the Company had \$33.5 million of variable rate debt outstanding with maturities through April 2009. The interest rate on this debt was 5.25% at March 2008. We estimate that our annual cash flow exposure relating to interest rate risk based on our current borrowings is approximately \$0.2 million for each 1% change in our lender's prime interest rate.

We do not utilize financial instruments for trading purposes and hold no derivative financial instruments which could expose us to significant market risk.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in the Company's reports filed or furnished under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable Exchange Act rules and forms of the SEC. Such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

The Company carried out the evaluation required by paragraph (b) of the Exchange Act Rules 13a-15 or 15d-15, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is (1) accumulated and communicated to management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 10 to the condensed consolidated unaudited financial statements in Item 1, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A "Risk Factors" on Form 10-K for the fiscal year ended September 30, 2007.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on January 29, 2008 for the purpose of electing two Class II directors, and ratifying of the appointment of its independent registered public accounting firm. The election and ratification results are as follows:

Class II Director Election

NAME OF NOMINEE	FOR	WITHHELD
Raymond F. Bentele	297,486	1,944

In addition to the above election, the holder of the Company's Series B Convertible Preferred Stock was entitled to elect one member of the board of directors, and as such designated Christopher H. Atayan as the individual it elected as a Class II director by casting all 80,000 of its votes for such election.

There was no solicitation in opposition to the nominee proposed to be elected by the Stockholders in the Proxy Statement. In addition to the directors elected at the Annual Meeting, the following directors continued their term of office: Jeremy W. Hobbs, Stanley Mayer, William F. Wright, Kathleen M. Evans, John R. Loyack, and Timothy R. Pestotnik.

Ratification of Independent Auditors

The ratification of the appointment of McGladrey and Pullen LLP as its independent registered public accounting firm for the Company for the fiscal year ending September 30, 2008 was approved by the Stockholders with 297,811 votes FOR, 1,510 votes AGAINST, 26 WITHHELD, and 83 votes ABSTAINED.

There were no broker non-votes.

Further information regarding these matters is contained in the Company's Proxy Statement dated January 8, 2008.

Item 5. Other Information

Not applicable.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Item 6. Exhibits

(a) Exhibits

- 3.1 Amended and Restated Bylaws of the Company dated January 29, 2008 (incorporated by reference to Exhibit 3.2 of AMCON's Current Report on Form 8-K filed on February 4, 2008).
- 10.1 Restricted Stock Award Agreement, dated March 31, 2008, between AMCON Distributing Company and Raymond F. Bentele.
- 10.2 Restricted Stock Award Agreement, dated March 31, 2008, between AMCON Distributing Company and Jeremy W. Hobbs.
- 10.3 Restricted Stock Award Agreement, dated March 31, 2008, between AMCON Distributing Company and Stanley Mayer.
- 10.4 Restricted Stock Award Agreement, dated March 31, 2008, between AMCON Distributing Company and John R. Loyack.
- 10.5 Restricted Stock Award Agreement, dated March 31, 2008, between AMCON Distributing Company and Timothy R. Pestotnik.
- 31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act
- 31.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 302 of the Sarbanes-Oxley Act
- 32.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act
- 32.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 906 of the Sarbanes-Oxley Act

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

undersigned, hereunto duly authorized.

AMCON DISTRIBUTING COMPANY
(registrant)

Date: April 16, 2008

/s/ Christopher H. Atayan

Christopher H. Atayan,
Chief Executive Officer and Chairman

Date: April 16, 2008

/s/ Andrew C. Plummer

Andrew C. Plummer,
Chief Financial Officer and Principal
Financial and Accounting Officer