

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON DISTRIBUTING CO
Form 10-Q
April 17, 2009

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, 2009

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.

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 570,397 shares of its \$.01 par value common stock
outstanding as of April 13, 2009.

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, 2009 (unaudited) and September 30, 2008	3
Condensed consolidated unaudited statements of operations for the three and six months ended March 31, 2009 and 2008	4
Condensed consolidated unaudited statements of cash flows for the six months ended March 31, 2009 and 2008	5
Notes to condensed consolidated unaudited financial statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4T. Controls and Procedures	36
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	38
Item 3. Defaults Upon Senior Securities	38
Item 4. Submission of Matters to a Vote of Security Holders	38
Item 5. Other Information	39
Item 6. Exhibits	40

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON Distributing Company and Subsidiaries
Condensed Consolidated Balance Sheets
March 31, 2009 and September 30, 2008

	March 2009 (Unaudited)	Septemb 2008
ASSETS		
Current assets:		
Cash	\$ 411,760	\$ 457,
Accounts receivable, less allowance for doubtful accounts of \$1.1 million and \$0.8 million, respectively	20,993,044	27,198,
Inventories, net	30,523,160	37,330,
Deferred income taxes	1,582,880	1,260,
Current assets of discontinued operations	8,589	18,
Prepaid and other current assets	4,255,140	3,519,
Total current assets	57,774,573	69,786,
Property and equipment, net	10,764,915	10,907,
Goodwill	5,848,808	5,848,
Other intangible assets, net	3,373,269	3,373,
Deferred income taxes	134,312	234,
Non-current assets of discontinued operations	2,032,047	2,032,
Other assets	1,015,606	1,123,
	\$ 80,943,530	\$ 93,305,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,886,193	\$ 14,738,
Accrued expenses	8,181,597	5,275,
Accrued wages, salaries and bonuses	2,372,790	2,636,
Income taxes payable	2,374,671	313,
Current liabilities of discontinued operations	4,253,096	4,041,
Current maturities of credit facility	3,046,000	3,046,
Current maturities of long-term debt	1,509,263	787,
Total current liabilities	33,623,610	30,838,
Credit facility, less current maturities	16,774,215	32,155,
Long-term debt, less current maturities	5,406,336	6,525,
Noncurrent liabilities of discontinued operations	6,562,860	6,542,
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized and issued, liquidation preference \$25.00 per share	2,500,000	2,438,
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share	2,000,000	1,857,
Series C cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued at September 30, 2008, liquidation preference \$25.00 per share	-	1,982,
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$.01 par, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B		

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

at March 31, 2009 and 260,000 shares outstanding and issued in Series A, B and C at September 30, 2008 referred to above	-	
Common stock, \$0.01 par value, 3,000,000 shares authorized, 570,397 shares outstanding at March 2009 and September 2008	5,704	5,
Additional paid-in capital	7,245,156	6,995,
Retained earnings	6,825,649	3,963,
	-----	-----
Total shareholders' equity	14,076,509	10,965,
	-----	-----
	\$ 80,943,530	\$ 93,305,
	=====	=====

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, 2009 and 2008

	For the three months ended March		For the six months ended March	
	2009	2008	2009	2008
	-----	-----	-----	-----
Sales (including excise taxes of \$43.3 million and \$46.3 million, and \$93.6 million and \$97.9 million, respectively)	\$ 195,442,246	\$ 190,411,670	\$ 412,819,608	\$ 401,819,608
Cost of sales	178,195,212	174,669,957	379,727,926	370,669,957
Gross profit	17,247,034	15,741,713	33,091,682	30,149,651
Selling, general and administrative expenses	13,027,140	12,696,507	25,824,722	24,824,722
Depreciation and amortization	300,988	339,809	611,322	611,322
	-----	-----	-----	-----
	13,328,128	13,036,316	26,436,044	25,436,044
Operating income	3,918,906	2,705,397	6,655,638	5,713,607
Other expense (income):				
Interest expense	408,587	749,558	897,786	1,599,116
Other (income), net	(26,476)	(39,265)	(40,543)	(40,543)
	-----	-----	-----	-----
	382,111	710,293	857,243	1,558,573
Income from continuing operations before income tax expense	3,536,795	1,995,104	5,798,395	4,155,034
Income tax expense	1,343,000	728,000	2,203,000	1,937,000
Income from continuing operations	2,193,795	1,267,104	3,595,395	2,218,034
Discontinued operations (Note 2)				
Loss from discontinued operations, net of income tax benefit of \$0.1 million in each fiscal period	(97,437)	(97,445)	(199,475)	(199,475)
	-----	-----	-----	-----

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Net income	2,096,358	1,169,659	3,395,920	2
Dividends on convertible preferred stock	(314,201)	(104,386)	(419,734)	
Net income available to common shareholders	\$ 1,782,157	\$ 1,065,273	\$ 2,976,186	\$ 1
Basic earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 3.43	\$ 2.16	\$ 5.80	\$
Discontinued operations	(0.18)	(0.18)	(0.36)	
Net basic earnings per share available to common shareholders	\$ 3.25	\$ 1.98	\$ 5.44	\$
Diluted earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 2.72	\$ 1.48	\$ 4.33	\$
Discontinued operations	(0.12)	(0.11)	(0.24)	
Net diluted earnings per share available to common shareholders	\$ 2.60	\$ 1.37	\$ 4.09	\$
Weighted average shares outstanding:				
Basic	548,619	537,064	547,089	
Diluted	805,236	851,370	830,923	

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, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,395,920	\$ 2,118,8
Deduct: Loss from discontinued operations, net of tax	(199,475)	(193,4
Income from continuing operations	3,595,395	2,312,3
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	611,322	682,4
Amortization	-	19,8
Gain on sale of property and equipment	(47,700)	(17,6
Stock based compensation	265,800	169,4
Excess tax deficiency on equity-based awards	16,592	
Deferred income taxes	(222,412)	1,246,6
Provision for losses on doubtful accounts	346,000	182,9
Provision for losses on inventory obsolescence	327,673	13,9

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Changes in assets and liabilities:		
Accounts receivable	5,859,370	5,924,3
Inventories	6,480,136	(3,394,5
Prepaid and other current assets	(735,490)	1,665,6
Other assets	107,646	(367,5
Accounts payable	(2,852,021)	(1,571,1
Accrued expenses and accrued wages, salaries and bonuses	2,641,991	(631,9
Income tax payable	2,045,058	(132,0
	-----	-----
Net cash flows from operating activities - continuing operations	18,439,360	6,102,5
Net cash flows from operating activities - discontinued operations	42,692	(128,4
	-----	-----
Net cash flows from operating activities	18,482,052	5,974,1
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(497,401)	(543,1
Proceeds from sales of property and equipment	76,405	43,8
	-----	-----
Net cash flows from investing activities	(420,996)	(499,3
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on bank credit agreements	(15,380,790)	(5,324,6
Principal payments on long-term debt	(397,410)	(274,4
Proceeds from exercise of stock options	-	119,6
Excess tax deficiency on vesting equity-based awards	(16,592)	
Redemption of Series C convertible preferred stock	(2,000,000)	
Dividends paid on convertible preferred stock	(198,106)	(209,9
Dividends on common stock	(114,079)	
	-----	-----
Net cash flows from financing activities	(18,106,977)	(5,689,3
	-----	-----
Net change in cash	(45,921)	(214,5
Cash, beginning of period	457,681	717,5
	-----	-----
Cash, end of period	\$ 411,760	\$ 503,0
	=====	=====

5

Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 968,296	\$ 1,832,4
Cash paid during the period for income taxes	264,355	136,4
Supplemental disclosure of non-cash information:		
Constructive dividends on Series A, B, and C Convertible Preferred Stock	221,628	
Acquisition of equipment through capital leases	-	277,6

6

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 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, 2008, as filed with the Securities and Exchange Commission on Form 10-K.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 periods ended March 31, 2009 and March 31, 2008 have been referred to throughout this quarterly report as Q2 2009 and Q2 2008, respectively. The fiscal balance sheet dates of March 31, 2009, March 31, 2008, and September 30, 2008 have been referred to as March 2009, March 2008, and September 2008, respectively.

7

Accounting Changes

The Company adopted the following accounting standards effective October 1, 2008 (beginning of fiscal 2009):

Financial Accounting Standards Board ("FASB") FASB No. 157, "Fair Value Measurements" ("SFAS 157"): SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 apply to all financial instruments which are measured and reported at fair value on a recurring basis. In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 (fiscal 2010 for the Company) for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Assets and liabilities subject to this deferral include goodwill, intangible assets, and long-lived assets measured at fair value for impairment assessments, and nonfinancial assets and liabilities initially measured at fair value in a business combination. As the Company does not have any financial assets or liabilities measured at fair value on a recurring basis, nor does it have any nonfinancial assets and liabilities not subject to the FSP 157-2 delay, the adoption of SFAS 157 did not have any impact on our consolidated financial position or results of operations.

FASB No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"): This standard provides an option for companies to report selected financial assets and liabilities at fair value. Although the Company adopted the provisions of SFAS 159, it did not elect the fair value option for any financial instruments or other items held by the Company. Therefore, the adoption of SFAS 159 did not have any impact on the Company's consolidated financial position or results of operations.

Recently Issued Accounting Pronouncements

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

In June 2008, the FASB issued FSP-EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". FSP EITF 03-6-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 (fiscal 2010 for the Company). Upon adoption, a

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

company is required to retrospectively adjust its earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions of FSP EITF 03-6-1.

8

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. FAS 142-3"). FSP No. FAS 142-3 requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142's, Goodwill and Other Intangible Assets, entity-specific factors. FSP No. FAS 142-3 is effective for fiscal years beginning after December 15, 2008 (fiscal 2010 for the Company).

2. DISPOSITIONS

Discontinued operations include the residual assets, liabilities, and results of operations of Trinity Springs, Inc. ("TSI") for the three and six month fiscal periods ended March 2009 and March 2008. TSI operated a water bottling facility in Idaho prior to its closure.

In September 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") to resolve litigation among and between AMCON, TSI, and Crystal Paradise Holdings, Inc. ("CPH") related to a 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from CPH. In conjunction with the Settlement Agreement, AMCON entered into a \$5.0 million note payable to CPH. The note is due in September 2012 and accrues interest at 5.0%. The Settlement Agreement also provided CPH with an option to purchase TSI's remaining assets for a price equivalent to the amount due CPH under the \$5.0 million note payable, plus accrued interest. In conjunction with the Settlement Agreement, the Company recorded a \$1.5 million pre-tax deferred gain. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Consolidated Balance Sheets.

In March 2009, CPH notified the Company that it was exercising its option under the Settlement Agreement to acquire the assets of TSI in exchange for the \$5.0 million note payable, plus accrued interest. Upon completion of the transaction, the Company will recognize the aforementioned \$1.5 million deferred gain, in addition to any other settlement gains and losses. The transaction is scheduled to close in April 2009 and is subject to the satisfaction of various closing conditions.

9

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

A summary of discontinued operations is as follows:

	Three months ended March		Six months ended March	
	2009	2008	2009	2008
Operating loss	(41,434)	(42,695)	(85,562)	(85,562)
Interest expense	(114,003)	(113,750)	(230,012)	(230,012)
Income tax benefit	(58,000)	(59,000)	(116,000)	(116,000)
Loss from discontinued operations	(97,437)	(97,445)	(199,475)	(199,475)

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

	March 2009	September 2008
Fixed assets - total noncurrent assets of discontinued operations	\$ 2.0	\$ 2.0
Accounts payable	\$ 0.6	\$ 0.5
Accrued expenses	0.9	0.7
Current portion of long-term debt due related party /1/	2.8	2.8
Total current liabilities of discontinued operations	\$ 4.3	\$ 4.0
Deferred gain on CPH settlement	\$ 1.5	\$ 1.5
Long-term debt, less current portion	5.1	5.0
Noncurrent liabilities of discontinued operations	\$ 6.6	\$ 6.5

/1/ TSI's related party debt obligations were in default at both March 2009 and September 2008. 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

The Company had two convertible preferred stock series outstanding at March 2009 as identified in the following table:

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

The Series A Convertible Preferred Stock ("Series A") and Series B Convertible Preferred Stock ("Series B"), 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. The Series A is owned by Mr. Wright and a private equity firm (Draupnir, LLC)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

of which Mr. Jeremy Hobbs, a Company director, is a member. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Chris Atayan to serve on the Company's board of directors. Mr. Atayan is AMCON's Chief Executive Officer and Chairman of the Company's Board of Directors.

11

In February 2009, the holder of the Company's Series C Convertible Preferred Stock ("Series C") redeemed all 80,000 shares of the issuance. The Series C issuance had been outstanding since 2006, paid a dividend of 6.00% percent per annum, and was convertible into 146,842 shares of common stock. The Company paid the liquidation value, or \$2.0 million, plus accumulated and unpaid dividends to fully redeem all of the outstanding shares. The redemption was funded by our credit facility and satisfied all of the Company's obligations under the Series C Convertible Preferred Stock Agreement. In conjunction with the Series C redemption, the Company also adjusted the carrying value of the Series A and Series B issuances to their respective redemption values, as they are currently redeemable by the holders. The adjustment to redemption value had no impact on our Income from Continuing Operations or Net Income.

4. INVENTORIES

Inventories consisted of the following at March 2009 and September 2008:

	March 2009	September 2008
	-----	-----
Finished Goods	\$ 30,523,160	\$ 37,330,969
	=====	=====

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 \$0.8 million and \$0.6 million at March 2009 and September 2008, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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

	March 2009	September 2008
	-----	-----
Wholesale	\$ 3,935,931	\$ 3,935,931
Retail	1,912,877	1,912,877
	-----	-----
	\$ 5,848,808	\$ 5,848,808
	=====	=====

12

Other intangible assets of the Company consisted of the following:

	March 2009	September 2008
	-----	-----
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
	=====	=====

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. The Company tests goodwill and other intangibles for impairment on an annual basis, or between annual tests if an event occurs or circumstances change that may reduce their respective fair values below carrying value.

6. DIVIDENDS:

In January 2009, the Company declared cash dividends of \$0.10 per common share to shareholders of record as of February 9, 2009. Cash dividends paid to common shareholders for the three and six months ended March 2009 totaled \$57,040 and \$114,079, respectively.

7. 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. 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 2009 and March 2008 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 15,286 for both the three and six months ended March 2009 and 12,279 for the three and six month periods ended March 2008, respectively. The average exercise

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

price of anti-dilutive options and potential common stock was \$39.94 for both the three and six months ended March 2009 and \$44.09 for the three and six month periods ended March 2008, respectively.

13

	For the three months ended March			
	2009		2008	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	548,619	548,619	537,064	537,064
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/	-	256,617	-	314,306
Weighted average number of shares outstanding	548,619	805,236	537,064	851,370
Income from continuing operations	\$ 2,193,795	\$ 2,193,795	\$ 1,267,104	\$ 1,267,104
Deduct: convertible preferred stock dividends /2/	(314,201)	-	(104,386)	-
	1,879,594	2,193,795	1,162,718	1,267,104
Loss from discontinued operations	\$ (97,437)	\$ (97,437)	\$ (97,445)	\$ (97,445)
Net income available to common shareholders	\$ 1,782,157	\$ 2,096,358	\$ 1,065,273	\$ 1,169,659
Income per share from continuing operations	\$ 3.43	\$ 2.72	\$ 2.16	\$ 1.48
Loss per share from discontinued operations	\$ (0.18)	\$ (0.12)	\$ (0.18)	\$ (0.11)
Net earnings per share available to common shareholders	\$ 3.25	\$ 2.60	\$ 1.98	\$ 1.37

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

- =====
- /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 dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

14

	For the six months ended March			
	2009		2008	
	Basic	Diluted	Basic	Diluted
	-----	-----	-----	-----
Weighted average common shares outstanding	547,089	547,089	535,473	535,473
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/	-	283,834	-	314,841
Weighted average number of shares outstanding	547,089	830,923	535,473	850,314
	=====	=====	=====	=====
Income from continuing operations	\$ 3,595,395	\$ 3,595,395	\$ 2,312,312	\$ 2,312,312
Deduct: convertible preferred stock dividends /2/	(419,734)	-	(209,919)	-
	3,175,661	3,595,395	2,102,393	2,312,312
	=====	=====	=====	=====
Loss from discontinued operations	\$ (199,475)	\$ (199,475)	\$ (193,440)	\$ (193,440)
	=====	=====	=====	=====
Net income available to common shareholders	\$ 2,976,186	\$ 3,395,920	\$ 1,908,953	\$ 2,118,872
	=====	=====	=====	=====

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Income per share from continuing operations	\$ 5.80	\$ 4.33	\$ 3.92	\$ 2.72
	=====	=====	=====	=====
Loss per share from discontinued operations	\$ (0.36)	\$ (0.24)	\$ (0.36)	\$ (0.23)
	=====	=====	=====	=====
Net earnings per share available to common shareholders	\$ 5.44	\$ 4.09	\$ 3.56	\$ 2.49
	=====	=====	=====	=====

- /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 dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

15

8. DEBT

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

- A June 2011 maturity date.
- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of \$0.3 million at March 2009.
- The Facility bears interest at either the bank's prime rate or at a LIBOR based rate at the election of the Company.
- The Facility provides for an additional \$5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.
- Lending limits subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- Provides that the Company may not pay dividends on its common stock in

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

excess of \$0.72 per share on an annual basis.

- The Facility includes a prepayment penalty equal to a predetermined percentage of the original maximum loan limit of \$60.4 million if the Company prepays the entire Facility and terminates the credit agreement before specified dates. The prepayment penalty percentages are as follows: (1) one percent (1%) if prepayment occurs on or before June 30, 2009, and (2) one-half of one percent (1/2%) if prepayment occurs subsequent to June 30, 2009 but on or before June 30, 2010.

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 and the cumulative minimum EBITDA requirement is \$2,000,000 for the six months ending March 31, 2009.

The Company was in compliance with the required debt service and minimum EBITDA covenants at March 2009.

The Company's maximum available credit limit for the revolving portion of the Facility was \$41.2 million at March 2009, however, the amount available for use at any given time is subject to many factors including eligible accounts receivable and inventory balances.

16

At March 2009, the outstanding balance on the revolving portion of the Facility was \$19.5 million. The Facility bears interest at a variable rate equal to the bank's prime rate, which was 3.25% at March 2009. Based on our collateral and loan limits as defined by the Facility agreement, the Company's availability under the Facility at March 2009 was approximately \$21.7 million.

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 \$0.8 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.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

9. EQUITY-BASED INCENTIVE AWARDS

Stock Options

At March 2009, the Company had two groups of stock option awards issued and outstanding. The first award group includes incentive and non-qualified stock options issued to management employees and outside directors pursuant to the Company's stock-based compensation plan ("the Stock Option Plan"). The Stock Option Plan expired in fiscal 2004 and all compensation expense related to the plan was amortized in prior fiscal periods.

The second award group includes 25,000 non-qualified stock options issued to the Company's Chief Executive Officer in fiscal 2007. These stock options vest in equal installments over a three year period and have an exercise price of \$18.00 per share. At March 2009, 16,666 of these stock options had vested.

17

Stock options issued and outstanding to management employees at March 2009 are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable

Fiscal 1999	\$ 45.68 - \$ 51.14	6,591	6,591
Fiscal 2000	\$ 34.50	3,123	3,123
Fiscal 2003	\$ 28.80	3,170	3,170
Fiscal 2007	\$ 18.00	25,000	16,666
		-----	-----
		37,884	29,550
		=====	=====

Stock options issued and outstanding to the Company's outside directors at March 2009 are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable

Fiscal 1999	\$ 49.09	734	734
Fiscal 2002	\$ 26.94	834	834
Fiscal 2003	\$ 28.26	834	834

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

-----	-----
2,402	2,402
=====	=====

The following summarizes all stock options outstanding at March 2009:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Weighted-Average Exercise Price
	-----	-----	-----	-----	-----	-----
1999 Options	\$45.68-\$51.14	7,325	0.13 years	\$49.99	7,325	\$
2000 Options	\$34.50	3,123	1.20 years	\$34.50	3,123	\$
2002 Options	\$26.94	834	3.37 years	\$26.94	834	\$
2003 Options	\$28.26-\$28.80	4,004	3.74 years	\$28.69	4,004	\$
2007 Options	\$18.00	25,000	7.75 years	\$18.00	16,666	\$
		-----		-----	-----	-----
		40,286		\$26.34	31,952	\$
		=====		=====	=====	=====

18

The following is a summary of the activity of the stock plans for the six months ended March 2009:

	Number of Shares	Weighted Average Exercise Price
	-----	-----
Outstanding at September 2008	42,120	\$26.80
Granted	-	-
Exercised	-	-
Expired	(1,834)	\$36.82
	-----	-----
Outstanding at March 2009	40,286	\$26.34
	=====	=====
Options exercisable at end of period	31,952	-----
	=====	

The Company's stock options have varying vesting schedules, ranging up to five years and expiring ten years subsequent to the grant date. Net income before income taxes included compensation expense related to

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

stock options of approximately \$0.03 million and \$0.1 million for both the three and six month fiscal periods ended March 2009 and March 2008. Total unamortized compensation expense related to stock options at March 2009 totaled approximately \$0.1 million. This unamortized stock expense is expected to be amortized over approximately the next twelve months (the expected weighted-average period).

Omnibus Plan

The Company has an Omnibus Incentive Plan ("the Omnibus Plan") which provides for equity incentives to employees. The Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus 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.

19

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

	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 grant date/3/:	\$963,000	\$229,000
Intrinsic value of awards outstanding at March 2009:	\$400,000	\$125,000

/1/ 8,000 shares were vested at March 2009. The remaining 16,000 shares will vest in equal amounts (8,000 per year) on October 16, 2009 and October 16, 2010.

/2/ 2,500 shares were vested at March 2009. The remaining 5,000 shares will vest in equal amounts (2,500 per year) on January 29, 2010 and January 29, 2011.

/3/ Amount is net of estimated forfeitures.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 income taxes included compensation expense of \$0.1 million and \$0.2 million for the three and six months ended March 2009, and approximately \$0.1 million for both the three and six months ended March 2008. Total unamortized compensation expense related to restricted stock awards at March 2009 was approximately \$0.7 million. This unamortized compensation expense is expected to be amortized over approximately the next two fiscal years (the expected weighted-average period).

The following summarizes restricted stock activity under the Omnibus Plan for the six months ended March 2009:

	Number of Shares	Weighted Average Grant Date Fair Value	
Nonvested restricted stock at September 2008	31,500	\$40.16	
Granted	-	-	
Vested/Issued	(10,500)	\$40.16	
Expired	-	-	
Nonvested restricted stock at March 2009	21,000	\$40.16	

20

10. BUSINESS SEGMENTS

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 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 2009:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

External revenue:				
Cigarettes	\$ 136,018,967	\$ -	\$ -	\$ 136,018,967
Confectionery	14,667,301	-	-	14,667,301
Health food	-	9,564,810	-	9,564,810
Tobacco, food service & other	35,191,168	-	-	35,191,168
	-----	-----	-----	-----
Total external revenue	185,877,436	9,564,810	-	195,442,246
Depreciation	244,988	54,854	1,146	300,988
Amortization	-	-	-	-
Operating income (loss)	4,180,906	1,076,330	(1,338,330)	3,918,906
Interest expense	126,365	140,313	141,909	408,587
Income (loss) from continuing operations before taxes	4,070,742	946,290	(1,480,237)	3,536,795
Total assets	65,160,730	11,416,692	4,366,108	80,943,530
Capital expenditures	174,540	56,890	-	231,430

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

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

21

Wholesale Distribution	Retail	Other /1/	Consolidated
-----	-----	-----	-----

SIX MONTHS ENDED MARCH 2009:

External revenue:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Cigarettes	\$ 288,281,912	\$ -	\$ -	\$ 288,281,912
Confectionery	30,128,997	-	-	30,128,997
Health food	-	18,545,603	-	18,545,603
Tobacco, food service & other	75,863,096	-	-	75,863,096
	-----	-----	-----	-----
Total external revenue	394,274,005	18,545,603	-	412,819,608
Depreciation	493,152	115,877	2,293	611,322
Amortization	-	-	-	-
Operating income (loss)	7,468,983	1,664,169	(2,477,514)	6,655,638
Interest expense	259,044	309,858	328,884	897,786
Income (loss) from continuing operations before taxes	7,229,893	1,374,899	(2,806,397)	5,798,395
Total assets	65,160,730	11,416,692	4,366,108	80,943,530
Capital expenditures	303,030	194,371	-	497,401

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

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

11. CONTINGENCIES

In September 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") to resolve litigation among and between AMCON, TSI, and Crystal Paradise Holdings, Inc. ("CPH") related to a 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from CPH. In conjunction with the Settlement Agreement, AMCON entered into a \$5.0 million note payable to CPH. The note is due in September 2012 and accrues interest at 5.0%. The Settlement Agreement also provided CPH with an option to purchase TSI's remaining assets for a price equivalent to the amount due CPH under the \$5.0 million note payable, plus accrued interest. In conjunction with the Settlement Agreement, the Company recorded a \$1.5 million pre-tax deferred gain. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Consolidated Balance Sheets.

In March 2009, CPH notified the Company that it was exercising its option under the Settlement Agreement to acquire the assets of TSI in exchange for the \$5.0 million note payable, plus accrued interest. Upon completion of the transaction, the Company will recognize the aforementioned \$1.5 million deferred gain, in addition to any other settlement gains and losses. The transaction is scheduled to close in April 2009 and is subject to the satisfaction of various closing conditions.

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 recent increases in federal excise taxes imposed as part of the State Children's Health Insurance Program ("SCHIP") legislation,
- possible regulation of cigarette and tobacco products by the U.S. Food and Drug Administration ("FDA"), in addition to existing state and federal regulations by other agencies,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,
- changes in promotional and incentive programs offered by manufacturers,
- decreased availability of capital resources due to recent events in the credit markets,
- demand for the Company's products, particularly cigarette and tobacco products,
- new business ventures,
- domestic regulatory and legislative risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- consolidation within the convenience store industry,
- other risks over which the Company has little or no control, and
- any other factors not identified herein.

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

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our Form 10-K for the fiscal year ended September 30, 2008, 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 2009.

COMPANY OVERVIEW - SECOND FISCAL QUARTER 2009 (Q2 2009)

The following discussion and analysis includes the Company's results of operations from continuing operations for the three and six months ended March 2009 and March 2008. 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 loss from discontinued operations and are not a component of the aforementioned continuing operations discussion.

During Q2 2009, the Company:

- increased operating income by \$1.2 million as compared to Q2 2008.
- benefited approximately \$2.6 million as a result of price increases implemented by cigarette and tobacco manufacturers.
- incurred approximately a \$1.7 million liability related to a floor stocks tax imposed in conjunction with the SCHIP legislation.
- was notified by CPH that it was exercising its option under the Settlement Agreement to acquire the assets of TSI in exchange for a \$5.0 million note payable and accrued interest due from the Company.
- fully redeemed its Series C Convertible Preferred Stock for \$2.0 million plus accrued but unpaid dividends.
- recognized income from continuing operations per basic share of \$3.43 and \$2.16 for the three months ended March 2009 and March 2008, respectively, and \$5.80 and \$3.92 for the six months ended March 2009 and March 2008, respectively.
- recognized a loss from discontinued operations per basic share of (\$0.18) for the three months ended March 2009 and March 2008, and (\$0.36) for the six months ended March 2009 and March 2008.
- paid dividends on common shares totaling \$57,040 or \$0.10 per share.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Wholesale Distribution Segment (ADC)

Our wholesale distribution segment represents approximately 96% 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 73% of ADC total sales. ADC is focused on growing its sales of non-tobacco products, which offer higher profit margins and greater revenue stream diversity.

The wholesale distribution 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 wholesale distribution industry continues to experience significant changes driven by higher excise taxes, the popularity of deep-discount cigarette brands, and consolidation within the industry's customer base (principally convenience stores and tobacco shops). Collectively, we expect these items will continue to pressure profit margins industry-wide and could potentially decrease the Company's profitability.

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.

State Children's Health Insurance Program ("SCHIP")

In February 2009, the President signed a bill reauthorizing the State Children's Health Insurance Program. The program will be largely funded through significant increases in the federal excise taxes imposed on cigarette and tobacco products. For cigarettes, which account for approximately 73% of ADC's revenues, the new law increases the federal excise taxes from \$0.39 per pack to \$1.01 per pack, or approximately \$6.17 per carton. The new law also includes a floor stocks tax payable to the United States Alcohol and Tobacco Tax and Trade Bureau ("TTB"). The total floor stocks tax payable by the Company is approximately \$1.7 million and is due by July 31, 2009.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

For our wholesale segment, the increased excise taxes create long-term strategic challenges. According to a study by the American Wholesale Marketers Association, aggregate demand for cigarettes in the United States has been declining since 1980, decreasing up to two-percent (2%) annually. We believe the increased excises taxes will accelerate the historical trend of decreasing consumer demand, while at the same time increasing the Company's inventory carrying costs and accounts receivable credit risk, with limited benefits to our gross margins.

Retail Health Food Segment

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

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.

ECONOMIC CONDITIONS

The worldwide economic crisis has impacted consumer confidence and discretionary spending patterns across the states in which we operate. In our wholesale segment, demand at the retail level (convenience stores) continues to reflect weakness in our cigarette and tobacco product categories, with demand in our non-tobacco categories such as confection and food service, showing modest year-over-year growth.

Industry-wide, gross margin erosion for convenience stores has prompted aggressive bidding from competing distributors and is driving consolidation amongst convenience stores as they struggle to remain profitable. Many of our wholesale segment customers are thinly capitalized and their access to credit is limited. Additionally, our weaker customers may go out of business or be sold to another retailer using a different distributor.

Our retail segment is experiencing weakness in both of its geographic markets. In recent years, the natural food industry has experienced high growth rates as the demand for non-processed products (pesticide-free, hormone-free, non-genetically modified) became popular among more health conscious consumers. In the near term, however, our retail segment faces a challenging operating environment as consumer behavior has been negatively impacted by the current recession. We believe the economic hardships consumers now face are influencing purchasing patterns such as the frequency of shopping trips, the types of products purchased, and price sensitivity. These factors have contributed to lower transaction counts and average basket sizes in our retail stores. In particular, retail level demand in our

Florida stores has been hurt by the severe economic downturn in that state, in addition to increased competition from other natural food chains.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Accordingly, we have adjusted our retail segment cost structure to align with current demand. In the long-term, however, we believe trends for the natural foods industry are positive, and as such, we continue to evaluate potential sites for future locations.

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 2009 and March 2008 are as follows (dollars in millions):

	Three months ended March			Six months ended March		
	2009	2008	Incr. (Decr)	2009	2008	Incr. (Decr)
	-----	-----	-----	-----	-----	-----
Wholesale distribution segment	\$185.9	\$179.9	\$ 6.0	\$394.3	\$381.1	\$ 13.2
Retail health food segment	9.5	10.5	(1.0)	18.5	20.0	(1.5)
	-----	-----	-----	-----	-----	-----
	\$195.4	\$190.4	\$ 5.0	\$412.8	\$401.1	\$ 11.7
	=====	=====	=====	=====	=====	=====

SALES - Q2 2009 vs. Q2 2008 (continuing operations)

Sales for Q2 2009 increased \$5.0 million, or 2.6%, as compared to Q2 2008. Sales are reported net of costs associated with sales incentives provided to retailers, totaling \$4.0 million in Q2 2009 and \$3.8 million in Q2 2008.

Sales in our wholesale distribution segment ("wholesale") increased \$6.0 million, or 3.3%, in Q2 2009 as compared to Q2 2008. This change included a \$4.0 million increase in cigarette sales and a net \$2.0 million increase in our tobacco, beverages, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories ("Other Products").

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Significant items impacting our Q2 2009 wholesale segment sales included:

- \$4.0 million net increase in cigarette sales over Q2 2008, resulting from a \$10.1 million increase in sales due to price increases implemented by manufacturers, partially offset by a \$6.1 million decrease in sales primarily due to a decrease in the volume of cigarette cartons sold in Q2 2009. The decrease in volume was largely attributable to a reduction in purchases by our customers in March 2009 in anticipation of the floor stocks tax imposed as part of the SCHIP legislation.
- \$2.0 million net increase in our Other Products category sales over Q2 2008, primarily the result of higher tobacco, confectionary, food service, and store supplies sales.

Sales in our retail health food segment decreased approximately \$1.0 million, or 9.2%, in Q2 2009 as compared to Q2 2008. This decrease was primarily related to lower sales volumes in our highly perishable food categories, particularly in our Florida retail stores, which have been impacted by a severe regional economic downturn and increased competition from other natural food chains.

SALES - Six Months Ended March 2009 (continuing operations)

Sales for the six month period ended March 2009 increased \$11.7 million, or 2.9%, as compared to the same prior year period. Sales for the six months ended March 2009 and 2008, were net of costs associated with sales incentives provided to retailers, totaling \$7.9 million and \$7.3 million, respectively.

Sales in our wholesale distribution segment increased \$13.2 million, or 3.5%, for the six months ended March 2009 as compared to the same prior year period. This change included a \$6.6 million increase in cigarette sales and a net \$6.6 million increase in Other Products.

Significant items impacting our wholesale segment sales for the six months ended March 2009 included:

- \$6.6 million net increase in cigarette sales over Q2 2008, resulting from a \$13.1 million increase in sales due to price increases implemented by manufacturers, partially offset by a \$6.5 million decrease in sales primarily due to a decrease in the volume of cigarette cartons sold in during the six month period. The decrease in volume was largely attributable to a reduction in purchases by our customers in March 2009 in anticipation of the floor stocks tax imposed as part of the SCHIP legislation.
- \$6.6 million net increase in our Other Products category sales over same prior year period, primarily the result of higher tobacco, confectionary, food service, and store supplies sales.

Sales in our retail health food segment decreased approximately \$1.5 million, or 7.5%, for the six months ended March 2009 as compared to the same prior year period. This decrease was primarily related to lower sales volumes in our highly perishable food categories, particularly in our Florida retail stores, which have been impacted by a severe regional economic downturn and increased competition from other natural food chains.

GROSS PROFIT (continuing operations)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 2009 and March 2008 are as follows (dollars in millions):

	Three Months ended March			Six Months ended March		
	2009	2008	Incr (Decr)	2009	2008	Incr (Decr)
Wholesale distribution segment	\$ 13.2	\$ 11.2	\$ 2.0	\$25.4	\$ 22.5	\$ 2.9
Retail health food segment	4.0	4.5	(0.5)	7.7	8.4	(0.7)
	\$ 17.2	\$ 15.7	\$ 1.5	\$ 33.1	\$ 30.9	\$ 2.2

GROSS PROFIT - Q2 2009 vs. Q2 2008 (continuing operations)

Overall gross profit for Q2 2009 increased \$1.5 million, or 9.6%, as compared to Q2 2008.

Gross profit in our wholesale segment increased \$2.0 million, or 18.4%, as compared to the same prior year period. During Q2 2009, our wholesale gross profit benefitted by approximately \$2.6 million as a result of price increases implemented by cigarette and tobacco manufacturers. The remaining change in our wholesale segment gross profit is primarily attributable to the net impact of changes in manufacturer promotional allowances, product mix sold, and lower cigarette carton shipment volumes.

Gross profit for the retail health segment decreased \$0.5 million in Q2 2009 as compared to Q2 2008. Of this decrease, approximately \$0.4 million related to lower sales volume, with the remaining change primarily attributable to sales mix and higher inventory throw-out costs.

GROSS PROFIT - Six months ended March 2009 (continuing operations)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Overall gross profit for the six months ended March 2009 increased \$2.2 million, or 7.0%, as compared to the same prior year period.

Gross profit in our wholesale segment increased \$2.9 million, or 13.2%, for the six month period ended March 2009 as compared to the same period in the prior year. For the six months ended March 2009, our wholesale segment gross profit benefitted approximately \$2.6 million as a result of price increases implemented by cigarette and tobacco manufacturers. The remaining change in our wholesale segment gross profit is primarily attributable to the net impact of higher manufacturer promotional allowances, product mix sold, and lower cigarette carton shipment volumes.

Gross profit for the retail health segment decreased \$0.7 million for the six month period ended March 2009. Of this decrease, approximately \$0.6 million related to lower sales volume, with the remaining change primarily attributable to sales mix and higher inventory throw-out costs.

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 2009 operating expenses increased approximately \$0.3 million as compared to Q2 2008. Significant items impacting operating expenses included a \$0.3 million increase in health insurance costs, a \$0.3 million increase in compensation costs, and a \$0.1 million increase in bad debt expense. These items were partially offset by a \$0.4 million decrease in fuel costs.

Operating expenses for the six month period ended March 2009 increased approximately \$0.8 million as compared to the same prior year period. Significant items impacting operating expenses included a \$0.5 million increase in health insurance costs, a \$0.5 million increase in compensation costs, and a \$0.2 million increase in bad debt expense. These items were partially offset by a \$0.4 million decrease in fuel costs.

INTEREST EXPENSE - three and six months ended March 2008 comparison

Q2 2009 interest expense decreased approximately \$0.3 million as compared to Q2 2008, and interest expense for the six months ended March 2009 decreased approximately \$0.8 million as comparable to the same 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. The Company's average borrowing rates on its revolving credit facility were 2.97% lower and average borrowings on our revolving credit facility were \$0.3 million

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

lower in Q2 2009 as compared to Q2 2008. For the six months ended March 2009, average borrowing rates on our revolving credit facility were 3.15% lower and average borrowings on our revolving credit facility were \$3.3 million lower as compared to the same prior year period.

DISCONTINUED OPERATIONS - three and six months ended March 2009 comparison

 Discontinued operations include the results of operations of TSI. Losses from discontinued operations totaled \$0.1 million and \$0.2 million for both the three and six month fiscal periods ended March 2009 and March 2008, respectively. These losses primarily resulted from asset preservation costs.

As discussed further in Note 2, in March 2009 CPH notified the Company that it was exercising its option under the Settlement Agreement to acquire the assets of TSI in exchange for a \$5.0 million note payable due from the Company. Upon completion of the transaction, the Company will recognize a previously related deferred gain of \$1.5 million, in addition to any other settlement gains and losses. The transaction is scheduled to close in April 2009 and is subject to the satisfaction of various closing conditions.

A summary of discontinued operations is as follows:

	Three months ended March		Six months ended March	
	2009	2008	2009	2008
Operating loss	(41,434)	(42,695)	(85,562)	(85,562)
Interest expense	(114,003)	(113,750)	(230,012)	(230,012)
Income tax benefit	(58,000)	(59,000)	(116,000)	(116,000)
Loss from discontinued operations	(97,437)	(97,445)	(199,475)	(199,475)

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. For the six months ended March 2009, the Company generated cash of approximately \$18.5 million from operating activities. The cash generated primarily resulted from higher overall earnings and a decrease in accounts receivable and inventory balances, as well as an increase in accrued expenses. These items were partially offset by a decrease in accounts payable. As discussed below, accounts receivable and inventory balances decreased in March 2009 as our customers temporarily reduced purchases because of the SCHIP legislation which imposed a floor stocks tax on inventory onhand.

Investing Activities: The Company used cash of approximately \$0.4 million

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

for investing activities during the six month period ended March 2009. Cash used was primarily for capital expenditures related to property and equipment purchases.

Financing Activities: The Company used cash of \$18.1 million for financing activities during the six months ended March 2009. Of this amount, \$15.4 million related to net payments on the Company's credit facility, \$2.0 million related to the redemption of the Company's Series C Convertible Preferred Stock, \$0.4 million related to principal payments on long-term debt, and \$0.3 million related to dividends on the Company's common and preferred stock.

Cash on Hand/Working Capital: At March 2009, the Company had cash on hand of \$0.4 million and working capital (current assets less current liabilities) of \$24.2 million. This compares to cash on hand of \$0.5 million and working capital of \$38.9 million at September 2008.

The decrease in working capital is due, in large part, to a decrease in accounts receivable and inventory that were converted into cash through collections and sales. In March 2009, accounts receivable and inventory balances trended lower as our customers temporarily reduced purchases because of SCHIP legislation passed in February 2009 requiring a floor stocks tax on inventory held for sale on April 1, 2009. The funds generated from lower accounts receivable and inventory were used to pay down the Company's revolving portion of the bank line from \$34.9 million to \$19.5 million, a decrease of \$15.4 million.

During the period there was also an increase in accrued expenses related to the Company's payable for floor stocks excise taxes for approximately \$1.7 million, which reduced working capital during the period.

We believe that our working capital will increase to more historical levels in the next fiscal quarter as our customers resume normal purchasing patterns.

CREDIT AGREEMENT

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

- A June 30, 2011 maturity date.
- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of \$0.3 million at March 2009.
- The Facility bears interest at either the bank's prime rate or at a LIBOR based rate at the election of the Company.
- The Facility provides for an additional \$5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

- Lending limits subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

loan limit and average monthly borrowings.

- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- 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 includes a prepayment penalty equal to a predetermined percentage of the original maximum loan limit of \$60.4 million if the Company prepays the entire Facility and terminates the credit agreement before specified dates. The prepayment penalty percentages are as follows: (1) one percent (1%) if prepayment occurs on or before June 30, 2009, and (2) one-half of one percent (1/2%) if prepayment occurs subsequent to June 30, 2009 but on or before June 30, 2010.

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 and the cumulative minimum EBITDA requirement is \$2,000,000 for the six months ended March 31, 2009.

The Company was in compliance with the required debt service and minimum EBITDA covenants at March 2009.

The Company's maximum available credit limit for the revolving portion of the Facility was \$41.2 million at March 2009, however, the amount available for use at any given time is subject to many factors including eligible accounts receivable and inventory balances.

At March 2009, the outstanding balance on the revolving portion of the Facility was \$19.5 million. The Facility bears interest at a variable rate equal to the bank's prime rate, which was 3.25% at March 2009. Based on our collateral and loan limits as defined by the Facility agreement, the Company's excess availability under the Facility at March 2009 was approximately \$21.7 million.

For the six month period ended March 2009, our peak borrowings under the Facility were \$38.4 million and our average borrowings and average availability were \$33.0 and \$17.6 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.

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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.

TSI Financing

As previously disclosed, TSI has approximately \$2.8 million in related party debt obligations, which were in default at March 2009. 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 impact its future liquidity position.

Redemption of Series C Convertible Preferred Stock

In February 2009, the holder of the Company's Series C Convertible Preferred Stock ("Series C") redeemed all 80,000 shares of the issuance. The Series C issuance had been outstanding since 2006, paid a dividend of 6.00% percent per annum, and was convertible into 146,842 shares of common stock. The Company paid the liquidation value, or \$2.0 million, plus accumulated and unpaid dividends to fully redeem all of the outstanding shares. The redemption was funded by our credit facility and satisfied all of the Company's obligations under the Series C Convertible Preferred Stock Agreement.

Dividend Payments

In January 2009, the Company declared cash dividends of \$0.10 per common share to shareholders of record as of February 9, 2009. Cash dividends paid to common shareholders for the three and six months ended March 2009 totaled \$57,040 and \$114,079, respectively.

Cash dividends paid on the Company's convertible preferred stock issuances (Series A, Series B, and Series C) for the three and six month periods ended March 2009 totaled \$92,573 and \$198,106, respectively. See Note 3 to the condensed consolidated unaudited financial statements for further information regarding these securities.

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, 2008.

34

OTHER

AMCON has issued a letter of credit for \$0.8 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

Off-Balance Sheet Arrangements

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

Liquidity Risk

The Company's liquidity position is significantly influenced by its ability to obtain sufficient levels of working capital. For our Company and the industry in general, customer credit risk and continuing access to bank credit (primarily for the purpose of funding inventory purchases and the lag period on accounts receivable collections) are important factors impacting our overall liquidity position.

The Company renewed its credit facility with Bank of America in July 2008 and believes it continues to have a strong working relationship with that financial institution. Additionally, the Company was in compliance with all debt covenants at March 2009. Our customers, many of whom are thinly capitalized, do present credit risk. The Company, however, aggressively monitors its exposure in this area and believes it had adequate reserves in place at March 2009.

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

The Company believes its liquidity position going forward will be adequate to sustain operations. However, a continued steep decline in economic conditions and the impact of increased excise taxes being imposed as discussed below, could materially impact the Company's future revenue stream as well its ability to collect on customer accounts receivable balances and secure bank credit.

Factors That Could Affect Future Results

Wholesale Segment: Our wholesale distribution business 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.

In February 2009, the President signed a bill reauthorizing the State Children's Health Insurance Program. The program will be largely funded through significant increases in the federal excise taxes imposed on cigarette and tobacco products. For our wholesale segment, the increased excise taxes create some long-term challenges as we believe they will accelerate historical trends of declining consumer demand, while at the same time increasing the Company's inventory carrying costs and accounts receivable credit risk, with limited benefits to our gross margins.

In addition to the February 2009 SCHIP legislation, in April 2009 the U.S. House of Representatives approved legislation which provides the FDA with the authority to regulate cigarette and tobacco products. If such legislation were to become law, cigarette manufacturers would have to comply with any new regulations and could face remedial actions such as fines, suspension of product distribution rights, termination of operations, and increased compliance costs. The costs associated with such actions would likely be passed on to distributors such as us.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Retail Health Food Segment: While we enjoy a loyal customer following in this business segment, depressed economic conditions combined with higher natural food costs and increased competition may decrease both sales and gross profit margins from their existing levels.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible

36

controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time,

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2009, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 11 to the condensed consolidated unaudited financial statements in Item 1, which is incorporated herein by reference and supplements the information provided or referred to in Item 3 of the Company's Form 10-K for the fiscal year ended September 30, 2008.

Item 1A. Risk Factors

Except as discussed below, 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, 2008.

RISK FACTORS RELATED TO OUR WHOLESALE BUSINESS

- Possible Regulation of Cigarette and Tobacco Products by the U.S. Food and Drug Administration ("FDA") May Negatively Impact Our Operations

In April 2009, the U.S. House of Representatives approved legislation which provides the FDA with the authority to regulate cigarette and tobacco products. If such legislation were to become law, cigarette manufacturers would have to comply with any new regulations and could face remedial actions such as fines, suspension of product distribution rights, termination of operations, and increased compliance costs. If any of these events were to occur, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

37

- Recent Increases in the Federal Excise Taxes Imposed on Cigarette and Tobacco Products May Materially Reduce Our Wholesale Sales Volume.

In February 2009, the President signed a bill reauthorizing the State Children's Health Insurance Program. The program will be largely funded through significant increases in the federal excise taxes imposed on cigarette and tobacco products. The increased excise taxes may dramatically reduce consumer demand for cigarette and tobacco products, while at the same time increasing the Company's inventory carrying costs and accounts receivable credit risk, with limited benefits to our gross margins. If there is a significant decline in the demand for cigarette and tobacco products, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 26, 2009 for the purpose of electing three Class II directors, and ratifying of the appointment of its independent registered public accounting firm. The election and ratification results are as follows:

Class III Director Election

NAME OF NOMINEE	FOR	WITHHELD
Kathleen M. Evans	478,471	33,113
John R. Loyack	472,493	39,013
Timothy R. Pestotnik	407,843	103,741

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, Christopher H. Atayan, and Raymond F. Bentele.

38

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, 2009 was approved by the Stockholders with 509,846 votes FOR, 1,724 votes AGAINST, and 14 votes ABSTAINED.

There were no broker non-votes.

Further information regarding these matters is contained in the Company's Proxy Statement dated December 28, 2008.

Not Applicable

Item 5. Other Information

Not applicable.

39

Item 6. Exhibits

(a) Exhibits

- 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, Chief Financial Officer, and Principal 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, Chief Financial Officer, and Principal 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 undersigned, thereunto duly authorized.

AMCON DISTRIBUTING COMPANY
(registrant)

Date: April 16, 2009 /s/ Christopher H. Atayan

Christopher H. Atayan,
Chief Executive Officer and Chairman

Date: April 16, 2009 /s/ Andrew C. Plummer

Andrew C. Plummer, Vice President,
Chief Financial Officer, and
Principal Financial Officer

