

AMCON DISTRIBUTING CO

Form 10-Q

April 19, 2010

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

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

**For the quarterly period ended March 31, 2010**

**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  No

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

Indicate by check mark 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

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

The Registrant had 575,508 shares of its \$.01 par value common stock outstanding as of April 12, 2010.



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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2010 and September 30, 2009**

	<b>March 2010 (Unaudited)</b>	<b>September 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 529,408	\$ 309,914
Accounts receivable, less allowance for doubtful accounts of \$1.1 million and \$0.9 million, at March 2010 and September 2009	27,723,560	28,393,198
Inventories, net	35,325,691	34,486,027
Deferred income taxes	1,706,641	1,701,568
Prepaid and other current assets	2,243,351	1,728,576
 Total current assets	 67,528,651	 66,619,283
 Property and equipment, net	 11,863,643	 11,256,627
Goodwill	6,149,168	5,848,808
Other intangible assets	4,908,894	3,373,269
Other assets	1,073,482	1,026,395
	\$ 91,523,838	\$ 88,124,382
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,453,293	\$ 15,222,689
Accrued expenses	5,706,747	6,768,924
Accrued wages, salaries and bonuses	2,441,473	3,257,832
Income taxes payable	876,919	3,984,258
Current maturities of credit facility	76,267	177,867
Current maturities of long-term debt	965,905	1,470,445
 Total current liabilities	 26,520,604	 30,882,015
 Credit facility, less current maturities	 25,782,537	 22,655,861
Deferred income taxes	1,227,590	1,256,713
Long-term debt, less current maturities	5,637,282	5,066,185
Other long-term liabilities	459,966	
 Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized and issued, liquidation preference \$25.00 per share	 2,500,000	 2,500,000
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share	2,000,000	2,000,000

Shareholders' equity:

Preferred stock, \$0.01 par, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B referred to above		
Common stock, \$0.01 par value, 3,000,000 shares authorized, 575,508 shares outstanding at March 2010 and 573,232 shares outstanding at September 2009	5,755	5,732
Additional paid-in capital	8,084,026	7,617,494
Retained earnings	19,306,078	16,140,382
Total shareholders' equity	27,395,859	23,763,608
	\$ 91,523,838	\$ 88,124,382

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

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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Unaudited Statements of Operations**  
**for the three and six months ended March 31, 2010 and 2009**

	For the three months ended March		For the six months ended March	
	2010	2009	2010	2009
Sales (including excise taxes of \$76.9 million and \$43.3 million, and \$158.4 million and \$93.6 million, respectively)	\$ 230,499,129	\$ 195,442,246	\$ 474,440,167	\$ 412,819,608
Cost of sales	213,558,955	178,195,212	440,271,980	379,727,926
Gross profit	16,940,174	17,247,034	34,168,187	33,091,682
Selling, general and administrative expenses	13,365,802	13,027,140	27,144,541	25,824,722
Depreciation and amortization	415,572	300,988	802,841	611,322
	13,781,374	13,328,128	27,947,382	26,436,044
Operating income	3,158,800	3,918,906	6,220,805	6,655,638
Other expense (income):				
Interest expense	368,425	408,587	773,670	897,786
Other (income), net	(23,046)	(26,476)	(36,426)	(40,543)
	345,379	382,111	737,244	857,243
Income from continuing operations before income tax	2,813,421	3,536,795	5,483,561	5,798,395
Income tax expense	1,022,000	1,343,000	1,963,000	2,203,000
Income from continuing operations	1,791,421	2,193,795	3,520,561	3,595,395
Loss from discontinued operations, net of income tax benefit of \$0.1 million in each fiscal period		(97,437)		(199,475)
Net income	1,791,421	2,096,358	3,520,561	3,395,920
Preferred stock dividend requirements	(73,239)	(314,201)	(148,106)	(419,734)
Net income available to common shareholders	\$ 1,718,182	\$ 1,782,157	\$ 3,372,455	\$ 2,976,186



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Basic earnings (loss) per share available to common shareholders:								
Continuing operations	\$	3.05	\$	3.43	\$	6.00	\$	5.80
Discontinued operations				(0.18)				(0.36)
Net basic earnings per share available to common shareholders								
	\$	3.05	\$	3.25	\$	6.00	\$	5.44
Diluted earnings (loss) per share available to common shareholders:								
Continuing operations	\$	2.40	\$	2.72	\$	4.72	\$	4.33
Discontinued operations				(0.12)				(0.24)
Net diluted earnings per share available to common shareholders								
	\$	2.40	\$	2.60	\$	4.72	\$	4.09
Weighted average shares outstanding:								
Basic		564,216		548,619		562,145		547,089
Diluted		746,873		805,236		745,773		830,923

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

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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Unaudited Statements of Cash Flows**  
**for the six months ended March 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,520,561	\$ 3,395,920
Deduct: Loss from discontinued operations, net of tax		(199,475)
Income from continuing operations	3,520,561	3,595,395
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	678,860	611,322
Amortization	123,981	
Gain on sale of property and equipment	(16,935)	(47,700)
Stock based compensation	267,464	265,800
Net excess tax (benefit) deficiency on equity-based awards	(130,126)	16,592
Deferred income taxes	(34,196)	(222,412)
Provision for losses on doubtful accounts	178,367	346,000
Provision for losses on inventory obsolescence	16,393	327,673
Changes in assets and liabilities:		
Accounts receivable	491,271	5,859,370
Inventories	1,125,441	6,480,136
Prepaid and other current assets	(519,415)	(735,490)
Other assets	(47,087)	107,646
Accounts payable	1,144,665	(2,852,021)
Accrued expenses and accrued wages, salaries and bonuses	(1,878,536)	2,641,991
Income tax payable	(2,977,213)	2,045,058
Net cash flows from operating activities continuing operations	1,943,495	18,439,360
Net cash flows from operating activities discontinued operations		42,692
Net cash flows from operating activities	1,943,495	18,482,052
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,102,929)	(497,401)
Proceeds from sales of property and equipment	42,905	76,405
Acquisition	(3,099,836)	
Net cash flows from investing activities	(4,159,860)	(420,996)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings (payments) on bank credit agreements	3,025,076	(15,380,790)
Principal payments on long-term debt	(433,443)	(397,410)
Proceeds from exercise of stock options	68,965	
Net excess tax benefit (deficiency) on equity-based awards	130,126	(16,592)
Redemption of Series C convertible preferred stock		(2,000,000)

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Dividends paid on preferred stock	(148,106)	(198,106)
Dividends on common stock	(206,759)	(114,079)
Net cash flows from financing activities	2,435,859	(18,106,977)
Net change in cash	219,494	(45,921)
Cash, beginning of period	309,914	457,681
Cash, end of period	\$ 529,408	\$ 411,760

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	<b>2010</b>	<b>2009</b>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 760,727	\$ 968,296
Cash paid during the period for income taxes	4,974,408	264,355
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified as accounts payable	85,939	
Constructive dividends on Series A, B, and C Convertible Preferred Stock		221,628
Business acquisition (see Note 2):		
Inventory	1,981,498	
Property and equipment	122,978	
Customer relationships intangible asset	1,620,000	
Goodwill	300,360	
Note payable	500,000	
Contingent consideration	425,000	
The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.		

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**AMCON Distributing Company and Subsidiaries  
Notes to Condensed Consolidated Unaudited Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

AMCON Distributing Company and Subsidiaries ( AMCON or the Company ) operate two business segments:  
Our wholesale distribution segment ( ADC ) distributes consumer products in the Central and Rocky Mountain regions of the United States.

Our retail health food segment operates fourteen health food retail stores located throughout the Midwest and Florida.

**WHOLESALE DISTRIBUTION SEGMENT**

ADC serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked ADC as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

ADC distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery products, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

**RETAIL HEALTH FOOD SEGMENT**

The Company's retail health food stores, which are operated as Chamberlin's Market & Café ( Chamberlin's or CNF ) and Akin's Natural Foods Market ( Akin's or ANF ), carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

**Table of Contents****FINANCIAL STATEMENTS**

The Company's fiscal year ends on September 30. The results for the interim periods included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ( GAAP ) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ( financial statements ) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , and AMCON shall mean AMCON Distributing Company and its subsidiaries. Additionally, the three month fiscal periods ended March 31, 2010 and March 31, 2009 have been referred to throughout this quarterly report as Q2 2010 and Q2 2009, respectively. The fiscal balance sheet dates as of March 31, 2010, March 31, 2009, and September 30, 2009 have been referred to as March 2010, March 2009, and September 2009, respectively.

**Adoption of New Accounting Standards**

The Company adopted the following accounting standards during Q2 2010, none of which had an impact on our consolidated results of operations or financial condition.

Accounting Standard Update No. 2010-09 Amendments to Certain Recognition and Disclosure Requirements ( ASU No. 2010-09 ) amended Financial Accounting Standards Board ( FASB ) ASC 855 Subsequent Events to remove the requirement that Security and Exchange Commission filers disclose the date through which an entity has evaluated subsequent events. This amendment was made to alleviate potential conflicts with existing Securities and Exchange Commission guidance.

ASU No. 2010-06, Improving Disclosures about Fair Value Measurements requires additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. The Company adopted this new accounting standards during Q2 2010 except for the provisions of this update which will be effective for fiscal years beginning after December 15, 2010 (fiscal 2012 for the Company).

**Recently Issued Accounting Pronouncements**

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

FASB ASC 860 ( *Accounting for Transfers of Financial Assets* ) requires additional disclosures regarding the transfer and derecognition of financial assets and eliminates the concept of qualifying special-purpose entities. This pronouncement is effective for fiscal years beginning after November 15, 2009 (fiscal 2011 for the Company).

FASB ASC 810 ( *Amendments to FASB Interpretation: Consolidation of Variable Interest Entities* ) eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, this pronouncement requires additional disclosures about an enterprise's involvement in variable interest entities and is effective for fiscal periods beginning after November 15, 2009 (fiscal 2011 for the Company).

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On October 30, 2009, the Company acquired the convenience store distribution assets of Discount Distributors from its parent Harps Food Stores, Inc. ( Harps ). Discount Distributors was a wholesale distributor to convenience stores in Arkansas, Oklahoma, and Missouri with annual sales of approximately \$59.8 million. The Company paid \$3.1 million cash, issued a \$0.5 million note payable in quarterly installments over two years, and could pay an additional \$1.0 million in contingent consideration for certain fixed assets, inventory, and customer lists of Discount Distributors. The contingent consideration is based on achieving predetermined two-year revenue targets. This transaction was funded through the Company's existing credit facility. No significant liabilities were assumed in connection with the transaction and the costs incurred to effect the acquisition were not significant and were expensed as incurred. The acquisition expands the Company's strategic footprint in the southern portion of the United States and enhances our ability to service customers in that region.

The following table summarizes the consideration paid for the acquired assets and their related acquisition date fair values. The fair value of the assets acquired has been measured in accordance with ASC 805 Business Combinations. In valuing identifiable intangible assets, the Company has estimated the fair value using the discounted cash flows methodology. The purchase price allocation reflects various preliminary estimates and analyses and is subject to change during the measurement period (generally one year from the acquisition date). The acquired assets are reported as a component of our wholesale distribution segment.

<b><u>Total Consideration (in millions):</u></b>	<b>Amount</b>
Cash	\$ 3.1
Note payable	0.5
Fair value of contingent consideration	0.4
Fair value of consideration transferred	\$ 4.0

<b><u>Recognized amounts of identifiable assets acquired (in millions):</u></b>	<b>Amount</b>	<b>Weighted Average Amortization Period</b>
Inventory	\$ 2.0	
Property and equipment	0.1	5 years
Identifiable intangible assets:		
Customer relationships	1.6	8 years
Total identifiable net assets	3.7	
Goodwill	0.3	
Total identifiable assets and goodwill	\$ 4.0	

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The Company has estimated that the undiscounted payments required under the contingent consideration arrangement will approximate \$0.7 million (\$0.4 million fair value). The \$0.3 million of goodwill arising from the acquisition primarily represents synergies and economies of scale generated through reductions in selling, general, and administrative expenses. This goodwill has been assigned to the Company's wholesale distribution segment and is expected to be deductible for tax purposes. No measurement adjustments related to this transaction were recorded during Q2 2010.

The following table sets forth the unaudited actual revenue and earnings included in the Company's statement of operations related to the acquisition and the pro forma revenue and earnings of the combined entity had the acquisition occurred as of the beginning of the Company's prior fiscal year. These pro forma amounts do not purport to be indicative of the actual results that would have been obtained had the acquisition occurred at that time.

(In millions)	Three months ended		Six months ended	
	March		March	
	2010	2009	2010	2009
Revenue Actual Results	\$ 12.9	\$	\$ 22.2	\$
Revenue Supplemental pro forma results	\$ 12.9	\$ 12.9	\$ 27.2	\$ 24.5
Net Income Actual Results	\$ 0.1	\$	\$ 0.2	\$
Net Income Supplemental pro forma results	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2

**3. CONVERTIBLE PREFERRED STOCK**

The Company had two convertible preferred stock series outstanding at March 2010 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 multiplied by a fraction, which is 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, and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.



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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 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 Preferred Stock is redeemable at the liquidation value at the option of the holder. The Series A Preferred Stock is owned by Mr. Chris Atayan, AMCON's Chief Executive Officer and Chairman of the Board. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Atayan, pursuant to the voting rights in the Certificate of Designation creating the Series B, as its representative on our Board of Directors.

**4. INVENTORIES**

Inventories consisted of finished goods at March 2010 and September 2009 and are stated at the lower of cost, determined on a first in first out, or FIFO basis, or market. The wholesale distribution and retail health food segment inventories consist of products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods include total reserves of approximately \$0.9 million at both March 2010 and September 2009. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based on 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:

	<b>March 2010</b>	<b>September 2009</b>
Wholesale Distribution Segment	\$ 4,236,291	\$ 3,935,931
Retail Health Food Segment	1,912,877	1,912,877
	<b>\$ 6,149,168</b>	<b>\$ 5,848,808</b>

Other intangible assets of the Company consisted of the following:

	<b>March 2010</b>	<b>September 2009</b>
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Customer relationships (less accumulated amortization of \$84,375)	1,535,625	
	<b>\$ 4,908,894</b>	<b>\$ 3,373,269</b>

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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.

At March 2010, identifiable intangible assets considered to have finite lives represented acquired customer relationships. These customer relationships are being amortized over eight years. Amortization expense related to these assets totaled \$50,625 and \$84,375, respectively, for the three and six month periods ended March 2010. Amortization expense for customer relationships for the periods subsequent to March 2010 is estimated as follows:

	Fiscal 2010/1/	Fiscal 2011	Fiscal 2012	Fiscal 2013	Thereafter
Customer relationships	101,250	202,500	202,500	202,500	826,875

/1/ Represents  
amortization for  
the remaining  
six months of  
Fiscal 2010.

**6. DIVIDENDS:**

On January 26, 2010, the Company declared a cash dividend of \$0.18 per common share payable on March 2, 2010 to shareholders of record as of February 9, 2010. Cash dividends paid to common shareholders for the three and six months ended March 2010 totaled \$103,578 and \$206,759, 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. There were no anti-dilutive stock options or potential common stock excluded from the computation of diluted earnings per share for the three and six months ended March 2010.

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	<b>For the three months ended March</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Weighted average common shares outstanding	564,216	564,216	548,619	548,619
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		182,657		256,617
Weighted average number of shares outstanding	564,216	746,873	548,619	805,236
Income from continuing operations	\$ 1,791,421	\$ 1,791,421	\$ 2,193,795	\$ 2,193,795
Deduct: convertible preferred stock dividends /2/	(73,239)		(314,201)	
	1,718,182	1,791,421	1,879,594	2,193,795
Loss from discontinued operations	\$	\$	\$ (97,437)	\$ (97,437)
Net income available to common shareholders	\$ 1,718,182	\$ 1,791,421	\$ 1,782,157	\$ 2,096,358
Income per share from continuing operations	\$ 3.05	\$ 2.40	\$ 3.43	\$ 2.72
Loss per share from discontinued operations	\$	\$	\$ (0.18)	\$ (0.12)
Net earnings per share available to common shareholders	\$ 3.05	\$ 2.40	\$ 3.25	\$ 2.60

/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.

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	For the six months ended March			
	2010		2009	
	Basic	Diluted	Basic	Diluted
Weighted average common shares outstanding	562,145	562,145	547,089	547,089
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		183,628		283,834
Weighted average number of shares outstanding	562,145	745,773	547,089	830,923
Income from continuing operations	\$ 3,520,561	\$ 3,520,561	\$ 3,595,395	\$ 3,595,395
Deduct: convertible preferred stock dividends /2/	(148,106)		(419,734)	
	3,372,455	3,520,561	3,175,661	3,595,395
Loss from discontinued operations	\$	\$	\$ (199,475)	\$ (199,475)
Net income available to common shareholders	\$ 3,372,455	\$ 3,520,561	\$ 2,976,186	\$ 3,395,920
Income per share from continuing operations	\$ 6.00	\$ 4.72	\$ 5.80	\$ 4.33
Loss per share from discontinued operations	\$	\$	\$ (0.36)	\$ (0.24)
Net earnings per share available to common shareholders	\$ 6.00	\$ 4.72	\$ 5.44	\$ 4.09

/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.

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**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 \$0.1 million at March 2010.

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit advances 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 that are subject to accounts receivable and inventory limitations.

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

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

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 one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before June 30, 2010.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at March 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement. The calculated credit limit of the Facility at March 2010 was \$50.9 million, of which \$25.9 million was outstanding, leaving \$25.0 million available.

At March 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 2.99% at March 2010.

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At March 2010, the Company had \$6.6 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at March 2010.

**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. There were no such cross defaults at March 2010. 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 \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

**Off-Balance Sheet Arrangements**

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

**9. EQUITY-BASED INCENTIVE AWARDS****Stock Options**

The Company's stock options have varying vesting schedules ranging up to five years and expire ten years from the grant date. Stock options issued and outstanding to management employees at March 2010 are summarized as follows:

<b>Date</b>	<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Number Exercisable</b>
Fiscal 2000	\$ 34.50	1,380	1,380
Fiscal 2003	\$ 28.80	627	627
Fiscal 2007	\$ 18.00	25,000	25,000
		27,007	27,007

Stock options issued and outstanding to the Company's outside directors at March 2010 are summarized as follows:

<b>Date</b>	<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Number Exercisable</b>
Fiscal 2002	\$ 26.94	834	834



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The following summarizes all stock options outstanding at March 2010:

	<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Remaining Weighted Average Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Exercisable Number Exercisable</b>	<b>Exercisable Weighted Average Exercise Price</b>
2000 Options	\$ 34.50	1,380	0.20 years	\$ 34.50	1,380	\$ 34.50
2002 Options	\$ 26.94	834	2.37 years	\$ 26.94	834	\$ 26.94
2003 Options	\$ 28.80	627	2.56 years	\$ 28.80	627	\$ 28.80
2007 Options	\$ 18.00	25,000	6.70 years	\$ 18.00	25,000	\$ 18.00
		27,841		\$ 19.33	27,841	\$ 19.33

The following is a summary of the activity of the stock plans for the six months ended March 2010:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at September 2009	30,117	\$ 20.16
Granted		
Exercised	(2,276)	\$ 30.24
Forfeited/Expired		
Outstanding at March 2010	27,841	\$ 19.33

Net income before income taxes included compensation expense related to stock options of approximately \$0.1 million for the six months ended March 2010, and approximately \$0.03 million and \$0.1 million for the three and six months ended March 2009. At March 2010 there was no unamortized compensation expense related to stock options. Additionally, no amortization expense related to stock options was recorded during Q2 2010. The aggregate intrinsic value of stock options outstanding and exercisable at March 2010 was approximately \$1.1 million.

**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.

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

	<b>Restricted Stock /1/</b>	<b>Restricted Stock /2/</b>
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 2010:	\$ 477,000	\$ 149,000

/1/ 16,000 shares were vested at March 2010. The remaining 8,000 shares will vest on October 16, 2010.

/2/ 5,000 shares were vested at March 2010. The remaining 2,500 shares will vest 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 recipients of restricted stock 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 in each of the three and six month fiscal periods ended March 2010 and March 2009, respectively. Total unamortized compensation expense related to restricted stock awards at March 2010 was approximately \$0.2 million. This unamortized compensation expense is expected to be amortized over approximately the next seven months (the expected weighted-average period).

The following summarizes restricted stock activity under the Omnibus Plan for the six months ended March 2010:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested restricted stock at September 2009	21,000	\$ 40.16

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Granted			
Vested	(10,500)	\$	40.16
Expired			
Nonvested restricted stock at March 2010	10,500	\$	40.16

**Table of Contents****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.

	<b>Wholesale Distribution</b>	<b>Retail</b>	<b>Other /1/</b>	<b>Consolidated</b>
<b>THREE MONTHS ENDED MARCH 2010:</b>				
External revenue:				
Cigarettes	\$ 166,914,751	\$	\$	\$ 166,914,751
Confectionery	14,887,515			14,887,515
Health food		9,492,904		9,492,904
Tobacco, food service & other	39,203,959			39,203,959
<b>Total external revenue</b>	<b>221,006,225</b>	<b>9,492,904</b>		<b>230,499,129</b>
Depreciation	271,131	68,483	1,147	340,761
Amortization	74,811			74,811
Operating income (loss)	3,535,284	1,093,182	(1,469,666)	3,158,800
Interest expense	124,994	115,666	127,765	368,425
Income (loss) from continuing operations before taxes	3,422,768	987,668	(1,597,015)	2,813,421
Total assets	78,290,787	12,198,955	1,034,096	91,523,838
Capital expenditures	166,270	340,048		506,318
<b>THREE MONTHS ENDED MARCH 2009:</b>				
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
<b>Total external revenue</b>	<b>185,877,436</b>	<b>9,564,810</b>		<b>195,442,246</b>
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

/1/ Includes intercompany eliminations, charges incurred

by the holding company, and the assets of discontinued operations.

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	<b>Wholesale Distribution</b>	<b>Retail</b>	<b>Other /1/</b>	<b>Consolidated</b>
<b>SIX MONTHS ENDED MARCH 2010:</b>				
External revenue:				
Cigarettes	\$ 344,498,796	\$	\$	\$ 344,498,796
Confectionery	30,195,336			30,195,336
Health food		18,419,393		18,419,393
Tobacco, food service & other	81,326,642			81,326,642
Total external revenue	456,020,774	18,419,393		474,440,167
Depreciation	537,711	138,855	2,294	678,860
Amortization	123,981			123,981
Operating income (loss)	7,533,896	2,010,489	(3,323,580)	6,220,805
Interest expense	247,191	240,290	286,189	773,670
Income (loss) from continuing operations before taxes	7,302,417	1,790,498	(3,609,354)	5,483,561
Total assets	78,290,787	12,198,955	1,034,096	91,523,838
Capital expenditures	603,584	499,345		1,102,929
<b>SIX MONTHS ENDED MARCH 2009:</b>				
External revenue:				
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

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



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis 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. In making these forward-looking 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 in connection with the State Children's Health Insurance Program ( SCHIP ) law,

- 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

- demand for the Company's products, particularly cigarette and tobacco products,

- new business ventures or acquisitions,

- 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.

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**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, 2009, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the fiscal quarter ended March 2010.

**SECOND FISCAL QUARTER 2010 (Q2 2010)**

The following discussion and analysis includes the Company's results of operations from continuing operations for the three and six months ended March 2010 and March 2009. 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.

During Q2 2010, the Company:

opened a new Akin's Natural Foods Market store in Tulsa, OK.

recorded net income available to common shareholders of \$1.7 million.

paid a \$0.18 dividend per common share.

**Wholesale Distribution Segment (ADC)**

ADC serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked ADC as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

ADC distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery products, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

**RETAIL HEALTH FOOD SEGMENT**

The Company's retail health food stores, which are operated as Chamberlin's Market & Café (Chamberlin's or CNF) and Akin's Natural Foods Market (Akin's or ANF), carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

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**Business Update General**

Economic conditions continue to impact consumer confidence and discretionary spending patterns across the states in which we operate. Customers in both of our businesses are increasingly value-conscious and price-sensitive. Accordingly, we have undertaken a number of initiatives designed to highlight the value propositions we offer customers in a number of areas such as exclusive product offerings and the delivery of customized technology solutions at competitive prices.

Looking forward, we believe that a combination of economic and regulatory factors and the potential of higher fuel prices could adversely affect our sales, gross margins, and operating profits into the foreseeable future. However, we anticipate that our conservative strategy of cost containment, aggressively targeting new business, and maintaining maximum liquidity, will position us well to capture market share, execute strategic acquisitions, open new retail stores, and ultimately create shareholder value.

**Business Update Wholesale Distribution Segment**

The wholesale distribution industry is mature and highly competitive. Historically, cigarette and tobacco products have represented one of the largest sales categories for convenience stores and their distributors alike. Legislative actions such as excise tax increases and smoking bans, however, have decreased the demand for these products. The FDA has now been granted regulatory authority over the manufacturing, distribution, and sale of cigarette and tobacco products. We believe FDA actions impacting these products could further accelerate decreasing demand trends.

The long-term implications of the above considerations are far reaching. A combination of declining revenue streams and limited access to credit and/or new capital may force many smaller distributors from the market, resulting in substantial industry consolidation. As one of the nation's largest wholesale distributors, we believe the Company is well-positioned to capitalize on these trends and expand our strategic footprint.

**Business Update Retail Health Food Segment**

Sales in our retail health food segment have been negatively impacted by weakness in both of our geographic markets. In particular, sales in our Florida stores have been hurt by the severe economic downturn in that state, in addition to increased competition from other natural food chains.

In the near term, our retail segment faces a challenging operating environment as consumer behavior has been adversely impacted by the recession. In response, we have worked to better align our cost structure to demand, while reemphasizing the value choices found throughout our stores, such as our private label offerings and other product lines unique to our stores.

Despite the impact of the recession, we believe the long-term prospects for this segment remain attractive and continue to pursue growth through ongoing evaluations of potential new locations. Accordingly, we successfully opened a new store in Tulsa, OK during Q2 2010. We believe if health food retailers can demonstrate value and provide consumers with affordable choices, overall demand for natural food products will rebound as the current economic conditions begin to dissipate.

**Table of Contents****RESULTS OF OPERATIONS Continuing Operations**

	For the three months ended March			%
	2010	2009	Incr (Decr)	
<b>CONSOLIDATED:</b>				
Sales /1/	\$ 230,499,129	\$ 195,442,246	\$ 35,056,883	17.9
Cost of sales	213,558,955	178,195,212	35,363,743	19.8
Gross profit	16,940,174	17,247,034	(306,860)	(1.8)
Gross profit percentage	7.3%	8.8%		
Operating expense	13,781,374	13,328,128	453,246	3.4
Operating income	3,158,800	3,918,906	(760,106)	(19.4)
Interest expense	368,425	408,587	(40,162)	(9.8)
Income tax expense	1,022,000	1,343,000	(321,000)	(23.9)
Income from continuing operations	1,791,421	2,193,795	(402,374)	(18.3)
<b>BUSINESS SEGMENTS:</b>				
<b>Wholesale</b>				
Sales	\$ 221,006,225	\$ 185,877,436	\$ 35,128,789	18.9
Gross profit	12,809,400	13,241,596	(432,196)	(3.3)
Gross profit percentage	5.8%	7.1%		
<b>Retail</b>				
Sales	\$ 9,492,904	\$ 9,564,810	\$ (71,906)	(0.8)
Gross profit	4,130,774	4,005,438	125,336	3.1
Gross profit percentage	43.5%	41.9%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$3.7 million in Q2 2010 and \$4.0 million in Q2 2009.

**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 Q2 2010 vs. Q2 2009**

Sales in our wholesale distribution segment ( wholesale ) increased \$35.1 million during Q2 2010 as compared to the same prior year period. Significant items impacting sales during Q2 2010 included the following:

\$12.9 million increase related to our acquisition of Discount Distributors.

\$21.2 million increase due to cigarette price increases implemented by manufacturers.

\$0.8 million decrease, primarily related to a reduction in cigarette cartons sold.

\$1.8 million increase in our tobacco, beverages, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories ( Other Products ).

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Sales in our retail health food segment decreased approximately \$0.1 million in Q2 2010 as compared to Q2 2009. This decrease was primarily related to our Florida retail stores which have been impacted by depressed economic conditions in that region as well as increased competition from other natural food chains.

**GROSS PROFIT Q2 2010 vs. Q2 2009**

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

Gross profit in our wholesale segment decreased \$0.4 million in Q2 2010 as compared to Q2 2009. During Q2 2009, our gross profit included a benefit of \$2.6 million due to price increases implemented by cigarette and tobacco manufacturers. In Q2 2010, the decrease was partially offset by \$0.6 million in gross profit generated by Discount Distributors, \$0.5 million in gross profit due to higher gross margins in our cigarette and tobacco categories, and \$1.1 million in gross profit related to higher overall sales volume and changes in promotional allowances.

Gross profit for the retail health food segment increased \$0.1 million in Q2 2010 as compared to Q2 2009. This increase was primarily related to lower throw-out costs and improved gross margins.

**OPERATING EXPENSE Q2 2010 vs. Q2 2009**

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance and professional fees.

Operating expenses increased approximately \$0.5 million in Q2 2010 as compared to Q2 2009. This increase is primarily attributable to operating costs in connection with our Discount Distributors acquisition including compensation, fuel, and amortization costs, partially offset by lower insurance expense.

**INTEREST EXPENSE Q2 2010 vs. Q2 2009**

Q2 2010 interest expense decreased \$0.04 million as compared to Q2 2009. This change was principally related to lower interest rates and average borrowings on the Company's credit facility. In Q2 2010, average interest rates and borrowings on the Company's revolving credit facility were 0.24% and \$2.9 million lower, respectively, as compared to Q2 2009.

**Table of Contents****RESULTS OF OPERATIONS SIX MONTHS ENDED MARCH 2010:**

	<b>For the six months ended March</b>			
			<b>Incr</b>	<b>%</b>
	<b>2010</b>	<b>2009</b>	<b>(Decr)</b>	<b>Change</b>
<b>CONSOLIDATED:</b>				
Sales /1/	\$ 474,440,167	\$ 412,819,608	\$ 61,620,559	14.9
Cost of sales	440,271,980	379,727,926	60,544,054	15.9
Gross profit	34,168,187	33,091,682	1,076,505	3.3
Gross profit percentage	7.2%	8.0%		
Operating expenses	27,947,382	26,436,044	1,511,338	5.7
Operating income	6,220,805	6,655,638	(434,833)	(6.5)
Interest expense	773,670	897,786	(124,116)	(13.8)
Income tax expense	1,963,000	2,203,000	(240,000)	(10.9)
Income from continuing operations	3,520,561	3,595,395	(74,834)	(2.1)
<b>BUSINESS SEGMENTS:</b>				
<b>Wholesale</b>				
Sales	\$ 456,020,774	\$ 394,274,005	\$ 61,746,769	15.7
Gross profit	26,196,176	25,438,624	757,552	3.0
Gross profit percentage	5.7%	6.5%		
<b>Retail</b>				
Sales	\$ 18,419,393	\$ 18,545,603	\$ (126,210)	(0.7)
Gross profit	7,972,011	7,653,058	318,953	4.2
Gross profit percentage	43.3%	41.3%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$7.5 million for the six months ended March 2010 and \$7.9 million for the six months ended March 2009.

**SALES Six Months Ended March 2010**

Sales in our wholesale distribution segment increased \$61.7 million for the six months ended March 2010 as compared to the same prior year period. Significant items impacting sales during the period included the following:

\$22.2 million increase related to our acquisition of Discount Distributors.

\$53.2 million increase due to cigarette price increases implemented by manufacturers.

\$14.9 million decrease, primarily related to a reduction in cigarette cartons sold.

\$1.2 million increase in our Other Products category.

Sales in our retail health food segment decreased approximately \$0.1 million, for the six months ended March 2010 as compared to the same prior year period. This decrease was primarily related to our Florida retail stores which have been impacted by depressed economic conditions in that region as well as increased competition from other natural food chains.



**Table of Contents****GROSS PROFIT Six Months Ended March 2010**

Gross profit in our wholesale segment increased \$0.8 million for the six months ended March 2010 as compared to the same prior year period. During the comparable prior year period, our gross profit included a benefit of \$2.6 million due to price increases implemented by cigarette and tobacco manufacturers. This decrease was offset by \$1.1 million in gross profit generated by Discount Distributors, \$1.9 million due to higher gross margins in our cigarette and tobacco categories, and \$0.4 million related to changes in promotional allowances and overall sales volume.

Gross profit for the retail health food segment increased \$0.3 million for the six months ended March 2010 as compared to the same prior year period. This increase was primarily related to lower throw-out costs and improved gross margins.

**OPERATING EXPENSE Six Months Ended March 2010**

Operating expenses for the six month period ended March 2010 increased approximately \$1.5 million as compared to the same prior year period. This increase primarily resulted from higher compensation expense and costs incurred to service our Discount Distributors business.

**INTEREST EXPENSE Six Months Ended March 2010**

Interest expense for six months ended March 2010 decreased approximately \$0.1 million as compared to the same prior year period. This change was principally related to lower interest rates and average borrowings on the Company's credit facility. For the six months ended March 2010, average interest rates and borrowings on the Company's revolving credit facility were 0.67% and \$1.9 million lower, respectively, as compared to the same prior year period.

**DISCONTINUED OPERATIONS Q2 2010 vs. Q2 2009**

Losses from discontinued operations in Q2 2009 primarily represented interest charges and costs incurred to preserve the Company's assets. All discontinued operations were wound-down during the Company's prior fiscal year (fiscal 2009).

A summary of discontinued operations is as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March</b>		<b>March</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Operating loss		(41,434)		(85,562)
Interest expense		(114,003)		(230,012)
Income tax benefit		(58,000)		(116,000)
Loss from discontinued operations		(97,437)		(199,475)

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**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 2010, the Company generated cash of approximately \$1.9 million from operating activities. The cash was generated from earnings, reductions in accounts receivable, and higher accounts payable balances. These items were partially offset by higher prepaid asset balances and reductions in accrued expenses and income taxes 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 customer satisfaction.

**Investing Activities.** The Company used approximately \$4.2 million of cash during the six months ended March 2010 for investing activities, primarily related to capital expenditures for property and equipment and the acquisition of Discount Distributors.

**Financing Activities.** The Company generated cash of \$2.4 million from financing activities during the six months ended March 2010. Of this amount, \$3.0 million related to net borrowings on the Company's credit facility which was used to fund the Company's acquisition of Discount Distributors and \$0.2 million related to the exercise of stock options. Offsetting these items was \$0.4 million of payments on long-term debt, and \$0.4 million related to dividends on the Company's common and preferred stock.

**Cash on Hand/Working Capital.** At March 2010, the Company had cash on hand of \$0.5 million and working capital (current assets less current liabilities) of \$41.0 million. This compares to cash on hand of \$0.3 million and working capital of \$35.7 million at September 2009.

**CREDIT AGREEMENT**

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 \$0.1 million at March 2010.

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**CREDIT AGREEMENT (continued)**

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit advances 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 that are subject to accounts receivable and inventory limitations.

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

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

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 one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before June 30, 2010.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at March 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement. The calculated credit limit of the Facility at March 2010 was \$50.9 million, of which \$25.9 million was outstanding, leaving \$25.0 million available.

At March 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 2.99% at March 2010.

At March 2010, the Company had \$6.6 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at March 2010.

During the six months ended March 2010, our peak borrowings under the Facility were \$39.6 million and our average borrowings and average availability were \$31.0 and \$19.5 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

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**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. There were no such cross defaults at March 2010. 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.

**Dividend Payments**

The Company paid cash dividends on its common shares of \$103,578 and \$57,040 for the three months ended March 2010 and March 2009, respectively, and \$206,759 and \$114,079 for the six months ended March 2010 and March 2009, respectively.

The Company also paid cash dividends on its convertible preferred stock issuances (Series A, and Series B) of \$73,239 and \$92,573 for the three months ended March 2010 and March 2009, respectively, and \$148,106 and \$198,106 for the six months ended March 2010 and March 2009, respectively.

**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, 2009.

**OTHER**

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

**Off-Balance Sheet Arrangements**

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

**Liquidity Risk**

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

The Company's credit facility with Bank of America expires in June 2011. We believe the Company continues to have a strong working relationship with Bank of America and have maintained compliance with all related debt covenants. However, no assurances can be given that our credit facility with Bank of America will be renewed on acceptable terms, if at all. The Company also aggressively monitors its customer credit risk to limit exposure in that area.

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**Liquidity Risk (continued)**

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial 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, 2010 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 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.

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

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A Risk Factors on Form 10-K for the fiscal year ended September 30, 2009.

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not Applicable.

**Item 4. [Removed and Reserved]**

**Item 5. Other Information**

Not applicable.

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**Item 6. 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

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**SIGNATURES**

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

AMCON DISTRIBUTING COMPANY  
(registrant)

Date: April 16, 2010

/s/ Christopher H. Atayan  
Christopher H. Atayan,  
Chief Executive Officer and Chairman

Date: April 16, 2010

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