

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON DISTRIBUTING CO  
Form 10-Q  
July 19, 2007

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 June 30, 2007

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)

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer      Accelerated filer      Non-accelerated filer 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 527,062 shares of its \$.01 par value common stock outstanding as of July 16, 2007.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Form 10-Q  
3rd Quarter

INDEX  
-----

	PAGE
	----
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements:	
-----	
Condensed consolidated balance sheets at June 30, 2007 (unaudited) and September 30, 2006	3
Condensed consolidated unaudited statements of operations for the three and nine months ended June 30, 2007 and 2006	4
Condensed consolidated unaudited statements of cash flows for the nine months ended June 30, 2007 and 2006	5
Notes to condensed consolidated unaudited financial statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	36
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	38
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

PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

AMCON Distributing Company and Subsidiaries  
 Condensed Consolidated Balance Sheets  
 June 30, 2007 and September 30, 2006

	June 2007 (Unaudited)	Septemb 2006
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 588,135	\$ 481,
Accounts receivable, less allowance for doubtful accounts of \$0.4 million and \$0.9 million, respectively	26,653,708	27,815,
Inventories, net	24,369,429	24,443,
Deferred income taxes	2,045,006	1,972,
Current assets of discontinued operations	3,435	1,172,
Prepaid and other current assets	6,371,027	5,369,
<b>Total current assets</b>	<b>60,030,740</b>	<b>61,254,</b>
Property and equipment, net	11,521,419	12,528,
Goodwill	5,848,808	5,848,
Other intangible assets	3,410,003	3,439,
Deferred income taxes	5,386,739	6,772,
Noncurrent assets from discontinued operations	2,057,033	3,774,
Other assets	1,151,044	1,247,
	<b>\$ 89,405,786</b>	<b>\$ 94,866,</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 12,323,037	\$ 14,633,
Accrued expenses	5,660,479	4,687,
Accrued wages, salaries and bonuses	1,470,837	1,879,
Income taxes payable	155,716	168,
Current liabilities of discontinued operations	7,703,401	7,461,
Current maturities of credit facility	3,346,000	3,896,
Current maturities of long-term debt	462,198	524,
<b>Total current liabilities</b>	<b>31,121,668</b>	<b>33,251,</b>
Credit facility, less current maturities	42,521,181	44,927,
Long-term debt, less current maturities	6,716,001	7,069,
Noncurrent liabilities of discontinued operations	2,807,000	5,087,
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares outstanding, liquidation preference \$25.00 per share	2,438,355	2,438,
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares outstanding, liquidation preference \$25.00 per share	1,857,645	1,857,
Series C cumulative, convertible preferred stock, \$.01 par value 80,000 shares outstanding, liquidation preference \$25.00 per share	1,982,372	1,982,
Commitments and contingencies (Note 11)		
Shareholders' equity (deficiency):		
Preferred stock, \$.01 par, 1,000,000 shares authorized,		

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

260,000 shares outstanding and issued in Series A, B and C referred to above	-	
Common stock, \$.01 par value, 3,000,000 shares authorized, 527,062 shares outstanding	5,271	5,
Additional paid-in capital	6,316,276	6,278,
Accumulated deficit	(6,359,983)	(8,030,
Total shareholders' deficiency	(38,436)	(1,747,
	\$ 89,405,786	\$ 94,866,
	=====	=====

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 nine months ended June 30, 2007 and 2006

	For the three months ended June		For the nine months ended June	
	2007	2006	2007	
Sales (including excise taxes of \$54.5 million and \$52.5 million, and \$152.5 million and \$147.7 million, respectively)	\$ 220,072,350	\$ 222,190,246	\$ 630,615,000	\$ 616,
Cost of sales	203,519,915	206,587,430	584,654,778	571,
Gross profit	16,552,435	15,602,816	45,960,222	44,
Selling, general and administrative expenses	12,950,797	12,855,727	38,401,805	38,
Depreciation and amortization	450,901	469,352	1,364,949	1,
	13,401,698	13,325,079	39,766,754	39,
Operating income	3,150,737	2,277,737	6,193,468	4,
Other expense (income):				
Interest expense	1,174,440	1,215,463	3,682,951	3,
Other (income), net	(79,636)	(44,424)	(144,816)	
	1,094,804	1,171,039	3,538,135	3,
Income from continuing operations before income tax expense	2,055,933	1,106,698	2,655,333	1,
Income tax expense	809,000	434,000	1,047,000	
Income from continuing operations	1,246,933	672,698	1,608,333	
Discontinued operations (Note 2)				
Gain on disposal of discontinued operations, net of income tax expense of \$0.6 million	-	-	829,090	
Loss from discontinued operations,				

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

net of income tax (benefit) of (\$0.1) million and (\$0.2) million, and (\$0.2) million and (\$1.2) million, respectively	(131,740)	(326,447)	(453,432)	(2)
(Loss) income on discontinued operations	(131,740)	(326,447)	375,658	(2)
Net income (loss)	1,115,193	346,251	1,983,991	(1)
Preferred stock dividend requirements	(104,386)	(104,386)	(313,158)	
Net income (loss) available to common shareholders	\$ 1,010,807	\$ 241,865	\$ 1,670,833	\$ (1)
Basic earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 2.17	\$ 1.08	\$ 2.46	\$
Discontinued operations	(0.25)	(0.62)	0.71	
Net basic earnings (loss) per share available to common shareholders	\$ 1.92	\$ 0.46	\$ 3.17	\$
Diluted earnings (loss) per share available to common shareholders:				
Continuing operations	\$ 1.44	\$ 0.79	\$ 1.87	\$
Discontinued operations	(0.15)	(0.38)	0.44	
Net diluted earnings (loss) per share available to common shareholders	\$ 1.29	\$ 0.41	\$ 2.31	\$
Weighted average shares outstanding:				
Basic	527,062	527,062	527,062	
Diluted	862,598	854,187	858,085	

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

4

AMCON Distributing Company and Subsidiaries  
Condensed Consolidated Unaudited Statements of Cash Flows  
for the nine months ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,983,991	\$ (1,340,4)
Deduct: income (loss) from discontinued operations, net of tax	375,658	(2,143,1)
Income from continuing operations	1,608,333	802,6
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	1,335,149	1,401,1
Amortization	29,800	29,7
(Gain) loss on sale of property and equipment	(16,667)	11,5
Stock based compensation	37,800	45,0
Deferred income taxes	1,314,170	(563,2)
Provision (benefit) for losses on doubtful accounts	(93,192)	430,4
Provision for losses on inventory obsolescence	148,568	188,6

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Changes in assets and liabilities:		
Accounts receivable	1,255,235	(2,784,9
Inventories	(74,934)	(6,743,5
Prepaid and other current assets	(1,001,873)	345,1
Other assets	96,420	171,9
Accounts payable	(2,310,087)	(1,160,8
Accrued expenses and accrued wages, salaries and bonuses	563,828	(488,7
Income taxes payable and receivable	(13,220)	(118,7
	-----	-----
Net cash flows from operating activities - continuing operations	2,879,330	(8,433,7
Net cash flows from operating activities - discontinued operations	(1,951,797)	(806,9
	-----	-----
Net cash flows from operating activities	927,533	(9,240,7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(345,637)	(595,4
Proceeds from sales of property and equipment	34,275	34,1
Purchase of trademark	-	(15,0
	-----	-----
Net cash flows from investing activities - continuing operations	(311,362)	(576,2
Net cash flows from investing activities - discontinued operations	3,965,394	(
	-----	-----
Net cash flows from investing activities	3,654,032	(576,3
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net principal (payments) borrowings on bank credit agreements	(2,956,248)	7,538,0
Net proceeds from preferred stock issuance	-	1,982,3
Proceeds from borrowings of long-term debt	-	109,8
Dividends paid on preferred stock	(313,158)	(260,4
Principal payments on long-term debt	(415,288)	(499,3
	-----	-----
Net cash flows from financing activities - continuing operations	(3,684,694)	8,870,3
Net cash flows from financing activities - discontinued operations	(789,874)	484,5
	-----	-----
Net cash flows from financing activities	(4,474,568)	9,354,8
	-----	-----
Net change in cash	106,997	(462,2
Cash, beginning of period	481,138	546,2
	-----	-----
Cash, end of period	\$ 588,135	\$ 84,0
	=====	=====

5

Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 3,729,280	\$ 3,488,1
Cash paid (refunded) during the period for income taxes	99,050	(1,5
Supplemental disclosure of non-cash information:		

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Buyer's assumption of HNWC lease in connection with  
the sale of HNWC's assets - discontinued operations 225,502

Issuance of note payable in exchange for  
accounts payable - discontinued operations - 362,7

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

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

### 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.

The accompanying condensed consolidated unaudited financial statements include the accounts of AMCON Distributing Company and its subsidiaries. The Company continues to consolidate all of the assets, liabilities and results of operations of its 85% owned subsidiary, Trinity Springs, Inc. ("TSI"), because minority shareholders have not guaranteed any of TSI's debt or committed additional capital to TSI. TSI is classified as a component of discontinued operations at June 30, 2007. See Note 11 related to ongoing TSI litigation.

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 year ended September 30, 2006, as filed with the Securities and Exchange Commission on Form 10-K, as amended.

For convenience, the third fiscal quarters of 2007 and 2006 have been referred to throughout this quarterly report as June 2007 and June 2006, respectively.

7

#### Recently Issued Accounting Pronouncements

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



## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"). FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies the principle that fair value should be based on assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for the Company's fiscal year beginning October 1, 2008, with early adoption permitted.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the consideration of the effects of the carryover or reversal of prior year misstatements in quantifying a current year misstatement. The SEC recommends quantifying errors using both a balance sheet and income statement approach for purposes of materiality assessments. The guidance is effective for fiscal years ending after November 15, 2006.

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

## 2. DISPOSITIONS

Discontinued operations include the residual assets, liabilities and results of operations of Hawaiian Natural Water Company, Inc. ("HNWC") and TSI for the three and nine months ended June 2007 and June 2006. The results of operations for the first nine months of fiscal 2006 also include The Beverage Group, Inc. ("TBG"), which was the beverage marketing and distribution component of the Company's former beverage segment. In April 2006, the Company successfully concluded its wind-down plan of TBG's operations at which time its residual liabilities were classified as a component of continuing operations.

Prior to the classification of these businesses as discontinued operations, the Company allocated interest expense to its subsidiaries using an invested capital calculation. In accordance with Emerging Issues Task Force ("EITF") 87-24 "Allocation of Interest to Discontinued Operations", the Company has reclassified interest expense previously allocated to discontinued operations to continuing operations.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Hawaiian Natural Water Company, Inc. (HNWC)  
-----

In September 2006, the Company classified HNWC as a component of discontinued operations in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". On November 20, 2006, all of the operating assets of HNWC were sold for approximately \$3.8 million in cash plus the buyer's assumption of all operating and capital leases. The significant operating assets consisted of accounts receivable, inventory, furniture and fixtures, intellectual property and all of its bottling equipment. In connection with the sale, the Company has recorded a \$1.6 million pretax gain on disposal of discontinued operations.

Trinity Springs, Inc. (TSI)  
-----

During fiscal 2006, the Company discontinued the operations of TSI due to recurring losses, a lack of capital resources to sustain operations, and the litigation discussed in Part II Item I of this quarterly report on Form 10-Q. TSI operated a water bottling facility in Idaho and was a component of the Company's former beverage segment. TSI has been reflected in the accompanying condensed consolidated financial statements as a component of discontinued operations. As discussed more fully in Note 11, the Company continues to vigorously work towards the final resolution of the pending litigation.

### Summary of Financial Information -----

The effects of discontinued operations on net income (loss) available to common shareholders and per share data are reflected within the consolidated financial statements. Operating results from discontinued operations for HNWC and TSI, which have been excluded from income from continuing operations in the accompanying condensed consolidated unaudited statements of operations, are presented as follows:

	Three months ended June		Nine months ended June	
	2007	2006	2007	2006
Sales	\$ -	\$ 1,797,459	\$ 862,647	\$ 6,441,000
Operating loss	(114,230)	(473,441)	(442,516)	(3,051,000)
Gain on disposal of discontinued operations, before income taxes	-	-	1,455,333	
Income tax (benefit) expense	(80,000)	(181,000)	353,000	(1,191,000)
(Loss) income from discontinued operations	(131,740)	(326,447)	375,658	(2,141,000)

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

June

September

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	2007 -----	2006 -----
Accounts receivable	\$ -	\$ 0.7
Inventories	-	0.5
	-----	-----
Total current assets of discontinued operations	\$ -	\$ 1.2
	=====	=====
Fixed assets	\$ 2.1	\$ 3.8
	=====	=====
Accounts payable	\$ 0.8	\$ 2.0
Accrued expenses	1.3	1.0
Accrued wages, salaries and bonuses	-	0.3
Current portion of long-term debt	2.8	1.4
Current portion of long-term debt due related party	2.8	2.8
	-----	-----
Total current liabilities of discontinued operations	\$ 7.7	\$ 7.5
	=====	=====
Water royalty, in perpetuity	\$ 2.8	\$ 2.8
Long-term debt, less current portion	-	2.3
	-----	-----
Noncurrent liabilities of discontinued operations	\$ 2.8	\$ 5.1
	=====	=====

Included in discontinued operations are the following TSI related party debt obligations:

- TSI owes a director of the Company \$1.0 million on a revolving credit facility with an interest rate of 8.0% per annum. The loan is secured by a second mortgage on TSI's real property on an equal basis with the Company's existing second mortgage on TSI's real property.
- TSI owes \$0.5 million on a loan due to a related party which is wholly-owned by two of the Company's directors (including its Chairman). The note bears interest at 7.0% per annum.
- TSI obtained unsecured, subordinated loans totaling \$0.5 million from unaffiliated businesses of two of the Company's directors, including a Company of which the Chairman of the Board is a partner. The loan bears interest of 7.0% per annum.
- TSI owes Draupnir, LLC, a private equity firm of which two of the Company's directors are Members, \$750,000 on a note bearing interest at a floating rate of 300 basis points above the ten year treasury note yield, compounded annually and adjusted concurrently with any adjustments to the yield on the ten year treasury note.

All of the aforementioned related party notes payable, in addition to all other TSI long-term debt, were in default at June 2007. TSI has not obtained associated debt default waivers and accordingly all of its debt obligations have been classified as current liabilities of discontinued operations at June 2007.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

As part of the June 17, 2004 asset purchase agreement in which the Company purchased the assets to form TSI, TSI became obligated to pay Crystal Paradise Holdings, Inc. ("CPH"), in perpetuity, an amount equal to the greater of \$0.03 per liter of water extracted from the source or 4.0% of water revenues (as defined by the purchase agreement). The agreement is guaranteed by AMCON up to a maximum of \$5.0 million, subject to a floor of \$288,000 annually. Accordingly, the Company has recorded a \$2.8 million liability related to the present value of the future minimum water royalty payments and related broker fees to be paid in perpetuity. This liability is classified in noncurrent liabilities of discontinued operations.

The water royalty is secured by a first priority security interest and mortgage on the acquired assets, other than inventory and accounts receivable. CPH retains the right to receive any water royalty payment for the first five years in shares of AMCON common stock up to maximum of 41,666 shares. The water royalty can be cancelled after ten years have elapsed and the business of TSI is sold to an unaffiliated third party, in which case CPH would be entitled to receive the appraised fair market value of the water royalty but not less than \$5.0 million. The Company's Chairman has in turn guaranteed AMCON's performance in connection with AMCON's obligation for these payments. The Company is in settlement discussions with respect to the TSI litigation discussed in Note 11, pursuant to which it is undertaking to divest substantially all of the assets and liabilities of TSI as part of a complete settlement of any and all claims against the Company by CPH. Management believes that the recorded balances of the subject assets and liabilities have been recognized at their respective fair values.

### 3. CONVERTIBLE PREFERRED STOCK

The Company has the following three series of Convertible Preferred Stock outstanding as of June 2007:

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

The Series A Convertible Preferred Stock ("Series A"), Series B Convertible Preferred Stock ("Series B") and Series C Convertible Preferred Stock ("Series C"), collectively (the "Preferred Stock"), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted times a fraction equal to \$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock

splits, stock dividends and certain other distributions on the Common Stock.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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, minimum thresholds of ownership by the Chairman and his family in AMCON, or bankruptcy. The Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed above, 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 also prohibits the redemption of the Series A and Series B. Series C is only redeemable so long as no event of default is in existence at the time of, or would occur after giving effect to, any such redemption, and the Company has excess availability under the credit facility of not less than \$2.0 million after giving effect to any such redemption.

The Company believes that redemption of these securities by the holders is not probable based on the following evaluation. Our executive officers and directors as a group beneficially own approximately 60% of the outstanding common stock as of June 30, 2007. Mr. William Wright, who has been AMCON's Chairman of the Board since AMCON's founding, beneficially owns 27% of the outstanding common stock without giving effect to shares owned by his adult children. There is an identity of interest among AMCON and its officers and directors for purposes of the determination of whether the triggering redemption events described above are within the control of AMCON since AMCON can only make decisions on control or other matters through those persons. Moreover, the Preferred Stock is in friendly hands with no expectation that there would be any effort by the holders of such Preferred Stock to seek optional redemption without the Board being supportive of the events that may trigger that right. The Series A is owned by Mr. Wright, the Company's Chairman, and a private equity firm (Draupnir, LLC) of which Mr. Petersen and Mr. Hobbs, both of whom are directors of the Company, are Members. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Chris Atayan, now AMCON's Chief Executive Officer and Vice Chairman, to AMCON's Board of Directors pursuant to voting rights in the Certificate of Designation creating the Series B Preferred Stock. The Series C is owned by Draupnir Capital LLC, which is a subsidiary of Draupnir, LLC (the owner of Series A). Mr. Petersen and Mr. Hobbs are also Members of Draupnir Capital, LLC.

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

12

#### 4. INVENTORIES

Inventories consisted of the following at June 2007 and September 2006:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	June 2007	September 2006
Finished goods	\$ 30,759,598	\$ 29,407,201
LIFO reserve	(6,390,169)	(4,964,138)
	-----	-----
	\$ 24,369,429	\$ 24,443,063
	=====	=====

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 (last-in, first-out or "LIFO" 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 (LIFO) or market and consists of the costs of finished goods. The LIFO reserves at June 2007 and September 2006 represent the amount by which LIFO inventories were less than the amount of such inventories valued on a first-in, first-out basis, respectively. Inventory also includes an allowance for obsolescence of \$0.4 million at June 2007 and September 2006. The Company's obsolescence allowance reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	June 2007	September 2006
Wholesale	\$ 3,935,931	\$ 3,935,931
Retail	1,912,877	1,912,877
	-----	-----
	\$ 5,848,808	\$ 5,848,808
	=====	=====

Other intangible assets of the Company consisted of the following:

	June 2007	September 2006
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Favorable leases (less accumulated amortization of \$449,266 and \$419,466)	36,734	66,534
	-----	-----
	\$ 3,410,003	\$ 3,439,803
	=====	=====

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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

Amortization expense for intangible assets that are considered to have finite lives was \$9,933 and \$29,800 for the three and nine months ended June 2007 and \$9,933 and \$29,798 for the three and nine months ended June 2006.

Amortization expense related to intangible assets held at June 2007 for each of the five years subsequent to September 30, 2006 is estimated as follows:

	Fiscal 2007 /1/	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
	-----	-----	-----	-----	-----
Favorable leases	10,000	27,000	-	-	-
	=====	=====	=====	=====	=====

/1/ Represents amortization expense of intangible assets with finite lives for the remaining three months of Fiscal 2007.

### 6. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share available to common shareholders is calculated by dividing income (loss) from continuing operations less preferred stock dividend requirements and income (loss) from discontinued operations by the weighted average common shares outstanding for each period. 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 June 2007 and June 2006 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 20,245 for the three and nine months ended June 2007, and 44,078 and 209,466 for the three and nine months ended June 2006, respectively. The average exercise price of anti-dilutive options and potential common stock was \$38.74 for the three and nine months ended June 2007, and \$30.43 and \$28.03 for the three and nine months ended June 2006, respectively.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

	For the three months ended June			
	2007		2006	
	Basic	Diluted	Basic	Diluted
1. Weighted average common shares outstanding	527,062	527,062	527,062	527,062
2. Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/	-	335,536	-	327,125
3. Weighted average number of shares outstanding	527,062	862,598	527,062	854,187
4. Income from continuing operations	\$ 1,246,933	\$ 1,246,933	\$ 672,698	\$ 672,698
Deduct: preferred stock dividend requirements /2/	(104,386)	-	(104,386)	-
	1,142,547	1,246,933	568,312	672,698
5. Loss from discontinued operations	\$ (131,740)	\$ (131,740)	\$ (326,447)	\$ (326,447)
6. Net income available to common shareholders	\$ 1,010,807	\$ 1,115,193	\$ 241,865	\$ 346,251
7. Income per share from continuing operations	\$ 2.17	\$ 1.44	\$ 1.08	\$ 0.79
8. Loss per share from discontinued operations	\$ (0.25)	\$ (0.15)	\$ (0.62)	\$ (0.38)
9. Net earnings per share available to common shareholders	\$ 1.92	\$ 1.29	\$ 0.46	\$ 0.41

/1/ For the three months ended June 2007 and June 2006, all stock options and Convertible Preferred Stock Series were dilutive and have been included as a component of the diluted weighted average number of shares outstanding calculation.

/2/ For the three months ended June 2007 and June 2006, the dilutive earnings calculation excludes dividend payments for Series A, B & C Preferred Stock, as they are assumed to have been converted to common stock of the Company.



	For the nine months ended June			
	2007		2006	
	Basic	Diluted	Basic	Diluted
1. Weighted average common shares outstanding	527,062	527,062	527,062	527,062
2. Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/	-	331,023	-	79,598
3. Weighted average number of shares outstanding	527,062	858,085	527,062	606,660
4. Income from continuing operations	\$ 1,608,333	\$ 1,608,333	\$ 802,657	\$ 802,657
Deduct: preferred stock dividend requirements /2/	(313,158)	-	(260,492)	(222,159)
	1,295,175	1,608,333	542,165	580,498
5. Income (loss) from discontinued operations	\$ 375,658	\$ 375,658	\$ (2,143,152)	\$ (2,143,152)
6. Net income (loss) available to common shareholders	\$ 1,670,833	\$ 1,983,991	\$ (1,600,987)	\$ (1,562,654)
7. Earnings per share from continuing operations	\$ 2.46	\$ 1.87	\$ 1.03	\$ 0.95
8. Earnings (loss) per share from discontinued operations	\$ 0.71	\$ 0.44	\$ (4.07)	\$ (3.53)
9. Net earnings (loss) per share available to common shareholders	\$ 3.17	\$ 2.31	\$ (3.04)	\$ (2.58)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

=====

- /1/ For the nine months ended June 2007, all stock options and Convertible Preferred Stock Series were dilutive and have been included as a component of the diluted weighted average number of shares outstanding calculation. For the nine months ended June 2006, Series A and B Convertible Preferred Stock were anti-dilutive and have not been included as a component of the diluted weighted average number of shares outstanding calculation.
- /2/ For the nine months ended June 2007, the dilutive earnings calculation excludes dividend payments for Series A, B & C Preferred Stock,, as they are assumed to have been converted to common stock of the Company. For the nine months ended June 2006, the dilutive earnings calculation excludes dividend payments for Series C Preferred Stock as it is assumed to have been converted to common stock of the Company.

16

7. COMPREHENSIVE INCOME (LOSS)

The following is a reconciliation of net income (loss) per the accompanying condensed consolidated unaudited statements of operations to comprehensive income (loss) for the three and nine months ended June 2006. There were no such reconciling items to net income or accumulated other comprehensive income (loss) balances, during the three and nine months ended June 2007.

	For the three months ended June 2006 -----	For the nine months ended June 2006 -----
Net income (loss)	\$ 346,251	\$(1,340,495)
Interest rate swap valuation adjustment, net of income tax benefit of \$39,000 and \$53,000 for the three and nine months ended June 2006	(53,814) -----	(101,294) -----
Comprehensive income (loss)	\$ 292,437 =====	\$(1,441,789) =====

8. DEBT

Credit Agreement

-----

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

- A \$55.0 million revolving credit limit, plus the outstanding balances on two term notes ("Term Note A" and "Term Note B") which totaled

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

approximately \$1.3 million at June 30, 2007 for a total credit facility limit of \$56.3 million at June 30, 2007.

- Bears interest at the bank's prime interest rate, except for Term Note B which bears interest at the bank's prime rate plus 2%.
- Maturity and expiration dates for the Facility and Term Note A of April 2009 and March 2008 for Term Note B.
- Lending limits subject to accounts receivable and inventory limitations, and an unused commitment fee equal to 0.25% per annum on the difference between the maximum loan limit and average monthly borrowings.
- A prepayment penalty of one percent (1%) of the prepayment loan limit of \$55.0 million if prepayment occurs on or before April 30, 2008.

The Facility also includes quarterly debt service and cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") financial covenants. Beginning with the fiscal quarter ended September 30, 2007, the Company must maintain a minimum debt service ratio of 1.0 to 1.0, as measured by the twelve month period then ended.

17

The cumulative minimum EBITDA requirements are as follows: (a) \$1,000,000 for the three months ending December 31, 2007 and December 31, 2008 (b) \$2,000,000 for the six months ending March 31, 2008, and March 31, 2009, (c) \$4,500,000 for the nine months ending June 30, 2007 and June 30, 2008 and \$7,000,000 for the twelve months ending September 30, 2007 and September 30, 2008. The Company was in compliance with the required minimum EBITDA covenant at June 30, 2007.

The Facility provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis. Additionally, the Facility contains an event of default if AMCON or its subsidiaries make any payment (in cash or other property) or a judgment is entered against AMCON or its subsidiaries requiring a payment (in cash or other property) to be made under or in connection with the guaranty by AMCON of the TSI acquisition notes or the water royalty under the asset purchase agreement for the purported sale of TSI assets.

The Facility also provides for a "springing" lock-box arrangement, under which, the Company maintains a lock-box from which it may apply cash receipts to any corporate purpose so long as it is not in default under the Facility. The bank maintains a security interest in the Company's lock-box and upon the occurrence of default may redirect funds from the lock-box to a loan account in the name of the lenders on a daily basis and apply the funds against the revolving loan balance.

At June 30, 2007, the available credit on the revolving portion of the Facility, including accounts receivable and inventory limitations, was \$52.7 million and the outstanding balance was \$44.6 million. The Facility bears interest at the bank's prime rate, which was 8.25% as of June 30, 2007 and is collateralized by all of the Company's equipment, intangibles, inventories, and accounts receivable.

As a component of the credit agreement, the Company has two term notes, Term Note A and Term Note B, with LaSalle Bank. Term Note A bears interest

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

at the bank's prime rate (8.25% at June 30, 2007) and is payable in monthly installments of \$16,333. Term Note B bears interest at the bank's prime rate plus 2% (10.25% at June 30, 2007) and is payable in monthly installments of \$100,000. The outstanding balances on Term Note A and Term Note B were \$0.6 million and \$0.7 million, respectively, as of June 30, 2007.

The Company's Chairman has personally guaranteed repayment of the Facility and the term loans. However, the amount of his guaranty is capped at \$10.0 million and is automatically reduced by the amount of the repayment on Term Note B, which resulted in the guaranteed principal outstanding being reduced to approximately \$5.7 million as of June 30, 2007. AMCON pays the Company's Chairman an annual fee equal to 2% of the guaranteed principal in return for the personal guarantee. This guarantee is secured by a pledge of the shares of Chamberlin's Natural Foods Inc., Health Food Associates Inc. ("Akin's Natural Foods Inc."), HNWC and TSI.

18

### 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 in the amount of approximately \$1.0 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

### 9. STOCK PLANS

Prior to its expiration in June 2004, AMCON maintained a stock-based compensation plan ("the Stock Option Plan") which provided the Compensation Committee of the Board of Directors authorization to grant incentive stock options and non-qualified stock options, pursuant to the Stock Option Plan, of up to 550,000 shares. No shares have been issued under the Stock Option Plan since the end of fiscal year 2003 and unamortized compensation expense under the Plan totaled approximately \$4,000 at June 2007.

On October 1, 2005, the Company adopted SFAS No. 123R, Shared Based Payment (SFAS 123R). The Company applied the modified prospective transition method as permitted by SFAS 123R and therefore has not restated prior periods. Prior to October 1, 2005, the Company accounted for stock option grants in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" using the intrinsic value method under which compensation cost was measured by the excess, if any, of the fair

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

market value of its common stock on the date of grant over the exercise price of the stock option. Accordingly, stock-based compensation costs related to stock option grants was not reflected in income or loss as all options granted under the Plan had an exercise price equal to or above the market value of the underlying stock on the date of grant.

On December 11, 2006, prior to the approval of the Omnibus Plan referred to below, the Compensation Committee of the Board of Directors awarded Christopher Atayan, Chief Executive Officer, Vice Chairman and a Director of the Company, a non-qualified option to purchase 25,000 shares of the Company's common stock, subject to shareholder approval. On April 17, 2007, the Company's shareholders approved the stock option grant, which vests in three equal installments over a three year period and has an exercise price of \$18.00 per share, the December 11, 2006 closing price of the Company's common stock on the American Stock Exchange.

The Company has estimated that the fair value of the non-qualified stock option award to Mr. Atayan was approximately \$347,000 using the Black-Scholes option pricing model. This cost will be amortized to compensation expense over a three year service period. The following assumptions were used in connection with the Black-Scholes option pricing calculation:

19

### Stock Option Pricing Assumptions

#### Fiscal 2007 Awards

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

On April 17, 2007, the Board of Directors of the Company approved an equity incentive plan, the 2007 Omnibus Incentive Plan ("the Omnibus Plan"), to encourage employees of the Company and subsidiaries to acquire a proprietary and 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. As of June 2007, no awards have been granted under the Omnibus Plan.

Net income (loss) before incomes taxes for the three and nine months ended June 2007 included share-based compensation expense of \$31,800 and \$37,800, respectively, and \$15,000 and \$45,000 for the three and nine months ended June 2006, respectively. At June 2007, there were 29,635 options fully vested and exercisable under the Stock Option Plan and unamortized compensation expense totaled approximately \$323,000.

Options issued and outstanding to management employees pursuant to the Stock Option Plan, in addition to those issued subsequent to the plan's expiration in June 2004, are summarized below:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Date	Exercise Price	Number of Options Outstanding	Number Exercisable	Aggregate Intrinsic Value June 2007
Fiscal 1998	\$ 15.68	9,171	9,171	\$ 71,717
Fiscal 1999	\$ 45.68 - \$ 51.14	6,683	6,683	-
Fiscal 2000	\$ 34.50	3,165	3,165	-
Fiscal 2003	\$ 28.80	4,046	2,428	-
Fiscal 2007	\$ 18.00	25,000	-	137,500
		-----	-----	-----
		48,065	21,447	\$209,217
		=====	=====	=====

20

At June 2007, there were 8,188 options fully vested and exercisable issued to outside directors, outside of the Stock Option Plan, as summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable	Aggregate Intrinsic Value June 2007
Fiscal 1998	\$ 15.68	1,834	1,834	\$ 14,342
Fiscal 1999	\$ 36.82 - \$ 49.09	3,852	3,852	-
Fiscal 2002	\$ 26.94	1,668	1,668	-
Fiscal 2003	\$ 28.26	834	834	-
		-----	-----	-----
		8,188	8,188	\$ 14,342
		=====	=====	=====

The stock options have varying vesting schedules ranging up to five years and expire ten years after the date of grant.

The following is a summary of stock option activity during the nine months ended June 2007.

	June 2007	
	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	31,253	\$30.62
Granted	25,000	\$18.00

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Exercised	-	-
Forfeited/Expired	-	-
	-----	-----
Outstanding at end of period	56,253	\$25.07
	=====	=====
Options exercisable at end of period	29,635	
	=====	

The following summarizes all stock options outstanding at June 2007:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Weighted-Average Exercise Price
	-----	-----	-----	-----	-----	-----
1998 Options	\$15.68	11,005	0.4 years	\$15.68	11,005	\$15.68
1999 Options	\$36.82-\$51.14	10,535	1.9 years	\$46.53	10,535	\$46.53
2000 Options	\$34.50	3,165	3.0 years	\$34.50	3,165	\$34.50
2002 Options	\$26.94	1,668	5.2 years	\$26.94	1,668	\$26.94
2003 Options	\$28.26-\$28.80	4,880	5.5 years	\$28.71	3,262	\$28.71
2007 Options	\$18.00	25,000	9.8 years	\$18.00	-	\$18.00
		-----		-----	-----	-----
		56,253		\$25.07	29,635	\$25.07
		=====		=====	=====	=====

21

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 interest expense previously allocated to HNWC and TSI, 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
	-----	-----	-----	-----
QUARTER ENDED JUNE 2007:				
External revenue:				
Cigarettes	\$ 155,739,405	\$ -	\$ -	\$ 155,739,405
Confectionery	15,322,855	-	-	15,322,855
Health food	-	9,481,074	-	9,481,074
Tobacco, food service & other	39,529,016	-	-	39,529,016
	-----	-----	-----	-----
Total external revenue	210,591,276	9,481,074	-	220,072,350
Depreciation	311,516	129,452	-	440,968

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Amortization	-	9,933	-	9,933
Operating income (loss)	4,139,846	623,667	(1,612,776)	3,150,737
Interest expense	230,871	376,989	566,580	1,174,440
Income (loss) from continuing operations before taxes	3,913,769	259,462	(2,117,298)	2,055,933
Total assets	68,822,931	11,316,558	9,266,297	89,405,786
Capital expenditures	83,313	50,984	-	134,297

QUARTER ENDED JUNE 2006:

External revenue:

Cigarettes	\$ 159,182,489	\$ -	\$ -	\$ 159,182,489
Confectionery	15,236,546	-	-	15,236,546
Health food	-	9,046,326	-	9,046,326
Tobacco, food service & other	38,724,885	-	-	38,724,885

Total external revenue	213,143,920	9,046,326	-	222,190,246
Depreciation	317,829	141,590	-	459,419
Amortization	-	9,933	-	9,933
Operating income (loss)	2,803,727	447,693	(973,683)	2,277,737
Interest expense	456,854	382,080	376,529	1,215,463
Income (loss) from continuing operations before taxes	2,381,877	75,009	(1,350,188)	1,106,698
Total assets	78,906,392	12,357,226	9,703,096	100,966,714
Capital expenditures	122,503	94,786	-	217,289

NINE MONTHS ENDED JUNE 2007:

External revenue:

Cigarettes	\$ 449,889,274	\$ -	\$ -	\$ 449,889,274
Confectionery	42,246,747	-	-	42,246,747
Health food	-	28,372,391	-	28,372,391
Tobacco, food service & other	110,106,588	-	-	110,106,588

Total external revenue	602,242,609	28,372,391	-	630,615,000
Depreciation	925,156	409,993	-	1,335,149
Amortization	-	29,800	-	29,800
Operating income (loss)	8,219,243	1,974,288	(4,000,063)	6,193,468
Interest expense	812,662	1,139,392	1,730,897	3,682,951
Income (loss) from continuing operations before taxes	7,426,286	869,439	(5,640,392)	2,655,333
Total assets	68,822,931	11,316,558	9,266,297	89,405,786
Capital expenditures	207,069	138,568	-	345,637

22

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

NINE MONTHS ENDED JUNE 2006:

External revenue:

Cigarettes	\$ 445,431,863	\$ -	\$ -	\$ 445,431,863
Confectionery	40,480,330	-	-	40,480,330
Health food	-	27,772,201	-	27,772,201
Tobacco, food service & other	102,526,723	-	-	102,526,723

Total external revenue	588,438,916	27,772,201	-	616,211,117
Depreciation	935,021	466,119	-	1,401,140
Amortization	-	29,798	-	29,798
Operating income (loss)	5,672,572	1,893,803	(2,814,920)	4,751,455
Interest expense	1,159,707	1,188,287	1,134,820	3,482,814



## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Income (loss) from continuing operations before taxes	4,578,696	733,676	(3,949,715)	1,362,657
Total assets	78,906,392	12,357,226	9,703,096	100,966,714
Capital expenditures	445,093	150,396	-	595,489

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

### 11. CONTINGENCIES

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

-----

The Company and its consolidated subsidiary, TSI, were involved in litigation regarding shareholder approval of the purchase of substantially all of the assets of Trinity Springs, Ltd. (which later changed its name to Crystal Paradise Holdings, Inc. ("CPH")). That litigation has been settled and the presiding Court has approved the settlement and dismissed the lawsuit with prejudice.

The settlement resolved all disputes between the minority shareholder plaintiffs and CPH, AMCON, TSI and the Defendant Directors. The Company faces no further known liability from that lawsuit or settlement. However, the settlement did not resolve claims that AMCON and TSI may have against CPH, or that CPH may have against AMCON and TSI.

On December 21, 2006, CPH filed a first amended complaint in the Fourth Judicial District of the State of Idaho (Elmore County) (the "Court") against AMCON and TSI and other defendants relating to the transfer of the assets of CPH to TSI and TSI's operation of the business thereafter. In this lawsuit, CPH asserts claims of foreclosure; breach of the asset purchase agreement, promissory notes and water royalty obligations; quantum meruit; unjust enrichment; and collection and enforcement of its security interest. In addition, CPH seeks a declaratory judgement that: (i) AMCON and TSI are obligated to perform under the asset purchase agreement and other agreements related to the asset purchase transaction; (ii) the actions of AMCON and TSI constituted events of default; (iii) TSI has not cured the events of default; (iv) TSI's obligations are accelerated under certain promissory notes; and (v) AMCON is liable to CPH under a guaranty and suretyship agreement for all amounts owed to CPH under the asset purchase agreement and related agreements. Finally, CPH seeks its costs and attorney fees.

AMCON disagrees with the assertions made by CPH and intends to vigorously defend against CPH's claims and to pursue its own claims against CPH. At AMCON's request, on May 14, 2007, the Court ordered that venue be changed from Elmore County to Ada County in Idaho. On May 29, 2007, AMCON and TSI filed its answer stating defenses against claims asserted by CPH. In addition, AMCON and TSI asserted the following counterclaims against CPH: (i) a declaratory judgment that (a) the asset purchase agreement is unenforceable against the parties, (b) AMCON and TSI are excused from performance under the asset purchase agreement, and (c) CPH, TSI, and AMCON are required to return each other to their pre-contractual positions; (ii) CPH breached the asset purchase agreement; (iii) CPH breached an implied covenant of good faith and fair dealing; (iv) CPH made fraudulent misrepresentations to AMCON and TSI;

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

(v) CPH fraudulently induced AMCON into entering into the transaction; (vi) CPH breached numerous representations and warranties in the asset purchase agreement; (vii) CPH was negligent; (viii) CPH has been unjustly enriched; and (ix) AMCON and TSI are entitled to an offset for CPH's failure to mitigate damages. AMCON and TSI also seek to recover their costs and attorney fees.

With respect to the claims asserted by CPH in its recently filed complaint and AMCON's and TSI's counterclaims asserted against CPH, AMCON's management, after consulting with the trial counsel, is unable at this time to state that any outcome unfavorable to AMCON is either probable or remote and therefore cannot estimate the amount or range of any potential loss, if any, because substantial discovery is needed, several unresolved legal issues exist, and other pretrial work is yet to be completed.

Television Events and Marketing, Inc. vs. AMCON Distributing Company  
-----

An action entitled Television Events & Marketing, Inc. vs. AMCON Distributing Co., The Beverage Group, Inc., The Beverage Group aka AMCON Beverage Group, AMCON Corporation and William F. Wright, Civil No. CV 05-00259 ACK KSC, was filed in the First Circuit Court of the State of Hawaii in Honolulu, Hawaii on March 8, 2005 and then moved on April 12, 2005 to the United States District Court for the District of Hawaii. This action concerns the alleged breach of two trademark licensing agreements between Television Events & Marketing, Inc. ("TEAM") and the Company's subsidiary, The Beverage Group, Inc., and purportedly, the other named defendants. On December 21, 2005, the plaintiffs filed a Second Amended Complaint in the First Circuit Court of the State of Hawaii in Honolulu, Hawaii. This Second Amended Complaint seeks (i) an unstated amount of damages for an alleged breach of those agreements and alleged misrepresentation; (ii) interest and reasonable attorney's fees and costs; and (iii) such other relief as the court deems just and proper.

The Company, together with its named subsidiary has successfully obtained dismissal of certain legal theories by motions for summary judgment. The Company and its subsidiary also filed a Counterclaim in the action on July 5, 2006 against TEAM and Archie Thornton alleging: (1) Thornton was an undisclosed dual agent and breached his fiduciary duty to TBG, Inc.; (2) TEAM tortuously assisted Thornton in breaching his fiduciary duty; (3) unjust enrichment/restitution; (4) TEAM breached its duty of good faith and fair dealing; (5) TEAM and Thornton's failure to disclose Thornton's agency relationship with TEAM constituted fraud and misrepresentation; and (6) punitive damages. The parties to the litigation are currently engaged in ongoing mediation and settlement discussions. The Company and Plaintiff are currently engaged in court supervised mediation. Trial is set for November 2007.

24

After taking into account the claims, counterclaims and liabilities recorded for all of the foregoing matters, management believes that ultimate resolution of such matters should not have a material adverse effect on the Company's financial position.

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

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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:

- treatment of TSI transaction and litigation,
- changing market conditions with regard to cigarettes,
- changes in promotional and incentive programs offered by manufacturers,
- the demand for the Company's products,
- new business ventures,
- domestic regulatory risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- collection of guaranteed amounts,
- other risks over which the Company has little or no control, and
- any other factors not identified herein could also have such an effect.

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.

25

### 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 on our Form 10-K, as amended, for the fiscal year ended September 30, 2006, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the first nine months of fiscal 2007.

### COMPANY OVERVIEW - THIRD FISCAL QUARTER 2007

The following discussion and analysis includes the Company's results of operations from continuing operations for the three and nine months ended June 2007 and June 2006. Continuing operations is comprised of our wholesale distribution and retail health food segments. A separate discussion of our

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

discontinued operations has been presented following our analysis of continuing operations. Accordingly, the sales, gross profit (loss), selling, general and administrative, depreciation and amortization, direct interest, other expenses and income tax benefit from our discontinued operations have been aggregated and reported as income (loss) from discontinued operations and are not a component of the aforementioned continuing operations discussion.

AMCON Distributing Company and Subsidiaries ("AMCON" or the "Company") is primarily engaged in the wholesale distribution business in the Great Plains and Rocky Mountain regions of the United States. In addition, AMCON operates thirteen retail health food stores in Florida and the Midwest. As used herein, unless the context indicates otherwise, the term "ADC" means the wholesale distribution segment and "AMCON" or the "Company" means AMCON Distributing Company and its consolidated subsidiaries. AMCON's third fiscal quarters ended on June 30, 2007 and June 30, 2006. For ease of discussion, AMCON's third fiscal quarters are referred to herein as June 2007 and 2006, respectively or Q3 2007 and Q3 2006, respectively.

During the third quarter of fiscal 2007, the Company:

- experienced a \$0.9 million increase in income from continuing operations before income taxes as compared to Q3 2006.
- incurred a \$0.5 million higher LIFO inventory charge in Q3 2007 as compared to Q3 2006.
- reduced total continuing operations debt by \$3.4 million compared to September 2006.
- recognized income from continuing operations per basic share of \$2.17 and \$1.08 for the three months ended June 2007 and June 2006, respectively, and \$2.46 and \$1.03 for the nine months ended June 2007 and June 2006, respectively.
- recognized (loss) income from discontinued operations per basic share of (\$0.25) and (\$0.62) for the three months ended June 2007 and June 2006, respectively, and \$0.71 and (\$4.07) for the nine months ended June 2007 and June 2006, respectively.

26

### Wholesale Distribution Segment

-----  
The wholesale distribution business represents approximately 96% of our consolidated sales. ADC serves approximately 5,000 retail outlets in the Great Plains and Rocky Mountain regions and is ranked as a top ten convenience store supplier by Convenience Store News.

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.

We provide our retailers with a broad selection of merchandise in all product categories and continue to focus on growing our non-cigarette categories,

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

which represented approximately 25% of our total wholesale distribution segment sales for the nine months ended June 2007 as compared to 24% for the same period in the prior year.

The Company has adopted a number of operating strategies who management believes provide the Company with distinctive competitive advantages within this customer segment. One key operating strategy is our commitment to provide market leading customer service. In a continuing effort to provide superior customer service, ADC offers a complete point-of-sale (POS) program to assist customers with image management, product promotions, private label and custom food service programs and overall profit maximization. Additionally, ADC has a policy of next-day delivery and sells products in cut-case quantities or "by the each" (i.e. individual units). The Company also offers planograms to convenience store customers to assist in the design of stores and the display of products within the store. In addition, customers are able to use our web site to order products and promotions, manage inventory and retail prices, as well as obtain periodic management reports. By offering superior customer service and aggressively managing operating costs, management believes ADC is better positioned to compete with both smaller and larger distributors.

Increases in fuel prices, in addition to increases in other operating costs, are having a significant impact on all distributors in the United States. We expect that competition and the pressure on profit margins will continue to affect both large and small distributors resulting in additional industry consolidation.

### Retail Health Food Segment

-----  
In recent years the retail health food industry has experienced strong growth driven primarily by more health conscious consumers and the overall demand for natural food products. Our retail health food segment has benefitted from this trend, experiencing sales growth in many product categories such as grocery and supplements. Management continues to evaluate locations for new stores and closely reviews existing locations for opportunities to close, relocate or expand strong performing stores.

27

AMCON's retail health food stores are managed collectively through a main office in Tulsa, Oklahoma. The Company strives to maintain the local identity of each store while leveraging the operating synergies of centralized management operations.

### 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 nine month periods ended June

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

2007 and June 2006 are as follows (dollars in millions):

	Three months ended June			Nine months ended June		
	2007	2006	Incr (Decr)	2007	2006	Incr (Decr)
Wholesale distribution segment	\$210.6	\$213.2	\$ (2.6)	\$602.2	\$588.4	\$ 13.8
Retail health food segment	9.5	9.0	0.5	28.4	27.8	0.6
	\$220.1	\$222.2	\$ (2.1)	\$630.6	\$616.2	\$ 14.4

### Three months ended June 2007 comparison - continuing operations

Sales for Q3 2007 decreased \$2.1 million, or 1.0% as compared to Q3 2006. Sales are reported net of costs associated with sales incentives provided to retailers, totaling \$3.8 million and \$4.0 million, for Q3 2007 and Q3 2006, respectively.

Sales from our wholesale distribution segment decreased \$2.6 million for the three months ended June 2007 as compared to the same period in the prior year. Of this decrease, \$3.5 million related to a decrease in cigarette sales, partially offset by a \$0.9 million increase in tobacco, confectionary, food service and other product sales.

Significant items impacting Q3 2007 sales included the following items. During fiscal 2007, certain states imposed sizable increases in excise taxes levied on cigarettes. As excise taxes pass through to our customers, the associated increase in our prices had the impact of increasing our Q3 2007 sales by approximately \$6.2 million as compared to Q3 2006. The increase in excise taxes also had the impact of decreasing the demand for cigarettes in the related states and accordingly reduced sales by an offsetting amount of approximately \$9.1 million.

28

Other items impacting cigarette sales during Q3 2007 were price increases implemented by major cigarette manufacturers during fiscal 2007, which had the effect of increasing Q3 2007 sales by approximately \$3.4 million as compared to Q3 2006. The remaining change in cigarette sales as compared to Q3 2006 was primarily attributable to a 2.1% decrease in cigarette carton volumes in states not impacted by excise tax increases. The \$0.9 million increase in tobacco, confectionary, food service and other product sales was primarily the result of price increases and changes in sales volumes.

Sales from our retail health food segment increased slightly to \$9.5 million in Q3 2007 as compared to \$9.0 million in Q3 2006.

### Nine months ended June 2007 comparison - continuing operations

Sales for the nine month period ended June 2007 increased \$14.4 million, or 2.3% as compared to the same period in the prior fiscal year. Sales for the nine months ended June 2007 and 2006, were net of costs associated with sales incentives provided to retailers, totaling \$11.7 million and \$11.2 million, respectively.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Sales from our wholesale distribution segment increased \$13.8 million for the nine months ended June 2007 as compared to the same period in the prior year. Of this increase, \$4.5 million was attributable to an increase in cigarette sales and \$9.3 million was attributable to an increase in tobacco, confectionary, food service and other product sales.

Significant items impacting sales during the first nine months of fiscal 2007 include the following items. During fiscal 2007, certain states imposed sizable increases in excise taxes levied on cigarettes. As excise taxes pass through to our customers, the associated increase in our prices had the impact of increasing sales for the nine months ended June 2007 by approximately \$8.7 million, as compared to the same period in the prior year. The increase in excise taxes also had the impact of decreasing the demand for cigarettes in the related states and accordingly reduced sales by an offsetting amount of approximately \$11.2 million.

Other items impacting cigarette sales were the effect of price increases implemented by major cigarette manufacturers during fiscal 2007, which increased sales for the first nine months of fiscal 2007 by approximately \$8.4 million as compared to the same period in the prior year. The remaining change in cigarette sales for the nine month period, as compared to the same prior year period, was primarily attributable to slight decrease in cigarette carton volumes in states not impacted by excise tax increases. The \$9.3 million increase in tobacco, confectionary, food service and other product sales was primarily the result of price increases and changes in sales volumes.

Sales from our retail health food segment increased \$0.6 million or 2.1%, during the first nine months of fiscal 2007 as compared to the same period in 2006. This increase was primarily the result of higher sales volumes in our vitamin and supplement product categories.

29

### GROSS PROFIT

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 nine month periods ended June 2007 and June 2006 are as follows (dollars in millions):

Three Months ended June			Nine Months ended June		
2007	2006	Incr	2007	2006	Incr
-----	-----	-----	-----	-----	-----

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Wholesale distribution segment	\$ 12.9	\$ 12.1	\$ 0.8	\$ 34.8	\$ 33.3	\$ 1.5
Retail health food segment	3.7	3.5	0.2	11.2	11.0	0.2
	-----	-----	-----	-----	-----	-----
	\$ 16.6	\$ 15.6	\$ 1.0	\$ 46.0	\$ 44.3	\$ 1.7
	=====	=====	=====	=====	=====	=====

### Three months ended June 2007 comparison - continuing operations

-----

Gross profit for the three month period ended June 2007 increased \$1.0 million, or 6.1% as compared to Q3 2006 and gross profit as a percent of sales increased to 7.5% as compared to 7.0% in Q3 2006.

During Q3 2007, gross profit in our wholesale distribution segment increased \$0.8 million or 6.0% as compared to Q3 2006. Increasing wholesale segment gross profit during Q3 2007 was a \$1.2 million benefit resulting from the impact of excise tax increases. This benefit was partially offset by a \$0.3 million higher inventory LIFO reserve charge in Q3 2007 as compared to Q3 2006. The remaining change in our wholesale distribution segment gross profit was primarily the result of fluctuations in product mix sold, promotional allowances received from manufacturers, price increases within our non-cigarette product categories and changes in unit volumes sold.

Gross profit for the retail health segment increased approximately \$0.2 million in Q3 2007 as compared to Q3 2006. Retail segment gross profits benefitted approximately \$0.3 million during Q3 2007 due to higher volumes, improved sales mix and lower throw-out costs. These increases were partially offset by a higher \$0.1 million LIFO inventory charge in Q3 2007 as compared to Q3 2006.

### Nine months ended June 2007 comparison - continuing operations

-----

For the nine months ended June 2007, gross profit increased \$1.7 million, or 3.8% compared to the same period in the prior fiscal year. Gross profit as a percent of sales increased slightly to 7.3% for the nine month period ended June 2007, as compared to 7.2% for the same period in 2006.

30

Gross profit from our wholesale distribution segment increased approximately \$1.5 million or 4.6%, for the nine months ended June 2007 as compared to the same period in the prior year. Increasing gross profit during the nine month period was approximately a \$1.7 million benefit resulting from excise tax increases during fiscal 2007. This benefit was offset by a \$1.3 million higher inventory LIFO reserve charge incurred during the first nine months of 2007 as compared to the same period in the prior year. The remaining \$1.1 million change in our wholesale distribution segment gross margin was primarily the result of fluctuations in the product mix sold, promotional allowances received from manufacturers, price increases within our non-cigarette product categories and changes in unit volumes sold.

Gross profit in our retail health food segment increased approximately \$0.2 million in the first nine months of fiscal 2007 as compared to the same period in fiscal 2006. Retail gross profit benefitted approximately \$0.5 million during the nine month period ended June 2007 due to higher volumes, improved sales mix and lower throw-out costs. These increases in gross profit were partially offset by a higher \$0.3 million LIFO inventory charge incurred during the first nine months of fiscal 2007 as compared to the same period in the prior year.



## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

### OPERATING EXPENSE - three and nine months ended June 2007 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.

Q3 2007 operating expenses were flat in comparison to Q3 2006, increasing only \$0.1 million. This increase was primarily related to higher litigation related costs, partially offset by lower insurance and compensation costs.

Operating expenses for the nine month period ended June 2007 increased approximately \$0.2 million or 1.0% as compared to the same period in the prior year. This increase was primarily related to higher litigation related costs, partially offset by a decrease in bad debt expense, other professional fees and insurance expense during the first nine months of fiscal 2007 as compared to the same period in the prior year.

### INTEREST EXPENSE - three and nine months ended June 30, 2007 comparison

Interest expense for the three months ended June 2007 decreased slightly as compared to same period in the prior year, while interest expense for the nine months ended June 2007 increased approximately \$0.2 million over the comparable prior year period. The increase in interest expense for the nine month period ended June 2007 was principally related to higher prime interest rates and the impact of an interest rate swap, which matured in the prior fiscal year. The interest rate swap had the effect of converting \$10.0 million of the Company's credit facility borrowings to a fixed interest rate of 4.87%. Interest expense for the nine months ended June 2007 was partially offset by the impact of lower average borrowings as compared to the same period in the prior year.

31

The Company primarily borrows at the prime interest rate. On average, the Company's borrowing rates on variable rate debt were 0.43% higher and the average borrowings on variable rate debt were \$6.0 million lower in Q3 2007 as compared to Q3 2006. For the nine months ended June 2007, variable interest rates were on average 0.91% higher and average borrowings on variable rate debt were \$3.3 million lower as compared to the same period in 2006.

### DISCONTINUED OPERATIONS - three and nine months ended June 2007

Discontinued operations include the residual assets, liabilities and results of operations of Hawaiian Natural Water Company, Inc. ("HNWC") and TSI for the three and nine months ended June 2007 and June 2006. The results of operations for the first nine months of fiscal 2006 also include The Beverage Group, Inc. ("TBG"), which was the beverage marketing and distribution component of the Company's former beverage segment. In April 2006, the Company successfully concluded its wind-down plan of TBG's operations at which time its residual liabilities were classified as a component of continuing operations.

(Loss) income from discontinued operations totaled (\$0.1) million and \$0.4 million for the three and nine months ended June 2007 as compared to losses of (\$0.3) million and (\$2.1) million for the same periods in the prior year.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

The improvement in operating results in comparison to the prior fiscal year, is primarily attributable to the November 2006 sale of HNWC's assets for a pretax gain of \$1.6 million. Additionally, TSI's operations were closed in March 2006, which stemmed further operating losses in the current fiscal year.

A summary of discontinued operations is as follows:

	Three months ended June		Nine months ended June	
	2007	2006	2007	2006
Sales	\$ -	\$ 1,797,459	\$ 862,647	\$ 6,440,000
Operating loss	(114,230)	(473,441)	(442,516)	(3,050,000)
Gain on disposal of discontinued operations, before income taxes	-	-	1,455,333	
Income tax (benefit) expense	(80,000)	(181,000)	353,000	(1,190,000)
(Loss) income from discontinued operations	(131,740)	(326,447)	375,658	(2,140,000)

### 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 these cash needs from the cash flow generated by its operating activities, credit facility borrowings and preferred stock issuances, as necessary. During the nine months ended June 2007, the Company generated cash of approximately \$0.9 million from operating activities. The cash generated was primarily the result of a reduction in accounts receivable and an increase accrued expenses in our continuing operations, partially offset by the pay down of accounts payable and accrued expenses in discontinued operations.

32

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

Investing Activities. The Company generated approximately \$3.7 million in cash from investing activities during the first nine months of fiscal 2007. Of the cash generated, approximately \$3.8 million resulted from the sale of HNWC's assets in November 2006 and \$0.2 million related to the sale of TSI's distribution warehouse, which is included as a component of our discontinued operations. The cash proceeds from these items was partially offset by \$0.3 million in capital expenditures for property, plant and equipment.

Financing Activities. The Company used net cash of \$4.5 million for financing activities during the first nine months of fiscal 2007. Of this net change in cash, the Company used cash of \$3.0 million for principal

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

payments on its bank credit facility, \$1.2 million for principal payments on long-term debt for both continuing and discontinued operations, and \$0.3 million for the payment of preferred stock dividend payments.

Cash on Hand/Working Capital. As of June 2007, the Company had cash on hand of \$0.6 million and working capital (current assets less current liabilities) of \$28.9 million. This compares to cash on hand of \$0.5 million and working capital of \$28.0 million as of September 2006.

### TSI Litigation

As discussed in Note 2 to the Condensed Consolidated Unaudited Financial Statements included within this Quarterly Report on Form 10-Q, the Company ceased the operations of TSI during fiscal 2006 due to recurring losses, lack of capital resources, and the litigation regarding the ownership of TSI's assets as discussed in Part II, Item 1, Legal Proceedings. As a result of this decision, there are no revenues and only minimal expenses were incurred by TSI during the nine months ended June 2007. Management is working to divest substantially all of the assets of TSI in an attempt to achieve a complete resolution of any and all claims by CPH against the Company and that the Company has against CPH. The impact of this decision on our future cash flows is that only minimal expenses will be funded at TSI.

### Contractual Obligations

There have been no significant changes to the Company's contractual obligations as set forth in the Company's Form 10-K, as amended, for the fiscal period ended September 30, 2006.

33

### CREDIT AGREEMENT

The Company's primary source of borrowing for liquidity purposes is its revolving credit facility with LaSalle Bank (the "Facility"). The significant terms of the Facility at June 30, 2007 include:

- A \$55.0 million revolving credit limit, plus the outstanding balances on two term notes ("Term Note A" and "Term Note B") which totaled approximately \$1.3 million at June 30, 2007 for a total credit facility limit of \$56.3 million at June 30, 2007.
- Bears interest at the bank's prime interest rate, except for Term Note B which bears interest at the bank's prime rate plus 2%.
- Maturity and expiration dates for the Facility and Term Note A of April 2009 and March 2008 for Term Note B.
- Lending limits subject to accounts receivable and inventory limitations, an unused commitment fee equal to 0.25% per annum on the difference between the maximum loan limit and average monthly borrowings.
- A prepayment penalty of one percent (1%) of the prepayment loan limit of \$55.0 million if prepayment occurs on or before April 30, 2008.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

The Facility also includes quarterly debt service and cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") financial covenants. Beginning with the fiscal quarter ended September 30, 2007, the Company must maintain a minimum debt service ratio of 1.0 to 1.0, as measured by the twelve month period then ended.

The cumulative minimum EBITDA requirements are as follows: (a) \$1,000,000 for the three months ending December 31, 2007 and December 31, 2008 (b) \$2,000,000 for the six months ending March 31, 2008, and March 31, 2009, (c) \$4,500,000 for the nine months ending June 30, 2007 and June 30, 2008 and \$7,000,000 for the twelve months ending September 30, 2007 and September 30, 2008. The Company was in compliance with the required minimum EBITDA covenant at June 30, 2007.

The Company's maximum available credit limit under the Facility was \$52.7 million at June 30, 2007, however, the amount available for use at any given time is subject to many factors including eligible accounts receivable and inventory balances that are evaluated on a daily basis. On June 30, 2007, the outstanding balance on the revolving portion of the Facility was \$44.6 million. The Facility bears interest at a variable rate equal to the bank's prime rate, which was 8.25% at June 30, 2007. Based on our collateral and loan limits, the Company's excess availability under the Facility at June 30, 2007 was approximately \$8.1 million.

During the first nine months of fiscal 2007, our peak borrowings under the Facility were \$52.6 million and our average borrowings and average availability were \$46.9 and \$3.9 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.

34

As a component of the credit agreement, the Company has two term notes, Term Note A and Term Note B, with LaSalle Bank. Term Note A bears interest at the bank's prime rate (8.25% at June 30, 2007) and is payable in monthly installments of \$16,333. Term Note B bears interest at the bank's prime rate plus 2% (10.25% at June 30, 2007) and is payable in monthly installments of \$100,000. The outstanding balances on Term Note A and Term Note B were \$0.6 million and \$0.7 million, respectively, as of June 30, 2007.

The Company's Chairman has personally guaranteed repayment of the Facility and the term loans. However, the amount of his guaranty is capped at \$10.0 million and is automatically reduced by the amount of the repayment on Term Note B, which resulted in the guaranteed principal outstanding being reduced to approximately \$5.7 million as of June 30, 2007. AMCON pays the Company's Chairman an annual fee equal to 2% of the guaranteed principal in return for the personal guarantee. This guarantee is secured by a pledge of the shares of Chamberlin's Natural Foods Inc., Health Food Associates Inc. ("Akin's Natural Foods Inc."), HNWC and TSI.

### 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,

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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 approximately \$1.0 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.

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

The Company is exposed to interest rate risk on its variable rate debt. At June 30, 2007, the Company had \$45.9 million of variable rate debt outstanding with maturities through April 2009. The interest rate on this debt ranged from 8.25% to 10.25% at June 2007. We estimate that our annual cash flow exposure relating to interest rate risk based on our current borrowings is approximately \$0.3 million for each 1% change in our lender's prime interest rate.

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

35

### Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in the Company's reports filed or furnished under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Exchange Act rules and forms of the SEC.

Such information is accumulated and communicated to the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

The Company carried out the evaluation required by paragraph (b) of the Exchange Act Rules 13a-15 and 15d-15, under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report on Form 10-Q, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is (1) accumulated and communicated to management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

specified in the Commission's rules and forms.

There have been no changes in the Company's internal controls over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, such internal controls.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

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

---

The Company and its consolidated subsidiary, TSI, were involved in litigation regarding shareholder approval of the purchase of substantially all of the assets of Trinity Springs, Ltd. (which later changed its name to Crystal Paradise Holdings, Inc. ("CPH")). That litigation has been settled and the presiding Court has approved the settlement and dismissed the lawsuit with prejudice.

The settlement resolved all disputes between the minority shareholder plaintiffs and CPH, AMCON, TSI and the Defendant Directors. The Company faces no further known liability from that lawsuit or settlement. However, the settlement did not resolve claims that AMCON and TSI may have against CPH, or that CPH may have against AMCON and TSI.

On December 21, 2006, CPH filed a first amended complaint in the Fourth Judicial District of the State of Idaho (Elmore County) (the "Court") against AMCON and TSI and other defendants relating to the transfer of the assets of

36

CPH to TSI and TSI's operation of the business thereafter. In this lawsuit, CPH asserts claims of foreclosure; breach of the asset purchase agreement, promissory notes and water royalty obligations; quantum meruit; unjust enrichment; and collection and enforcement of its security interest. In addition, CPH seeks a declaratory judgement that: (i) AMCON and TSI are obligated to perform under the asset purchase agreement and other agreements related to the asset purchase transaction; (ii) the actions of AMCON and TSI constituted events of default; (iii) TSI has not cured the events of default; (iv) TSI's obligations are accelerated under certain promissory notes; and (v) AMCON is liable to CPH under a guaranty and suretyship agreement for all amounts owed to CPH under the asset purchase agreement and related agreements. Finally, CPH seeks its costs and attorney fees.

AMCON disagrees with the assertions made by CPH and intends to vigorously defend against CPH's claims and to pursue its own claims against CPH. At AMCON's request, on May 14, 2007, the Court ordered that venue be changed from Elmore County to Ada County in Idaho. On May 29, 2007, AMCON and TSI filed its answer stating defenses against claims asserted by CPH. In addition, AMCON and TSI asserted the following counterclaims against CPH: (i) a declaratory judgment that (a) the asset purchase agreement is unenforceable against the parties, (b) AMCON and TSI are excused from performance under the asset purchase agreement, and (c) CPH, TSI, and AMCON are required to return each other to their pre-contractual positions; (ii) CPH breached the asset purchase agreement; (iii) CPH breached an implied covenant of good faith and fair dealing; (iv) CPH made fraudulent misrepresentations to AMCON and TSI; (v) CPH fraudulently induced AMCON into entering into the transaction; (vi) CPH breached numerous representations and warranties in the asset purchase agreement; (vii) CPH was negligent; (viii) CPH has been unjustly enriched; and (ix) AMCON and TSI are entitled to an offset for CPH's failure to mitigate damages. AMCON and TSI also seek to recover their costs and attorney fees.

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

With respect to the claims asserted by CPH in its recently filed complaint and AMCON's and TSI's counterclaims asserted against CPH, AMCON's management, after consulting with the trial counsel, is unable at this time to state that any outcome unfavorable to AMCON is either probable or remote and therefore cannot estimate the amount or range of any potential loss, if any, because substantial discovery is needed, several unresolved legal issues exist, and other pretrial work is yet to be completed.

Television Events and Marketing, Inc. vs. AMCON Distributing Company  
-----

An action entitled Television Events & Marketing, Inc. vs. AMCON Distributing Co., The Beverage Group, Inc., The Beverage Group aka AMCON Beverage Group, AMCON Corporation and William F. Wright, Civil No. CV 05-00259 ACK KSC, was filed in the First Circuit Court of the State of Hawaii in Honolulu, Hawaii on March 8, 2005 and then moved on April 12, 2005 to the United States District Court for the District of Hawaii. This action concerns the alleged breach of two trademark licensing agreements between Television Events & Marketing, Inc. ("TEAM") and the Company's subsidiary, The Beverage Group, Inc., and purportedly, the other named defendants. On December 21, 2005, the plaintiffs filed a Second Amended Complaint in the First Circuit Court of the State of Hawaii in Honolulu, Hawaii. This Second Amended Complaint seeks (i) an unstated amount of damages for an alleged breach of those agreements and alleged misrepresentation; (ii) interest and reasonable attorney's fees and costs; and (iii) such other relief as the court deems just and proper.

37

The Company, together with its named subsidiary has successfully obtained dismissal of certain legal theories by motions for summary judgment. The Company and its subsidiary also filed a Counterclaim in the action on July 5, 2006 against TEAM and Archie Thornton alleging: (1) Thornton was an undisclosed dual agent and breached his fiduciary duty to TBG, Inc.; (2) TEAM tortuously assisted Thornton in breaching his fiduciary duty; (3) unjust enrichment/restitution; (4) TEAM breached its duty of good faith and fair dealing; (5) TEAM and Thornton's failure to disclose Thornton's agency relationship with TEAM constituted fraud and misrepresentation; and (6) punitive damages. The parties to the litigation are currently engaged in ongoing mediation and settlement discussions. The Company and Plaintiff are currently engaged in court supervised mediation. Trial is set for November 2007.

After taking into account the claims, counterclaims and liabilities recorded for all of the foregoing matters, management believes that ultimate resolution of such matters should not have a material adverse effect on the Company's financial position.

### 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, as amended, for the fiscal year ended September 30, 2006.

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

Not applicable.

### Item 3. Defaults Upon Senior Securities

Not Applicable

## Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

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

The Company held its Annual Meeting of Stockholders on April 17, 2007 for the purpose of electing six directors, ratification of the appointment of its independent registered public accounting firm, approval of a non-qualified stock option award to Christopher Atayan, Chief Executive Officer, Vice Chairman and a Director of the Company, and approval of the 2007 Omnibus Incentive Plan.

The following sets forth the results of the election of directors:

NAME OF NOMINEE -----	FOR ---	WITHHELD -----
 Class III Director -----		
Kathleen M. Evans	495,031 99.9%	381
John R. Loyack	495,031 99.9%	381
Timothy R. Pestotnik	495,031 99.9%	381

38

NAME OF NOMINEE -----	FOR ---	WITHHELD -----
 Class I Director -----		
Stanley Mayer	495,031 99.9%	381
William F. Wright	495,031 99.9%	381

In addition to the above elections, the holder of the Company's Series C Convertible Preferred Stock was entitled to elect one member of the board of directors, and as such designated Jeremy W. Hobbs as the individual it elected as a Class I director by casting all 80,000 of its votes for such election.

There was no solicitation in opposition to the nominees 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: Christopher H. Atayan, Raymond F. Bentele and Allen D. Petersen.

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, 2007 was approved by the Stockholders with 494,712 votes FOR (99.9% of votes cast), 5 votes AGAINST, and 695 votes ABSTAINED.

The award of a non-qualified stock option to purchase 25,000 shares of the Company's common stock at \$18.00 per share to Christopher Atayan, Chief Executive Officer, Vice Chairman and a Director of the Company, was approved by shareholders with 239,792 votes FOR (97.0% of votes cast), 7,298 votes AGAINST and 54 votes ABSTAINED.

The 2007 Omnibus Incentive Plan, an equity incentive plan, was approved by shareholders with 232,030 votes FOR (93.9% of votes cast), 15,043 votes AGAINST and 71 votes ABSTAINED.



Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

With respect to the approval of the non-qualified stock option award to Mr. Atayan and the 2007 Omnibus Incentive Plan, there were 248,268 broker non-votes.

Further information regarding these matters is contained in the Company's Proxy Statement dated March 9, 2007.

Item 5. Other Information

Not applicable.

39

Item 6. Exhibits

(a) Exhibits

- 31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Vice Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act
- 31.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 302 of the Sarbanes-Oxley Act
- 32.1 Certification by Christopher H. Atayan, Chief Executive Officer and Vice Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act
- 32.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 906 of the Sarbanes-Oxley Act

SIGNATURES

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

AMCON DISTRIBUTING COMPANY  
(registrant)

Date: July 17, 2007  
-----

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-Q

Date: July 17, 2007  
-----

/s/ Andrew C. Plummer  
-----

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