

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

AMCON DISTRIBUTING CO
Form 10-K
November 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED September 30, 2008

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM to

Commission File Number 1-15589

AMCON Distributing Company

(Exact name of registrant as specified in its charter)

Delaware

47-0702918

(State or other jurisdiction
of incorporation or organization)

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

7405 Irvington Road, Omaha NE

68122

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange
on which registered

None

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 Par Value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as
defined in Rule 405 of the Securities Act. Yes No X

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act. Yes No X

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 of 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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

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

Large accelerated filer	-----	Accelerated filer	-----
Non-accelerated filer (Do not check (if a smaller reporting company)	-----	Smaller reporting company	X -----

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

	Yes	No	X
	-----	-----	

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2008 was \$10,532,641, computed by reference to the \$30.86 closing price of such common stock equity on March 31, 2008.

As of November 3, 2008 there were 570,397 shares of common stock outstanding.

Portions of the following document are incorporated by reference into the indicated parts of this report: definitive proxy statement for the 2009 annual meeting of stockholders to be filed with the Commission pursuant to Regulation 14A - Part III.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

		Page

PART I		
Item 1.	Business.....	4
Item 1A.	Risk Factors.....	10
Item 1B.	Unresolved Staff Comments.....	18
Item 2.	Properties.....	18
Item 3.	Legal Proceedings.....	19
Item 4.	Submission of Matters to a Vote of Security Holders.....	19
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	20
Item 6.	Selected Financial Data.....	21
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	21
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk....	37
Item 8.	Financial Statements and Supplementary Data.....	38
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	69
Item 9A(T)	Controls and Procedures.....	69
Item 9B.	Other Information.....	70
PART III		
Item 10.	Directors, Executive Officers, and Corporate Governance.....	71
Item 11.	Executive Compensation.....	71
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	71
Item 13.	Certain Relationships and Related Transactions, and Director Independence	71
Item 14.	Principal Accounting Fees and Services.....	72
PART IV		
Item 15.	Exhibits, Financial Statement Schedules.....	72

PART I

For purposes of this report, unless the context indicates otherwise, all references to "we," "us," "our," "Company," and "AMCON" shall mean AMCON Distributing Company and its subsidiaries. The wholesale distribution segment of our Company will be separately referred to as "ADC." Additionally,

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

the Company's 2008 and 2007 fiscal years ended September 30, are herein referred to as fiscal 2008 and fiscal 2007, respectively. The fiscal year-end balance sheet dates of September 30, 2008 and September 30, 2007 are referred to herein as September 2008 and September 2007, respectively.

This report and the documents incorporated by reference herein, if any, contain forward looking statements, which are inherently subject to risks and uncertainties. See "Forward Looking Statements" under Item 7 of this report.

ITEM 1. BUSINESS

COMPANY OVERVIEW

AMCON Distributing Company was incorporated in Delaware in 1986 and our common stock is listed on the American Stock Exchange ("AMEX") under the symbol "DIT." The Company operates two business segments:

- Wholesale Distribution Segment - The Company is a leading wholesale distributor of consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, and health and beauty care products.
- Retail Health Food Segment - The Company operates thirteen retail health food stores in Florida and the Midwest.

WHOLESALE DISTRIBUTION SEGMENT

OPERATIONS. ADC serves approximately 4,000 retail outlets in the Great Plains and Rocky Mountain regions including convenience stores, grocery stores, liquor stores, drug stores and tobacco shops. In November 2007, Convenience Store News ranked ADC as the seventh (7th) largest convenience store distributor based on annual sales. ADC accounted for approximately 95% of the Company's consolidated revenue in fiscal 2008.

ADC distributes 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. In fiscal 2008, cigarette sales accounted for approximately 74% of ADC's revenue, with non-cigarette product categories comprising 26% of revenues. ADC's principal suppliers include Philip Morris USA, RJ Reynolds Tobacco, Proctor & Gamble, Hershey, Mars, Quaker, and Nabisco. ADC also markets private label lines of tobacco, snuff, water, candy products, batteries, film, and other products.

4

ADC's main corporate office is in Omaha, Nebraska. Additionally, ADC operates five distribution centers located in Illinois, Missouri, Nebraska, North Dakota and South Dakota. These distribution centers, combined with two cross-dock facilities, contain a total of approximately 487,000 square feet of floor space and employ modern equipment for the distribution of our large and diverse product mix. ADC also operates a fleet of approximately 182 delivery vehicles, including straight trucks and over-the-road vehicles with both refrigerated and non-refrigerated trailers.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

COMPETITIVE STRENGTHS. The wholesale distribution business is a mature, highly competitive industry. To differentiate itself, ADC has employed a number of strategies focused around providing market leading customer service, flexible delivery capabilities, and innovative merchandising programs. These strategies have helped position ADC as a distributor of choice for both small independent retail outlets and multi-location retail outlets.

ADC's depth of management experience also provides the Company with considerable competitive advantages in regards to managing vendor and customer relationships, as well as overall operational execution. ADC's senior management team averages over 25 years of industry experience in the areas of logistics, sales, and marketing.

ADC's customer service programs include providing assistance in tracking and maximizing vendor promotions, access to private label and custom food services, store layout and design consultation, and overall profitability consulting. These programs have proven particularly popular with our independent retail outlets, many of which have less in-house expertise and resources than multi-location retailers.

ADC's customer service capabilities include several programs designed to assist our customers manage inventory and cash flow. These programs include a next-day delivery policy, acceptance of smaller quantity orders, and access to a number of information technologies to track inventory, monitor pricing data, and review new product offerings.

BUSINESS STRATEGY. The wholesale distribution industry (the "Industry") experienced significant changes driven by high fuel costs, increasing cigarette and tobacco excise taxes, smoking bans, the popularity of deep-discount cigarette brands, and consolidation within the Industry's customer base (principally convenience stores and tobacco shops) during fiscal 2008. Collectively, these items have pressured profit margins industry-wide.

Cigarette and tobacco sales remain a large percentage of our customers' total in-store sales volume. Historically, cigarette and tobacco products were purchased from a variety of sales channels, including grocery stores. In recent years, however, consumers have increasingly purchased their cigarette and tobacco products from convenience stores, which is one of ADC's largest customer segments. ADC remains largely dependent on the pricing and promotional programs offered by the major tobacco manufacturers, which can vary from year-to-year.

5

To capitalize on these industry-wide changes, ADC has aggressively managed its cost structure, heavily leveraged inventory management strategies, and deployed new technologies and automation tools where possible. These actions have allowed ADC to maintain competitive pricing and position itself to capture new business, sell new services to our existing customers, and further penetrate the convenience store market. Additionally, ADC remains focused on growing its non-tobacco revenue streams, which offer higher profit margins.

Slumping economic conditions, higher food costs, and the impact of credit card fees have negatively impacted profit margins for many of our customers. Additionally, recent disruptions in the credit markets and unprecedented fuel

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

prices have created a challenging business environment for our largest customer segment (convenience stores).

RETAIL HEALTH FOOD SEGMENT

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

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

In recent years, the retail health food industry has experienced consistent growth as the demand for non-processed natural products (pesticide-free, hormone-free, and non-genetically modified) became popular among health conscious consumers. Our retail health food segment has benefited from this trend, recording year-over-year sales growth of approximately 3.5%. Forward looking, however, rising food commodity prices and slumping economic conditions will likely decrease near term growth rates industry-wide and potentially result in further industry consolidation.

ECONOMIC CONDITIONS

Deteriorating economic conditions, the falling value of homes and retirement portfolios, higher fuel and food commodity prices, and recent disruptions in the credit markets are collectively impacting consumer confidence throughout the country as well as the regions in which we operate.

Based on these factors, future sales for both of our business segments may be negatively impacted in the near term. Many of our wholesale segment customers are thinly capitalized and their access to credit and reduced cash flow from operations may impact their ability to operate as a going concern, presenting additional credit risk for the Company. Further, a general decrease in consumer discretionary spending will likely pressure retail level sales for our convenience store customers, which will in turn decrease our wholesale segment sales volume.

6

Our retail segment will likely face a challenging environment in the near term as well, as the aforementioned macroeconomic issues push consumers to purchase cheaper alternatives to natural food products and/or decrease the average basket size of their purchases. We believe the economic hardships consumers now face may alter purchasing patterns such as a decrease in shopping trips and more price sensitive purchasing.

In the long-term, we believe economic conditions will improve and that our business model positions us well to capitalize on opportunities as they arise. Accordingly, we continue our conservative strategy of maintaining financial flexibility and investing prudently in long-term growth opportunities for the Company.

DISCONTINUED OPERATIONS

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Discontinued operations as reflected in the Consolidated Statement of Operations included in this Annual Report on Form 10-K ("Annual Report"), were comprised of Trinity Springs, Inc. ("TSI") in fiscal 2008, and TSI and Hawaiian Natural Water Company, Inc. ("HNWC") in fiscal 2007. At September 30, 2008, discontinued operations included on the Company's Consolidated Balance Sheet represented the residual assets and liabilities of TSI. Both TSI and HNWC operated water bottling facilities and were part of the Company's former beverage segment prior to their closure.

As discussed further in Note 2 to the Consolidated Financial Statements included in this Annual Report, in September 2007 TSI entered into an agreement with Crystal Paradise Holdings, Inc. ("CPH") which provided CPH an option to purchase TSI's remaining assets through the end of March 2009. As of September 30 2008, CPH had not yet exercised its asset purchase option.

PRINCIPAL PRODUCTS

Sales of cigarettes represented 70% and 71% of the Company's consolidated revenue in fiscal 2008 and fiscal 2007, respectively. Sales of candy, beverages, food service, groceries, health food products, paper products, health and beauty care products, and tobacco products represented approximately 30% and 29% of consolidated revenue in fiscal 2008 and fiscal 2007, respectively.

INFORMATION ON SEGMENTS

Information about our segments is presented in Note 15 to the Consolidated Financial Statements included in this Annual Report.

COMPETITION - Wholesale Distribution Segment

There are a number of both small and large wholesale distributors operating in the same geographical regions as ADC, resulting in a highly competitive marketplace. ADC is one of the largest distribution companies of its kind in its market area. ADC's principal competitors are national wholesalers such as McLane Co., Inc. (Temple, Texas) and Core-Mark International (San Francisco, California), as well as regional wholesalers such as Eby-Brown LLP (Chicago, Illinois) and Farner-Bocken (Carroll, Iowa), along with a host of smaller grocery and tobacco wholesalers.

7

Competition within the industry is based primarily on the range and quality of the services provided, pricing, variety of products offered, and the reliability of deliveries. Our larger competitors principally compete on pricing and breadth of product offerings, while our smaller competitors focus on customer service and the delivery arrangements.

ADC believes its business model is uniquely positioned to compete with a wide range of competitors including national, regional, and local wholesalers. As the seventh (7th) largest convenience store distributor in the United States, ADC has sufficient economies of scale to offer similar pricing as compared to national wholesalers, while its flexible distribution and support model allows it to provide superior customer service, and customized delivery and merchandising solutions, which have proven particularly attractive to our smaller customers.

COMPETITION - Retail Health Food Segment

The natural food retail industry is highly fragmented, with more than 11,000

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

stores operating independently or as part of small retail chains. The leading natural food retail chain, Whole Foods Market, continues to expand through new store openings and acquisitions, and competes with us in many markets. Additionally, conventional supermarkets and mass market outlets are also increasing their emphasis on the sale of natural food products.

SEASONALITY

Sales in the wholesale distribution industry are somewhat seasonal and tend to be higher in warm weather months as our convenience store customers experience increased customer traffic. The warm weather months generally fall within the Company's third and fourth fiscal quarters. Our retail health food business does not generally experience significant seasonal fluctuations in its business.

GOVERNMENT REGULATION

The Company is subject to regulation by federal, state and local governmental agencies, including the U.S. Department of Agriculture, the Food and Drug Administration, the Occupational Safety and Health Administration, and the U.S. Department of Transportation. These regulatory agencies generally impose standards for product quality and sanitation, workplace safety, and security and distribution policies.

The Company is also subject to state regulations related to the distribution and sale of cigarettes and tobacco products, generally in the form of licensing and bonding requirements. Additionally, both federal and state regulatory agencies have the ability to impose excise taxes on cigarette and tobacco products. In the past several years, a number of states have increased excise taxes on cigarettes and tobacco products. Based on recent legislative activity, we expect this trend to continue in addition to possible increases in excise taxes by the federal government. The potential of additional regulation over cigarette and tobacco products may decrease the Company's future sales and profitability.

8

ENVIRONMENTAL MATTERS

All the facilities and operations of the Company are subject to state and federal environmental regulations. The Company believes all of its real property is in substantial compliance with regulations regarding the discharge of toxic substances into the environment and is not aware of any conditions at its properties that could have a material adverse effect on its financial condition or results of operations. Further, the Company has not been notified by any governmental authority of any potential liability or other claim in connection with any of its properties. The costs and effect on the Company to comply with state and federal environmental regulations were not significant in either fiscal 2008 or fiscal 2007.

EMPLOYEES

At September 2008, the Company had 731 full-time and 114 part-time employees in the following areas:

Managerial	34
Administrative	86
Delivery	107

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Sales & Marketing	307
Warehouse	311

Total Employees	845
	=====

All of ADC's delivery employees in the Quincy, Illinois distribution center, representing approximately 4% of employees company-wide, are represented by the International Association of Machinists and Aerospace Workers. The current labor agreement with the union is effective through December 2008. Management believes its relations with its employees are satisfactory.

Corporate and Available Information

The Company's principal executive offices are located at 7405 Irvington Road, Omaha, Nebraska 68122. The telephone number at that address is 402-331-3727 and our website address is www.amcon.com. We provide free access to the various reports we file with the United States Securities and Exchange Commission through our website. These reports include, but are not limited to, our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. Please note that any internet addresses provided in this report are for information purposes only and are not intended to be hyperlinks. Accordingly, no information found and/or provided at such internet addresses is intended or deemed to be incorporated by reference herein.

You may also read and copy any materials we file with the Commission at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. You can get information about the Public Reference Room by calling 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov which contains reports, proxies and other company information.

9

ITEM 1A. RISK FACTORS

IN GENERAL

You should carefully consider the risks described below before making an investment decision concerning our securities. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of the following risks actually materializes, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline substantially. This Annual Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below and elsewhere in this Annual Report. See "Forward Looking Statements" under Item 7 of this report for a discussion of forward looking statements.

RISK FACTORS RELATED TO THE WHOLESALE BUSINESS

- The Wholesale Distribution of Cigarettes and Convenience Store Products Is Significantly Affected by Cigarette Pricing Decisions and Promotional

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Programs Offered by Cigarette Manufacturers.

We receive payments from the manufacturers of the products we distribute including allowances, discounts, volume rebates, and other merchandising incentives in connection with various incentive programs. In addition, we receive discounts from states in connection with the purchase of excise stamps for cigarettes. If the manufacturers or states change or discontinue these programs or we are unable to maintain the volume of our sales, our results of operations, business, cash flow, and financial condition could be negatively affected.

- Increases in Fuel Prices Are Reducing Profit Margins and Adversely Affecting Our Business.

Increases in fuel prices have had a negative impact on our profits over the past fiscal year. If fuel prices remain high, and we are not able to pass on these costs to customers, it will continue to adversely impact our results of operations, business, cash flow, and financial condition.

- Increases in Wholesale Distribution Business Competition May Have an Adverse Effect on Our Business.

The wholesale distribution industry is highly competitive. There are many distribution companies operating in the same geographical regions as ADC. ADC's principal competitors are national and regional wholesalers, along with a host of smaller grocery and tobacco wholesalers. Most of these competitors generally offer a wide range of products at prices comparable to ADC's. Some of our competitors have substantial financial resources and long-standing customer relationships. Heightened competition may reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, we may lose market share and our results of operations, business, cash flow, and financial condition could suffer.

10

- Due to Low Margins on the Products We Distribute, Changes in General Economic Conditions Can Adversely Affect Our Operating Results.

We derive most of our revenues from the distribution of cigarettes, other tobacco products, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products. The wholesale distribution industry is characterized by high sales volumes with relatively low profit margins. Our non-cigarette sales are at prices that are based on the cost of the product plus a percentage markup. Gross profit on cigarette sales are generally fixed on a cents per carton basis. If the cost of the cigarettes that we purchase increases due to manufacturer price increases, our inventory costs could rise. To the extent that product cost increases can not be passed on to our customers, our results from operations, business, cash flow, and financial condition could be negatively impacted.

- Our Sales Volume Is Largely Dependent upon the Distribution of Cigarette Products, Which is a Declining Sales Category.

The distribution of cigarettes represents a significant portion of our business. In fiscal 2008, approximately 70% of our consolidated revenues came from the distribution of cigarettes and generated approximately 22% of our consolidated gross profit. Due to increases in the prices of cigarettes, restrictions on advertising and promotions by cigarette manufacturers, increases in cigarette regulation and excise taxes, health concerns, smoking bans, increased pressure from anti-tobacco groups, and other factors, the U.S. cigarette market has been declining and is expected to continue to

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

decline based on recent American Wholesale Marketers Association ("AWMA") studies. If this trend continues, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

- In the United States, We Purchase Cigarettes from Manufacturers Covered by the Industry's Master Settlement Agreement, Which Results in Competition from Lower Priced Sales of Cigarettes Produced by Manufacturers Who Do Not Participate in the Master Settlement Agreement.

Increased selling prices and higher cigarette taxes have resulted in the growth of deep-discount cigarette brands. Deep-discount brands are brands generally manufactured by companies that are not original participants to the master settlement agreement, and accordingly, do not have cost structures burdened with master settlement agreement related payments to the same extent as the original participating manufacturers. Since the master settlement agreement was signed in November 1998, the category of deep-discount brands manufactured by smaller manufacturers or supplied by importers has grown substantially.

- We Face Competition from Illicit and Other Low Priced Cigarettes.

We face competition from the diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes in non-taxable jurisdictions, inter-state and international smuggling of cigarettes, increased imports of foreign low priced brands, the sale of cigarettes by third parties over the Internet and by other means designed

11

to avoid collection of applicable taxes. The competitive environment has been characterized by a continued influx of cheap products that challenge sales of higher priced and taxed cigarettes manufactured by parties to the master settlement agreement. Increased sales of counterfeit cigarettes, sales by third parties over the Internet, or sales by means to avoid the collection of applicable taxes, could have an adverse effect on our results of operations, cash flow, business, and overall financial condition.

- If the Tobacco Industry's Master Settlement Agreement Is Invalidated, or Tobacco Manufacturers Cannot Meet Their Obligations to Indemnify Us, We Could Be Subject to Substantial Litigation Liability.

In connection with the master settlement agreement, we are indemnified by the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from our sale of the tobacco products that they supply to us. However, if litigation challenging the validity of the master settlement agreement were to be successful and the master settlement agreement is invalidated, we could be subject to substantial litigation due to our sales of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we continue to be indemnified by cigarette manufacturers that are parties to the master settlement agreement, future litigation awards against such cigarette manufacturers could be so large as to eliminate the ability of the manufacturers to satisfy their indemnification obligations. Our results of operations, business, cash flow, and overall financial condition could be negatively impacted due to increased litigation costs and potential adverse rulings against us.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

- Cigarettes and Other Tobacco Products Are Subject to Substantial Excise Taxes and If These Taxes Are Increased, Our Sales of Cigarettes and Other Tobacco Products Could Decline.

Cigarette and tobacco products are subject to substantial excise taxes in the United States. Significant increases in cigarette-related taxes and/or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States. In particular, during the past several years the United States Congress has proposed legislation to renew and expand the State Children's Health Insurance Program ("SCHIP"), funded primarily through increases in federal excise taxes on cigarette and tobacco products.

While this legislation has not been passed, it will likely be reintroduced in the future and could include substantial increases in the federal excise taxes on cigarette and tobacco products. If such legislation passes, it could have an adverse impact on consumption levels and result in lower sales volumes and/or a sales shift from higher margin premium cigarette and tobacco products to lower margin deep-discount brands, which could materially impact the Company's profitability. Historically, increases in cigarette and tobacco excise taxes have resulted in reduced consumer cigarette demand.

Additionally, higher excise taxes increase the Company's accounts receivable and inventory carrying cost and could substantially impact our liquidity position. Accordingly, we may be required to obtain additional debt financing, which we may not be able to obtain on satisfactory terms or at all. Our inability to prepay the excise taxes may prevent or delay our purchase of cigarettes, which could adversely affect our ability to supply our customers.

12

RISK FACTORS RELATED TO THE RETAIL BUSINESS

- Increases in Retail Health Food Store Competition May Have an Adverse Effect on Our Business.

In the retail health food business, our primary competitors currently include national natural foods supermarkets, such as Whole Foods, specialty supermarkets, regional natural foods stores, small specialty stores, and restaurants. In addition, conventional supermarkets and mass market outlets are increasing their emphasis on the sale of natural products. Some of these potential competitors may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting, and selling their products. Increased competition may have an adverse effect on our results of operations, business, cash flow, and financial condition as the result of lower sales, lower gross profits and/or greater operating costs such as marketing.

- Part of Our Strategy Is to Expand Our Retail Health Food Business Through The Opening of New Stores, If We Are Unsuccessful it May Have an Adverse Effect on Our Business.

Our expansion strategy is dependent on finding suitable locations, and we face intense competition from other retailers for such sites. We also need to be able to open new stores timely and operate them successfully. In addition, our success is dependant on our ability to hire, train and integrate new qualified team members. Our success is also dependent on our ability to adapt our distribution, management information and other operating systems to adequately supply products to new stores at competitive prices so that we can operate the stores in a successful and profitable manner. If we are not able to find and open new store locations and close

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

poor performing stores, this could have a material adverse impact on our results of operations, business, cash flow, and overall financial condition.

- Changes in the Availability of Quality Natural and Organic Products Could Impact Our Business.

There is no assurance that quality natural and organic products including dietary supplements, fresh and processed foods and vitamins will be available to meet our future needs. If conventional supermarkets increase their natural and organic product offerings or if new laws require the reformulation of certain products to meet tougher standards, the supply of these products may be constrained. Any significant disruption in the supply of quality natural and organic products could have a materially adverse impact on our overall sales and cost of goods.

- Perishable Food Product Losses Could Materially Impact Our Results.

We believe our stores more heavily emphasize perishable products than conventional supermarket stores. The Company's emphasis on perishable products may result in significant product inventory losses in the event of extended power outages, natural disasters or other catastrophic occurrences.

13

RISK FACTORS RELATED TO THE OVERALL BUSINESS

- The Deterioration in Economic Conditions and the Recent Credit Crisis May Negatively Impact Sales in Both Our Business Segments

Our results of operations and financial condition are particularly sensitive to changes in overall economic conditions that impact retail level consumer spending, including discretionary spending. Current economic conditions and disruptions in the credit markets may reduce retail level demand in both our business segments.

Many of our wholesale segment customers are thinly capitalized and their availability to credit may impact their ability to operate as a going concern, presenting additional credit risk for the Company. Further, a general decrease in consumer discretionary spending may pressure retail level sales for our convenience store customers, which could in turn decrease our wholesale segment sales volume. A decrease in consumer spending may also decrease sales in our retail segment, as customers purchase cheaper alternatives to natural food products and/or decrease the average basket size of their purchases. If such economic issues persist, it may result in lower sales and profitability.

- Capital Needed for Expansion May Not Be Available.

The acquisition of existing stores, the opening of new retail stores, and the development of new production and distribution facilities requires significant amounts of capital. In the past, our growth has been funded primarily through proceeds from bank debt, private placements of equity and debt and internally generated cash flow. These and other sources of capital may not be available to us in the future, which could impair our ability to further expand our business.

- Restrictive Covenants in Our Revolving Credit Facility May Restrict Our

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Ability to React to Changes in Our Business or Industry Because They Restrict Our Ability to Obtain Additional Financing.

Our revolving credit facility imposes restrictions on us that could increase our vulnerability to general adverse economic and Industry conditions by limiting our flexibility in planning for and reacting to changes in our business and Industry. Specifically, these restrictions limit our ability, among other things, to: incur additional indebtedness, make distributions and limits dividends, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets.

- Failure to Meet Restrictive Covenants in Our Revolving Credit Facility Could Result in Acceleration of the Facility and We May not be Able to Find Alternative Financing.

Under our credit facility, we are required to meet certain financial ratios and tests. Our ability to comply with these covenants may be affected by factors beyond our control. If we breach any of these covenants or restrictions, it could result in an event of default under our revolving credit facility, which would permit our lenders to declare all amounts outstanding thereunder to be immediately due and payable, and our lenders under our revolving credit facility could terminate their commitments to make further extensions of credit under our revolving credit facility.

14

- We May Not Be Able to Obtain Capital or Borrow Funds to Provide Us with Sufficient Liquidity and Capital Resources Necessary to Meet Our Future Financial Obligations.

We expect that our principal sources of funds will be cash generated from our operations and financial condition and, if necessary, borrowings under our revolving credit facility. However, recent disruptions in the credit markets may impact the availability of capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs for the foreseeable future. We may require additional equity or debt financing to meet our working capital requirements or to fund our capital expenditures. We may not be able to obtain financing on terms satisfactory to us, or at all.

- We Depend on Relatively Few Suppliers for a Large Portion of Our Products, and Any Interruptions in the Supply of the Products That We Distribute Could Adversely Affect Our Results of Operations and Financial Condition.

We do not have any long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the products we distribute in the quantities we request or on favorable terms. Because we do not control the actual production of the products we distribute, we are also subject to delays caused by interruption in production based on conditions outside our control. These conditions include job actions or strikes by employees of suppliers, inclement weather, transportation interruptions, and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of the products we distribute as a result of any of the foregoing factors or otherwise, could cause us to fail to meet our obligations to our customers.

- We May Be Subject to Product Liability Claims Which Could Adversely Affect Our Business.

We may face exposure to product liability claims in the event that the use

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

of products sold by us causes injury or illness. With respect to product liability claims, we believe that we have sufficient liability insurance coverage and indemnities from manufacturers. However, product liability insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying the products we distribute, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If we do not have adequate insurance or if contractual indemnification is not available or if the counterparty can not fulfill its indemnification obligation, product liability relating to defective products could materially adversely impact our results of operations, business, cash flow, and overall financial condition.

15

- We Depend on Our Senior Management and Key Personnel.

We substantially depend on the continued services and performance of our senior management and other key personnel, particularly Christopher H. Atayan, AMCON's Chief Executive Officer and Chairman of the Board, Kathleen M. Evans, the Company's President, and Eric J. Hinkefent, the President of Health Food Associates, Inc. and Chamberlin's Natural Foods, Inc. While we maintain key person life insurance policies and have employment agreements with certain key personnel, the loss of service from any of our executive officers or key employees could harm our business.

- We Operate in a Competitive Labor Market and a Number of Our Employees Are Covered by Collective Bargaining Agreements.

We compete with other businesses in each of our markets with respect to attracting and retaining qualified employees. A shortage of qualified employees could require us to enhance our wage and benefits packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees.

In addition, at September 2008 approximately 4%, or approximately 33, of our employees are covered by a collective bargaining agreement with a labor organization, which expires in December 2008. We may not be able to renew our respective collective bargaining agreement on similar terms. We may not be able to recover labor cost increases through increased prices charged to customers or suffer business interruptions as a result of strikes or other work stoppages.

- We Are Subject to Significant Governmental Regulation and If We Are Unable to Comply with Regulations That Affect Our Business or If There Are Substantial Changes in These Regulations, Our Business Could Be Adversely Affected.

As a distributor of food products, we are subject to the regulation by the U.S. Food and Drug Administration ("FDA"). Our operations are also subject to regulation by the Occupational Safety and Health Administration ("OSHA"), the Department of Transportation and other federal, state and local agencies.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Each of these regulatory authorities have broad administrative powers with respect to our operations. If we fail to adequately comply with government regulations or regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action including imposing fines or shutting down our operations or we could be subject to increased compliance costs. If any of these events were to occur, our results of operations, business, cash flow, and financial condition would be adversely affected.

We cannot predict the impact that future laws, regulations, interpretations or applications, the effect of additional government regulations or administrative orders, when and if promulgated, or disparate federal, state and local regulatory schemes would have on our business in the future. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to

16

be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. While we do not manufacture any products, any of the aforementioned items could disrupt the supply levels of inventory that we sell. Any or all of such requirements could have an adverse effect on our results of operations, business, cash flow, and financial condition.

RISK FACTORS RELATED TO OUR COMMON STOCK

- The Company Has Very Few Shareholders of Record And, If this Number Drops below 300, the Company Will No Longer Be Obligated to Report under the Securities Exchange Act of 1934 and in Such Case We May Be Delisted from the AMEX Reducing the Ability of Investors to Trade in Our Common Stock.

If the number of record owners (including direct participants in the Depository Trust Company) of our common stock is less than 300, our obligations to file reports under the Securities Exchange Act of 1934 is suspended. If we take advantage of this right we will likely reduce administrative costs of complying with public company rules, but periodic and current information updates about the Company will not be available to investors. In addition, the common stock of the Company would be removed from listing on the AMEX. This would likely impact investors' ability to trade in our common stock.

- In Relation to the Size of Our Company We Incur Significant Costs as a Result of Being a Public Company.

As a public company, we incur significant accounting, legal, governance, compliance and other expenses that private companies do not incur. In addition, the Sarbanes-Oxley Act of 2002 and the rules subsequently implemented by the Securities and Exchange Commission and the AMEX, have required changes in corporate governance practices of public companies. These rules and regulations increase our legal, audit and financial compliance costs and make some activities more time-consuming and costly. For example, as a result of being a public company, we are required to maintain additional board committees and formalize our internal control over financial reporting and disclosure controls and procedures. In addition, we incur additional costs associated with our public company reporting requirements. These rules

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

and regulations also make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

- We Have Various Mechanisms in Place to Discourage Takeover Attempts, Which May Reduce or Eliminate Our Stockholders' Ability to Sell Their Shares for a Premium in a Change of Control Transaction.

Various provisions of our bylaws and of corporate law may discourage, delay or prevent a change in control or takeover attempt of our company by a third party that is opposed by our management and Board of Directors. These

17

anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change of control or change in our management and Board of Directors. These provisions include:

- classification of our directors into three classes with respect to the time for which they hold office;
- supermajority voting requirements to amend the provision in our certificate of incorporation providing for the classification of our directors into three such classes;
- non-cumulative voting for directors;
- control by our Board of Directors of the size of our Board of directors;
- limitations on the ability of stockholders to call special meetings of stockholders; and
- advance notice requirements for nominations of candidates for election to our Board of Directors or for proposing matters that can be acted upon by our stockholders at stockholder meetings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The location and approximate square footage of the Company's five distribution centers and thirteen retail stores at September 2008 are set forth below:

Location	Square Feet
Distribution - IL, MO, ND, NE & SD	487,000
Retail - FL, KS, MO, NE & OK	132,600
Total Square Footage	619,600

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Our Quincy, Illinois, Bismarck, North Dakota and Rapid City, South Dakota distribution facilities are owned by ADC. Our Quincy, Bismarck and Rapid City distribution centers are subject to first mortgages by M&I Bank. The Company leases its remaining distribution facilities, retail stores, offices, and certain equipment under noncancellable operating and capital leases. Management believes that its existing facilities are adequate for the Company's present level of operations, however, larger facilities and additional cross-dock facilities and retail stores may be required if the Company experiences growth in certain market areas.

18

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 13 to the Consolidated Financial Statements in Item 8 and under the caption "Credit Agreement" (with respect to the TEAM settlement) in Item 7, each of which is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2008.

EXECUTIVE OFFICERS OF THE REGISTRANT

Executive officers of our Company are appointed by the Board of Directors and serve at the discretion of the Board. The following table sets forth certain information with respect to all executive officers of our Company.

Name ----	Age ---	Position -----
Christopher H. Atayan	48	Chairman of the Board, Chief Executive Officer, Director
Kathleen M. Evans	61	President, Director
Andrew C. Plummer	34	Vice President, Chief Financial Officer, and Secretary
Philip E. Campbell	47	Senior Vice President of Planning and Compliance
Eric J. Hinkfent	47	President of Chamberlin's Market and Cafe and Akin's Natural Foods Market

CHRISTOPHER H. ATAYAN has served as the Company's Chairman of the Board since January 2008, its Chief Executive Officer since October 2006, and has been a director of the Company since 2004. From March 2006 to October 2006, Mr. Atayan served the Company in various capacities including Vice Chairman and Chief Corporate Officer. Mr. Atayan is also a consultant to Draupnir LLC (the parent of Draupnir Capital, LLC.), a director of AMCON

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Corporation, and a director of Hotlink Incorporated. He has also served as the Senior Managing Director of Slusser Associates, a New York investment banking firm, since 1988.

KATHLEEN M. EVANS has been President of the Company since 1991. Prior to that time, Ms. Evans served as Vice President of the AMCON Corporation from 1985 to 1991. From 1978 to 1985, Ms. Evans acted in various capacities with AMCON Corporation and its operating subsidiaries.

19

ANDREW C. PLUMMER has served as the Company's Chief Financial Officer and Secretary since January 2007. From 2004 to 2007, Mr. Plummer served the Company in various roles including Acting Chief Financial Officer, Corporate Controller, and Manager of SEC Compliance. Prior to joining AMCON in 2004, Mr. Plummer practiced public accounting, primarily with the accounting firm Deloitte and Touche, LLP.

PHILIP E. CAMPBELL has served as the Senior Vice President of Planning and Compliance for the Company since January 2007 and has provided consulting services for the Company since 2004. Mr. Campbell is also an officer and a director of Hotlink Incorporated. Prior to that time, Mr. Campbell held senior management roles in a number of companies, most recently as the Chief Financial Officer of Franchise Concepts, Inc. from 2001 to 2004.

Although not an executive officer of our Company, Eric. J. Hinkfent is an executive officer of two of our subsidiaries. His business experience is as follows:

ERIC J. HINKEFENT has served as President of both Chamberlin's Natural Foods, Inc. and Health Food Associates, Inc. since October 2001. Prior to that time, he served as President of Health Food Associates, Inc. beginning in 1993. He has also served on the Board of The Healthy Edge, Inc. from 1999 through 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON STOCK

The Company's common stock trades on the AMEX under the trading symbol "DIT." As of October 24, 2008, the closing stock price was \$19.85 and there were 570,397 common shares outstanding. As of that date, the Company had approximately 360 common shareholders of record (including direct participants in the Depository Trust Company). The following table reflects the range of the high and low closing prices per share of the Company's common stock reported by AMEX for fiscal 2008 and 2007.

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
4th Quarter	\$ 31.25	\$ 24.50	\$ 31.77	\$ 22.05

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

3rd Quarter	34.00	27.75	28.85	20.62
2nd Quarter	36.38	29.00	33.75	18.25
1st Quarter	44.00	26.74	19.85	12.25

20

Dividend Policy

On a quarterly basis, the Company's Board of Directors evaluates the potential declaration of dividend payments on the Company's common stock. Our dividend policy is intended to return capital to shareholders when it is most appropriate. The Company's revolving credit facility provides that it may not pay dividends on its common shares in excess of \$0.72 per common share on an annual basis.

Our Board of Directors could decide to alter our dividend policy or not pay quarterly dividends at any time in the future. Such an action by the Board of Directors could result from, among other reasons, changes in the marketplace, changes in our performance or capital needs, changes in federal income tax laws, disruptions in the capital markets, or other events affecting our business, liquidity or financial position.

The Company's Board of Directors declared cash dividends of \$0.08 per common share subsequent to the Company's second and third fiscal quarters. Cash dividends paid on common stock during fiscal 2008 totaled \$90,970. The Company paid no dividends on its common stock during fiscal 2007.

The Company has issued Series A, B and C Convertible Preferred Stock ("Convertible Preferred Stock"), which are not registered under the Securities and Exchange Act of 1934. The Company paid cash dividends on Convertible Preferred Stock totaling \$419,839 and \$418,692 during fiscal 2008 and fiscal 2007, respectively. See Note 3 to the Consolidated Financial Statements included in this Annual Report for further information regarding these securities.

COMPANY REPURCHASE OF SHARES

The Company did not repurchase shares of its common stock during fiscal 2008 or fiscal 2007.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, under Item 8, and other information in this report, including Critical Accounting Policies and Cautionary Information included at the end of this

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Item 7. The following discussion and analysis includes the results of operations for our continuing operations for the twelve month period ended September 30 in fiscal 2008 and 2007.

A separate discussion of our discontinued operations has been presented within this Item 7. Accordingly, the sales, gross profit (loss), selling, general and administrative, depreciation and amortization, direct interest, other expenses and income tax benefit for discontinued operations have not been included in our analysis of continuing operations. For more information regarding our business segments, see Item 1 "Business" of this Annual Report.

21

Strategic Initiatives

The Company has set out a number of key initiatives in conjunction with its long-term strategic plan. The primary elements of this strategic plan include:

- continuing growth in our two core businesses (wholesale distribution and retail health food);
- reducing debt and maximizing the Company's liquidity position;
- aggressively managing the Company's cost structure; and
- capitalizing on strategic acquisition opportunities.

While the Company can give no assurances, management believes these initiatives will strengthen the Company's ability to compete on a long-term basis and create shareholder value.

Significant Events In Fiscal 2008

During fiscal 2008, the Company:

- experienced a \$0.9 million, or 22.2%, increase in net income available for shareholders as compared to fiscal 2007.
- recognized income from continuing operations per basic share of \$9.65 in fiscal 2008 as compared to \$7.19 per basic share in fiscal 2007.
- recognized a loss from discontinued operations per basic share of (\$0.49) in fiscal 2008 as compared to income per basic share of \$0.44 in fiscal 2007.
- reduced average borrowings on the revolving portion of our credit agreement with Bank of America (the "Facility") by \$10.6 million as compared to fiscal 2007.
- amended and executed an early renewal of its \$55.0 million Facility with Bank of America in July 2008. The Facility was originally scheduled to mature in April 2009 and was extended through June 2011.
- reinstated the payment of dividends on shares of its common stock, paying dividends of \$0.08 per common share subsequent to its second and third fiscal quarters.

Results of Operations

The following table sets forth an analysis of various components of the Company's Statement of Operations as a percentage of sales for fiscal years 2008 and 2007:

	Fiscal Years	
	2008	2007
Sales.....	100.0%	100.0%
Cost of sales.....	92.5	92.5
Gross profit.....	7.5	7.5
Selling, general and administrative expenses.....	6.0	6.0
Depreciation and amortization.....	0.2	0.2
Operating income	1.3	1.3
Interest expense.....	0.3	0.5
Income from continuing operations before income taxes.....	1.0	0.8
Income tax expense.....	0.4	0.3
Income from continuing operations	0.6	0.5
(Loss) income on discontinued operations, net of tax.....	-	-
Net income	0.6	0.5
Preferred stock dividend requirements.....	-	-
Net income available to common shareholders.....	0.6%	0.5%

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 fiscal 2008 and 2007 are follows (dollars in millions):

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

	Sales		
	2008	2007	Incr (Decr)
Wholesale distribution segment	\$ 821.3	\$ 815.7	\$ 5.6
Retail health food segment	39.2	37.9	1.3
	-----	-----	-----
	\$ 860.5	\$ 853.6	\$ 6.9
	=====	=====	=====

23

FISCAL YEAR 2008 VERSUS FISCAL YEAR 2007 - Continuing Operations

Sales are reported net of costs associated with sales incentives provided to retailers, totaling \$15.4 million and \$15.7 million for fiscal 2008 and fiscal 2007, respectively.

Sales in our wholesale distribution segment ("wholesale") increased \$5.6 million, or 0.7%, in fiscal 2008 as compared to fiscal 2007. This change included a \$3.7 million decrease in cigarette sales and a net \$9.3 million sales increase in our tobacco, beverages, snacks, candy, grocery, health & beauty products, food service, and store supplies categories ("Other Products").

Significant items impacting our wholesale segment sales during fiscal 2008 included:

- \$14.6 million increase in cigarette sales over fiscal 2007 due to price increases implemented by major manufacturers. /1/
- \$10.0 million increase in cigarette sales over fiscal 2007 due to higher excise taxes in certain states. /1/
- \$28.3 million decrease in cigarette sales over fiscal 2007, primarily due to a 5.7% decrease in cigarette shipment volumes.
- \$9.3 million net increase in our Other Product sales category over fiscal 2007. This increase was primarily the result of higher tobacco, confectionary, and food service sales, partially offset by lower sales in our beverage category.

/1/ As these increases are passed on to our customers, they resulted in a correlating increase in the cost of sales.

Sales from our retail health food segment increased approximately \$1.3 million, or 3.5%, during fiscal 2008 as compared to fiscal 2007. A significant portion of this sales growth was attributable to higher sales in our grocery and vitamin supplement categories, driven in part by the popularity of natural food products and more health conscious consumption patterns among consumers. On a long-term basis, we believe these trends will continue and that our retail health food segment is well positioned to capitalize on such trends. In the near term, however, our sales growth in this segment may flatten or decrease due to deteriorating economic conditions as previously discussed.

GROSS PROFIT

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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 the gross profit of other entities which do include such costs. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for our wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives that we receive which are netted against such costs.

24

Gross profit by business segment for the fiscal 2008 and September 2007 are as follows (dollars in millions):

	Gross Profit		
	2008	2007	Incr (Decr)
Wholesale distribution segment	\$ 48.3	\$ 48.8	\$ (0.5)
Retail health food segment	16.4	15.4	1.0
	\$ 64.7	\$ 64.2	\$ 0.5

Gross profit in our wholesale segment decreased \$0.5 million, or 1.0%, in fiscal 2008 as compared to fiscal 2007. Significant items impacting gross profit during fiscal 2008 included a \$1.7 million reduction in benefits received from cigarette excise tax increases as compared to fiscal 2007 and a \$1.6 million increase in gross profit principally due to higher sales in Other Products. The remaining change in gross profit is primarily attributable to lower cigarette shipment volumes, fluctuations in product mix, and lower promotional spending.

Gross profit in our retail health segment increased \$1.0 million, or 5.8%, in fiscal 2008 as compared to fiscal 2007. Of this increase, approximately \$0.6 million related to higher sales volume and \$0.4 million was attributable to improved sales mix and higher overall gross profit margins.

OPERATING EXPENSE

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

Operating expenses for fiscal 2008 increased approximately \$0.2 million as compared to fiscal 2007. Significant items impacting operating expenses during fiscal 2008 included a \$1.0 million increase in fuel costs, a \$0.5 million increase in bad debt expense, and a \$0.7 million increase in compensation and employee related costs. These items were partially offset

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

by a \$1.0 million decrease in professional and legal costs, a \$0.4 million decrease in depreciation expense, and a \$0.6 million decrease in other operating expenses.

25

INTEREST EXPENSE

Fiscal 2008 interest expense decreased approximately \$1.8 million as compared to fiscal 2007. This decrease was principally related to lower prime interest rates and lower average borrowings.

The Company primarily borrows at the prime interest rate. On average, the Company's borrowing rates on variable rate debt were 2.22% lower and the average borrowings on variable rate debt were \$10.6 million lower in fiscal 2008 as compared to fiscal 2007.

DISCONTINUED OPERATIONS (Fiscal 2008 vs. Fiscal 2007)

Discontinued operations as reflected in the Consolidated Statement of Operations included in this Annual Report were comprised of Trinity Springs, Inc. ("TSI") in fiscal 2008, and TSI and Hawaiian Natural Water Company, Inc. ("HNWC") in fiscal 2007.

The Company incurred an after tax loss of (\$0.3) million related to discontinued operations in fiscal 2008 and after tax net income of \$0.2 million in fiscal 2007. Charges incurred during fiscal 2008 were primarily related to the preservation of TSI's residual assets. Fiscal 2007 results from operations benefited \$1.6 million (pre-tax) from the gain recorded in connection with the November 2006 sale of HNWC's residual assets.

As discussed further in Note 2 to the Consolidated Balance Sheet included in this Annual Report, in September 2007 the Company settled outstanding litigation among and between AMCON, TSI and CPH, resulting in a \$1.5 million deferred gain. This gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Consolidated Balance Sheets and will be recognized upon the earlier of CPH's election to exercise its TSI asset purchase option, or the expiration of the asset purchase option in March 2009. As of September 2008, CPH had not yet exercised its asset purchase option.

A summary of discontinued operations is as follows:

	Year ended September	
	2008 /1/	2007 /2/
Sales	\$ -	\$ 862,852
Operating loss /3/	(188,904)	(576,101)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Gain on disposal of discontinued operations, before income taxes	-	1,455,333
Income tax (benefit) expense	(158,000)	269,000
(Loss) income from discontinued operations	(260,952)	234,551

/1/ Includes the results of operations for TSI.

/2/ Includes the results of operations for TSI and Hawaiian Natural Water Company, Inc. ("HNWC"). HNWC was classified as continuing operations in October 2007 (Q1 2008).

/3/ Operating loss is before interest expense.

26

Liquidity and Capital Resources

OVERVIEW

Operating Activities. The Company requires cash to pay operating expenses, purchase inventory, and make capital investments. In general, the Company finances its cash flow requirements with cash generated from operating activities and credit facility borrowings. During fiscal 2008, the Company generated cash of approximately \$5.2 million from operating activities. The cash generated primarily resulted from higher overall earnings and a reduction in deferred income taxes and prepaid asset balances, partially offset by higher inventory balances.

Our variability in cash flows from operating activities is dependent on the timing of inventory purchases and seasonal fluctuations. For example, periodically we have inventory "buy-in" opportunities which offer more favorable pricing terms. As a result, we may have to hold inventory for a period longer than the payment terms. This generates a cash outflow from operating activities which we expect to reverse in later periods.

Additionally, during the warm weather months, which is our peak time of operations, we generally carry higher amounts of inventory to ensure high fill rates and maintain customer satisfaction.

Investing Activities. The Company used approximately \$0.8 million of cash during fiscal 2008 for investing activities, primarily related to capital expenditures for property and equipment.

Financing Activities. The Company used cash of \$4.7 million for financing activities during fiscal 2008. Of this amount, \$3.7 million related to net payments on the Company's credit facility, \$0.7 million related to principal payments on long-term debt, and \$0.5 million related dividends on the Company's common and preferred stock. This was partially offset by \$0.2 million in cash received on the exercise of stock options.

Cash on Hand/Working Capital. As of September 2008, the Company had cash on hand of \$0.5 million and working capital (current assets less current liabilities) of \$38.9 million. This compares to cash on hand of \$0.7 million and working capital of \$34.9 million as of September 2007.

CREDIT AGREEMENT

In July 2008, the Company amended and executed an early renewal of its \$55.0 million credit agreement with Bank of America (the "Facility"), which was originally scheduled to mature in April 2009. The significant terms of the new Facility agreement include:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

- Extended maturity date through June 2011.
- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of \$0.4 million at September 30, 2008.

27

CREDIT AGREEMENT (continued)

- The Facility bears interest at either the bank's prime rate or at a LIBOR based rate based on the election made by the Company.
- The Facility provides for an additional \$5.0 million of credit available for inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.
- Lending limits subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.
- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.
- The Facility includes a prepayment penalty equal to a predetermined percentage of the original maximum loan limit of \$60.4 million if the Company prepays the entire Facility and terminates the credit agreement before specified dates. The prepayment penalty percentages are as follows: (1) one percent (1%) if prepayment occurs on or before June 30, 2009, and (2) one-half of one percent (1/2%) if prepayment occurs subsequent to June 30, 2009 but on or before June 30, 2010.

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

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

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

The Company's maximum available credit limit for the revolving portion of the Facility was \$52.8 million at September 2008, however, the amount available for use at any given time is subject to many factors including eligible accounts receivable and inventory balances which are evaluated on a daily basis.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

At September 2008, the outstanding balance on the revolving portion of the Facility was \$34.8 million. The Facility bears interest at a variable rate equal to the bank's prime rate, which was 5.0% at September 2008. Based on our collateral and loan limits as defined by the Facility agreement, the Company's excess availability under the Facility at September 2008 was approximately \$18.0 million.

28

During fiscal 2008, our peak borrowings under the Facility were \$42.4 million and our average borrowings and average availability were \$35.5 and \$12.6 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels go up because of the borrowing limitations that are placed on collateralized assets.

In July 2008, the Company refinanced a real estate note payable which was collateralized by two of the Company's distribution facilities (Bismarck, ND and Quincy, IL). The note payable was originally due in April 2009. The terms of the new note payable include a fixed interest rate of 6.75% with monthly principal and interest installments of \$58,303 due through June 2013. The remaining principal is due at maturity in June 2013.

As part of the July 2007 Television Events & Marketing, Inc. ("TEAM") litigation settlement, the Company became obligated to pay \$46,875 in quarterly installments through October 2010 and \$31,250 in quarterly installments through October 2011. Mr. Wright has personally guaranteed these payment obligations, which totaled approximately \$0.5 million at September 2008. AMCON pays Mr. Wright an annual fee equal to 2% of the guaranteed principal in return for his personal guarantee. This guarantee is secured by a pledge of the Company's shares of Chamberlin's, Akin's, HNWC, and TSI.

TSI Financing

As previously disclosed, TSI has approximately \$2.8 million in related party debt obligations, which were in default during both fiscal 2008 and fiscal 2007. TSI has not obtained associated debt default waivers for these related party obligations. At this time, the Company does not anticipate the defaults will materially impact its future liquidity position.

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.

Dividend Payments

The Company's Board of Directors declared cash dividends of \$0.08 per common share subsequent to the Company's second and third fiscal quarters. Cash dividends paid on common stock during fiscal 2008 totaled \$90,970. The Company paid no dividends on its common stock during fiscal 2007.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

The Company has issued Series A, B and C Convertible Preferred Stock ("Convertible Preferred Stock"), which are not registered under the Securities and Exchange Act of 1934. The Company paid cash dividends on Convertible Preferred Stock totaling \$419,839 and \$418,692 during fiscal 2008 and fiscal 2007, respectively. See Note 3 to the Consolidated Financial Statements included in this Annual Report for further information regarding these securities.

29

OTHER

The Company has several capital leases for office and warehouse equipment. At September 2008, the outstanding balances on the capital leases totaled approximately \$0.3 million.

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

Off-Balance Sheet Arrangements

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

Liquidity Risk

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

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

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

Based on these considerations, the Company believes its liquidity position going forward will be adequate to sustain operations and fund future growth. However, as recent events in the financial markets have demonstrated, dramatic shifts in market conditions could materially impact the Company's ability to collect on customer accounts receivable balances and/or secure bank credit. While we don't believe the development of such issues in our business is likely, a continued steep deterioration in market conditions could materially impact our liquidity position.

Factors That Could Affect Future Results

Wholesale Segment - The wholesale distribution industry continues to experience a decline in the demand for cigarettes, resulting in part from legislative actions such as higher excise taxes and smoking bans, as well as a general decline in the number of smokers in the United States. In the past several years, legislation has been proposed to significantly increase the federal excise taxes imposed on cigarette and tobacco products to fund the State Children's Health Insurance Program ("SCHIP"). While such

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

legislation has not passed, it will likely be reintroduced in the future. If such legislation eventually passed, it could further accelerate the

30

declining demand for cigarettes and tobacco products. In fiscal 2008, sales of cigarette and tobacco products accounted for approximately 70% of the Company's consolidated sales and approximately 22% of its consolidated gross profit.

Slumping economic conditions, higher food costs, and the impact of credit card fees have negatively impacted profit margins for many of our customers. Additionally, recent disruptions in the credit markets and unprecedented fuel prices have created a challenging business environment for our largest customer segment (convenience stores).

In the short term, the Company believes the aforementioned items will pressure future wholesale profits. The Company does not, however, believe such items will materially impact its liquidity position. While these market conditions present risks, the Company believes that on a long-term basis, they provide opportunities to enhance shareholder value as smaller distributors are forced from the market creating opportunities to win market share and complete strategic acquisitions at more attractive prices.

Retail Health Food Segment - Our retail segment continues to experience year-over-year sales growth. While we enjoy a loyal customer following in this business segment, weak economic conditions combined with higher natural food costs and increased competition may negatively impact future sales growth and gross profit margins.

Other Matters - Critical Accounting Estimates

GENERAL

The Consolidated Financial Statements of the Company are prepared in accordance with U.S. generally accepted accounting principles, which require the Company to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, net revenue and expenses, and the disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company believes that the accounting estimates employed and the resulting balances are reasonable; however, actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Consolidated Financial Statements. Our critical accounting estimates are set forth below and have not changed during fiscal 2008.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

NATURE OF ESTIMATES REQUIRED. The allowance for doubtful accounts represents our estimate of uncollectible accounts receivable at the balance sheet date. We monitor our credit exposure on a weekly basis and assess the adequacy of our allowance for doubtful accounts on a quarterly basis. Because credit losses can vary significantly over time, estimating the required allowance

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

requires a number of assumptions that are uncertain.

31

ASSUMPTIONS AND APPROACH USED. We estimate our required allowance for doubtful accounts using the following key assumptions.

- Historical collections - Represented as the amount of historical uncollectible accounts as a percent of total accounts receivable.
- Specific credit exposure on certain accounts - Identified based on management's review of the accounts receivable portfolio and taking into account the financial wherewithal of particular customers that management deems to have a higher risk of collection.
- Economic conditions and credit crisis Slumping economic conditions, higher food costs, and the impact of credit card fees have negatively impacted profit margins for many of our customers. Additionally, recent disruptions in the credit markets and unprecedented fuel prices have created a challenging business environment for our largest customer segment (convenience stores). The current economic environment has impacted consumer spending on higher profit, discretionary items at convenience stores. This has a direct impact on convenience stores profitability and ultimately impacts their ability to pay their account timely, or at all.

INVENTORIES

NATURE OF ESTIMATES REQUIRED. In our businesses, we carry large quantities and dollar amounts of inventory. Inventories primarily consist of finished products purchased in bulk quantities to be sold to our customers. Given the large quantities and broad range of products we carry, there is a risk that inventory may become impaired because it has become unsaleable or unrefundable, slow moving, obsolete, or because it has been discontinued. The use of estimates is required in determining the salvage value of this inventory.

ASSUMPTIONS AND APPROACH USED. We estimate our inventory obsolescence reserve at each balance sheet date based on the following criteria:

- Slow moving products - Items identified as slow moving are evaluated on a case-by-case basis for impairment.
- Obsolete/discontinued inventory - Products identified that are near or beyond their expiration dates. We may also discontinue carrying certain product lines for our customers. As a result, we estimate the market value of this inventory as if it were to be liquidated.
- Estimated salvage value/sales price - The salvage value of the inventory is estimated using management's evaluation of the congestion in the distribution channels and experience with brokers and inventory liquidators to determine the salvage value of the inventory.

32

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets consist primarily of fixed assets and intangible assets that were acquired in business combinations. Fixed assets and amortizable identified intangible assets are assigned useful lives ranging from 3 to 40 years. Goodwill is not amortized. Impairment of reporting units, which is measured in the Company's fourth fiscal quarter in order to coincide with its budgeting process. The reporting units are valued using after-tax cash flows from operations (less capital expenditures) discounted to present value. No impairment charges were recorded by the Company in fiscal 2008 or fiscal 2007.

NATURE OF ESTIMATES REQUIRED. Management has to estimate the useful lives of the Company's long lived assets. In regard to the Company's impairment analysis, the most significant assumptions include management's estimate of the annual growth rate used to project future sales and expenses.

ASSUMPTIONS AND APPROACH USED. For fixed assets, depreciable lives are based on our accounting policy which is intended to mirror the expected useful life of the asset. In determining the estimated useful life of amortizable intangible assets, such as customer lists, we rely on our historical experience to estimate the useful life of the applicable asset and consider Industry norms as a benchmark. In evaluating potential impairment of long-lived assets, we primarily use an income based approach (discounted cash flow method) in addition to both public and private company information. A discounted cash flow methodology requires estimation in (i) forecasting future earnings (ii) determining the discount rate applicable to the earnings stream being discounted, and (iii) computing a terminal value at some point in the future.

The forecast of future earnings is an estimate of future financial performance based on current year results and management's evaluation of the market potential for growth. The discount rate is a weighted average cost of capital using a targeted debt-to-equity ratio using the Industry average under the assumption that it represents our optimal capital structure and can be achieved in a reasonable time period. The terminal value is determined using a commonly accepted growth model.

INSURANCE

The Company's insurance for workers' compensation, general liability and employee-related health care benefits are provided through high-deductible or self-insured programs. As a result, the Company accrues for its workers' compensation liability based upon claim reserves established with the assistance of a third-party administrator, which are then trended and developed. The reserves are evaluated at the end of each reporting period. Due to the uncertainty involved with the realization of claims incurred but unreported, management is required to make estimates of these claims.

ASSUMPTIONS AND APPROACH USED. In order to estimate our reserve for incurred but unreported claims we consider the following key factors:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Employee Health Insurance Claims

- Historical claims experience - We review loss runs for each month to calculate the average monthly claims experience.
- Lag period for reporting claims - Based on analysis and consultation with our third party administrator, our experience is such that we have a minimum of a one month lag period in which claims are reported.

Workers' Compensation Insurance Claims

- Historical claims experience - We review prior years' loss runs to estimate the average annual expected claims and review monthly loss runs to compare our estimates to actual claims.
- Lag period for reporting claims - We utilize the assistance of our insurance agent to trend and develop reserves on reported claims in order to estimate the amount of incurred but unreported claims. Our insurance agent uses standard insurance industry loss development models.

INCOME TAXES

The Company accounts for its income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. As required by SFAS No. 109, "Accounting for Income Taxes", these expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations.

In accordance with Financial Accounting Standards Board Interpretation, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), we must assess the likelihood that our deferred tax assets will be recovered from future taxable income and establish a related valuation allowance as appropriate. In performing our evaluation, we consider all available evidence, both positive and negative, to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance, the reversal of deferred tax liabilities and tax planning strategies. When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized.

ASSUMPTIONS AND APPROACH USED. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part upon management's judgments regarding future events.

In making that estimate we consider the following key factors:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

- our current financial position;
- historical financial information;
- future reversals of existing taxable temporary differences;
- future taxable income exclusive of reversing temporary differences and carryforwards;
- taxable income in prior carryback years; and
- tax planning strategies.

REVENUE RECOGNITION

We recognize revenue in our wholesale segment when products are delivered to customers (which generally is the same day products are shipped) and in our retail health food segment when products are sold to consumers. Sales are shown net of returns, discounts, and sales incentives to customers.

NATURE OF ESTIMATES REQUIRED. We estimate and reserve for anticipated sales discounts. We also estimate and provide a reserve for anticipated sales incentives to customers when earned under established program requirements.

ASSUMPTIONS AND APPROACH USED. We estimate the sales reserves using the following criteria:

- Sales discounts - We use historical experience to estimate the amount of accounts receivable that will not be collected due to customers taking advantage of authorized term discounts.
- Volume sales incentives - We use historical experience in combination with quarterly reviews of customers' sales progress in order to estimate the amount of volume incentives due to the customers on a periodic basis.

Our estimates and assumptions for each of the aforementioned critical accounting estimates have not changed materially during the periods presented, nor are we aware of any reasons that they would be reasonably likely to change in the future.

Recently Issued Accounting Pronouncements

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company). In February 2008, the FASB issued FASB Staff Position ("FSP") 157-1 and FSP 157-2. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope and FSP 157-2 delays the effective date of SFAS 157 for non-recurring non-financial assets and liabilities and is effective beginning in fiscal 2010 for the Company. Additionally, in October 2008 FASB issued FSP 157-3 which provides guidance in determining fair value under SFAS 157 for inactive markets.

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company).

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

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

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). This Standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 directs the hierarchy to the entity, rather than the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with generally accepted accounting principles. The Standard is effective November 15, 2008. SFAS 162 is not expected to have an impact on the financial statements.

FORWARD LOOKING STATEMENTS

This Annual Report, including Management's Discussion and Analysis, and other sections, contains forward looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, Industry conditions, company performance and financial results. Forward looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," "should," or similar expressions. For these statements,

we claim the protection of the safe harbor for forward looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

discussed elsewhere in this document, including Item 1A - Risk Factors of this Annual Report on Form 10-K, could adversely affect our results of operations, business, cash flow, and financial condition and could cause our results of operations to differ materially from those expressed in our forward looking statements:

- increases in state and federal excise taxes on cigarette and tobacco products, including proposed legislation to renew and expand the State Children's Health Insurance Program ("SCHIP"), which would be largely funded through significant increases to federal excise taxes on cigarette and tobacco products
- declining market conditions with regard to cigarettes,
- changes in promotional and incentive programs offered by manufacturers,
- credit risk associated with the Company's wholesale segment customers,
- recent events in the credit markets may impact the availability of capital resources,
- the demand for the Company's products,
- new business ventures,
- domestic regulatory and legislative risks,
- competition,
- poor weather conditions,
- increases in fuel prices,
- 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. 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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to 2008 Consolidated Financial Statements

Report of Independent Registered Public
Accounting Firm.....39

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Consolidated Balance Sheets as of September 2008 and September 2007.....	40
Consolidated Statement of Operations for the Fiscal Years Ended September 2008 and September 2007.....	41
Consolidated Statement of Shareholders' Equity for the Fiscal Years Ended September 2008 and September 2007.....	42
Consolidated Statement of Cash Flows for the Fiscal Years Ended September 2008 and September 2007.....	43
Notes to Consolidated Financial Statements.....	45

Report of Independent Registered Public Accounting Firm

To the Board of Directors
AMCON Distributing Company
Omaha, Nebraska

We have audited the consolidated balance sheets of AMCON Distributing Company and subsidiaries as of September 30, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and cash flows

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMCON Distributing Company and subsidiaries as of September 30, 2008 and 2007, and the results of their operations and their cash flows for the years ended September 30, 2008 and 2007, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of AMCON Distributing Company's internal control over financial reporting as of September 30, 2008, included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

/s/ McGLADREY & PULLEN LLP
Omaha, Nebraska
November 7, 2008

39

CONSOLIDATED BALANCE SHEETS AMCON Distributing Company and Subsidiaries

September 30,	2008	2007
ASSETS		
Current assets:		
Cash	\$ 457,681	\$ 717,55

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Accounts receivable, less allowance for doubtful accounts of \$0.8 million and \$0.3 million in 2008 and 2007, respectively	27,198,414	27,848,93
Inventories, net	37,330,969	29,738,72
Deferred income taxes	1,260,609	1,446,38
Current assets of discontinued operations	18,947	18,89
Prepaid and other current assets	3,519,650	5,935,20
	-----	-----
Total current assets	69,786,270	65,705,71
Property and equipment, net	10,907,541	11,190,76
Goodwill	5,848,808	5,848,80
Other intangible assets, net	3,373,269	3,400,07
Deferred income taxes	234,171	2,768,04
Non-current assets of discontinued operations	2,032,047	2,057,03
Other assets	1,123,252	1,093,15
	-----	-----
	\$ 93,305,358	\$ 92,063,58
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,738,214	\$ 15,253,56
Accrued expenses	5,275,697	5,293,92
Accrued wages, salaries and bonuses	2,636,699	2,202,59
Income taxes payable	313,021	367,77
Current liabilities of discontinued operations	4,041,837	4,035,86
Current maturities of credit facility	3,046,000	3,046,00
Current maturities of long-term debt	787,128	568,02
	-----	-----
Total current liabilities	30,838,596	30,767,73
Credit facility, less current maturities	32,155,005	35,808,18
Long-term debt, less current maturities	6,525,881	7,123,45
Noncurrent liabilities of discontinued operations	6,542,310	6,542,31
Series A cumulative, convertible preferred stock, \$.01 par value 100,000 authorized and issued, liquidation preference \$25.00 per share	2,438,355	2,438,35
Series B cumulative, convertible preferred stock, \$.01 par value 80,000 authorized and issued, liquidation preference \$25.00 per share	1,857,645	1,857,64
Series C cumulative, convertible preferred stock, \$.01 par value 80,000 authorized and issued, liquidation preference \$25.00 per share	1,982,372	1,982,37
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, 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, 570,397 shares outstanding at September 2008 and 529,436 shares outstanding at September 2007	5,704	5,29
Additional paid-in capital	6,995,948	6,396,13
Retained earnings (deficit)	3,963,542	(857,89)
	-----	-----
Total shareholders' equity	10,965,194	5,543,53
	-----	-----
	\$ 93,305,358	\$ 92,063,58

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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

40

CONSOLIDATED STATEMENTS OF OPERATIONS
AMCON Distributing Company and Subsidiaries

Fiscal Years Ended September	2008	2007
Sales (including excise taxes of \$206.8 million and \$208.2 million, respectively)	\$ 860,451,122	\$ 853,566,511
Cost of sales	795,774,780	789,317,751
Gross profit	64,676,342	64,248,751
Selling, general and administrative expenses	51,631,324	50,963,641
Depreciation and amortization	1,386,218	1,831,641
	53,017,542	52,795,281
Operating income	11,658,800	11,453,461
Other expense (income):		
Interest expense	2,986,215	4,816,321
Other (income), net	(114,613)	(194,601)
	2,871,602	4,621,711
Income from continuing operations before income tax expense	8,787,198	6,831,751
Income tax expense	3,194,000	2,626,001
Income from continuing operations	5,593,198	4,205,751
Discontinued operations (Note 2)		
Gain on disposal of discontinued operations, net of income tax expense of \$0.6 million	-	829,091
Loss from discontinued operations, net of income tax benefit of \$0.2 million and \$0.3 million, respectively	(260,952)	(594,531)
(Loss) income on discontinued operations	(260,952)	234,551
Net income	5,332,246	4,440,301
Preferred stock dividend requirements	(419,839)	(418,691)
Net income available to common shareholders	\$ 4,912,407	\$ 4,021,611
Basic earnings (loss) per share available to common shareholders:		
Continuing operations	\$ 9.65	\$ 7.11
Discontinued operations	(0.49)	0.41

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Net basic earnings per share available to common shareholders	\$ 9.16	\$ 7.6
<hr/>		
Diluted earnings (loss) per share available to common shareholders:		
Continuing operations	\$ 6.57	\$ 4.8
Discontinued operations	(0.31)	0.2
<hr/>		
Net diluted earnings per share available to common shareholders	\$ 6.26	\$ 5.1
<hr/>		
Weighted average shares outstanding:		
Basic	536,319	527,06
Diluted	851,298	860,12

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

41

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

AMCON Distributing Company and Subsidiaries

	Common Stock		Additional Paid in Capital	Retained Earnings (Deficit)	T
	Shares	Amount			
Balance, September 30, 2006	527,062	\$ 5,271	\$ 6,278,476	\$ (4,879,507)	\$ 1
Dividends on preferred stock	-	-	-	(418,692)	
Stock option expense	-	-	70,993	-	
Exercise of stock options	2,374	24	46,662	-	
Net income	-	-	-	4,440,304	4
<hr/>					
Balance, September 30, 2007	529,436	5,295	6,396,131	(857,895)	5
Dividends on common stock, \$0.08 per share	-	-	-	(90,970)	
Dividends on preferred stock	-	-	-	(419,839)	
Stock option expense	-	-	435,250	-	
Issuance of stock in connection with stock-based incentive plans	40,961	409	147,975	-	
Stock option tax benefit	-	-	16,592	-	
Net income	-	-	-	5,332,246	5
<hr/>					
Balance, September 30, 2008	570,397	\$ 5,704	\$ 6,995,948	\$ 3,963,542	\$ 10

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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

42

CONSOLIDATED STATEMENTS OF CASH FLOWS
AMCON Distributing Company and Subsidiaries

Fiscal Years Ended September	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,332,246	\$ 4,440,300
Deduct: (Loss) income from discontinued operations, net of tax	(260,952)	234,550
Income from continuing operations	5,593,198	4,205,750
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation	1,359,417	1,791,900
Amortization	26,801	39,730
Loss (gain) on sale of property and equipment	(39,619)	27,230
Stock based compensation	435,250	70,990
Excess tax benefit on exercise of stock options	(16,592)	
Deferred income taxes	2,719,652	2,621,260
Provision for losses on doubtful accounts	505,000	(250,190)
Provision for losses on inventory obsolescence	101,998	52,240
Changes in assets and liabilities,		
Accounts receivable	145,524	217,000
Inventories	(7,694,240)	(383,760)
Prepaid and other current assets	2,415,558	(566,050)
Other assets	(30,102)	254,310
Accounts payable	(515,348)	739,180
Accrued expenses and accrued wages, salaries and bonuses	415,879	1,574,420
Income taxes payable	(38,160)	198,830

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Net cash flows from operating activities - continuing operations	5,384,216	10,592,877
Net cash flows from operating activities - discontinued operations	(230,042)	(1,929,320)
Net cash flows from operating activities	5,154,174	8,663,557
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(845,156)	(514,270)
Proceeds from sales of property and equipment	86,209	101,320
Net cash flows from investing activities - continuing operations	(758,947)	(412,947)
Net cash flows from investing activities - discontinued operations	-	3,965,390
Net cash flows from investing activities	(758,947)	3,552,443
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on bank credit agreement	(3,653,175)	(9,969,240)
Principal payments on long-term debt	(656,092)	(734,410)
Proceeds from exercise of stock options	148,384	46,680
Excess tax benefit on exercise of stock options	16,592	-
Debt issuance costs	-	(100,000)
Dividends on preferred stock	(419,839)	(418,690)
Dividends on common stock	(90,970)	-
Net cash flows from financing activities - continuing operations	(4,655,100)	(11,175,670)
Net cash flows from financing activities - discontinued operations	-	(803,910)
Net cash flow from financing activities	(4,655,100)	(11,979,580)
Net change in cash	(259,873)	236,410
Cash, beginning of year	717,554	481,130
Cash, end of year	\$ 457,681	\$ 717,554

43

Fiscal Years	2008	2007
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 3,116,098	\$ 4,890,997
Cash paid during the year for income taxes	354,508	94,901
Supplemental disclosure of non-cash information:		
Acquisition of equipment through capital leases	\$ 277,624	68,422
Forgiveness of debt and related interest in connection with settlement of TSI litigation	-	\$ (3,735,145)
Forgiveness of water royalty in connection with settlement of TSI litigation	-	(2,807,000)
Issuance of note payable in connection with TSI litigation	-	5,000,000
Issuance of note payable in connection with settlement of TBG litigation	-	763,983
Buyer's assumption of HNWC lease in connection with the sale of HNWC's assets - discontinued operations	-	(225,502)

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

44

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Company Operations:

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,

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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.

The Company's operations are subject to a number of factors which are beyond the control of management, such as changes in manufacturers' cigarette pricing, state excise tax increases or the opening of competing retail stores in close proximity to the Company's retail stores. While the Company sells a diversified product line, it remains dependent upon cigarette sales which represented approximately 70% of revenue and 22% of gross profit in fiscal 2008, as compared to 71% of revenue and 25% of gross profit in fiscal 2007.

(b) Accounting Period:

The Company's fiscal year ends on September 30. The fiscal years ended September 30, 2008 and September 30, 2007, are herein referred to as fiscal 2008 and fiscal 2007, respectively.

(c) Principles of Consolidation and Basis of Presentation:

The Consolidated Financial Statements include the accounts of AMCON and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Where appropriate, certain prior-year amounts have been reclassified to conform to current-year presentation.

(d) Cash and Accounts Payable:

AMCON utilizes a cash management system under which an overdraft is the normal book balance in the primary disbursing accounts. Overdrafts included in accounts payable at fiscal 2008 and fiscal 2007 totaled approximately \$1.9 million and \$3.3 million, respectively, and reflect checks drawn on the disbursing accounts that have been issued but have not yet cleared through the banking system. The Company's policy has been to fund these outstanding checks as they clear with borrowings under its revolving credit facility (see Note 5). These outstanding checks (book overdrafts) are classified as cash flows from operating activities in the Consolidated Statements of Cash Flows.

45

(e) Accounts Receivable:

Accounts receivable consist primarily of amounts due to the Company from its normal business activities. An allowance for doubtful accounts is maintained to reflect the expected uncollectibility of accounts receivable based on past collection history, evaluation of impact of economic conditions on our customers, and specific risks identified in the portfolio.

(f) Inventories:

Inventories consisted of the following at September 2008 and 2007 (in millions):

	September 2008	September 2007
Finished Goods	\$ 37.3	\$ 29.7

Inventories are stated at the lower of cost, determined on a FIFO basis, or market. 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. Finished goods include total reserves of approximately \$0.6 million and \$0.5 million

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

at September 2008 and September 2007, respectively. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based upon an evaluation of slow moving and discontinued products.

(g) Prepaid Expenses and Other Current Assets:

A summary of prepaid expenses and other current assets is as follows (in millions):

	September 2008	September 2007
	-----	-----
Prepaid expenses	\$ 1.1	\$ 0.8
Prepaid inventory	2.4	5.1
	-----	-----
	\$ 3.5	\$ 5.9
	=====	=====

Prepaid inventory represents inventory in-transit that has been paid for but has not yet been received.

(h) Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation or amortization. Major renewals and improvements are capitalized and charged to expense over their useful lives through depreciation or amortization charges. Repairs and maintenance are charged to expense in the period incurred. The straight-line method of depreciation is used to depreciate assets over the estimated useful lives as follows:

	Years

Buildings	40
Warehouse equipment	5-7
Furniture, fixtures and leasehold improvements	5-12
Vehicles	5

Costs and accumulated depreciation applicable to assets retired or sold are eliminated from the accounts, and the resulting gains or losses are reported as a component of operating income.

46

(i) Long-Lived Assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Long-lived assets are reviewed annually in the fourth fiscal quarter for impairment and are reported at the lower of the carrying amount or fair value less the cost to sell. The Company did not record impairment charges in fiscal 2008 or fiscal 2007.

(j) Goodwill, Intangible and Other Assets:

Goodwill consists of the excess purchase price paid in business acquisitions over the fair value of assets acquired. At September 2008, intangible assets primarily consisted of tradenames assumed in acquisitions and other assets primarily consisted of debt issuance costs and the cash surrender value of life insurance policies.

The Company employs the non-amortization approach to account for purchased goodwill and intangible assets having indefinite useful lives. Under a non-amortization approach, goodwill and intangible assets having indefinite useful lives are not amortized into results of operations, but instead are reviewed at least annually for impairment. The Company performs its annual impairment testing of goodwill and other intangible assets during the fourth

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

fiscal quarter of each year. If the recorded value of goodwill and intangible assets having indefinite useful lives is determined to exceed their fair value, the asset is written down to its fair value and a charge is taken against the results of operations in that period. AMCON considers its tradenames to have indefinite lives. The Company did not record impairment charges related to goodwill or intangible assets during fiscal 2008 or fiscal 2007.

The benefit related to increases in the cash surrender value of split dollar life insurance policies are recorded as a reduction to insurance expense. The cash surrender value of life insurance policies is limited to the lesser of the cash value or premiums paid in accordance with regulatory guidance.

(k) Debt Issuance Costs:

The costs related to the issuance of debt are capitalized in other assets and amortized on an effective interest method to interest expense over the terms of the related debt agreements.

(l) Revenue Recognition:

AMCON recognizes revenue when title passes to our customers. In our wholesale distribution segment, this occurs when products are delivered to customers (which generally is the same day products are shipped) and in our retail health food segment when products are sold to consumers. Sales are shown net of returns and discounts.

(m) Insurance:

The Company's workers' compensation, general liability and employee-related health care benefits are provided through high-deductible or self-insurance programs. As a result, the Company accrues for its workers' compensation and general liability based upon a claim reserve analysis. The Company has issued a letter of credit in the amount of \$0.8 million to its workers' compensation insurance carrier as part of its loss control program. The reserve for incurred, but not reported, employee health care benefits is based on

47

approximately one month of claims, calculated using the Company's historical claims experience rate, plus specific reserves for large claims. The reserves associated with the exposure to these liabilities are reviewed by management for adequacy at the end of each reporting period.

(n) Income Taxes:

Deferred income taxes are determined based on temporary differences between the financial reporting and tax basis of the Company's assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to reverse.

On October 1, 2007, The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, and Related Implementation Issues" ("FIN 48"). FIN 48 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. See Note 10 for a discussion regarding the impact of applying FIN 48 on the Consolidated Financial Statements of the Company.

(o) Stock-Based Compensation:

The Company applies the provisions of SFAS No. 123 (revised 2004), Share-Based

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Payment (SFAS 123R). Under SFAS 123R, compensation cost associated with employee stock options are recognized in the Statement of Operations. This compensation expense has been reflected in our Consolidated Statement of Operations under "selling, general and administrative expenses."

(p) Per-share results:

Basic earnings or loss per share data are based on the weighted-average number of common shares outstanding during each period. Diluted earnings or loss per share data are based on the weighted-average number of common shares outstanding and the effect of all dilutive potential common shares including stock options and conversion features of the Company's preferred stock issuances.

(q) Use of Estimates:

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(r) Recently Issued Accounting Standards:

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (fiscal 2009 for the Company). In February

48

2008, the FASB issued FASB Staff Position ("FSP") 157-1 and FSP 157-2. FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope and FSP 157-2 delays the effective date of SFAS 157 for non-recurring non-financial assets and liabilities and is effective beginning in fiscal 2010 for the Company. Additionally, in October 2008 FASB issued FSP 157-3 which provides guidance in determining fair value under SFAS 157 for inactive markets.

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

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

15, 2007 (fiscal 2009 for the Company).

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

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). This Standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 directs the hierarchy to the entity, rather than the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with generally accepted accounting principles. The Standard is effective November 15, 2008. SFAS 162 is not expected to have an impact on the financial statements.

2. DISPOSITIONS

Discontinued operations as reflected in the Consolidated Statement of Operations were comprised of Trinity Springs, Inc. ("TSI") in fiscal 2008, and TSI and Hawaiian Natural Water Company, Inc. ("HNWC") in fiscal 2007. At September 30, 2008, discontinued operations included in the Company's

49

Consolidated Balance Sheet represented the residual assets and liabilities of TSI. Both TSI and HNWC operated water bottling facilities and were part of the Company's former beverage segment prior to their closure.

In September 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") to resolve litigation among and between AMCON, TSI, and Crystal Paradise Holdings, Inc. ("CPH") related to a 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from CPH.

In conjunction with the Settlement Agreement, AMCON entered into a \$5.0 million note payable to CPH. The note is due in September 2012 and accrues interest at 5.0%. The Settlement Agreement also provides CPH with an option to purchase TSI's remaining assets for a price equivalent to the amount due CPH under the \$5.0 million note payable, plus accrued interest. This option expires March 31, 2009. If CPH elects to exercise its asset purchase option, CPH is required to cancel the \$5.0 million note payable, including any accrued interest. As of September 30, 2008, CPH had not yet exercised its asset purchase option.

The Company has recorded a \$1.5 million pre-tax deferred gain in connection with the Settlement Agreement. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Consolidated Balance Sheets. The deferred gain will be recognized upon the earlier of CPH's election to exercise the asset purchase option or the expiration of the asset purchase option.

A summary of discontinued operations is as follows:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

	Year ended September	
	2008 /1/	2007 /2/
Sales	\$ -	\$ 862,852
Operating loss /3/	(188,904)	(576,101)
Gain on disposal of discontinued operations, before income taxes	-	1,455,333
Income tax (benefit) expense	(158,000)	269,000
(Loss) income from discontinued operations	(260,952)	234,551

/1/ Includes the results of operations for TSI.

/2/ Includes the results of operations for TSI and Hawaiian Natural Water Company, Inc. ("HNWC"). HNWC was classified as continuing operations in October 2007 (Q1 2008).

/3/ Operating loss is before interest expense.

50

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

	September 2008 /1/	September 2007 /2/
Fixed assets - Total noncurrent assets of discontinued operations	\$ 2.0	\$ 2.1
Accounts payable	\$ 0.5	\$ 0.7
Accrued expenses	0.7	0.5
Current portion of long-term debt due related party /3/	2.8	2.8
Total current liabilities of discontinued operations	\$ 4.0	\$ 4.0
Deferred gain on CPH settlement	\$ 1.5	\$ 1.5
Long-term debt, less current portion	5.0	5.0
Noncurrent liabilities of discontinued operations	\$ 6.5	\$ 6.5

/1/ Includes the assets and liabilities of TSI.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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

3. CONVERTIBLE PREFERRED STOCK:

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

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

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

51

\$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, as and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock, are entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock. The Preferred Stock also contain redemption features which trigger based on certain circumstances such as a change of control, bankruptcy, or minimum ownership thresholds in AMCON by Mr. William Wright ("Mr. Wright") and his family. Mr. Wright is AMCON's founder, largest common shareholder, and a Company director. The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

remains the liquidation preference. The Company's credit facility prohibits the redemption of the Series A and Series B. Series C is only redeemable so long as no event of default is in existence at the time of, or would occur after giving effect to, any such redemption, and the Company has excess availability under the credit facility of not less than \$2.0 million after giving effect to any such redemption.

The Company believes that redemption of these securities by the holders is not probable based on the following evaluation. Our executive officers and directors as a group beneficially own approximately 44% of the outstanding common stock at September 2008. Mr. Wright beneficially owns 24% of the outstanding common stock without giving effect to shares owned by his adult children. There is a substantial identity of interest among AMCON and its officers and directors for purposes of the determination of whether the triggering redemption events described above are within the control of AMCON since AMCON can only make decisions on control or other matters through those persons. Moreover, the Preferred Stock is in friendly hands with no expectation that there would be any effort by the holders of such Preferred Stock to seek optional redemption without the Board being supportive of the events that may trigger that right. The Series A is owned by Mr. Wright and a private equity firm (Draupnir, LLC) of which Mr. Hobbs, a director of the Company, is a member. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Chris Atayan, AMCON's Chief Executive Officer and Chairman of the Board of Directors pursuant to voting rights in the Certificate of Designation creating the Series B Preferred Stock. The Series C is owned by Draupnir Capital LLC, which is a subsidiary of Draupnir, LLC (the owner of Series A). Mr. Hobbs is also a Member of Draupnir Capital, LLC.

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

52

4. 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 fiscal 2008 and fiscal 2007 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 12,279 and 20,245 in fiscal 2008 and fiscal 2007, respectively. The average exercise price of anti-dilutive options and potential common stock was \$44.09 and \$38.74, in fiscal 2008 and fiscal 2007, respectively.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

	For Fiscal Years	
	2008	2007
	Basic	Basic
Weighted average number of shares outstanding	536,319	527,062
Income from continuing operations	\$ 5,593,198	\$ 4,205,753
Deduct: preferred stock dividend requirements	(419,839)	(418,692)
	\$ 5,173,359	\$ 3,787,061
(Loss) income from discontinued operations	\$ (260,952)	\$ 234,551
Net income available to common shareholders	\$ 4,912,407	\$ 4,021,612
Earnings per share from continuing operations	\$ 9.65	\$ 7.19
(Loss) earnings per share from discontinued operations	(0.49)	0.44
Net earnings per share available to common shareholders	\$ 9.16	\$ 7.63

	2008	2007
	Diluted	Diluted
	Weighted average common shares outstanding	536,319
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock /1/	314,979	333,059
Weighted average number of shares outstanding	851,298	860,121

53

	2008	2007
	Diluted	Diluted
	Income from continuing operations	\$ 5,593,198
Deduct: preferred stock dividend requirements /2/	-	-
	\$ 5,593,198	\$ 4,205,753
(Loss) income from discontinued operations	\$ (260,952)	\$ 234,551
Net income available to common shareholders	\$ 5,332,246	\$ 4,440,304
Earnings per share from continuing operations	\$ 6.57	\$ 4.89

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

(Loss)earnings per share from discontinued operations	(0.31)	0.27
Net earnings per share available to common shareholders	\$ 6.26	\$ 5.16

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

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

5. PROPERTY AND EQUIPMENT, NET:

Property and equipment at fiscal year ends 2008 and 2007 consisted of the following:

	2008	2007
Land	\$ 648,818	\$ 648,818
Buildings and improvements	9,082,533	9,048,798
Warehouse equipment	6,665,006	6,341,848
Furniture, fixtures and leasehold improvements	7,162,158	7,119,859
Vehicles	1,506,747	1,434,548
Capital equipment leases	368,967	91,343
	25,434,229	24,685,214
Less accumulated depreciation and amortization:		
Owned buildings and equipment	(14,457,774)	(13,461,822)
Capital equipment leases	(68,914)	(32,624)
	\$ 10,907,541	\$ 11,190,768

6. GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill by reporting segment at fiscal year ends 2008 and 2007 was as follows:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

	2008	2007
	-----	-----
Wholesale	\$ 3,935,931	\$ 3,935,931
Retail	1,912,877	1,912,877
	-----	-----
	\$ 5,848,808	\$ 5,848,808
	=====	=====

Other intangible assets at fiscal year ends 2008 and 2007 consisted of the following:

	2008	2007
	-----	-----
Trademarks and tradenames	\$ 3,373,269	\$ 3,373,269
Favorable leases (less accumulated amortization of \$486,000 and \$459,199 in fiscal 2007)	-	26,801
	-----	-----
	\$ 3,373,269	\$ 3,400,070
	=====	=====

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. The Company performs its annual impairment testing of goodwill and other intangible assets during the fourth fiscal quarter of each year. This review identified no impairments in fiscal 2008 or fiscal 2007.

Amortization expense for intangible assets that are considered to have finite lives was approximately \$0.03 million in fiscal 2008 and approximately \$0.04 million in fiscal 2007, respectively. All finite intangible assets were fully amortized at September 2008.

7. OTHER ASSETS:

Other assets at fiscal year ends 2008 and 2007 consisted of the following:

	2008	2007
	-----	-----
Cash surrender value of life insurance policies	\$ 808,667	\$ 806,633
Debt issuance costs	-	98,044
Other	314,585	188,473
	-----	-----
	\$ 1,123,252	\$ 1,093,150
	=====	=====

Debt issuance costs represent fees incurred to obtain the Company's revolving credit facility and real estate loans, and are being amortized over the terms of the respective loan agreements. Amortization expense related to these debt issuance costs was approximately \$0.1 million in both fiscal 2008 and 2007.

8. DEBT:

The Company primarily finances its operations through a credit facility agreement with Bank of America (the "Facility") and long-term debt agreements

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

with banks.

CREDIT FACILITY

The Facility consisted of the following at fiscal 2008 and 2007:

	2008	2007
Revolving portion of the Facility, interest payable at the bank's prime rate (5.0% at fiscal 2008), principal due June 2011	\$34,836,872	\$37,936,847
Term Note A, payable in monthly installments of \$16,333 plus interest at the bank's base rate (5.0% at fiscal 2008), remaining principal due April 2009	364,133	567,333
Term Note B, payable in monthly installments of \$100,000 plus interest at the bank's base rate plus 2%	-	350,000
	35,201,005	38,854,180
Less current maturities	3,046,000	3,046,000
	\$32,155,005	\$35,808,180

The significant terms of the Facility at September 2008 include:

- A \$55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of \$0.4 million at September 30, 2008.
- The Facility bears interest at either the bank's prime rate or at a LIBOR based rate based on the election made by the Company.
- The Facility provides for an additional \$5.0 million of credit available for inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.
- Lending limits subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

- Collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable.
- Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.
- The Facility includes a prepayment penalty equal to a predetermined

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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

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

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

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

LONG-TERM DEBT:

In addition to the Facility, the Company also has the following long-term obligations at fiscal 2008 and fiscal 2007 as follows:

	2008	2007
Continuing operations		

Note payable to a bank ("Real Estate Loan"), interest payable at a fixed rate of 6.75% with monthly installments of principal and interest of \$58,303 per month through May 2013 with remaining principal due June 2013, collateralized by two owned distribution facilities	\$5,517,542	\$5,786,352
Note payable to a bank, interest payable monthly at a fixed rate of 6.33% plus monthly principal payments of \$4,100 through December 2009 at which time the remaining principal is due, collateralized by the Rapid City building and equipment	820,000	869,200
Note payable to a bank, interest payable monthly at a fixed rate of 6.33% plus monthly principal payments of \$8,000 through July 2009 collateralized by the Rapid City building and equipment	71,429	167,429
Obligations under capital leases, payable in monthly installments with interest rates from 4.91% to 8.25% through February 2011	288,533	108,273

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Notes payable, interest payable at a fixed rate between 8.0% - 9.5% with monthly installments of principal and interest of \$2,226 - \$2,677 per month through July 2011 collateralized by delivery vehicles	136,205	180,805
Note payable, interest payable discounted at a rate of 8.25% with quarterly installments of principal and interest of \$31,250 - \$46,875 through October 2011, secured by Mr. Wright's personal guaranty (see Note 12)	479,300	579,418
	7,313,009	7,691,477
Less current maturities - continuing operations	787,128	568,024
	\$6,525,881	\$7,123,453

Discontinued operations

Note payable, fixed rate of 5.0% compounded annually, principal and interest due September 2012, collateralized by substantially all of the assets of TSI	5,000,000	5,000,000
Revolving credit facility due to a related party, principal and interest due December 2005, bearing interest at 8.0% per annum, collateralized by a second mortgage on an equal basis with the Company's existing second mortgage on TSI's real property /1/	1,000,000	1,000,000
Notes due to related parties, principal and interest due December 2005, interest at 7.0% /1/	1,000,000	1,000,000
Notes due to related party, principal and interest due December 2005, bearing interest at 300 basis points above the yield on 10-year treasury notes (6.69% at September 2008) /1/	750,000	750,000
	7,750,000	7,750,000
Less current maturities - discontinued operations	2,750,000	2,750,000
	\$5,000,000	\$5,000,000

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years following September 2008 are as follows:

Fiscal Year Ending	
2009 /2/	\$ 3,537,128
2010	1,466,524
2011	580,256
2012	5,437,603
2013	4,041,498
Thereafter	-
	\$ 15,063,009

/1/ Represents TSI notes payable to related parties which were in default at September 2008 and September 2007. TSI has not obtained associated waivers and amounts have

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

been classified as current liabilities discontinued operations.

/2/ Includes \$2.8 million in TSI notes payable to related parties which were in default at September 2008 and September 2007.

58

Market rate risk for fixed rate debt is estimated as the potential increase in fair value of debt obligations resulting from decreases in interest rates. Based on discounted cash flows using current market rates for similar agreements, the fair value of the Company's long-term debt obligations approximated carrying value at September 2008.

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 Facility. 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.

Capital leases

 The Company has several capital leases for office and warehouse equipment. As of September 2008, the outstanding balances on the capital leases totaled approximately \$0.3 million.

OTHER

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

9. OTHER INCOME, NET:

Other income, net consisted of the following for fiscal 2008 and 2007:

	2008	2007
Interest income	\$ (54,047)	\$ (56,020)
Royalty	(31,041)	(66,732)
Other	(29,525)	(71,856)
	\$ (114,613)	\$ (194,608)
	\$ (114,613)	\$ (194,608)

10. INCOME TAXES:

The components of income tax expense from continuing operations for fiscal 2008 and fiscal 2007 consisted of the following:

	2008	2007
Current: Federal	\$ 346,453	\$ 170,344
Current: State	127,895	171,202
	474,348	341,546

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

59

	2008	2007
Deferred: Federal	2,489,052	2,060,146
Deferred: State	230,600	224,308
	2,719,652	2,284,454
Income tax expense	\$ 3,194,000	\$ 2,626,000

The difference between the Company's income tax expense in the accompanying financial statements and that which would be calculated using the statutory income tax rate of 34% on income before income taxes is as follows for fiscal 2008 and fiscal 2007:

	2008	2007
Tax at statutory rate	\$ 2,987,648	\$ 2,322,795
Amortization of goodwill and other intangibles	(5,207)	(5,302)
Nondeductible business expenses	34,554	34,286
State income taxes, net of federal tax benefit	236,607	112,993
Valuation allowance, state net operating losses	43,822	(37,428)
Other	(103,424)	198,656
	\$ 3,194,000	\$ 2,626,000

Temporary differences between the financial statement carrying balances and tax basis of assets and liabilities giving rise to the net deferred tax asset at fiscal year ends 2008 and 2007 relate to the following:

	2008	2007
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	\$ 290,435	\$ 207,644
Accrued expenses	834,611	756,854
Inventory	332,528	272,234
AMT credit carry forwards	58,352	405,105
Other	61,597	65,054
	1,577,523	1,706,891
Noncurrent:		
Fixed assets	\$ 788,159	\$ 766,457
Intangible assets	1,174,815	1,571,628
Net operating loss carry forwards - federal	610,051	2,867,960
Net operating loss carry forwards - state	910,289	944,887
Other	-	27,173
	3,483,314	6,178,105

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

60

	2008	2007
Total deferred tax assets	5,060,837	7,884,996
Valuation allowance	(1,145,979)	(1,102,157)
Net deferred tax assets	\$ 3,914,858	\$ 6,782,839
Deferred tax liabilities:		
Current:		
Trade discounts	\$ 316,914	\$ 260,502
	316,914	260,502
Noncurrent:		
Fixed assets	783,590	696,522
Goodwill	608,185	524,720
Section 481 deferral	711,389	1,086,663
	2,103,164	2,307,905
Total deferred tax liabilities	\$ 2,420,078	\$ 2,568,407
Net deferred tax assets (liabilities):		
Current	\$ 1,260,609	\$ 1,446,389
Noncurrent	234,171	2,768,043
	\$ 1,494,780	\$ 4,214,432

The Company's deferred tax asset at September 2008 related to federal net operating loss carryforwards was approximately \$0.6 million and relates to the purchase of HNWC in fiscal 2002. The utilization of HNWC's net operating loss of \$1.8 million at September 2008 is limited by Internal Revenue Code Section 382 to approximately \$0.1 million per year through 2022. As of September 30, 2008, the Company had a valuation allowance of approximately \$1.1 million against certain state and federal net operating losses, which more likely than not will not be utilized.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on October 1, 2007. The results of implementing FIN 48 identified no unrecognized tax benefits and did not impact the Company's financial statements. The Company's policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statements of Operations. There were no material changes to unrecognized tax benefits, interest, or penalties during fiscal 2008 and the Company does not anticipate any such material changes during the next twelve months. The Company files income tax returns in the U.S. and various states. The tax years 2005 and forward remain open under U.S. and state statutes.

61

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

11. PROFIT SHARING PLAN:

AMCON maintains a profit sharing plan (i.e. a section 401(k) plan) covering substantially all employees. The plan allows employees to make voluntary contributions up to 100% of their compensation, subject to Internal Revenue Service limits. The Company matches 50% of the first 4% contributed and 100% of the next 2% contributed for a maximum match of 4% of employee compensation. The Company made matching contributions to the profit sharing plan of approximately \$0.6 million and \$0.5 million (net of employee forfeitures) in fiscal 2008 and 2007, respectively.

12. RELATED PARTY TRANSACTIONS:

The Company was charged fees of \$72,000 in both fiscal 2008 and fiscal 2007 by the AMCON Corporation, the former parent of the Company, as consideration for office rent and management services. Mr. Wright (the Company's founder, largest common shareholder, and director), owns a controlling interest in the AMCON Corporation. These fees have been included as a component of selling, general and administrative expense.

Mr. Wright personally guarantees a note payable issued in conjunction with the Television Events and Marketing, Inc. ("TEAM") litigation settlement as discussed in Note 8. The Company pays the Chairman an annual fee equal to 2% of the guaranteed principal in return for his personal guarantee. The amount guaranteed in connection with this settlement was approximately \$0.5 million at September 2008. The Company paid Mr. Wright approximately \$12,000 and \$3,000 during fiscal 2008 and fiscal 2007, respectively, related to this guarantee. This guarantee is secured by a pledge of the Company's shares in Chamberlin's, Akin's, HNWC, and TSI.

Through March 2008, Mr. Wright personally guaranteed the repayment of the Facility and certain term loans. In return for this guarantee, the Company paid Mr. Wright a fee equal to 2% of the guaranteed principal, which was capped at \$10.0 million. The Company paid Mr. Wright approximately \$25,000 and \$116,000 during fiscal 2008 and fiscal 2007, respectively, related to this guarantee.

13. COMMITMENTS AND CONTINGENCIES:

Future Lease Obligations

The Company leases certain office and warehouse equipment under capital leases. The carrying value of these assets was approximately \$0.3 million and \$0.1 million at fiscal 2008 and fiscal 2007, respectively, net of accumulated amortization of approximately \$0.1 million in both periods. The Company also leases various office and warehouse facilities and equipment under noncancellable operating leases. Rents charged to expense under these operating leases during fiscal 2008 and 2007 totaled approximately \$3.8 million and \$4.2 million, respectively.

At September 2008 the minimum future lease commitments for continuing and discontinued operations were as follows:

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Fiscal Year Ending -----	Capital Leases	Operating Leases
2009	\$ 148,940	\$ 3,752,209
2010	128,128	3,570,629
2011	33,743	2,882,732
2012	-	2,337,257
2013	-	1,723,763
Thereafter	-	1,974,864

Total minimum lease payments	\$ 310,811	\$ 16,241,454
		=====
Less amount representing interest	22,278	

Present value of net minimum lease payments	\$ 288,533	
		=====

Liability Insurance

The Company carries property, general liability, vehicle liability, directors and officers liability and workers' compensation insurance. Additionally, the Company carries an umbrella liability policy to provide excess coverage over the underlying limits of the aforementioned primary policies.

The Company's insurance programs for workers' compensation, general liability, and employee related health care benefits are provided through high deductible or self-insured programs. Claims in excess of self-insurance levels are fully insured. Accruals are based on claims filed and estimates of claims incurred but not reported.

The Company's liabilities for unpaid and incurred, but not reported claims, for workers' compensation and health insurance at fiscal 2008 and 2007 was \$1.3 million and \$1.4 million, respectively. These amounts are included in accrued expenses in the accompanying Consolidated Balance Sheets. While the ultimate amount of claims incurred are dependent on future developments, in the Company's opinion, recorded reserves are adequate to cover the future payment of claims previously incurred. However, it is reasonably possible that recorded reserves may not be adequate to cover the future payment of claims.

Adjustments, if any, to claims estimates previously recorded, resulting from actual claim payments, are reflected in operations in the periods in which such adjustments are known.

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

In September 2007, the Company signed a Mutual Release and Settlement Agreement (the "Settlement Agreement") to resolve litigation among and between AMCON, TSI, and Crystal Paradise Holdings, Inc. ("CPH") related to a 2004 Asset Purchase Agreement ("Asset Purchase Agreement"), under which TSI acquired certain assets from CPH.

In conjunction with the Settlement Agreement, AMCON entered into a \$5.0 million note payable to CPH. The note is due in September 2012 and accrues

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

interest at 5.0%. The Settlement Agreement also provides CPH with an option to purchase TSI's remaining assets for a price equivalent to the amount due CPH under the \$5.0 million note payable, plus accrued interest. This option expires March 31, 2009. If CPH elects to exercise its asset purchase option, CPH is required to cancel the \$5.0 million note payable, including any accrued interest. As of September 30, 2008, CPH had not yet exercised its asset purchase option.

The Company has recorded a \$1.5 million pre-tax deferred gain in connection with the Settlement Agreement. This deferred gain has been classified as a component of noncurrent liabilities of discontinued operations in the Company's Consolidated Balance Sheets. The deferred gain will be recognized upon the earlier of CPH's election to exercise the asset purchase option or the expiration of the asset purchase option.

14. EQUITY-BASED INCENTIVE AWARDS:

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. No shares have been issued under the Stock Option Plan since fiscal 2003 and all associated compensation expense has been fully amortized.

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

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

Stock Option Pricing Assumptions

April 2007 Awards

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

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 1999	\$ 45.68 - \$ 51.14	6,591	6,591
Fiscal 2000	\$ 34.50	3,123	3,123
Fiscal 2003	\$ 28.80	3,170	3,170
Fiscal 2007	\$ 18.00	25,000	8,333
		-----	-----
		37,884	21,217
		=====	=====

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

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 1999	\$ 36.82 - \$ 49.09	2,568	2,568
Fiscal 2002	\$ 26.94	834	834
Fiscal 2003	\$ 28.26	834	834
		-----	-----
		4,236	4,236
		=====	=====

The following summarizes stock options outstanding at September 2008:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Weighted-Average Exercise Price
1999 Options	\$36.82-\$51.14	9,159	0.63 years	\$47.35	9,159	\$
2000 Options	\$34.50	3,123	1.70 years	\$34.50	3,123	\$
2002 Options	\$26.94	834	3.87 years	\$26.94	834	\$
2003 Options	\$28.26-\$28.80	4,004	4.24 years	\$28.69	4,004	\$
2007 Options	\$18.00	25,000	8.25 years	\$18.00	8,333	\$
		-----		-----	-----	-----
		42,120		\$26.80	25,453	\$
		=====		=====	=====	=====

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

The following is a summary of the activity of the stock plans during fiscal 2008.

	September 2008	
	Number of Shares	Weighted Average Exercise Price
Outstanding at September 2007	51,760	\$24.81
Granted	-	-
Exercised	(9,461)	15.68
Forfeited/Expired	(179)	41.84
Outstanding at September 2008	42,120	\$26.80
Options exercisable at end of period	25,453	

The Company's stock options have varying vesting schedules, ranging up to five years and expiring ten years subsequent to the grant date. Net income before incomes taxes included stock option compensation expense of approximately \$0.1 million in both fiscal 2008 and fiscal 2007. Total unamortized compensation expense related to stock options at September 2008 totaled approximately \$0.2 million. This unamortized compensation expense is expected to be amortized over approximately the next fiscal year (the expected weighted-average period).

The aggregate intrinsic value of stock options outstanding at September 2008 and September 2007 was approximately \$0.2 million and \$0.4 million, respectively. The aggregate intrinsic value of stock options exercisable was approximately \$0.1 million at both September 2008 and September 2007.

The total intrinsic value of stock options exercised during fiscal 2008 and fiscal 2007 was approximately \$0.1 million and \$0.02 million, respectively. The total fair value of stock options vested in fiscal 2008 and 2007 was approximately \$0.2 million and \$0.01 million, respectively.

Omnibus Plan

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

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

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

	Restricted Stock /1/	Restricted Stock /2/
Date of award:	December 6, 2007	January 29, 2008
Number of shares:	24,000	7,500
Service period:	34 months	36 months
Estimated fair value of award at grant date/3/:	\$963,000	\$229,000
Intrinsic value of awards outstanding: at September 2008	\$588,000	\$183,750

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

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

/3/ Amount is net of estimated forfeitures.

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

The Company recognizes compensation expense related to restricted stock awards on a straight-line basis over the requisite service period. Accordingly, net income before incomes taxes included compensation expense of \$0.3 million in fiscal 2008. Total unamortized compensation expense related to restricted stock awards at September 2008 was approximately \$0.9 million. This unamortized compensation expense is expected to be amortized over approximately the next two fiscal years (the expected weighted-average period).

The following summarizes restricted stock activity under the Omnibus Plan during fiscal 2008:

	September 2008	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock at September 2007	-	\$ -

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Granted	31,500	40.16
Vested/Issued	-	-
Forfeited/Expired	-	-

Nonvested restricted stock at September 2008	31,500	\$40.16
=====		

67

15. BUSINESS SEGMENTS:

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

	Wholesale Distribution	Retail	Other/1/	Consoli

FISCAL YEAR ENDED 2008:				
External revenues:				
Cigarettes	\$ 604,064,437	\$ -	\$ -	\$ 604,064,437
Confectionery	61,831,556	-	-	61,831,556
Health food	-	39,218,465	-	39,218,465
Tobacco, food service & other	155,336,664	-	-	155,336,664

Total external revenues	821,232,657	39,218,465	-	860,451,122
Depreciation	1,006,613	350,092	2,712	1,359,417
Amortization	-	26,801	-	26,801
Operating income (loss)	12,159,376	3,701,901	(4,202,477)	11,658,799
Interest expense	705,981	998,973	1,281,261	2,986,215
Income (loss) from continuing operations before taxes	11,493,183	2,746,712	(5,452,697)	8,787,198
Total assets	77,462,906	11,726,718	4,115,734	93,305,358
Capital expenditures	681,533	163,623	-	845,156
FISCAL YEAR ENDED 2007:				
External revenues:				
Cigarettes	\$ 607,831,882	\$ -	\$ -	\$ 607,831,882
Confectionery	57,515,227	-	-	57,515,227
Health food	-	37,880,246	-	37,880,246
Tobacco, food service & other	150,339,157	-	-	150,339,157

Total external revenues	815,686,266	37,880,246	-	853,566,512
Depreciation	1,256,223	535,265	419	1,791,907
Amortization	-	39,733	-	39,733

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Operating income (loss)	12,864,294	3,130,394	(4,541,219)	11,45
Interest expense	1,017,846	1,506,402	2,292,076	4,81
Income (loss) from continuing operations before taxes	11,886,864	1,671,275	(6,726,386)	6,83
Total assets	73,617,793	11,857,395	6,588,397	92,06
Capital expenditures	300,897	213,380	-	51

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

68

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2008 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that our transactions are recorded as necessary

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with appropriate authorizations; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect all misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

69

We have completed our evaluation and testing of our internal control over financial reporting as required by Section 404 of Sarbanes-Oxley and Item 308T(a) of Regulation S-K (Internal Control Report). Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, we used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management has concluded that our internal control over financial reporting was effective as of September 30, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Changes in Internal Control Over Financial Reporting

During the fourth fiscal quarter of fiscal 2008, the Company implemented various polices and procedures in connection with its Section 404 Sarbanes-Oxley compliance efforts. Aside from such changes, there have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

70

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Registrant's Proxy Statement to be used in connection with the 2008 Annual Meeting of Shareholders (the "Proxy Statement") will contain under the captions "Item 1: Election of Directors--What is the structure of our Board and how often are directors elected?", "Item 1: Election of Directors--Who are this year's nominees?", "Item 1: Election of Directors--What is the business experience of the nominees and of our continuing Board members?", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Corporate Governance and Board Matters--Committees of the Board--Audit Committee", certain information required by Item 10 of Form 10-K and such information is incorporated herein by this reference.

The information appearing under the caption "Executive Officers of the Registrant" in Part I of this report also is incorporated herein by reference. Our Board of Directors has adopted a code of ethical conduct that applies to our executive officers, including our principal executive officer and our principal financial officer. This code of ethical conduct is available without charge to any person who requests it by writing to our corporate secretary. It also is available on our internet website (www.amcon.com). Any substantive amendment to, or waiver from, a provision of this code that applies to our principal executive officer or principal financial officer will be disclosed on our internet website.

ITEM 11. EXECUTIVE COMPENSATION

The Registrant's Proxy Statement will contain under the captions "Executive Compensation and Related Matters", "Corporate Governance and Board Matters--Director Compensation" and "Corporate Governance and Board Matters--Compensation Committee Interlocks and Insider Participation", the information required by Item 11 of Form 10-K, and such information is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Registrant's Proxy Statement will contain under the captions "Ownership of Our Common Stock by Our Directors and Executive Officers and Other Principal Stockholders" and "Compensation of Executive Officers - Equity Compensation Plan Information" the information required by Item 12 of Form 10-K and such information is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

The Registrant's Proxy Statement will contain under the captions "Certain Relationships and Related Transactions", "Item 1: Election of Directors--What is the structure of our Board and how often are directors elected?" and "Corporate Governance and Board Matters--Committees of the Board", the information required by Item 13 of Form 10-K and such information is incorporated herein by this reference.

71

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The Registrant's Proxy Statement will contain under the caption "Independent Auditor Fees and Services", the information required by Item 14 of Form 10-K and such information is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules, and Exhibits

(1) Financial Statements

The financial statements filed as part of this filing are listed on the index to Consolidated Financial Statements, Item 8, page 38.

(2) Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are not applicable or not required or the information required to be set forth therein is included in the Consolidated Financial Statements, Item 8, or notes thereto.

(3) Exhibits

- 3.1 Restated Certificate of Incorporation of the Company, as amended May 12, 2004
- 3.2 Certificate of Amendment of Certificate of Incorporation dated March 18, 2005
- 3.3 Second Corrected Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Securities of AMCON Distributing Company dated August 5, 2004 (incorporated by reference to Exhibit 3.3 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 3.4 Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Securities of AMCON Distributing Company dated October 8, 2004 (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 3.5 Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock dated March 6, 2006 (incorporated by reference to Exhibit 4.1 of AMCON's Current Report on Form 8-K filed on March 13, 2006)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

- 3.6 Amended and Restated Bylaws of the Company dated January 29, 2008 (incorporated by reference to Exhibit 3.2 of AMCON's Current Report on Form 8-K filed on February 4, 2008).

72

- 4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of AMCON's Registration Statement on Form S-1 (Registration No. 33-82848) filed on August 15, 1994)
- 4.2 Specimen Series A Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 4.3 Specimen Series B Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 4.4 Specimen Series C Convertible Preferred Stock Certificate (incorporated by reference to Exhibit 4.2 of AMCON's Current Report on Form 8-K filed on March 13, 2006)
- 4.5 Securities Purchase Agreement dated June 17, 2004 between AMCON Distributing Company, William F. Wright and Draupnir, LLC (incorporated by reference to Exhibit 4.3 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 4.6 Securities Purchase Agreement dated October 8, 2004 between AMCON Distributing Company and Spencer Street Investments, Inc. (incorporated by reference to Exhibit 4.5 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 4.7 Securities Purchase Agreement dated March 3, 2006 between AMCON Distributing Company and Draupnir Capital, LLC. (incorporated by reference to Exhibit 4.3 of AMCON's Current Report on Form 8-K filed on March 13, 2006)
- 10.1 Amended and Restated Loan and Security Agreement, dated September 30, 2004, between the Company and LaSalle National Bank, as agent (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 10.2 Revised First Amendment To Amended and Restated Loan and Security Agreement, dated April 14, 2005 (incorporated by reference to Exhibit 10.2 of AMCON's Quarterly Report on Form 10-Q filed on May 27, 2005)
- 10.3 Revised Second Amendment to Amended and Restated Loan and Security Agreement, dated May 23, 2005 (incorporated by reference to Exhibit 10.3 of AMCON's Quarterly Report on Form 10-Q filed on May 27, 2005)
- 10.4 Third Amendment to Amended and Restated Loan and Security Agreement, dated August 12, 2005 (incorporated by reference to Exhibit 10.4 of AMCON's Quarterly Report on Form 10-Q filed on August 22, 2005)
- 10.5 Fourth Amendment and Waiver to Amended and Restated Loan and Security

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Agreement, dated January 9, 2006 (incorporated by reference to Exhibit 10.5 of AMCON's Annual Report on Form 10-K filed on August 23, 2006)

73

- 10.6 Fifth Amendment to Amended and Restated Loan and Security Agreement, dated February 8, 2006 (incorporated by reference to Exhibit 10.6 of AMCON's Annual Report on Form 10-K filed on August 23, 2006)
- 10.7 Sixth Amendment to Amended and Restated Loan and Security Agreement, dated March 3, 2006 (incorporated by reference to Exhibit 10.1 of AMCON's Current Report on Form 8-K filed on March 13, 2006)
- 10.8 Seventh Amendment to Amended and Restated Loan and Security Agreement, dated November 6, 2006 (incorporated by reference to Exhibit 10.37 of AMCON's Quarterly Report on Form 10-Q filed on November 20, 2006)
- 10.9 Eighth Amendment to Amended and Restated Loan and Security Agreement, dated December 28, 2006 (incorporated by reference to Exhibit 10.9 of AMCON's Annual Report on Form 10-K filed December 29, 2006)
- 10.10 Ninth Amendment to Amended and Restated Loan and Security Agreement, dated July 17, 2008 (incorporated by reference to Exhibit 10.9 of AMCON's Quarterly Report on Form 10-Q filed July 17, 2008)
- 10.11 Tenth Amendment to Amended and Restated Loan and Security Agreement, dated October 15, 2008
- 10.12 First Amended and Restated AMCON Distributing Company 1994 Stock Option Plan (incorporated by reference to Exhibit 10.17 of AMCON's Current Report on Form 10-Q filed on August 4, 2000)*
- 10.13 AMCON Distributing Company Profit Sharing Plan (incorporated by reference to Exhibit 10.8 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 33-82848) filed on November 8, 1994)*
- 10.14 2007 Omnibus Incentive Plan dated April 17, 2007 (incorporated herein by reference to Exhibit 10.12 to AMCON's Annual Report on Form 10-K filed on November 9, 2007) *
- 10.15 Nonqualified Stock Option Agreement for Christopher H. Atayan dated December 12, 2006 (incorporated herein by reference to Exhibit 10.13 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)*
- 10.16 Agreement, dated September 26, 2006, between the Company and William F. Wright regarding Mr. Wright's services to the Company (incorporated by reference to Exhibit 10.1 of AMCON's Current Report on Form 8-K filed on October 10, 2006)*
- 10.17 Agreement, dated December 10, 2004 between AMCON Distributing Company and William F. Wright with respect to split dollar life insurance (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)*
- 10.18 Agreement, dated December 15, 2004 between AMCON Distributing Company

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

and Kathleen M. Evans with respect to split dollar life insurance (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)*

74

- 10.19 Security Agreement, dated June 17, 2004 by and between TSL Acquisition Corp., AMCON Distributing Company and Trinity Springs, Ltd. (incorporated by reference to Exhibit 10.17 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 10.20 Guaranty and Suretyship Agreement, dated June 17, 2004, by and between AMCON Distributing Company and Trinity Springs, Ltd. (incorporated by reference to Exhibit 10.19 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 10.21 Amended and Restated Guaranty and Suretyship Agreement dated September 30, 2007 by AMCON Distributing Company for the benefit of Crystal Paradise Holdings, Inc. (formerly known as Trinity Springs, Ltd.) (incorporated herein by reference to Exhibit 10.20 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)
- 10.22 Mortgage, dated June 17, 2004, by and between TSL Acquisition Corp., AMCON Distributing Company and Trinity Springs, Ltd. (incorporated by reference to Exhibit 10.20 of AMCON's Quarterly Report on Form 10-Q filed on August 9, 2004)
- 10.23 Guaranty Fee, Reimbursement and Indemnification Agreement, dated as of September 30, 2004, between AMCON Distributing Company and William F. Wright (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 10.24 Amendment to Guaranty Fee, Reimbursement and Indemnification Agreement, dated July 31, 2007, between AMCON Distributing Company and William F. Wright (incorporated herein by reference to Exhibit 10.23 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)
- 10.25 Guaranty and Suretyship Agreement between William F. Wright and the Company, dated June 17, 2004, regarding the guaranty of the Company's indebtedness to Trinity Springs, Ltd. (now Crystal Paradise Holdings) under the Three Year Note, the Ten Year Note and the Water Royalty (subject to a \$5.0 million cap on the Water Royalty). (incorporated by reference to Exhibit 10.26 of AMCON's Annual Report on Form 10-K filed December 29, 2006)
- 10.26 Secured Promissory Note (\$1,000,000), dated December 14, 2004, issued by Trinity Springs, Inc. to Allen D. Petersen (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 10.27 Modification and Extension of Second Lien Commercial Mortgage, Assignment of Leases and Rents, and Fixture Filing, dated as of December 14, 2004 between Trinity Springs, Inc. and Allen D. Petersen (incorporated by reference to Exhibit 3.4 of AMCON's Annual Report on Form 10-K filed on January 7, 2005)
- 10.28 Term Real Estate Promissory Note, dated December 21, 2004, issued by AMCON Distributing Company to M&I (incorporated by reference to Exhibit 10.21 of AMCON's Quarterly Report on Form 10-Q filed on

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

February 14, 2005)

75

- 10.29 Term Equipment Promissory Note, dated December 21, 2004 issued by AMCON Distributing Company to M&I (incorporated by reference to Exhibit 10.22 of AMCON's Quarterly Report on Form 10-Q filed on February 14, 2005)
- 10.30 One Hundred Eighty Day Redemption Mortgage and Security Agreement by and between AMCON Distributing Company and M&I (incorporated by reference to Exhibit 10.23 of AMCON's Quarterly Report on Form 10-Q filed on February 14, 2005)
- 10.31 Security Agreement by and between AMCON Distributing Company and M&I (incorporated by reference to Exhibit 10.24 of AMCON's Quarterly Report on Form 10-Q filed on February 14, 2005)
- 10.32 Promissory Note, dated March 30, 2005 issued by Trinity Springs, Inc. to Nebraska Distributing Company (incorporated by reference to Exhibit 10.28 of AMCON's Quarterly Report on Form 10-Q filed on August 22, 2005)
- 10.33 Subordinated Promissory Note, dated August 8, 2005 issued by Trinity Springs, Inc. to Draupnir, LLC (incorporated by reference to Exhibit 10.29 of AMCON's Quarterly Report on Form 10-Q filed on August 22, 2005)
- 10.34 Subordinated Promissory Note, dated August 8, 2005 issued by Trinity Springs, Inc. to Aristide Investments, L.P. (incorporated by reference to Exhibit 10.30 of AMCON's Quarterly Report on Form 10-Q filed on August 22, 2005)
- 10.35 Subordination Agreement, dated as of August 8, 2005, among Trinity Springs, Inc., Artiside Investment L.P., and Draupnir, LLC (incorporated by reference to Exhibit 10.31 of AMCON's Quarterly Report on Form 10-Q filed on August 22, 2005)
- 10.36 \$400,000 Subordinated Promissory Note by and between Trinity Springs, Inc. and Draupnir, LLC dated October 20, 2005 (incorporated by reference to Exhibit 10.34 of AMCON's Quarterly Report on Form 10-Q filed on September 29, 2006)
- 10.37 \$200,000 Subordinated Promissory Note by and between Trinity Springs, Inc. and Draupnir, LLC dated November 7, 2005 (incorporated by reference to Exhibit 10.35 of AMCON's Quarterly Report on Form 10-Q filed on September 29, 2006)
- 10.38 \$150,000 Subordinated Promissory Note by and between Trinity Springs, Inc. and Draupnir, LLC dated December 1, 2005 (incorporated by reference to Exhibit 10.36 of AMCON's Quarterly Report on Form 10-Q filed on September 29, 2006)
- 10.39 \$5,000,000 Secured Promissory Note by Trinity Springs, Inc. for the benefit of Crystal Paradise Holdings, Inc. (also known as Trinity Springs, Ltd.) dated September 30, 2007 (incorporated herein by reference to Exhibit 10.39 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)

- 10.40 Change of Control Agreement between the Company and Christopher H. Atayan, dated December 29, 2006 (incorporated by reference to Exhibit 10.40 of AMCON's Annual Report on Form 10-K filed on December 29, 2006)*
- 10.41 Change of Control Agreement between the Company and Kathleen M. Evans, dated December 29, 2006 (incorporated by reference to Exhibit 10.41 of AMCON's Annual Report on Form 10-K filed on December 29, 2006)*
- 10.42 Settlement Agreement and Mutual General Release dated July 31, 2007 by and between Television Events & Marketing, Inc., Tom Kiely, The Beverage Group, Inc., AMCON Distributing Company, AMCON Corporation, William F. Wright, Archie Thornton and The Thornton Works (incorporated herein by reference to Exhibit 10.42 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)
- 10.43 Mutual Release and Settlement Agreement between AMCON Distributing Company, Trinity Springs, Inc., and Crystal Paradise Holdings, Inc. dated September 30, 2007 (incorporated herein by reference to Exhibit 10.43 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)
- 10.44 Asset Purchase Agreement between Hawaiian Natural Water Company, Inc. and Hawaiian Springs, LLC dated November 20, 2006 (incorporated by reference to Exhibit 10.42 of AMCON's Quarterly Report on Form 10-Q filed on January 29, 2007)
- 10.45 Executive Restricted Stock Award Agreement under the 2007 Omnibus Incentive Plan*
- 10.46 Director Restricted Stock Award Agreement under the 2007 Omnibus Incentive Plan*
- 11.1 Statement re: computation of per share earnings (incorporated by reference to Note 4 to the Consolidated Financial Statements included as a part of this report on Form 10-K under Item 8)
- 18.1 Preferability Letter Regarding Change in Accounting Principle (incorporated herein by reference to Exhibit 18.1 to AMCON's Annual Report on Form 10-K filed on November 9, 2007)
- 21.1 Subsidiaries of the Company
- 23.1 Consent of Independent Registered Public Accounting Firm (McGlavery & Pullen LLP)
- 31.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act
- 31.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 302 of the Sarbanes-Oxley Act

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

32.1 Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act

32.2 Certification by Andrew C. Plummer, Vice President and Chief Financial Officer, furnished pursuant to section 906 of the Sarbanes-Oxley Act

* Represents management contract or compensation plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 5, 2008

AMCON DISTRIBUTING COMPANY
(registrant)

By: /s/ Christopher H. Atayan

Christopher H. Atayan,
Chief Executive Officer
and Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 5th day of November 2008.

Signature	Title
-----	-----
/s/ Christopher H. Atayan ----- Christopher H. Atayan	Chief Executive Officer, Chairman of the Board and Director
/s/ Kathleen M. Evans ----- Kathleen M. Evans	President and Director
/s/ Andrew C. Plummer ----- Andrew C. Plummer	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Signature -----	Title -----
/s/ William F. Wright ----- William F. Wright	Director
/s/ Jeremy W. Hobbs ----- Jeremy W. Hobbs	Director
/s/ John R. Loyack ----- John R. Loyack	Director
/s/ Raymond F. Bentele ----- Raymond F. Bentele	Director
/s/ Stanley Mayer ----- Stanley Mayer	Director
/s/ Timothy R. Pestotnik ----- Timothy R. Pestotnik	Director

79

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
AMCON Distributing Company
Omaha, Nebraska

We have audited the consolidated financial statements of AMCON Distributing

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

Company and subsidiaries (the Company) as of September 30, 2008 and 2007 for the years ended September 30, 2008 and 2007 and have issued our report thereon dated November 7, 2008, which report expresses an unqualified opinion. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ McGladrey & Pullen LLP
 Omaha, Nebraska
 November 7, 2008

S-1

AMCON Distributing Company Consolidated Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period		Provision (Benefit)	Net Amounts (Written Off) Recovered	Balance at End of Period	
Allowance for doubtful accounts	Sep 30, 2006	934,457	82,425	(737,882) /1/	Sep 30, 2007	27
	Sep 30, 2007	279,000	666,856	(161,856)	Sep 30, 2008	78
Allowance for						

Edgar Filing: AMCON DISTRIBUTING CO - Form 10-K

inventory						
obsolescence	Sep 30, 2006	434,143	49,244	-	Sep 30, 2007	48
	Sep 30, 2007	483,387	101,998	-	Sep 30, 2008	58

/1/ Includes \$405,261 allowance for doubtful accounts for TBG, which was reclassified from discontinued operations to continuing operations in fiscal 2006 and written off against the associated accounts receivable in fiscal 2007.

S-2