AMCON DISTRIBUTING CO
Form 10-Q
January 19, 2010

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

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 1-15589

(Exact name of registrant as specified in its charter)

Delaware	**47-0702918**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7405 Irvington Road, Omaha NE	**68122**
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

The Registrant had 575,439 shares of its $.01 par value common stock outstanding as of January 11, 2010.

Form 10-Q
1st Quarter

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	December 2009 (Unaudited)	September 2009
ASSETS		
Current assets:		
Cash	$ 517,964	$ 309,914
Accounts receivable, less allowance for doubtful accounts of $0.9 million at December 2009 and September 2009	23,681,183	28,393,198
Inventories, net	32,948,314	34,486,027
Deferred income taxes	1,703,413	1,701,568
Prepaid and other current assets	4,407,930	1,728,576
Total current assets	63,258,804	66,619,283
Property and equipment, net	11,642,259	11,256,627
Goodwill	6,149,168	5,848,808
Other intangible assets	4,959,519	3,373,269
Other assets	1,025,876	1,026,395
	$ 87,035,626	$ 88,124,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 13,914,745	$ 15,222,689
Accrued expenses	5,895,614	6,768,924
Accrued wages, salaries and bonuses	2,003,255	3,257,832
Income taxes payable	904,099	3,984,258
Current maturities of credit facility	127,067	177,867
Current maturities of long-term debt	995,327	1,470,445
Total current liabilities	23,840,107	30,882,015
Credit facility, less current maturities	25,476,512	22,655,861
Deferred income taxes	1,268,662	1,256,713
Long-term debt, less current maturities	5,858,402	5,066,185
Other long-term liabilities	440,420	
Series A cumulative, convertible preferred stock, $.01 par value 100,000 shares authorized and issued, liquidation preference $25.00 per share	2,500,000	2,500,000
Series B cumulative, convertible preferred stock, $.01 par value 80,000 shares authorized and issued, liquidation preference $25.00 per share	2,000,000	2,000,000

Shareholders equity:		
Preferred stock, $0.01 par, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B referred to above		
Common stock, $.01 par value, 3,000,000 shares authorized, 575,439 shares outstanding at December 2009 and 573,232 shares outstanding at September 2009	5,754	5,732
Additional paid-in capital	7,954,295	7,617,494
Retained earnings	17,691,474	16,140,382
Total shareholders equity	25,651,523	23,763,608
	$ 87,035,626	$ 88,124,382

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

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AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Operations
for the three months ended December 31, 2009 and 2008

	2009	2008
Sales (including excise taxes of $81.6 million and $50.3 million, respectively	$ 243,941,038	$ 217,377,363
Cost of sales	226,713,025	201,532,714
Gross profit	17,228,013	15,844,649
Selling, general and administrative expenses	13,778,739	12,797,583
Depreciation and amortization	387,269	310,334
	14,166,008	13,107,917
Operating income	3,062,005	2,736,732
Other expense (income):		
Interest expense	405,245	489,199
Other (income), net	(13,380)	(14,067)
	391,865	475,132
Income from continuing operations before income taxes	2,670,140	2,261,600
Income tax expense	941,000	860,000
Income from continuing operations	1,729,140	1,401,600
Loss from discontinued operations, net of income tax benefit of $0.1 million		(102,038)
Net income	1,729,140	1,299,562
Preferred stock dividend requirements	(74,867)	(105,533)
Net income available to common shareholders	$ 1,654,273	$ 1,194,029
Basic earnings (loss) per share available to common shareholders:		
Continuing operations	$ 2.95	$ 2.38
Discontinued operations		(0.19)
Net basic earnings per share available to common shareholders	$ 2.95	$ 2.19

Diluted earnings (loss) per share available to common shareholders:				
Continuing operations	$	2.32	$	1.64
Discontinued operations				(0.12)
Net diluted earnings per share available to common shareholders	$	2.32	$	1.52
Weighted average shares outstanding:				
Basic		560,119		545,593
Diluted		745,223		856,052

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

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AMCON Distributing Company and Subsidiaries
Condensed Consolidated Unaudited Statements of Cash Flows
for the three months ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,729,140	$ 1,299,562
Deduct: Loss from discontinued operations, net of tax		(102,038)
Income from continuing operations	1,729,140	1,401,600
Adjustments to reconcile net income from continuing operations to net cash flows from operating activities:		
Depreciation	338,099	310,334
Amortization	49,170	
Gain on sale of property and equipment	(16,935)	(43,697)
Stock based compensation	163,364	132,900
Net excess tax (benefit) deficiency on equity-based awards	(107,048)	16,592
Deferred income taxes	10,104	47,411
Provision for losses on doubtful accounts	16,426	77,006
Provision for losses on inventory obsolescence	76,703	92,790
Changes in assets and liabilities, net of effect of acquisition:		
Accounts receivable	4,695,589	3,791,365
Inventories	3,442,508	1,733,268
Prepaid and other current assets	(2,679,354)	833,568
Other assets	519	(351,942)
Accounts payable	(1,329,456)	1,023,735
Accrued expenses and accrued wages, salaries and bonuses	(2,127,887)	(1,321,463)
Income tax payable	(2,973,111)	572,219
Net cash flows from operating activities continuing operations	1,287,831	8,315,686
Net cash flows from operating activities discontinued operations		19,727
Net cash flows from operating activities	1,287,831	8,335,413
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(596,612)	(265,971)
Proceeds from sales of property and equipment	34,306	71,900
Acquisition	(3,099,836)	
Net cash flows from investing activities	(3,662,142)	(194,071)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on bank credit agreement	2,769,851	(7,866,594)
Principal payments on long-term debt	(182,901)	(197,731)
Proceeds from exercise of stock options	66,411	
Net excess tax benefit (deficiency) on equity-based awards	107,048	(16,592)

Dividends paid on preferred stock	(74,867)	(105,533)
Dividends on common stock	(103,181)	(57,039)
Net cash flows from financing activities	2,582,361	(8,243,489)
Net change in cash	208,050	(102,147)
Cash, beginning of period	309,914	457,681
Cash, end of period	$ 517,964	$ 355,534

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	2009	2008
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 381,746	$ 544,238
Cash paid during the period for income taxes	3,903,998	182,371
Supplemental disclosure of non-cash information:		
Equipment acquisitions classified as accounts payable	21,512	
Business acquisition (see Note 2):		
Inventory	1,981,498	
Property and equipment	122,978	
Customer relationships intangible asset	1,620,000	
Goodwill	300,360	
Note payable	500,000	
Contingent consideration	425,000	

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

AMCON Distributing Company and Subsidiaries (AMCON or the Company) operate two business segments:

Our wholesale distribution segment (ADC) distributes consumer products in the Central and Rocky Mountain regions of the United States.

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

WHOLESALE DISTRIBUTION SEGMENT

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

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

RETAIL HEALTH FOOD SEGMENT

The Company s retail health food stores, which are operated as Chamberlin s Market & Café (Chamberlin s or CNF and Akin s Natural Foods Market (Akin s or ANF), carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin s, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin s, which was also established in 1935, has a total of seven locations in Oklahoma, Nebraska, Missouri, and Kansas and will be opening a new store in Tulsa, Oklahoma during the Company s second fiscal quarter of 2010.

FINANCIAL STATEMENTS

The Company s fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements (financial statements) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. In preparing the accompanying financial statements, management has evaluated subsequent

events through January 18, 2010 (the financial statement issue date). The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company s annual audited consolidated financial statements for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , AMCON shall mean AMCON Distributing Company and its subsidiaries. The wholesale distribution segment of our Company will be separately referred to as ADC . Additionally, the three month fiscal periods ended December 31, 2009 and December 31, 2008 have been referred to throughout this quarterly report as Q1 2010 and Q1 2009, respectively. The fiscal balance sheet dates as of December 31, 2009, December 31, 2008, and September 30, 2009 have been referred to as December 2009, December 2008, and September 2009, respectively.

Adoption of New Accounting Standards

The Company adopted the following accounting standards during Q1 2010, none of which had a material impact on our consolidated results of operations or financial condition.

Accounting Standards Update (ASU) No. 2009-05, (Measuring Liabilities at Fair Value) provides amendments to Financial Accounting Standards Board FASB ASC Topic 820, Fair Value Measurements and Disclosure for the fair value measurement of liabilities.

FASB ASC 260-10 *(Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities)* provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Upon adoption, companies are required to retrospectively adjust their earnings per share data (including any amounts related to interim periods, summaries of earnings, and selected financial data) to conform to this pronouncement.

FASB ASC 350-30 *(Determination of the Useful Life of Intangible Assets)* 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.

FASB ASC 820 *(Fair Value Measurements)* delayed the effective date of certain fair value measurements to fiscal years beginning after November 15, 2008 (fiscal 2010 for the Company) for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Assets and liabilities subject to this deferral included goodwill, intangible assets, and long-lived assets measured at fair value for impairment assessments, and nonfinancial assets and liabilities initially measured at fair value in a business combination. These items are required to be recognized at fair value when they are considered to be other than temporarily impaired. In Q1 2010, there were no required fair value measurements for assets and liabilities measured at fair value on a non-recurring basis.

FASB ASC 810 (transitional: ASC 810-10-65-1) *(Noncontrolling Interest in Consolidated Financial Statements)* establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary.

FASB ASC 805 *(Business Combinations revised)* establishes principles and requirements regarding how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree.

FASB ASC 805-20 *(Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise From Contingencies)* addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination.

Recently Issued Accounting Pronouncements

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

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

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

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2. ACQUISITION

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

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

Total Consideration (in millions):	**Amount**
Cash	$ 3.1
Note payable	0.5
Fair value of contingent consideration	0.4
Fair value of consideration transferred	$ 4.0

<u>Recognized amounts of identifiable assets acquired (in millions):</u>

	Amount	**Weighted Average Amortization Period**
Inventory	$ 2.0	
Property and equipment	0.1	5 years
Identifiable intangible assets:		
Customer relationships	1.6	8 years
Total identifiable net assets	3.7	
Goodwill	0.3	
Total identifiable assets and goodwill	$ 4.0	

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The Company has estimated that the undiscounted payments required under the contingent consideration arrangement will approximate $0.7 million ($0.4 million fair value). The $0.3 million of goodwill arising from the acquisition primarily represents synergies and economies of scale generated through reductions in selling, general, and administrative expenses. This goodwill has been assigned to the Company s wholesale distribution segment and is expected to be deductible for tax purposes.

The following table sets forth the unaudited actual revenue and earnings included in the Company s statement of operations for Q1 2010 related to the acquisition and the pro forma revenue and earnings of the combined entity had the acquisition occurred as of the beginning of the prior year reporting period (Q1 2009). These pro forma amounts do not purport to be indicative of the actual results that would have been obtained had the acquisition occurred at the beginning of Q1 2009.

(In millions)	**Period**	**Revenue**	**Net Income**
Actual Results from	10/30/09-12/31/09	$ 9.2	$ 0.1
Supplemental pro forma results	10/01/09-12/31/09	$ 14.2	$ 0.1
Supplemental pro forma results	10/01/08-12/31/08	$ 11.7	$ 0.0

3. CONVERTIBLE PREFERRED STOCK:

The Company has two series of convertible preferred stock outstanding at December 2009 as identified in the following table:

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

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

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.

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The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Preferred Stock is redeemable at the liquidation value and at the option of the holder. The Series A Preferred Stock is owned by Mr. Chris Atayan, AMCON s Chief Executive Officer and Chairman of the Board. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Atayan, pursuant to the voting rights in the Certificate of Designation creating the Series B, as its representative.

4. INVENTORIES

Inventories consisted of finished goods at December 2009 and September 2009 and are stated at the lower of cost, determined on a first in first out, or FIFO basis, or market. The wholesale distribution and retail health food segment inventories consist of products purchased in bulk quantities to be redistributed to the Company s customers or sold at retail. Finished goods include total reserves of approximately $1.0 million at December 2009 and $0.9 million at September 2009. These reserves include the Company s obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based on an evaluation of slow moving and discontinued products.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 2009	September 2009
Wholesale Distribution Segment	$ 4,236,291	$ 3,935,931
Retail Health Food Segment	1,912,877	1,912,877
	$ 6,149,168	$ 5,848,808

Other intangible assets of the Company consisted of the following:

	December 2009	September 2009
Trademarks and tradenames	$ 3,373,269	$ 3,373,269
Customer relationships (less accumulated amortization of $33,750)	1,586,250	
	$ 4,959,519	$ 3,373,269

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

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At December 2009, intangible assets considered to have finite lives represent acquired customer relationships. The customer relationships are being amortized over 8 years and Q1 2010 amortization expense related to this intangible asset was $33,750. Amortization expense for the customer relationships for the eight years subsequent to September 30, 2009 (the Company s prior fiscal year end) is estimated as follows:

	Fiscal 2010/1/	Fiscal 2011	Fiscal 2012	Fiscal 2013	Thereafter
Customer relationships	151,875	202,500	202,500	202,500	826,875

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

6. DIVIDENDS:

On October 27, 2009, the Company declared a cash dividend of $0.18 per common share payable on November 30, 2009 to shareholders of record as of November 9, 2009. Cash dividends paid to common shareholders during Q1 2010 totaled $103,181.

7. EARNINGS (LOSS) PER SHARE

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

Anti-dilutive stock options and potential common stock outstanding at December 2008 were excluded from the computation of diluted earnings per share. At December 2008, such potential common shares totaled 41,983 and had an average exercise price of $26.74. There were no anti-dilutive shares excluded from the computation of diluted earnings per share at December 2009.

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	For the three months ended December			
	2009		2008	
	Basic	**Diluted**	**Basic**	**Diluted**
Weighted average common shares outstanding	560,119	560,119	545,593	545,593
Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/		185,104		310,459
Weighted average number of shares outstanding	560,119	745,223	545,593	856,052
Income from continuing operations	$ 1,729,140	$ 1,729,140	$ 1,401,600	$ 1,401,600
Deduct: preferred stock dividend requirements /2/	(74,867)		(105,533)	
	1,654,273	1,729,140	1,296,067	1,401,600
Loss from discontinued operations	$	$	$ (102,038)	$ (102,038)
Net income available to common shareholders	$ 1,654,273	$ 1,729,140	$ 1,194,029	$ 1,299,562
Income per share from continuing operations	$ 2.95	$ 2.32	$ 2.38	$ 1.64
Loss per share from discontinued operations	$	$	$ (0.19)	$ (0.12)
Net earnings per share available to common shareholders	$ 2.95	$ 2.32	$ 2.19	$ 1.52

/1/ Diluted earnings per share calculation includes all stock options, Convertible Preferred Stock, and restricted stock, in each case, that are 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.

8. DEBT

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

A June 2011 maturity date.

A $55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of $0.1 million at December 2009.

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

The Facility provides for an additional $5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank s prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

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

Collateral including all of the Company s equipment, intangibles, inventories, and accounts receivable.

Provides that the Company may not pay dividends on its common stock in excess of $0.72 per share on an annual basis.

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

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at December 2009.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the Company s availability was approximately $25.1 million at December 2009 and the outstanding balance on the revolving portion of the Facility was $25.5 million. The resulting credit limit on the Facility at December 2009 was $50.6 million.

At December 2009, the revolving portion of the Company s Facility balance bore interest based on the bank s prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.04% at December 2009.

At December 2009, the Company had $6.9 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at December 2009.

Cross Default and Co-Terminus Provisions

The Company s owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank (M&I), which is also a participant lender on the Company s revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. There were no such cross defaults at December 2009. 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.

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OTHER

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

Off-Balance Sheet Arrangements

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

9. EQUITY-BASED INCENTIVE AWARDS

Stock Options

The Company s stock options have varying vesting schedules ranging up to five years and expire ten years from the grant date. Stock options issued and outstanding to management employees at December 2009 are summarized as follows:

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 2000	$ 34.50	1,456	1,456
Fiscal 2003	$ 28.80	629	629
Fiscal 2007	$ 18.00	25,000	25,000
		27,085	27,085

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

Date	Exercise Price	Number of Options Outstanding	Number Exercisable
Fiscal 2002	$ 26.94	834	834

The following summarizes all stock options outstanding at December 2009:

	Exercise Price	Number Outstanding	Remaining Weighted-Average Contractual Life	Weighted-Average Exercise Price	Exercisable Number Exercisable	Exercisable Weighted-Average Exercise Price
2000 Options	$ 34.50	1,456	0.45 years	$ 34.50	1,456	$ 34.50
2002 Options	$ 26.94	834	2.62 years	$ 26.94	834	$ 26.94
2003 Options	$ 28.80	629	2.79 years	$ 28.80	629	$ 28.80
2007 Options	$ 18.00	25,000	6.95 years	$ 18.00	25,000	$ 18.00
		27,919		$ 19.37	27,919	$ 19.37

The following is a summary of the activity of the stock plans for the three months ended December 2009:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 2009	30,126	$ 20.16
Granted		
Exercised	(2,207)	$ 30.09
Forfeited/Expired		
Outstanding at December 2009	27,919	$ 19.37

Net income before income taxes included compensation expense related to stock options of approximately $0.1 million in both Q1 2010 and Q1 2009. At December 2009, there was no unamortized compensation expense related to stock options. The aggregate intrinsic value of stock options outstanding and exercisable at December 2009 was approximately $1.3 million.

Omnibus Plan

The Company has an Omnibus Incentive Plan (the Omnibus Plan) which provides for equity incentives to employees. The Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus Plan permits the issuance of up to 150,000 shares of the Company s common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares, and dividend share awards payable in the form of common stock or cash.

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

	Restricted Stock /1/	Restricted Stock /2/
Date of award:	December 6, 2007	January 29, 2008
Number of shares:	24,000	7,500
Service period:	34 months	36 months
Estimated fair value of award at grant date/3/:	$ 963,000	$ 229,000
Intrinsic value of awards outstanding at December 2009:	$ 528,000	$ 330,000

/1/ 16,000 shares were vested at December 2009. The remaining 8,000 shares will vest on October 16, 2010.

/2/ 2,500 shares were vested at December 2009. The remaining 5,000 shares will

vest in equal amounts (2,500 per year) on January 29, 2010 and January 29, 2011.

/3/ Amount is net of estimated forfeitures.

There is no direct cost to the recipients of the restricted stock awards, except for any applicable taxes. The recipients of restricted stock are entitled to full voting rights and the customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company s common stock. All cash dividends and/or distributions payable to restricted stock recipients will be held in escrow until all the conditions of vesting have been met.
The Company recognizes compensation expense related to restricted stock awards on a straight-line basis over the requisite service period. Accordingly, net income before income taxes included compensation expense of $0.1 million in both Q1 2010 and Q1 2009. Total unamortized compensation expense related to restricted stock awards at December 2009 was approximately $0.4 million. This unamortized compensation expense is expected to be amortized over approximately the next twelve months (the expected weighted-average period).
The following summarizes restricted stock activity under the Omnibus Plan for the three months ended December 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested restricted stock at September 2009	21,000	$ 40.16
Granted		
Vested	(8,000)	$ 42.50
Expired		
Nonvested restricted stock at December 2009	13,000	$ 38.72

10. BUSINESS SEGMENTS

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

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	Wholesale Distribution	Retail	Other /1/	Consolidated
THREE MONTHS ENDED DECEMBER 2009:				
External revenue:				
Cigarettes	$ 177,584,045	$	$	$ 177,584,045
Confectionery	15,307,821			15,307,821
Health food		8,926,489		8,926,489
Tobacco, food service & other	42,122,683			42,122,683
Total external revenue	235,014,549	8,926,489		243,941,038
Depreciation	266,580	70,372	1,147	338,099
Amortization	49,170			49,170
Operating income (loss)	3,998,612	917,307	(1,853,914)	3,062,005
Interest expense	122,197	124,624	158,424	405,245
Income (loss) from continuing operations before taxes	3,879,649	802,830	(2,012,339)	2,670,140
Total assets	74,327,598	11,729,960	978,068	87,035,626
Capital expenditures	437,314	159,297		596,611

	Wholesale Distribution	Retail	Other /1/	Consolidated
THREE MONTHS ENDED DECEMBER 2008:				
External revenue:				
Cigarettes	$ 152,262,945	$	$	$ 152,262,945
Confectionery	15,461,696			15,461,696
Health food		8,980,794		8,980,794
Tobacco, food service & other	40,671,928			40,671,928
Total external revenue	208,396,569	8,980,794		217,377,363
Depreciation	248,164	61,023	1,147	310,334
Amortization				
Operating income (loss)	3,288,077	587,839	(1,139,184)	2,736,732
Interest expense	132,679	169,545	186,975	489,199
Income (loss) from continuing operations before taxes	3,159,150	428,609	(1,326,159)	2,261,600
Total assets	71,535,006	11,341,987	4,025,032	86,902,025
Capital expenditures	128,490	137,481		265,971

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

operations.

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

This Quarterly Report on Form 10-Q, including the Management s Discussion and Analysis and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management s current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words future, position, anticipate(s), expect, believe(s), see, plan, further improve, outlook, should or similar express statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

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

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

CRITICAL ACCOUNTING ESTIMATES

Certain accounting estimates used in the preparation of the Company s financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our Form 10-K for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the three months ended December 2009.

FIRST FISCAL QUARTER 2010 (Q1 2010)

The following discussion and analysis includes the Company s results of operations from continuing operations for the three months ended December 2009 and 2008. Continuing operations are comprised of our wholesale distribution and retail health food segments. A separate discussion of discontinued operations has been presented following our analysis of continuing operations.

During Q1 2010, the Company:

- acquired the distribution assets of Discount Distributors, a wholesale distributor to convenience stores with annual sales of approximately $59.8 million.
- recorded net income available to common shareholders of $1.7 million, a $0.5 million increase over Q1 2009.
- paid a $0.18 dividend per common share, an 80% increase over Q1 2009.

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WHOLESALE DISTRIBUTION SEGMENT (ADC)

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

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

RETAIL HEALTH FOOD SEGMENT

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

Business Update General

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

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

Business Update Wholesale Distribution Segment

The wholesale distribution industry is mature and intensely competitive. Historically, cigarette and tobacco products have represented one of the largest sales categories for convenience stores and their distributors alike. Recent legislative actions such as excise tax increases and smoking bans, however, have decreased the demand for these products.

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In June 2009, new legislation was signed into law which provided the FDA with broad authority to regulate the manufacture, distribution, marketing, and sale of cigarette and tobacco products. In one of its first major regulatory actions in September 2009, the FDA banned the manufacture, shipment, and sale of certain flavored cigarettes. If such regulatory actions were to continue, we believe decreasing demand trends for cigarette and tobacco products could accelerate.

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

Business Update Retail Health Food Segment

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

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

Despite the impact of the recession, we believe the long-term prospects for this segment remain attractive and continue to pursue growth through ongoing evaluations of potential new locations. If health food retailers can demonstrate value and provide consumers with affordable choices, we believe overall demand for natural food products will rebound as the current economic conditions begin to dissipate.

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RESULTS OF OPERATIONS

	For the three months ended December			
	2009	2008	Incr (Decr)	% Change
CONSOLIDATED:				
Sales /1/	$ 243,941,038	$ 217,377,363	$ 26,563,675	12.2
Cost of sales	226,713,025	201,532,714	25,180,311	12.5
Gross profit	17,228,013	15,844,649	1,383,364	8.7
Gross profit percentage	7.1%	7.3%		
Operating expense	14,166,008	13,107,917	1,058,091	8.1
Operating income	3,062,005	2,736,732	325,273	11.9
Interest expense	405,245	489,199	(83,954)	(17.2)
Income tax expense	941,000	860,000	81,000	9.4
Income from continuing operations	1,729,140	1,401,600	327,540	23.4
BUSINESS SEGMENTS:				
Wholesale				
Sales	$ 235,014,549	$ 208,396,569	$ 26,617,980	12.8
Gross profit	13,386,777	12,197,029	1,189,748	9.8
Gross profit percentage	5.7%	5.9%		
Retail				
Sales	$ 8,926,489	$ 8,980,794	$ (54,305)	(0.6)
Gross profit	3,841,236	3,647,620	193,616	5.3
Gross profit percentage	43.0%	40.6%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $3.8 million in both Q1 2010 and Q1 2009.

SALES:

Changes in sales are driven by two primary components:

(i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and

(ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

SALES Q1 2010 vs. Q1 2009

Sales in our wholesale distribution segment increased $26.6 million in Q1 2010 as compared to Q1 2009. This change included a $25.3 million increase in cigarette sales and a net $1.3 million increase in sales of tobacco, beverages, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories (Other

Products).

Significant items impacting our Q1 2010 wholesale segment sales included:

- $9.2 million increase in sales related the acquisition of Discount Distributors during the period.
- $32.0 million increase in cigarette sales due to price increases implemented by manufacturers as compared to Q1 2009.
- $15.9 million decrease in sales, primarily related to a reduction in cigarette cartons sold as compared to Q1 2009.

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Sales in our retail health food segment decreased approximately $0.1 million in Q1 2010 as compared to Q1 2009. This decrease was primarily related to lower sales volumes in our highly perishable food categories, particularly in our Florida retail stores, which have been impacted by a severe regional economic downturn and increased competition from other natural food chains.

GROSS PROFIT Q1 2010 vs. Q1 2009

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

Gross profit in our wholesale segment increased $1.2 million in Q1 2010 as compared to Q1 2009. This increase primarily resulted from higher gross margins in our tobacco product categories totaling approximately $1.4 million and a $0.7 million increase in gross profit related to changes in promotional allowances and the acquisition of Discount Distributors. These increases were partially offset by a $0.9 million decrease in gross profit primarily attributable to a decrease in the volume of cigarette cartons sold.

Gross profit for the retail health segment increased $0.2 million in Q1 2010 as compared to Q1 2009. This increase was primarily related to lower throw-out costs and improved gross margins.

OPERATING EXPENSE Q1 2010 vs. Q1 2009

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

Operating expenses increased approximately $1.1 million in Q1 2010 as compared to Q1 2009. This increase primarily resulted from higher compensation costs during the current period.

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INTEREST EXPENSE Q1 2010 vs. Q1 2009

Q1 2010 interest expense decreased $0.1 million as compared to Q1 2009. This change was principally related to lower interest rates and average borrowings on the Company s credit facility. In Q1 2010, the Company s average interest rates and average borrowings on its revolving credit facility were 0.2% and $1.0 million lower, respectively, as compared to Q1 2009.

DISCONTINUED OPERATIONS Q1 2010 vs. Q1 2009

Losses from discontinued operations in Q1 2009 primarily represented interest charges and costs incurred to preserve the Company s assets. All discounted operations were wound-down during the Company s prior fiscal year (fiscal 2009).

	Q1 2010	Q1 2009
Operating loss		(44,129)
Interest expense		(116,009)
Income tax benefit		(58,000)
Loss from discontinued operations		(102,038)

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 Q1 2010, the Company generated cash of approximately $1.3 million from operating activities. The cash generated resulted from higher overall earnings and reductions in accounts receivable and inventory. These items were partially offset by an increase in prepaid and other assets and reductions in accounts payable, accrued expenses, and income taxes payable.

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

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Investing Activities. The Company used approximately $3.7 million of cash during Q1 2010 for investing activities, primarily related to the acquisition of the distribution assets of Discount Distributors.

Financing Activities. The Company generated cash of $2.6 million for financing activities during Q1 2010. Of this amount, $2.8 million related to net advances on the Company s credit facility which was used to fund the Company s acquisition of Discount Distributors, and $0.2 million related to the exercise of stock options. Offsetting these items was $0.2 million of payments on long-term debt, and $0.2 million related to dividends on the Company s common and preferred stock.

Cash on Hand/Working Capital. At December 2009, the Company had cash on hand of $0.5 million and working capital (current assets less current liabilities) of $39.4 million. This compares to cash on hand of $0.3 million and working capital of $35.7 million at September 2009.

CREDIT AGREEMENT

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

A June 2011 maturity date.

A $55.0 million revolving credit limit, plus the outstanding balance on Term Note A. Term Note A had an outstanding balance of $0.1 million at December 2009.

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

The Facility provides for an additional $5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank s prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

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

Collateral including all of the Company s equipment, intangibles, inventories, and accounts receivable.

Provides that the Company may not pay dividends on its common stock in excess of $0.72 per share on an annual basis.

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

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The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at December 2009.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the Company s availability was approximately $25.1 million at December 2009 and the outstanding balance on the revolving portion of the Facility was $25.5 million. The resulting credit limit on the Facility at December 31, 2009 was $50.6 million.

At December 2009, the revolving portion of the Company s Facility balance bore interest based on the bank s prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.04% at December 2009.

At December 2009, the Company had $6.9 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at December 2009.

During Q1 2010, our peak borrowings under the Facility were $39.6 million and our average borrowings and average availability were $31.6 and $20.0 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

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 paid cash dividends of $103,181 or $0.18 per common share, in Q1 2010, and $57,039 or $0.10 per common share, in Q1 2009. The Company paid cash dividends related to the Convertible Preferred Stock of $74,867 and $105,533, respectively, during Q1 2010 and Q1 2009.

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OTHER

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Liquidity Risk

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

The Company s credit facility with Bank of America expires in June 2011. We believe the Company continues to have a strong working relationship with Bank of America and has maintained compliance with all related debt covenants. The Company also aggressively monitors its customer credit risk to limit exposure in that area.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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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 December 31, 2009 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Limitations on Effectiveness of Controls

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

Changes in Internal Control Over Financial Reporting

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits

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

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SIGNATURES

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

	AMCON DISTRIBUTING COMPANY (registrant)
Date: January 18, 2010	/s/ Christopher H. Atayan Christopher H. Atayan, Chief Executive Officer and Chairman
Date: January 18, 2010	/s/ Andrew C. Plummer Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer