AMCON DISTRIBUTING CO
Form 10-K
November 08, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2010

o **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

(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 o   No þ

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 o   No þ

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 þ   No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 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. þ

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. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on March 31, 2010 was $21,463,007, computed by reference to the $59.59 closing price of such common stock equity on March 31, 2010.

As of November 2, 2010 there were 577,432 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 December 2010 annual meeting of stockholders to be filed with the Commission pursuant to Regulation 14A - Part III.

AMCON DISTRIBUTING COMPANY

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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 Company s 2010 and 2009 fiscal years ended September 30, are herein referred to as fiscal 2010 and fiscal 2009, respectively. The fiscal year-end balance sheet dates of September 30, 2010 and September 30, 2009 are referred to herein as September 2010 and September 2009, 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 NYSE Amex Equities (formerly the American Stock Exchange) under the symbol DIT. The Company operates two business segments:

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

Our retail health food segment (Retail Segment) operates fourteen health food retail stores located throughout the Midwest and Florida.

WHOLESALE SEGMENT

Our Wholesale Segment serves approximately 4,300 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. We currently distribute over 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. Our largest customer category is convenience stores. In October 2010, Convenience Store News ranked us as the ninth (9th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment operates five distribution centers located in Illinois, Missouri, Nebraska, North Dakota and South Dakota. These distribution centers, combined with cross-dock facilities, comprise approximately 487,000 square feet of floor space. Our principal suppliers include Philip Morris USA, RJ Reynolds Tobacco, Proctor & Gamble, Hershey, Mars, Quaker, and Nabisco. We also market private label lines of snuff, water, candy products, batteries, film, and other products. We do not maintain any long-term purchase contracts with these suppliers.

RETAIL SEGMENT

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

COMPETITIVE STRENGTHS

We believe that we benefit from a number of competitive strengths, including the following:

Industry Experience

The management teams for both of our business segments include substantial depth in the areas of logistics, sales, and marketing. This experience is beneficial for the management of vendor and customer relationships as well as overall operational execution.

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Flexible Distribution Capabilities and Customer Service Programs

The size and flexibility of our wholesale distribution operations strategically positions us to service a broad range of customers from independent retail outlets to large multi-location retailers. Our customized customer service programs assist our customers in maximizing vendor promotions and by providing access to private label and custom food services, store layout and design consultation, and overall profitability consulting, all of which have proven particularly popular.

Unique Product Selection

Our retail health foods business prides itself in carrying a unique and superior-quality selection of natural food products and vitamin supplements. Our unique product set, combined with highly trained and knowledgeable in-store associates, has created a loyal customer following where our stores are sought out destinations, providing a personalized shopping experience.

BUSINESS STRATEGY

We have a three-pronged business strategy to drive growth and create shareholder value in which we seek to:

- organically grow our wholesale distribution business in the regions in which we operate.
- pursue strategic acquisition opportunities within the wholesale distribution industry.
- judiciously expand our retail health food business through new store openings.

To execute against this strategy, the Company has rigorous operational processes in place designed to control costs, manage credit risk, monitor inventory levels, and maintain maximum liquidity. The success of our strategy ultimately resides on our continued ability to provide our customers with unmatched service, unique product offerings, and leading edge technologies.

PRINCIPAL PRODUCTS

Sales of cigarettes represented 72% and 71% of the Company s consolidated revenue in fiscal 2010 and fiscal 2009, respectively. Sales of candy, beverages, food service, groceries, health food products, paper products, health and beauty care products, and tobacco products represented approximately 28% and 29% of consolidated revenue in fiscal 2010 and fiscal 2009, respectively.

DIVESTITURES

As discussed further in Note 2 to the Consolidated Financial Statements included in this Annual Report, in fiscal 2009 Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company s, completed the sale of its operating assets.

INFORMATION ON SEGMENTS

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

COMPETITION Wholesale Segment

Our Wholesale Segment is one of the largest distributing companies of its kind within the regions in which we operate. We do, however, have a number of both small and large wholesale distributors operating in the same geographical regions as our Company, resulting in a highly competitive marketplace. Our 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.

Competition within the industry is primarily based 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 their delivery arrangements.

We believe our business model is uniquely positioned to compete with a wide range of competitors including national, regional, and local wholesalers. As the ninth (9th) largest convenience store distributor in the United States based on annual sales (according to Convenience Store News), our wholesale distribution business has sufficient economies of scale to offer competitive pricing as compared to national wholesalers, while our flexible distribution and support model allows us to provide a high level of customer service and customized merchandising solutions. The flexibility of our service offerings has proven particularly attractive to our small and mid-sized customers looking to expand.

COMPETITION Retail Segment

Food supplement retailing is an intensely competitive business. We face competition from a variety of sales channels including local, regional, and national retailers, specialty supermarkets, membership clubs, farmers markets, and other natural foods stores, each of which competes with us on the basis of product selection, quality, customer service, and price.

The natural food retail industry is highly fragmented, with more than 12,000 stores operating independently or as part of small retail chains and more than 36,000 stores when national chains such as Whole Foods Markets, General Nutrition Centers (GNC), and Vitamin World are included. The increasing demand for natural products has fueled an expansion by national chains which continue to add new stores and complete acquisitions. Additionally, in recent years conventional supermarkets have begun offering natural food products adding an additional layer of competition.

SEASONALITY

Sales in the wholesale distribution industry are somewhat seasonal and tend to be higher in warm weather months during which 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 U.S. Food and Drug Administration (FDA), the Occupational Safety and Health Administration (OSHA), and the U.S. Department of Transportation (DOT). 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 state and federal regulatory agencies have the ability to impose excise taxes on cigarette and tobacco products. In recent years a number of states, as well as the federal government, have increased the excise taxes levied on cigarettes and tobacco products. We expect this trend to continue as legislators look for alternatives to fund budget shortfalls and as a mechanism to discourage tobacco product use.

ENVIRONMENTAL MATTERS

All of the Company s facilities and operations are subject to state and federal environmental regulations. The Company believes it is in compliance with all such regulations and is not aware of any violations 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 2010 or fiscal 2009.

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EMPLOYEES

At September 2010, the Company had 674 full-time and 111 part-time employees, which together serve in the following areas:

Managerial	36
Administrative	87
Delivery	104
Sales & Marketing	277
Warehouse	281
Total Employees	785

Approximately thirty of our wholesale delivery employees in our Quincy, Illinois distribution center are represented by the International Association of Machinists and Aerospace Workers. The current labor agreement with the union is effective through December 2011.

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.

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

Regulation of Cigarette and Tobacco Products by the FDA May Negatively Impact Our Operations.

In June 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law which granted the FDA the authority to regulate the production, distribution, and marketing of tobacco products in the United States. Specifically, the legislation established an FDA office to regulate changes to nicotine yields, chemicals, flavors, ingredients, and the labeling used to produce and market tobacco products. The new FDA office is financed through user fees paid by tobacco companies, which is passed on to wholesale distributors and end consumers in the form of higher costs.

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To date, most of the regulatory and compliance burden related to this legislation has fallen upon product manufacturers. However, if the FDA were to impose new regulations impacting wholesale distributors that we are not able to comply with, we could face remedial actions such as fines, suspension of product distribution rights, and/or termination of operations. Further, if the FDA were to issue product bans or product restrictions, our future revenue stream could materially decrease. If any of these items were to occur, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

Our Sales Volume Is Largely Dependent upon the Distribution of and demand for Cigarette Products Which is a Declining Sales Category.

The distribution of cigarettes represents a significant portion of our business. During fiscal 2010, approximately 72% of our consolidated revenues came from the distribution of cigarettes which generated approximately 27% of our consolidated gross profit. Due to manufacturer price increases, restrictions on advertising and promotions, regulation, higher excise taxes, health concerns, smoking bans, and other factors, the demand for cigarettes may continue to decline. If this occurs, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

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. Significant increases in cigarette-related taxes and/or fees have been imposed by both individual states and the federal government in recent years. Further, the new regulatory responsibilities of the FDA are being funded by fees imposed on tobacco companies. These fees have been passed on to wholesale distributors and end consumers in the form of higher prices for cigarette and tobacco products.

Increases in excise taxes and fees imposed by the FDA may reduce the long-term demand for cigarette and tobacco products and/or result in a sales shift from higher margin premium cigarette and tobacco products to lower margin deep-discount brands, while at the same time increasing the Company s accounts receivable risk and inventory carrying costs. If any of these events were to occur, our results from operations, cash flow, liquidity position, and overall financial condition could be negatively impacted.

Divestiture and Consolidation Trends Within the Convenience Store Industry May Negatively Impact Our Operations.

Continued divestitures and consolidations within the convenience store industry reflect a trend that may result in customer losses for us if the acquiring entity is served by another wholesale distributor or we are unable to retain the business. If we were to lose a substantial volume of business because of these trends, our results from operations, cash flow, business, and overall financial condition could be negatively impacted.

Higher Fuel Prices Could Reduce Profit Margins and Adversely Affect Our Business.

Increases in fuel prices can and do have a negative impact on our profit margins. If fuel prices increase and we are not able to meaningfully pass on these costs to customers, it could adversely impact our results of operations, business, cash flow, and financial condition.

The Wholesale Distribution of Convenience Store Products Is Significantly Affected by Pricing Decisions and Promotional Programs Offered by 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.

Competition Within The Wholesale Distribution Industry 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 our Company. Our Company s principal competitors are national and regional

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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 those offered by our Company. 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.

We Occasionally Purchase Cigarettes From Manufacturers Not Covered by The Tobacco Industry s Master Settlement Agreement (MSA), Which May Expose Us to Certain Potential Liabilities and Financial Risks for Which We Are Not Indeminified.

In June 1994, the Mississippi attorney general brought an action against various tobacco industry members on behalf of the state to recover state funds paid for health-care costs related to tobacco use. Subsequently, most other states sued the major U.S. cigarette manufacturers based on similar theories. The cigarette manufacturer defendants settled the first four of these cases with Mississippi, Florida, Texas and Minnesota by separate agreements. These states are referred to as non-MSA states. In November 1998, the major U.S. tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia and certain U.S. territories. The MSA and the other state settlement agreements settled health-care cost recovery actions and monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products, imposed a stream of future payment obligations on major U.S. cigarette manufacturers and placed significant restrictions on the ability to market and sell cigarettes. The payments required under the MSA resulted in the products sold by the participating manufacturers being priced at higher levels than the products sold by non-MSA manufacturers.

In order to limit our potential tobacco related liabilities, we try to limit our purchases of cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of liability limitations and indemnities we are entitled to under the MSA do not apply to sales of cigarettes manufactured by non-MSA manufacturers. From time-to-time, however, we find it necessary to purchase a limited amount of cigarettes from non-MSA manufacturers. For example, during a transition period while integrating distribution operations from an acquisition we may need to purchase and distribute cigarettes manufactured by non-MSA manufacturers to satisfy the demands of customers of the acquired business. With respect to sales of such non-MSA cigarettes, we could be subject to litigation that could expose us to liabilities for which we would not be indemnified.

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 MSA, we are indemnified by many of the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from the 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 all or part of the master settlement agreement is invalidated, we could be subject to substantial litigation due to the 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.

We Face Competition From Sales of Deep-Discount Brands and Illicit and Other Low Priced Sales of Cigarettes.

Increased selling prices for cigarettes 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 MSA, and accordingly do not have cost structures burdened by master settlement agreement. Since the MSA was signed, the category of deep-discount brands manufactured by smaller manufacturers or supplied by importers has grown substantially. If this growth continues, our results of operations, business cash flows, and overall financial condition would be negatively impacted.

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 Market, specialty supermarkets, regional natural foods stores, small specialty stores, and restaurants. In addition, conventional supermarkets and mass market outlets also offer 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 a material 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 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 material adverse impact on our overall sales and product costs.

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.

RISK FACTORS RELATED TO THE OVERALL BUSINESS

A Further Deterioration in Economic Conditions May Negatively Impact Sales in Both Our Business Segments

Our results of operations and financial condition are particularly sensitive to changes in the overall economy, including the level of consumer spending. Further changes in discretionary spending patterns may decrease demand from our convenience store customers and/or impact the demand for natural food products in our retail health food stores as customers purchase cheaper product alternatives.

Additionally, many of our wholesale segment customers are thinly capitalized and their access to credit in the current business environment may be impacted by their ability to operate as a going concern, presenting additional credit risk for the Company. If the economic downturn persists or deteriorates further, it may result in lower sales and profitability as well as customer credit defaults.

Periods of Significant or Prolonged Inflation or Deflation Affect our Product Costs and Profitability

Volatile product costs have a direct impact on our business. Prolonged periods of product cost inflation may have a negative impact on our profit margins and earnings to the extent that we are unable to pass on all or a portion of such product cost increases to our customers, which may have a negative impact on our business and our profitability. In addition, product cost inflation may negatively impact consumer spending decisions, which could adversely impact our sales. Conversely, our business may be adversely impacted by periods of prolonged product cost deflation because we make a significant portion of our non-tobacco sales at prices that are based on the cost of products we sell plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant.

Technology Dependence Could Have a Material Negative Impact on Our Business

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology network. We use software and other technology systems, among other things, to generate and select orders, to load and route trucks and to monitor and manage our business on a day-to-day basis. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs. While the Company has invested and continues to invest in technology initiatives, these measures cannot fully insulate us from a disruption that could result in adverse effects on operations and profits.

Adverse Publicity About Us or Lack of Confidence in Our Products Could Negatively Impact Our Reputation and Reduce Earnings

Maintaining a good reputation and public confidence in the products we distribute is critical to our business. Anything that damages that reputation or the public s confidence in our products, whether or not justified, including adverse publicity about the quality, safety or integrity of our products, could quickly and adversely affect our revenues and profits. In addition, such adverse publicity may result in product liability claims, a loss of reputation, and product recalls which would have a material adverse effect on our sales and operations.

Capital Needed for Expansion May Not Be Available.

The acquisition of other distributors, 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.

Covenants in Our Revolving Credit Facility May Restrict Our Ability to React to Changes Within Our Business or Industry.

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, pay 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 maintain a minimum debt service ratio. Our ability to comply with this covenant may be affected by factors beyond our control. If we breach, or if our lender contends that we have breached this covenant or any other 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.

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 if necessary, borrowings under our revolving credit facility. However, the current and future conditions 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 Sell 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 sell in the quantities we request or on favorable terms. Because we do not control the actual production of the products we sell, we are also subject to delays caused by interruption in production based on conditions beyond 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 sell as a result of any of the foregoing factors or otherwise, could cause us to fail to meet our obligations to our customers.

We Would Lose Business if Cigarette or Other Manufacturers That We Use Decide to Engage in Direct Distribution of Their Products.

In the past, some large manufacturers have decided to engage in direct distribution of their products and eliminate distributors such as our Company. If other manufacturers make similar product distribution decisions in the future, our revenues and profits would be adversely affected and there can be no assurance that we will be able to take action to compensate for such losses.

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 of products sold by us is alleged to cause 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 sell, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insurance 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 cannot fulfill its indemnification obligation, product liability relating to allegedly defective products could materially adversely impact our results of operations, business, cash flow, and overall financial condition.

We Depend on Our Senior Management and Key Personnel.

We depend on the continued services and performance of our senior management and other key personnel. 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 2010 approximately thirty of our delivery drivers in our Wholesale Segment are covered by a collective bargaining agreement with a labor organization, which expires in December 2011. If we were not able to renew our future labor agreements on similar terms, we may be unable to recover labor cost increases through increased prices or may 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 and retailer of food products, we are subject to regulation by the FDA. Our operations are also subject to regulation by OSHA, the Department of Transportation and other federal, state and local agencies. 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 audit and 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 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 NYSE Amex Equities, Reducing the Ability of Investors to Trade in Our Common Stock.

If the number of owners of record (including direct participants in the Depository Trust Company) of our common stock falls below 300, our obligations to file reports under the Securities Exchange Act of 1934 could be 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 would not be available to investors. In addition, the common stock of the Company would be removed from listing on NYSE Amex Equities. This would likely impact investors ability to trade in our common stock.

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 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 fourteen retail stores at September 2010 are set forth below:

Location	**Square Feet**
Distribution IL, MO, ND, NE & SD	487,000
Retail FL, KS, MO, NE & OK	140,900
Total Square Footage	627,900

Our Quincy, Illinois; Bismarck, North Dakota; and Rapid City, South Dakota distribution facilities are owned by our Company, and are subject to first mortgages granted to Marshall & Ilsley Bank (M&I). 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.

ITEM 3. *LEGAL PROCEEDINGS*

None.

ITEM 4. *(REMOVED AND RESERVED)*

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	50	Chairman of the Board, Chief Executive Officer, Director
Kathleen M. Evans	63	President, Director
Andrew C. Plummer	36	Vice President, Chief Financial Officer, and Secretary
Eric J. Hinkefent	49	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, he 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), has served as the Senior Managing Director of Slusser Associates, a private equity and investment banking firm, since 1988, and has been engaged in private equity and investment banking since 1982.

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 (the former parent of the Company) from 1985 to 1991. From 1978 to 1985, Ms. Evans acted in various capacities with AMCON Corporation and its operating subsidiaries.

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.

Although not an executive officer of our Company, Eric. J. Hinkefent 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, Mr. Hinkefent served as President of Health Food Associates, Inc.

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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 NYSE Amex Equities (formerly the American Stock Exchange) under the trading symbol DIT . As of November 1, 2010, the closing stock price was $69.50 and there were 577,432 common shares outstanding. As of that date, the Company had approximately 780 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 NYSE Amex Equities for fiscal 2010 and 2009.

	Fiscal 2010		Fiscal 2009	
	High	Low	High	Low
4th Quarter	$ 62.00	$ 50.95	$ 63.63	$ 39.35
3rd Quarter	59.75	47.44	44.25	25.01
2nd Quarter	66.00	49.80	28.00	16.50
1st Quarter	78.00	58.26	24.50	14.00

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 paid cash dividends of $416,779 or $0.72 per common share in fiscal 2010 and $228,242 or $0.40 per common share in fiscal 2009.

The Company has Series A and B Convertible Preferred Stock (Convertible Preferred Stock) outstanding at September 2010 which are not registered under the Securities and Exchange Act of 1934. The Company paid cash dividends on all series of Convertible Preferred Stock of $297,025 and $347,025 during fiscal 2010 and fiscal 2009, respectively. See Note 3 to Consolidated Financial Statements included in this Annual Report for further information regarding these securities.

REPURCHASE OF COMPANY SHARES

During fiscal 2010, the Company s Board of Directors authorized a share repurchase program which provided for the repurchase of up to 50,000 shares of the Company s common stock. The Company did not repurchase any shares of its common stock during either fiscal 2010 or fiscal 2009.

EQUITY COMPENSATION PLAN INFORMATION

We refer you to Item 12 of this report for the information required by Item 201(d) of SEC Regulation S-K.

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 Item 7. The following discussion and analysis includes the results of operations for our continuing operations for the twelve month periods ended September 2010 and September 2009.

A separate discussion of our discontinued operations has been presented within this Item 7. Accordingly, the sales, gross profit, 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.

Business Update General

While the U.S. economy has showed modest signs of stabilization, consumer demand continues to face considerable headwinds. The national unemployment rate still stands at nearly 10% according to the U.S. Bureau of Labor Statistics, many real estate markets remain depressed, consumers are redirecting disposal income to reduce debt levels, and according to the Bureau of Economic Analysis, the personal savings rate has increased to approximately 6%, up from just 2% three years ago. Not surprisingly, consumers remain extremely price sensitive and value conscious.

Notwithstanding the above economic conditions, we have not experienced significantly lower demand in either of our business segments. As discussed further below, our businesses have remained more resilient than many other distribution and retail formats and have performed comparatively well given the challenging operating environment.

Forward looking, we believe that the ongoing economic malaise, increased regulatory pressures, and the potential for higher excise taxes and fuel prices could adversely affect our sales, gross margins, and operating profits. Additionally, the Company is evaluating what impact the new healthcare legislation might have on our businesses. Currently, the ultimate impact of this legislation remains uncertain. We are, however, confident that our conservative strategy of cost containment and maintaining maximum liquidity positions us well to capture market share, execute strategic acquisitions, open new retail stores, and ultimately reward our shareholders.

Business Update Wholesale Segment

Convenience stores constitute the largest portion of our Wholesale Segment customer base. Despite depressed economic conditions, convenience store sales remain a vibrant and growing segment in retailing. According to the September 2010 issue of Convenience Distribution (a leading trade publication published by the American Wholesale Marketers Association), in-store sales for convenience stores increased 4.9% during the 2009 calendar year, totaling approximately $511.1 billion.

We believe a number of factors have contributed to the continued success of the convenience store channel. The number one service characteristic provided by convenience stores is speed. According to research conducted by National Association of Convenience Stores (NACS), the average time it takes consumers to purchase an item in a convenience store and depart is between 3 and 4 minutes. With over 144,000 locations at the end of the 2009 calendar year, convenience stores outnumbered all other competing sales channels (supermarkets, drug stores, tobacco outlets, and mass merchant/dollar stores) combined, and have become a destination of choice for time-starved customers. Additionally, because convenience stores dominate a number of product categories, they have become an unavoidable part of day-to-day life for many Americans. For example, during the 2009 calendar year convenience stores accounted for approximately 80% of all fuel sales, 64% of all cigarette sales, and 93% of all cold beer sales. Further, NACS estimates that three out of four American adults drink coffee on a regular basis, creating a significant source of potential repeat traffic for convenience stores. Our Company does not sell fuel or beer, however, cigarettes, food, and other beverages (i.e. coffee) represent some of our best selling product categories and benefit from the high traffic generated by convenience stores.

While the convenience store channel continues to prosper, a number of significant trends and challenges exist for the wholesale distributors who serve them.

Industry consolidation Economies of scale for both convenience stores and wholesale distributors are rapidly becoming a necessary ingredient to a company s ability to compete successfully. Accordingly, both wholesale distributors and convenience stores are consolidating. While this creates opportunities for our Company to acquire smaller competitors, we also face a greater risk that our customers may be acquired by convenience store chains not serviced by us.

Demand for cigarettes The sale of cigarettes represent approximately 36% of in-store sales for convenience stores according to NACS and represented approximately 72% of our consolidated revenue during fiscal 2010. The demand for cigarettes has been decreasing since the 1980 s due to a general decline in the number of smokers in the United States and the impact of legislative actions such as smoking bans and higher state and federal excise taxes.

Additionally, during fiscal 2009 the manufacturing, distribution, marketing, and sale of cigarette and tobacco products was placed under the authority of the FDA. To date, the regulatory actions undertaken by the FDA have been primarily targeted at cigarette manufacturers and retailers. However, future regulatory actions by the FDA could further depress consumer demand for tobacco products. Based on these factors, we believe the demand for cigarettes will continue to decline.

Food Service In an effort to replace declining cigarette revenues and to counter increased competition from other retail formats, the convenience store industry has been remaking itself in recent years, placing a bigger emphasis on food service. The emphasis on quick-service, restaurant styled offerings such as on-the-go meals, bundled value meal concepts, and expanded beverage and coffee bars, have proven effective in many markets and will be an important category for convenience stores going forward.

Technology Convenience stores increasingly are relying on technology to manage their business and to effectively compete with other distributors. Capabilities such as inventory scanning, electronic price books, sku rationalization, category management, maximizing manufacturer promotions, and access to robust management reporting are becoming competitive differentiators.

While the convenience store industry is undergoing a number of structural changes (i.e. consolidation, diversifying away from tobacco products, increasing reliance on technology etc.), we believe this retailing channel will remain attractive into the foreseeable future given its established footprint. During the past several years we have proactively implemented initiatives specifically aimed at assisting our customers transition through these structural shifts. We also believe these same structural changes will create additional opportunities for us to acquire smaller distributors who lack the expertise or resources to offer these expanded services to their convenience stores customers.

Business Update Retail Segment

The retail health food industry has grown significantly over the past decade as the demand for non-processed natural products (pesticide-free, hormone-free, and non-genetically modified) has grown. According to the June 2010 issue of The Natural Foods Merchandiser (NFM), sales for all types of natural products grew to approximately $61.1 billion during the 2009 calendar year. NFM estimates that approximately 44% of these sales were made through independent natural food retailers such as our retail stores, 36% through conventional mass market retailers, and 20% through all other retail channels (internet, mail order, multi-level marketing etc.).

We believe a number of key factors have influenced the demand for natural products including:

- heightened awareness about the role that food and nutrition play in long-term health,
- increasing concerns over food safety due to the presence of pesticide residues, growth hormones, and artificial ingredients found in foods purchased through traditional retail outlets,

- growing focus on the impact of chemical additives included in consumer products such as household cleaning agents,

- the impact of chemicals used in consumer goods on the environment, particularly the potential for water and soil contamination, and

- an aging population with a desire to maintain good health and a high quality of life.

The depth of the economic meltdown over the past several years has tested the natural products industry, which is characterized by higher price points and niche specialty products. As reported by NFM, however, the industry not only survived but managed to grow, recording overall sales growth of 3.4% for the 2009 calendar year. In fact, certain natural food product categories such as packaged grocery, produce, and vitamins enjoyed double digit sales growth during the 2009 calendar year, benefiting from a shift in household budgets from dining-out to dining-in, and the overall desire to maintain good health.

While natural foods remain one of the fastest growing categories in food retailing, the severity of the economic downturn, particularly in Florida, has slowed sales growth for our retail stores. We believe a loyal customer following and their commitment to healthy lifestyles and environmental sustainability have helped us maintain a strong and profitable business. Both Chamberlin s Market & Café and Akin s Natural Foods Market have had a local market presence for over 75 years affording them tremendous brand recognition in the area of natural products.

Despite slowing sales, during fiscal 2010 we were able to improve our gross margins, control operating expenses, and increase operating income as compared to fiscal 2009. During fiscal 2010, many conventional supermarkets reduced the fringe product categories they carried, including natural products. This inventory stocking change by supermarkets allowed us to obtain improved pricing from our suppliers and increase gross margins.

Forward looking, we will continue to face a highly competitive environment based on the expansion of both regional and national chains. Notwithstanding these challenges, we believe our health food stores continue to offer a unique value proposition, carrying product lines not readily found in other stores and coupled with highly trained store associates who are passionate about the products we offer. As the economy recovers and consumer confidence improves, we believe consumer preferences towards natural products will increase. We believe that these considerations, combined with aging demographics, will make our retail health foods stores an attractive portion of our overall business into the future.

SIGNIFICANT EVENTS IN FISCAL 2010

During fiscal 2010, the Company:

- acquired Discount Distributors, a wholesale distributor to convenience stores with annual sales totaling approximately $59.6 million.

- opened a new Akin s Natural Foods Market store in the Tulsa, Oklahoma market.

- reduced total borrowings on our credit facility by over $4.0 million, while still funding the Discount Distributors acquisition and adding a new retail store location.

- increased income from continuing operations after income taxes to approximately $9.0 million.

increased fully diluted earnings per common share from continuing operations by $1.12, or 10.3%, as compared to fiscal 2009.

increased annual dividends paid to common shares holders to $0.72 per share, an 80% increase over fiscal 2009.

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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 2010 and 2009:

	Fiscal Years 2010	2009
Sales	100.0%	100.0%
Cost of sales	92.9	92.5
Gross profit	7.1	7.5
Selling, general and administrative expenses	5.4	5.7
Depreciation and amortization	0.2	0.1
Operating income	1.5	1.7
Interest expense	0.1	0.2
Income from continuing operations before income taxes	1.4	1.5
Income tax expense	0.5	0.6
Income from continuing operations	0.9	0.9
Income from discontinued operations, net of tax		0.5
Net income	0.9	1.4
Preferred stock dividend requirements		
Net income available to common shareholders	0.9%	1.4%

(In millions)	Fiscal Years 2010	2009	Incr (Decr)/2/	% Change/2/
CONSOLIDATED:				
Sales/1/	$ 1,010.5	$ 907.9	$ 102.6	11.3%
Cost of Sales	938.8	839.8	99.0	11.8
Gross profit	71.7	68.1	3.6	5.2
Gross profit percentage	7.1%	7.5%		
Operating expense	56.2	52.8	3.4	6.5
Operating income	15.5	15.4	0.1	0.9
Interest expense	1.5	1.6	(0.1)	(7.5)
Income tax expense	5.1	5.4	(0.2)	(4.2)
Income from continuing operations	9.0	8.5	0.5	5.6
BUSINESS SEGMENTS:				
Wholesale				
Sales/1/	973.8	871.3	102.4	11.8

Gross profit	55.6	52.8	2.8	5.3
Gross profit percentage	5.7%	6.1%		
Retail				
Sales	36.8	36.6	0.2	0.4
Gross profit	16.1	15.3	0.8	5.2
Gross profit percentage	43.8%	41.8%		

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled $15.7 million in fiscal 2010 and $15.8 million in fiscal 2009.

/2/ Amounts calculated based on actual change in the Consolidated Statement of 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 Fiscal 2010 vs. Fiscal 2009 (Continuing Operations)

Sales in our Wholesale Segment increased $102.4 million during fiscal 2010 as compared to fiscal 2009. Significant items impacting sales during fiscal 2010 included the following:

$54.6 million increase related to our expansion into Northwest Arkansas with the Discount Distributors acquisition.

$64.4 million increase due to cigarette price increases implemented by manufacturers.

$23.1 million decrease, primarily related to a reduction in the volume of cigarette cartons sold.

$6.5 million increase in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories (Other Products).

Sales in our Retail Segment increased approximately $0.2 million during fiscal 2010 as compared to fiscal 2009. This increase was primarily related to the addition of our new retail store in Tulsa, Oklahoma during fiscal 2010.

GROSS PROFIT Fiscal 2010 vs. Fiscal 2009 (Continuing Operations)

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 $2.8 million in fiscal 2010 as compared to fiscal 2009. During fiscal 2010, our gross margins benefited by $2.5 million due to the gross profit generated by the Discount Distributors acquisition, $3.0 million due to improved gross margins in our cigarette and tobacco categories, and $0.4 million due to changes in sales volume and promotional allowances. These increases in gross margins were partially offset by $3.1 million decrease in gross margins attributable to the benefit of tobacco price increases recognized during the prior fiscal year.

Gross profit for the Retail Segment increased $0.8 million in fiscal 2010 as compared to fiscal 2009. This increase was primarily related to improved gross margins and the addition of our new retail store in Tulsa, Oklahoma.

OPERATING EXPENSE Fiscal 2010 vs. Fiscal 2009 (Continuing Operations)

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 $3.4 million in fiscal 2010 as compared to fiscal 2009. Of this increase, approximately $1.6 million was attributable to operating costs incurred servicing our new business in Northwest Arkansas, $0.3 million related to an increase in bad debt expense, $0.5 million related to higher depreciation and amortization expense, $0.4 million related to higher fuel costs, $0.4 million related to our new retail store in Tulsa, Oklahoma, and $0.2 million related to an increase in other operating costs.

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INTEREST EXPENSE Fiscal 2010 vs. Fiscal 2009 (Continuing Operations)

Fiscal 2010 interest expense decreased $0.1 million as compared to fiscal 2009. This change was principally related to lower interest rates and average borrowings on the Company s credit facility. In fiscal 2010, the Company s average interest rates and average borrowings on its revolving credit facility were 0.28% and $0.6 million lower, respectively, as compared to fiscal 2009.

DISCONTINUED OPERATIONS (Fiscal 2010 vs. Fiscal 2009)

During fiscal 2009, Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and Crystal Paradise Holdings, Inc. (CPH) completed a transaction in which CPH exchanged a $5.0 million note receivable plus $0.1 million in accrued interest due from TSI, for the operating assets of TSI. The Company recorded a $4.7 million pre-tax gain ($3.0 million after tax) in conjunction with the transaction, which included the recognition of a $1.5 million deferred gain attributable to a previously executed Mutual Release and Settlement Agreement between the Company, TSI, and CPH. The $4.7 million gain has been reflected in the Statement of Operations as a component of discontinued operations.

Simultaneous with the closing of the CPH transaction discussed above, the Company fully settled and satisfied $2.7 million in related party notes payable plus $0.8 million in accrued interest due from TSI, in exchange for cash payments of approximately $0.8 million. The Company recorded a $2.7 million pre-tax gain ($1.7 million after tax) related to this transaction, which has been reflected in the Statements of Operations as a component of discontinued operations.

A summary of discontinued operations is as follows (dollars in millions):

	Year Ended September 2010	Year Ended September 2009
Operating loss	$	$ (0.1)
Interest expense		(0.2)
Gain on asset disposal and debt settlement		7.4
Income tax expense		2.6
Gain from discontinued operations		4.5

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

General. 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.

Operating Activities. During fiscal 2010, the Company generated cash of approximately $10.4 million from operating activities. The cash generated resulted from higher overall earnings, a reduction in inventory and an increase in accounts payable. These items were partially offset by an increase in prepaid and other current assets and a decrease in income taxes payable.

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

Investing Activities. The Company used approximately $4.9 million of cash during fiscal 2010 for investing activities, primarily related to capital expenditures for property and equipment and the acquisition of Discount Distributors.

Financing Activities. The Company used cash of $5.4 million for financing activities during fiscal 2010. Of this amount, $4.0 million related to net payments on the Company s credit facility, and $0.9 million related to payments on long-term debt, and $0.7 million related to dividends on the Company s common and preferred stock. Offsetting these items was $0.2 million related to the exercise of stock options.

Cash on Hand/Working Capital. At September 2010, the Company had cash on hand of $0.4 million and working capital (current assets less current liabilities) of $39.1 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 January 1, 2012 maturity date and a $55.0 million revolving credit limit.

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 that are subject to accounts receivable and inventory limitations.

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.

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

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

The Facility includes a prepayment penalty equal to one-half of one percent (1/2%) of the original maximum loan limit ($60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before January 1, 2011.

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 September 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the credit limit of the Facility at September 2010 was $52.6 million, of which $18.8 million was outstanding, leaving $33.8 million available.

At September 2010, the revolving portion of the Company s Facility balance bore interest based on the bank s prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 2.96% at

September 2010.

During fiscal 2010, our peak borrowings under the Facility were $39.6 million and our average borrowings and average availability were $30.7 million and $21.3 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. There were no such cross defaults at September 2010. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

Redemption of Series C Convertible Preferred Stock

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

Dividends Payments

The Company paid cash dividends of $416,779 or $0.72 per common share in fiscal 2010 and $228,242 or $0.40 per common share in fiscal 2009. The Company also paid cash dividends on its convertible preferred stock of $297,025 and $347,025 in fiscal 2010 and fiscal 2009, respectively.

Other

The Company has several capital leases for office and warehouse equipment. At September 2010, the outstanding balances on the capital leases totaled approximately $0.1 million.

The Company has issued a letter of credit for $0.4 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 January 1, 2012. We believe the Company continues to have a strong working relationship with Bank of America and has maintained compliance with all related debt covenants. However, no assurances can be given that our credit facility with Bank of America will be renewed on acceptable terms, if at all.

The Company 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 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.

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 2010.

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 daily basis and regularly assess the adequacy of our allowance for doubtful accounts. Because credit losses can vary significantly over time, estimating the required allowance requires a number of assumptions that are uncertain.

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.

Market conditions We consider a broad range of industry trends and macro-economic issues which may impact the creditworthiness of our customers.

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.

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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 2 to 40 years. Goodwill is not amortized. Impairment of segment reporting units is measured in the Company s fourth fiscal quarter. The reporting units are valued using after-tax cash flows from operations (less capital expenditures) discounted to present value. The Company recorded no impairment charges in either fiscal 2010 or fiscal 2009.

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:

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. 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.

On a periodic basis, we 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:

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.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

FASB ASU 2010-20 *(Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses)* requires additional information for nonaccrual and past due accounts, the allowance for credit losses, impaired loans, credit quality, and account modifications. This pronouncement is effective for interim and annual reporting periods beginning on or after December 15, 2010 (fiscal 2011 for the Company).

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).

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations 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, out similar expressions. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

increases in state and federal excise taxes on cigarette and tobacco products, including recent increases in federal excise taxes imposed in connection with the State Children s Health Insurance Program (SCHIP) law,

regulation of cigarette and tobacco products by the 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,

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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.

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.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Not applicable.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

Index to 2010 Consolidated Financial Statements

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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, 2010 and 2009, and the related consolidated statements of operations, shareholders equity and cash flows 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the Company s internal control over financial reporting. Accordingly we express no such opinion. 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, 2010 and 2009, and the results of their operations and their cash flows for the years ended September 30, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.

/s/ McGLADREY & PULLEN LLP

Omaha, Nebraska
November 8, 2010

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AMCON Distributing Company and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	September 30, 2010	September 30, 2009
ASSETS		
Current assets:		
Cash	$ 356,735	$ 309,914
Accounts receivable, less allowance for doubtful accounts of $1.6 million and $0.9 million in 2010 and 2009, respectively	27,903,689	28,393,198
Inventories, net	35,005,957	34,486,027
Deferred income taxes	1,905,974	1,701,568
Prepaid and other current assets	3,013,485	1,728,576
Total current assets	68,185,840	66,619,283
Property and equipment, net	11,855,669	11,256,627
Goodwill	6,149,168	5,848,808
Other intangible assets, net	4,807,644	3,373,269
Other assets	1,069,050	1,026,395
	$ 92,067,371	$ 88,124,382
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,656,257	$ 15,222,689
Accrued expenses	6,007,900	6,768,924
Accrued wages, salaries and bonuses	3,161,817	3,257,832
Income taxes payable	2,366,667	3,984,258
Current maturities of credit facility		177,867
Current maturities of long-term debt	893,291	1,470,445
Total current liabilities	29,085,932	30,882,015
Credit facility, less current maturities	18,816,709	22,655,861
Deferred income taxes	1,075,861	1,256,713
Long-term debt, less current maturities	5,226,586	5,066,185
Other long-term liabilities	587,479	
Series A cumulative, convertible preferred stock, $.01 par value 100,000 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 authorized and issued, liquidation preference $25.00 per share	2,000,000	2,000,000
Commitments and contingencies (Note 13)		
Shareholders equity:		

Preferred stock, $0.01 par value, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B at September 2010 and 2009		
Common stock, $0.01 par value, 3,000,000 shares authorized, 577,432 shares outstanding at September 2010 and 573,232 shares outstanding at September 2009	5,774	5,732
Additional paid-in capital	8,376,640	7,617,494
Retained earnings	24,392,390	16,140,382
Total shareholders equity	32,774,804	23,763,608
	$ 92,067,371	$ 88,124,382

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

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AMCON Distributing Company and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended September 2010	2009
Sales (including excise taxes of $335.8 million and $263.7 million, respectively)	$ 1,010,538,035	$ 907,953,044
Cost of sales	938,830,204	839,813,225
Gross profit	71,707,831	68,139,819
Selling, general and administrative expenses	54,445,189	51,539,775
Depreciation and amortization	1,736,817	1,216,089
	56,182,006	52,755,864
Operating income	15,525,825	15,383,955
Other expense (income):		
Interest expense	1,504,899	1,627,373
Other (income), net	(85,886)	(104,259)
	1,419,013	1,523,114
Income from continuing operations before income tax expense	14,106,812	13,860,841
Income tax expense	5,141,000	5,367,000
Income from continuing operations	8,965,812	8,493,841
Discontinued operations (Note 2)		
Gain on asset disposal and debt settlement, net of income tax expense of $2.7 million		4,666,264
Loss from discontinued operations, net of income tax benefit of $0.1 million		(186,370)
Income on discontinued operations		4,479,894
Net income	8,965,812	12,973,735
Preferred stock dividend requirements	(297,025)	(568,653)
Net income available to common shareholders	$ 8,668,787	$ 12,405,082
Basic earnings per share available to common shareholders:		
Continuing operations	$ 15.36	$ 14.45
Discontinued operations		8.16
Net basic earnings per share available to common shareholders	$ 15.36	$ 22.61
Diluted earnings per share available to common shareholders:		

Continuing operations	$	11.99	$	10.87
Discontinued operations				5.74
Net diluted earnings per share available to common shareholders	$	11.99	$	16.61
Weighted average shares outstanding:				
Basic		564,355		548,616
Diluted		747,862		781,265

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

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AMCON Distributing Company and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock		Additional Paid in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, September 30, 2008	570,397	$ 5,704	$ 6,995,948	$ 3,963,542	$ 10,965,194
Dividends on common stock, $0.40 per share				(228,242)	(228,242)
Dividends on convertible preferred stock				(568,653)	(568,653)
Compensation expense on equity-based awards			531,600		531,600
Issuance of stock in connection with stock-based incentive plans	2,835	28	87,701		87,729
Net excess tax benefit on equity-based awards			2,245		2,245
Net income				12,973,735	12,973,735
Balance, September 30, 2009	573,232	5,732	7,617,494	16,140,382	23,763,608
Dividends on common stock, $0.72 per share				(416,779)	(416,779)
Dividends on convertible preferred stock				(297,025)	(297,025)
Compensation expense on equity-based awards			486,294		486,294
Issuance of stock in connection with stock-based incentive plans	4,200	42	131,711		131,753
Net excess tax benefit on equity-based awards			141,141		141,141
Net income				8,965,812	8,965,812
Balance, September 30, 2010	577,432	$ 5,774	$ 8,376,640	$ 24,392,390	$ 32,774,804

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

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AMCON Distributing Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended September 2010	Fiscal Years Ended September 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,965,812	$ 12,973,735
Deduct: Income from discontinued operations, net of tax		4,479,894
Income from continuing operations	8,965,812	8,493,841
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation	1,459,156	1,216,089
Amortization	277,661	
(Gain) loss on sale of property and equipment	(32,996)	24,915
Stock based compensation	486,294	531,600
Net excess tax benefit on equity-based awards	(141,141)	(2,245)
Deferred income taxes	(385,258)	1,049,925
Provision for losses on doubtful accounts	686,426	124,574
Provision for (recoveries) losses on inventory obsolescence	(74,083)	299,155
Other	75,083	
Changes in assets and liabilities:		
Accounts receivable	(196,917)	(1,319,358)
Inventories	1,535,651	2,545,787
Prepaid and other current assets	(1,289,549)	1,791,074
Other assets	(42,655)	96,857
Accounts payable	1,395,362	(80,446)
Accrued expenses and accrued wages, salaries and bonuses	(857,039)	2,113,154
Income taxes payable	(1,476,450)	3,673,482
Net cash flows from operating activities continuing operations	10,385,357	20,558,404
Net cash flows from operating activities discontinued operations		(2,673,712)
Net cash flows from operating activities	10,385,357	17,884,692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,920,655)	(1,673,432)
Proceeds from sales of property and equipment	71,606	107,255
Acquisition	(3,099,836)	
Net cash flows from investing activities	(4,948,885)	(1,566,177)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on bank credit agreements	(4,017,019)	(12,367,277)
Principal payments on long-term debt	(931,722)	(788,712)
Proceeds from exercise of stock options	131,753	87,729

Net excess tax benefit on equity-based awards	141,141	2,245
Redemption of Series C convertible preferred stock		(2,000,000)
Dividends paid on convertible preferred stock	(297,025)	(347,025)
Dividends on common stock	(416,779)	(228,242)
Net cash flows from financing activities continuing operations	(5,389,651)	(15,641,282)
Net cash flows from financing activities discontinued operations		(825,000)
Net cash flow from financing activities	(5,389,651)	(16,466,282)
Net change in cash	46,821	(147,767)
Cash, beginning of year	309,914	457,681
Cash, end of year	$ 356,735	$ 309,914

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AMCON Distributing Company and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Fiscal Years	
	2010	**2009**
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,506,661	$ 1,719,895
Cash paid during the year for income taxes	7,002,708	3,249,594
Supplemental disclosure of non-cash information:		
Acquisition of equipment through capital leases	$ 14,969	$ 12,333
Equipment acquisitions classified as accounts payable	38,206	11,580
Constructive dividends on Series A, B and C Convertible Preferred Stock		221,628
Business acquisition (see Note 2):		
Inventory	$ 1,981,498	$
Property and equipment	122,978	
Customer relationships intangible asset	1,620,000	
Goodwill	300,360	
Note payable	500,000	
Contingent consideration	425,000	
TSI disposition discontinued operations:		
Property and equipment, net	$	$ (2,032,047)
Accrued expenses		(925,452)
Long-term debt		(6,945,548)
Deferred gain on CPH settlement		(1,542,312)

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

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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 Central and Rocky Mountain regions of the United States.

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, drug stores, and gas stations. In addition, the Company services institutional customers, including restaurants and bars, schools, sports complexes, as well as other wholesalers.

AMCON also operates six retail health food stores in Florida under the name Chamberlin s Market & Café (Chamberlin s) and eight 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 72% of revenue and 27% of gross profit in fiscal 2010 and 71% of revenue and 27% of gross profit in fiscal 2009.

(b) Accounting Period:

The Company s fiscal year ends on September 30 and the fiscal years ended September 30, 2010 and September 30, 2009 have been included herein.

(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.

(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 2010 and fiscal 2009 totaled approximately $1.1 million and $1.2 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 8). These outstanding checks (book overdrafts) are classified as cash flows from operating activities in the Consolidated Statements of Cash Flows.

(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. The Company determines the past due status of trade receivables based on contractual terms with each customer.

(f) Inventories:

Inventories consisted of finished goods at September 2010 and 2009 and 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

products purchased in bulk quantities to be redistributed to the Company s customers or sold at retail. Finished goods include total reserves of approximately $0.8 million and $0.9 million at September 2010 and September 2009, 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 2010	September 2009
Prepaid expenses	$ 0.7	$ 1.0
Prepaid inventory	2.3	0.7
	$ 3.0	$ 1.7

Prepaid inventory represents inventory in-transit that has been paid for but not 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	2-12
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. Amortization expense related to capital leases has been included as a component of depreciation expense in the statement of operations.

(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 assets may not be recoverable. Long-lived assets are reviewed annually during our 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 recorded no impairment charges in either fiscal 2010 or fiscal 2009.

(j) Goodwill, Intangible and Other Assets:

Our goodwill consists of the excess purchase price paid in business combinations over the fair value of assets acquired. Our intangible assets consist of trademarks, tradenames, and customer relationships assumed in acquisitions. Goodwill, trademarks, and tradenames are considered to have indefinite lives.

The Company employs the non-amortization approach to account for purchased goodwill and intangible assets having indefinite useful lives. Under the non-amortization approach, goodwill and intangible assets having indefinite useful lives are not amortized into the results of operations, but instead are reviewed annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired, to assess whether their fair value exceeds their carrying value. The Company performs its annual impairment testing of goodwill and indefinite-lived intangible assets during the fourth fiscal quarter of each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company tests goodwill impairment at a reporting unit level using the two-step impairment test method. The Company s primary reporting units tested for impairment are Akin s, Chamberlin s, and the Springfield, MO and Quincy, IL divisions of our Wholesale Segment. Both Akin s and Chamberlin s are components of our Retail Segment. The first step of our goodwill impairment testing compares the carrying value of a reporting unit, including goodwill, with its fair value, as determined by its estimated discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, we then complete the second step of the impairment test to determine the amount of impairment to be recognized. In the second step, we estimate an implied fair value of the reporting unit s goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). If the carrying value of a reporting unit s goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference in that period.

Non-amortized indefinite-lived assets are tested for impairment by comparing the carrying value of the Company s assets to their estimated fair value. The Company estimates the fair value of these assets using a discounted cash flow methodology. If the assets are determined to be impaired, their carrying value is reduced to their fair value and an impairment loss is recorded in that period.

We arrive at our estimates of fair value using a discounted cash flow methodology which requires us to estimate the future cash flows anticipated to be generated by particular assets and to select a discount rate to measure the present value of those anticipated cash flows. Estimating future cash flows requires significant judgment and includes making assumptions about projected growth rates, industry-specific factors, working capital requirements, weighted average cost of capital, and current and anticipated operating conditions. The use of different assumptions or estimates for future cash flows could produce different results. The Company has not made any material changes in its impairment assessment methodology during the past two fiscal years and we do not believe the estimates used in our current methodology are likely to change materially in the foreseeable future. However, we regularly assess these estimates based on the performance of our reporting units. There were no impairments of goodwill or indefinite-lived intangibles assets identified during either fiscal 2010 or fiscal 2009.

Identifiable intangible assets with finite lives are amortized over their estimated useful lives and are tested for impairment at least annually or whenever events or circumstances change which may indicate that the carrying amount of the assets may not be recoverable. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used in evaluating the elements of property, plant and equipment. If impaired, the related asset is written down to its fair value. There were no impairments of identifiable intangible assets with finite lives identified during fiscal 2010 or fiscal 2009.

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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount of $0.4 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 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:

The Company uses the asset and liability method to calculate deferred income taxes. Deferred tax assets and liabilities are recognized on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date.

(o) Stock-Based Compensation:

The Company recognizes expense for its share-based compensation based on the fair value of the awards that are granted. The fair value of the stock options is estimated at the date of grant using the Black-Scholes option pricing model. Option pricing methods require the input of highly subjective assumptions, including the expected stock price volatility. The fair value of restricted stock awards is based on the Company s stock price on the date of grant. Measured compensation cost is recognized ratably over the vesting period of the related share-based compensation award and is reflected in our Consolidated Statement of Operations under selling, general and administrative expenses.

(p) Customer Sales Incentives:

The Company provides sales rebates or discounts to customers. These incentives are recorded as a reduction of sales revenue as earned by the customer.

(q) 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.

(r) 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.

(s) Recently Issued Accounting Standards:

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

FASB ASU 2010-20 *(Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses)* requires additional information for nonaccrual and past due accounts, the allowance for credit losses, impaired loans, credit quality, and account modifications. This pronouncement is effective for interim and annual reporting periods beginning on or after December 15, 2010 (fiscal 2011 for the Company).

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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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).

2. ACQUISITION AND DISPOSITIONS

ACQUISITION

During fiscal 2010, the Company acquired the convenience store distribution assets of Discount Distributors from its parent Harps Food Stores, Inc. (Harps). Discount Distributors was a wholesale distributor to convenience stores in Arkansas, Oklahoma, and Missouri with annual sales of approximately $59.6 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 are reported as a component of our Wholesale Segment.

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

Recognized Amounts of Identifiable Assets Acquired	**Amount (In millions)**	**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	

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,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and administrative expenses. This goodwill has been assigned to the Company s Wholesale Segment and is expected to be deductible for tax purposes. No measurement adjustments related to this transaction were recorded during fiscal 2010.

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

	Twelve Months Ended September	
(In millions)	**2010**	**2009**
Revenue Actual Results	$ 54.6	$
Revenue Supplemental pro forma results	$ 59.6	$ 57.0
Net Income Actual Results	$ 0.4	$
Net Income Supplemental pro forma results	$ 0.4	$ 0.4

DISPOSITIONS DISCONTINUED OPERATIONS

During fiscal 2009, Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and Crystal Paradise Holdings, Inc. (CPH) completed a transaction in which CPH exchanged a $5.0 million note receivable plus $0.1 million in accrued interest due from TSI, for the operating assets of TSI. The Company recorded a $4.7 million pre-tax gain ($3.0 million after tax) in conjunction with the transaction, which included the recognition of a $1.5 million deferred gain attributable to a previously executed Mutual Release and Settlement Agreement between the Company, TSI, and CPH. The $4.7 million gain has been reflected in the Statement of Operations as a component of discontinued operations.

Simultaneous with the closing of the CPH transaction discussed above, the Company fully settled and satisfied $2.7 million in related party notes payable plus $0.8 million in accrued interest due from TSI, in exchange for cash payments of approximately $0.8 million. The Company recorded a $2.7 million pre-tax gain ($1.7 million after tax) related to this transaction, which has been reflected in the Statements of Operations as a component of discontinued operations.

A summary of discontinued operations is as follows (dollars in millions):

	Year Ended September	
	2010	**2009**
Operating loss	$	$ (0.1)
Interest expense		(0.2)
Gain on asset disposal and debt settlement		7.4
Income tax expense		2.6
Gain from discontinued operations		4.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. CONVERTIBLE PREFERRED STOCK:

The Company had two series of convertible preferred stock outstanding at September 2010 as identified in the following table:

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

The Series A Convertible Preferred Stock (Series A) and Series B Convertible Preferred Stock (Series B), (collectively, the Preferred Stock), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted multiplied by a fraction 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. 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 on our Board of Directors.

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

4. EARNINGS PER SHARE:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There were no anti-dilutive stock options or potential common stock options at September 2010. Anti-dilutive stock options and potential common stock outstanding at September 2009 were excluded from the computation of diluted earnings per share. Such anti-dilutive potential common shares totaled 1,956 and had an average exercise price of $34.50.

	For Fiscal Years 2010 Basic	For Fiscal Years 2009 Basic
Weighted average number of shares outstanding	564,355	548,616
Income from continuing operations	$ 8,965,812	$ 8,493,841
Deduct: convertible preferred stock dividends	(297,025)	(568,653)
	$ 8,668,787	$ 7,925,188
Income from discontinued operations	$	$ 4,479,894
Net income available to common shareholders	$ 8,668,787	$ 12,405,082
Income per share from continuing operations	$ 15.36	$ 14.45
Income per share from discontinued operations		8.16
Net earnings per share available to common shareholders	$ 15.36	$ 22.61