

AMCON DISTRIBUTING CO

Form DEF 14A

March 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

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Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- X Definitive Proxy Statement
- o Definitive Additional Materials
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AMCON Distributing Company

(Name of Registrant as Specified In Its Charter)

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4) Date Filed:

AMCON Distributing Company

7405 Irvington Road

Omaha, Nebraska 68122

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON APRIL 17, 2007

You hereby are notified that the annual meeting of stockholders of AMCON Distributing Company, a Delaware corporation, will be held on Tuesday, April 17, 2007, at 10:00 a.m., local time, in the Ritz Carlton Hotel located at 100 Carondelet Plaza, St. Louis, Missouri 63105, for the following purposes:

1. To elect three Class III directors and three Class I directors to hold office for terms expiring at the 2009 and 2010 annual meetings of stockholders, respectively, and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal;
2. To consider and act upon ratification and approval of the selection of McGladrey and Pullen, LLP as our independent registered public accounting firm for our 2007 fiscal year;
3. To consider and act upon approval of a grant to our Chief Executive Officer of an option for 25,000 shares of common stock pursuant to a Nonqualified Stock Option Agreement;
4. To consider and act upon approval of our company's 2007 Omnibus Incentive Plan; and
5. To consider and act upon any other matters which may properly come before the meeting.

The proposals referred to above are more fully described in the accompanying proxy statement. Our board of directors has approved the proposals and recommends that you vote FOR the election of each nominee for director named in the accompanying proxy statement who is to be voted on by the holders of our common stock, FOR the ratification and approval of McGladrey and Pullen, LLP as our independent registered public accounting firm, FOR the approval of the grant to our Chief Executive Officer of the stock options pursuant to a Nonqualified Stock Option Agreement, and FOR the approval of our company's 2007 Omnibus Incentive Plan. Before voting, you should carefully review all of the information contained in the accompanying proxy statement.

Our board of directors has fixed the close of business on February 21, 2007 as the record date for the determination of the holders of our common stock entitled to notice of, and to vote at, the annual meeting of stockholders or any adjournment thereof. Our board of directors solicits you to sign, date and promptly mail the proxy in the enclosed postage prepaid envelope, whether or not you intend to be present at the annual meeting of stockholders.

BY ORDER OF THE BOARD OF DIRECTORS,

Andrew C. Plummer

Secretary

March 9, 2007

Omaha, Nebraska

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT PURPOSE. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK, TRUSTEE OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

AMCON Distributing Company

7405 Irvington Road

Omaha, Nebraska 68122

PROXY STATEMENT

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Although we encourage you to read this proxy statement in its entirety, we include this question and answer section to provide some background information and brief answers to several questions you might have about the annual meeting.

Why am I receiving these materials?

The board of directors of AMCON Distributing Company, a Delaware corporation, is providing these materials to you in connection with our annual meeting of stockholders. This proxy statement, the accompanying form of proxy and the notice of annual meeting of stockholders were first sent to our stockholders on or about March 9, 2007. As a stockholder of our company, you are entitled and encouraged to vote on the items of business described in these proxy materials. Your vote is very important. For this reason, our board is requesting that you allow your shares to be represented at the annual meeting by the persons named as proxies on the enclosed proxy card.

What information is contained in these materials?

The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of directors and our most highly paid executive officers, and certain other required information. Our annual report on Form 10-K for our 2006 fiscal year, which contains our audited financials statements, and a proxy card and return envelope accompanies this proxy statement.

When and where will the annual meeting be held?

The annual meeting of stockholders will be held on Tuesday, April 17, 2007, at 10:00 a.m., local time, in the Ritz Carlton Hotel located at 100 Carondelet Plaza, St. Louis, Missouri 63105. You do not have to attend the annual meeting to be able to vote.

What business will be voted on at the annual meeting?

Stockholders will consider and vote upon the following business items at the annual meeting:

- o The election of three Class III directors and three Class I directors to hold office for terms expiring at the 2009 and 2010 annual meetings of stockholders, respectively, and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal (one of the three Class I directors will be elected by the holder of our Series C Convertible Preferred Stock, voting as a separate class);
- o The ratification and approval of the selection of the accounting firm of McGladrey and Pullen, LLP as our independent registered public accounting firm for our 2007 fiscal year;
- o The approval of a grant to our Chief Executive Officer of an option for 25,000 shares of common stock pursuant to a Nonqualified Stock Option Agreement;
- o The approval of our company's 2007 Omnibus Incentive Plan; and
- o Any other matters that may properly come before the annual meeting.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote:

- o FOR the election of each nominee for director named in this proxy statement who is to be voted on by the holders of our common stock;
- o FOR the ratification and approval of McGladrey and Pullen, LLP as our independent registered public accounting firm;
- o FOR the approval of a grant to our Chief Executive Officer of a non-qualified stock option for 25,000 shares of our common stock pursuant to a Nonqualified Stock Option Agreement; and
- o FOR the approval of our company's 2007 Omnibus Incentive Plan.

What shares can I vote?

The outstanding voting securities of our company are the shares of our common stock, \$0.01 par value. In addition, our Series B Convertible Preferred Stock, \$0.01 par value, and our Series C Convertible Preferred Stock, \$0.01 par value, provide certain limited voting rights in the election of directors. In particular, (i) the holders of our Series B Convertible Preferred Stock, voting separately as a single class, are entitled to elect one member of our board of directors, and (ii) the holder of our Series C Convertible Preferred Stock, voting separately as a single class, also is entitled to elect one member of our board of directors. The holder of our Series C Convertible Preferred Stock will be entitled to exercise this voting right at this annual meeting, and has designated Jeremy W. Hobbs as the person it will elect as one of the three Class I directors. The holders of our Series B Convertible Preferred Stock will not be entitled to vote at this annual meeting since the term of office of Christopher H. Atayan, the person designated for service on the board by the holders of our Series B Convertible Preferred Stock, will continue after the annual meeting.

Each share of our common stock issued and outstanding as of the close of business on the February 21, 2007 record date for the annual meeting is entitled to one vote on each matter submitted to a vote at the annual meeting. As of the record date, we had 527,062 shares of common stock, 80,000 shares of Series B Convertible Preferred Stock and 80,000 shares of Series C Convertible Preferred Stock issued and outstanding. You may vote all shares of our common stock owned by you as of the record date. This includes (i) shares held directly in your name as the stockholder of record, and (ii) shares held for you as the beneficial owner through a broker, trustee or other nominee, sometimes referred to as shares held in street name. As summarized below, there are some differences between shares held of record and those held in street name.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, you are considered the stockholder of record, and these proxy materials were sent to you directly. As the stockholder of record, you may attend the annual meeting and vote your shares in person. Alternatively, you may vote your shares by proxy. We have enclosed a proxy card for you to use. The persons designated as proxies were selected by our board of directors and are officers and directors of our company.

Beneficial Owner. If you hold shares in a brokerage account or through some other nominee, you are considered the beneficial owner of the shares held in street name, and these proxy materials were forwarded to you from the broker, trustee or other nominee, together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote your shares. Although you are invited to attend the annual meeting, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee. You may vote your shares by any of the options listed on the voting instruction card.

How do I submit my vote?

Included with this proxy statement is a proxy card or voting instruction card. Specific voting instructions are included on the card. You may vote by signing and returning the proxy card. If you hold shares in a brokerage account or through some other nominee, you may vote by signing and returning the voting instruction card that your broker, trustee

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or nominee provides to you. In addition, the voting instructions you receive may enable you to vote by telephone or by Internet.

If you plan to attend the annual meeting and vote in person, we will give you a ballot at the meeting. However, if your shares are held in the name of your broker, bank or other nominee, proof of ownership may be required for you to be admitted to the meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Can I change my proxy vote?

If you are a stockholder of record, you may change your vote or revoke your proxy any time before your vote is used at the annual meeting by:

- o submitting a valid later-dated proxy;
- o notifying our corporate secretary in writing that you have revoked your proxy; or
- o completing a written ballot at the annual meeting

Attendance at the annual meeting will not in and of itself constitute a revocation of your proxy.

If you hold shares as the beneficial owner, you may change your vote by submitting new voting instructions to your broker, trustee or other nominee or, if you have obtained a legal proxy from your broker, trustee or nominee, by voting in person at the annual meeting.

How many votes are needed to conduct business at the annual meeting?

A majority of all outstanding shares of our common stock entitled to vote at the annual meeting must be present or represented by proxy in order to satisfy the quorum requirement for the transaction of business at the annual meeting. Both abstentions and broker non-votes (described in response to the following question) are counted for the purpose of determining a quorum. If a quorum should not be present, the annual meeting may be adjourned from time to time until a quorum is obtained.

How are votes counted?

If you are a stockholder of record and you return a proxy card, it will be voted in accordance with your instructions. However, if you are a stockholder of record and you return a proxy card without marking one or more proposals, your proxy will be voted for those unmarked proposals in accordance with the recommendation of our board of directors (which recommendation is identified above under **How does our board of directors recommend that I vote?**).

If you hold shares in street name through a broker or other nominee and you do not provide voting instructions on one or more proposals, your broker may lack the authority to vote on those proposals. A broker non-vote occurs when a broker returns a proxy card that is unmarked on one or more proposals because the broker lacks authority to vote on those proposals without instructions from the beneficial owner. If your broker does not vote your shares on any proposal, such broker non-vote is not counted with respect to such proposal. This means that a broker non-vote would reduce the number of affirmative votes that are necessary to approve the proposal.

What vote is required to approve the proposals at the annual meeting?

Election of Directors. Directors are elected by a plurality of the votes cast, in person or by proxy, by stockholders entitled to vote at the annual meeting for that purpose. This means that the two Class I nominees receiving the highest number of votes at the annual meeting will be elected and the three Class III nominees receiving the highest number of votes at the annual meeting will be elected. The holder of our Series C Convertible Preferred Stock, voting separately as a single class, will be entitled to elect one additional member of our board of directors at this annual meeting, and has designated Jeremy W. Hobbs as the person it will elect as a Class I director. Stockholders can withhold authority to vote for one or more nominees for director. Shares not voted, whether by specifically withholding authority

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to vote on your proxy card or otherwise, will have no impact on the election of directors except to the extent the failure to vote for an individual results in another individual receiving a larger proportion of the total votes. No shares may be voted for more than two Class I nominees and three Class III nominees at the annual meeting. Stockholders do not have cumulative voting rights in the election of directors.

Other Matters. Approval of the proposal to ratify and approve the selection of McGladrey and Pullen, LLP as our independent registered public accounting firm, the proposal to approve the stock option grant to our Chief Executive Officer, the proposal to approve our company's 2007 Omnibus Incentive Plan, and all other proposals that properly may come before the annual meeting requires the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the particular proposal. Stockholders may abstain from voting on any proposal at the meeting. If you abstain from voting on any proposal, it has the same effect as a vote against the proposal.

Are there any other matters that will be considered at the annual meeting?

The only items of business that may be properly brought before the annual meeting are the matters set forth herein, those brought before the meeting by or at the direction of our board of directors, or those submitted by any stockholder who has complied with the advance notification provisions of our bylaws described below under Advance Notice of Stockholder Proposals. We are not aware of any business to be acted upon at the annual meeting other than the items described in this proxy statement. Your signed proxy, however, will entitle the persons named as proxy holders to vote in their discretion for any other matter that is properly presented at the meeting.

Who pays the cost of soliciting votes at the annual meeting?

This proxy solicitation is being made by our board of directors. All costs of this solicitation will be borne by our company. In addition to the use of the mails, proxies may be solicited personally or by telephone by some of the regular employees of our company. Our company may reimburse brokers, banks and other persons holding stock in their names, or in the names of nominees, for their expenses incurred in sending proxy materials to their principals and obtaining their proxies. Our company requests that brokerage houses and other custodians, nominees and fiduciaries forward the soliciting materials to the beneficial owners of the shares of common stock held of record by such persons.

Where can I find the voting results of the annual meeting?

We will announce preliminary voting tabulations at the annual meeting and publish the final results in our quarterly report on Form 10-Q for the quarter ending June 30, 2007.

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

ITEM 1: ELECTION OF DIRECTORS

What am I voting on?

One of the purposes of this annual meeting is to elect six directors. In particular, you will be asked to elect (i) three directors in Class III to serve for a two-year term expiring at the 2009 annual meeting of stockholders and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal, and (ii) two directors in Class I to serve for a three-year term expiring at the 2010 annual meeting of stockholders and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal. The holder of our Series C Convertible Preferred Stock, voting separately as a single class, will be entitled to elect one additional member of our board of directors at this annual meeting, and has designated Jeremy W. Hobbs as the person it will elect as a Class I director.

What is the structure of our board and how often are directors elected?

Our board of directors currently consists of ten directors; however, the size of our board will be reduced to nine directors as Mr. Hoppner will not be standing for reelection. Our board of directors would like to thank Mr. Hoppner for his many years of service to our company. Our articles of incorporation divides the board into three classes of directors,

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with directors serving staggered terms of three years and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal. The present terms of Kathleen M. Evans, Jeremy W. Hobbs, John R. Loyack and Timothy R. Pestotnik, the four directors in Class III, and of Stanley Mayer and William F. Wright, the two continuing directors in Class I, expire at this annual meeting. Directors in Class II (Christopher H. Atayan, Raymond F. Bentele and Allen D. Petersen) have a term expiring at the time of the 2008 annual meeting of stockholders. Our board of directors has determined that Messrs. Bentele, Hobbs, Loyack, Mayer, Pestotnik and Petersen each satisfies the independence requirements of the American Stock Exchange (AMEX).

Who are this year's nominees?

The nominating and corporate governance committee of our board of directors has designated Kathleen M. Evans, John R. Loyack and Timothy R. Pestotnik as the three nominees proposed for election as Class III directors and Stanley Mayer and William F. Wright as the two nominees proposed for election as Class I directors. Unless authority to vote for the nominees or a particular nominee is withheld, it is intended that the shares represented by properly executed proxies in the form enclosed will be voted for the election as directors of the above-named nominees. In addition, the holder of our Series C Convertible Preferred Stock, voting separately as a single class, is entitled to elect one additional member of our board of directors at this annual meeting and has designated Jeremy W. Hobbs as the person it will elect. Jeremy W. Hobbs currently serves as a Class III director, however, following his election at the annual meeting he will serve as a Class I director in order to provide for three directors in each class.

The following table sets forth certain information with respect to each person nominated for election as a director at the annual meeting, the director designee of the holder of our Series C Convertible Preferred Stock and each director whose term of office will continue after the annual meeting.

<u>Name</u>	<u>Age</u>	<u>Position With our Company</u>	<u>Director Since</u>
NOMINEES			
Class III: Term to expire in 2009			
Kathleen M. Evans	60	President, Director	1986
John R. Loyack	43	Director	2003
Timothy R. Pestotnik	46	Director	1998
Class I: Term to expire in 2010			
Jeremy W. Hobbs	46	Director	2006
Stanley Mayer	61	Director	2002
William F. Wright	64	Chairman, Director	1986
DIRECTORS CONTINUING IN OFFICE			
Class II: Term to expire in 2008			
Christopher H. Atayan	46	Chief Executive Officer, Vice Chairman, Director	2004
Raymond F. Bentele	70	Director	2002
Allen D. Petersen	65	Director	1993

There is no arrangement or understanding between any director and any other person pursuant to which such director was selected as a director except that the respective holders of our Series B Convertible Preferred Stock and Series C Convertible Preferred Stock each are entitled to vote separately as a single class in electing one member of our board of directors. Spencer Street Investments, Inc., the representative of the holder of our Series B Convertible Preferred Stock, has designated Christopher H. Atayan as the person elected by the holders of our Series B Convertible Preferred Stock to serve on our board of directors. Draupnir Capital, LLC, the holder of our Series C Convertible Preferred Stock, has designated Jeremy W. Hobbs as the person elected by the holders of our Series C Convertible Preferred Stock to serve on our board of directors.

What is the business experience of the nominees and of our continuing board members?

The business experience during the last five years of each person nominated for election as a director at the annual meeting and each director whose term of office will continue after the annual meeting is as follows:

Christopher H. Atayan became Chief Executive Officer of our company effective October 4, 2006. During fiscal 2006, Mr. Atayan served as our company's Vice Chairman and Chief Corporate Officer and has been a director of our company since 2004. Mr. Atayan also is Chairman of Hotlink Incorporated and an executive consultant to Draupnir, LLC, the parent of Draupnir Capital, LLC. Mr. Atayan has served as the Senior Managing Director of Slusser Associates, a New York investment banking firm since 1988.

Raymond F. Bentele served as President and Chief Executive Officer of Mallinckrodt, Inc. from 1981 until his retirement in 1992. He currently serves as a director of The Mosaic Company and Leggett & Platt, Incorporated.

Kathleen M. Evans became President of our company in February 1991. Prior to that time she served as Vice President of AMCON Corporation (the former parent of our company) from 1985 to 1991. From 1978 until 1985, Ms. Evans acted in various capacities with AMCON Corporation and its operating subsidiaries.

Jeremy W. Hobbs is the President and Chief Executive Officer of Draupnir, LLC, and has served as a founding member and executive officer of Draupnir, LLC from 2002 through December 2005. From 1987 to 2002, Mr. Hobbs was an attorney in the law firm of Krasnow, Cornbath and Hobbs in Chicago, Illinois where he served as managing partner from 1997 to 2002.

John R. Loyack currently is President and Chief Executive Officer of CPG International, Inc. Prior to serving in his current position, Mr. Loyack served as Senior Vice President and Chief Financial Officer and Vice President and Chief Accounting Officer at PNM Resources and Director of Financial Accounting and Reporting for Union Pacific Corporation.

Stanley Mayer has served as a consultant to various companies regarding financial and strategic planning matters since 2002. Mr. Mayer served as Chief Financial Officer for Donruss Playoff, Inc. from 2001 to 2002 and as Vice President of Southern Union Company from 1998 through 2001.

Timothy R. Pestotnik is an attorney and a partner in the law firm of Pestotnik + Gold, LLP. Prior to this, he was a partner and chair of the business litigation department at the law firm of Luce, Forward, Hamilton & Scripps, LLP.

Allen D. Petersen became Chairman of Draupnir LLC in June 2002. For over 10 years prior to that time, Mr. Petersen was Chairman and Chief Executive Officer of American Tool Companies, Inc.

William F. Wright has served as the Chairman and Chief Executive Officer of AMCON Corporation (the former parent of our company) since 1976, as Chief Executive Officer of our company from 1986 until October 4, 2006, and as Chairman of our company since 1986. From 1968 to 1984, Mr. Wright practiced corporate and securities law in Lincoln, Nebraska. Mr. Wright is a graduate of the University of Nebraska and Duke University School of Law.

What if a nominee is unwilling or unable to serve?

Each of the nominees listed in this proxy statement has indicated his willingness to serve as a director if elected, and the board of directors has no reason to believe that any nominee will be unavailable for election. If, for some unforeseen reason, a nominee who is to be voted on by the holders of our common stock becomes unwilling or unable to serve, it is intended that shares represented by the proxies will be voted for the election of such substitute nominee as may be designated by our nominating and corporate governance committee, unless the authority to vote for all nominees or for the particular nominee who has ceased to be a candidate has been withheld. If the nominee to be voted on by the holder of our Series C Convertible Preferred Stock becomes unwilling or unable to serve, the holder of our Series C Convertible Preferred Stock would be entitled to designate a substitute nominee.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote **FOR** the election of Kathleen M. Evans, John R. Loyack and Timothy R. Pestotnik as Class III directors, and of Stanley Mayer and William F. Wright as Class I directors.

ITEM 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

What am I voting on?

Stockholders are being asked to ratify and approve the selection of McGladrey and Pullen, LLP as our independent registered public accounting firm for our 2007 fiscal year. The selection of McGladrey and Pullen, LLP was made by the audit committee of our board of directors. McGladrey and Pullen, LLP has served as our independent auditors since August 30, 2006. In connection with the audit of our 2007 fiscal year financial statements, our company entered into an engagement agreement with McGladrey and Pullen, LLP which sets forth the terms by which McGladrey and Pullen, LLP will perform audit services for our company. The ratification and approval by stockholders of the selection of McGladrey and Pullen, LLP effectively would also be a ratification of that agreement.

What services do the independent registered public accountants provide?

Audit services provided by McGladrey and Pullen, LLP for our 2006 fiscal year included the examination of the consolidated financial statements of our company and services related to periodic filings made with the Securities and Exchange Commission (SEC). These services are more fully described in this proxy statement under the captions **Audit Committee Report** and **Independent Auditor Fees and Services**.

Will a representative of McGladrey and Pullen, LLP be present at the meeting?

One or more representatives of McGladrey and Pullen, LLP are expected to be present at the annual meeting. Any such representative will have an opportunity to make a statement if he or she desires to do so and are expected to be available to respond to appropriate questions from stockholders.

What if this proposal is not approved?

Stockholder ratification and approval of the audit committee's selection of McGladrey and Pullen, LLP as our independent registered public accounting firm is not required by any statute or regulation or by our bylaws. Nevertheless, if the stockholders do not ratify and approve the selection of McGladrey and Pullen, LLP at the annual meeting, the audit committee will reconsider the appointment. Submission of our selection of McGladrey and Pullen, LLP to the stockholders for ratification and approval will not limit the authority of the audit committee to appoint another independent certified public accounting firm to serve as independent auditors if the present auditors resign or their engagement otherwise is terminated.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote **FOR** approval of the selection of McGladrey and Pullen, LLP.

ITEM 3: APPROVAL OF STOCK OPTION GRANT

What am I voting on?

On December 12, 2006, the compensation committee of our board of directors authorized the grant to our Chief Executive Officer, Christopher H. Atayan, of a non-qualified stock option for 25,000 shares of our common stock. A stock option is simply the right to purchase shares of common stock at a future date at a specified price per share, which we refer to as the **option price**. Authorization for this stock option grant was made subject to and contingent upon obtaining the approval of our stockholders for such grant. This grant would be made pursuant to a Nonqualified Stock Option Agreement entered into by our company and Mr. Atayan, which agreement is referred to in this proxy statement as

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the Option Agreement. We are submitting the Option Agreement, and the grant which it contemplates, for approval by our stockholders at the annual meeting. If such approval is not obtained, the stock option automatically will terminate. Stockholder approval of an equity-based compensation plan or arrangement such as the Option Agreement is necessary:

- o to enable the stock option grant to comply with the stockholder approval requirements for equity-based plans under the AMEX listing standards; and
- o to enable the stock option grant to be exempt from the short-swing profit disgorgement provisions of SEC Rule 16b-3.

The following description of the grant is necessarily general in nature and does not purport to reflect all of the terms of the Option Agreement pursuant to which such grant would be made. A copy of the Option Agreement is set forth in Appendix A to this proxy statement. The description of the Option Agreement contained herein is qualified in its entirety by reference to Appendix A.

What is the purpose for the stock option grant?

The purpose of the grant pursuant to the Option Agreement is to provide additional incentive for our Chief Executive Officer to promote the success of our business through sharing in the future growth of such business. Equity-based awards, such as this grant, also are intended to further align the interests of award recipients and with the interests of our stockholders.

Who is eligible to receive an option grant?

The only eligible participant in the Option Agreement is our Chief Executive Officer, Christopher H. Atayan. Mr. Atayan is both an officer of our company and a member of our board. He has a personal interest in the approval of the grant contemplated by the Option Agreement. The option is not assignable by Mr. Atayan.

How many shares are subject to the option grant

The aggregate number of shares of our common stock that may be issued pursuant to the exercise of the option granted under the Option Agreement is limited to 25,000 shares, subject to increase or decrease in the event of any change in our company's capital structure. The shares of common stock to be delivered upon exercise of the option will be made available, at the discretion of our board of directors, from either our authorized but unissued shares of common stock or any shares of common stock held by our company as treasury shares.

What are the terms of the option?

Exercise Period. Generally, the exercise of the option granted under the Option Agreement is permitted only as follows: (i) no portion of the option may be exercised before December 12, 2007, (ii) up to one-third of the option (8,333.33 shares) may be exercised after December 12, 2007, (iii) an additional one-third of the option (8,333.33 shares) may be exercised after December 12, 2008, and (vi) the entire option may be exercised after December 12, 2009. In the event of a change of control (as that term is defined in the Option Agreement) the time at which the option may be exercised may be accelerated. Generally, a change of control is defined to take place when (a) there is a tender or exchange offer for shares of our common stock in which at least 50% of our outstanding voting stock is purchased, (b) there is a merger or consolidation involving our company in which our stockholders own less than 50% of the voting stock of the surviving corporation, (c) there is a sale or disposition of all or substantially all of our assets, (d) a person acquires at least 40% of our outstanding voting stock and, within two years after such acquisition, the persons who at the time of such acquisition constitute our board of directors cease to constitute a majority of our board, (e) any person or group acting together acquire 50% or more of our outstanding voting stock, or (f) our stockholders approve of any plan or proposal for the complete liquidation or dissolution of our company or for the sale of all or substantially all of our assets. In no event may the option be exercised after December 12, 2016.

Exercise Price. The exercise price of the option is \$18.00 per share, which represents the closing trading price for our common stock on AMEX on the day immediately prior to the December 12, 2006 grant date. The per share

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market value of our common stock on March 1, 2007, computed by reference to the last sale price of our common stock on the AMEX, was \$24.70. The option price may be paid in full in cash, or may be paid by Mr. Atayan's tender of previously acquired shares of our common stock.

Effect of Termination of Employment, Death or Disability. If Mr. Atayan's employment with our company is terminated for cause (as that term is defined in the Option Agreement), the option will expire immediately. The term "cause" is defined in the Option Agreement as any act or failure to act by Mr. Atayan that constitutes willful misconduct or gross negligence. If Mr. Atayan dies while he is our employee, the option may be exercised by his beneficiaries within twelve months after his death, to the extent it is exercisable. If Mr. Atayan becomes disabled while he is our employee, the option may be exercised by him within twelve months following the date of the disability, to the extent it is exercisable. If Mr. Atayan ceases to be our employee due to (i) his voluntary resignation, or (ii) the termination of his employment without cause (as defined above), the option may be exercised by him within three months following the date of employment termination.

How would the option be affected by a changes in our capital structure?

In the event that there is any change in the capital structure of our company, including but not limited to a stock dividend, stock split, recapitalization, combination or reclassification of shares or other similar transaction, the number of shares of common stock subject to the option which remains unexercised will be subject to increase or decrease in order to prevent dilution or enlargement. The option exercise price also will be adjusted upon the occurrence of any of such events so that there will be no change in the aggregate option exercise price payable upon the exercise of the option.

What are the significant federal income tax consequences for the option?

The grant of the option under the Option Agreement will create no tax consequences for Mr. Atayan or our company. In general, upon exercising the option, Mr. Atayan must recognize ordinary income equal to the difference between the exercise price and the fair market value of shares of common stock on the date of the exercise; our company will be entitled to an income tax deduction for the same amount, subject to the possible applicability of the compensation deductibility limit of Section 162(m) of the Internal Revenue Code. Generally, there will be no tax consequence to our company in connection with a disposition of shares acquired by Mr. Atayan upon exercise of an option. The Option Agreement is not subject to any provisions of the Employee Retirement Income Security Act of 1974.

THE FEDERAL INCOME TAX CONSEQUENCES DESCRIBED ABOVE ARE FOR GENERAL INFORMATION ONLY. NO INFORMATION IS PROVIDED AS TO THE STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF THE ACQUISITION OR EXERCISE OF OPTIONS GRANTED UNDER THE OPTION AGREEMENT OR THE SALE OF SHARES OF COMMON STOCK ACQUIRED UPON SUCH EXERCISE.

What are the specific benefits to Mr. Atayan of the option?

The table below sets forth the number of shares of our common stock covered by options granted under the Option Agreement to our Chief Executive Officer. No other person or group is being granted an option under the Option Agreement.

<u>Name and Position</u>	<u>Dollar Value (\$)*</u>	<u>Number of Units*</u>
Christopher H. Atayan, Chief Executive Officer, Vice Chairman, Director	231,000	25,000

* Dollar value is determined in accordance with the Black-Scholes option valuation methodology, based on the assumption that the options were granted on December 12, 2006 and were not subject to stockholder approval or other condition.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote **FOR** approval of the grant to our Chief Executive Officer of an option for 25,000 shares of common stock pursuant to the Option Agreement.

ITEM 4: APPROVAL OF OUR 2007 OMNIBUS INCENTIVE PLAN

What am I voting on?

On March 7, 2007, the compensation committee of our board of directors authorized an equity incentive plan, which we refer to in this proxy statement as the 2007 Omnibus Incentive Plan or the Plan. We are submitting the 2007 Omnibus Incentive Plan for approval by our stockholders at the annual meeting. Stockholder approval of an equity-based compensation plan or arrangement such as the Plan is necessary:

- o to enable the Plan to comply with the stockholder approval requirements for equity-based plans under the AMEX listing standards;
- o to enable equity-based awards under the Plan to be exempt from the short-swing profit disgorgement provisions of SEC Rule 16b-3;
- o for certain types of options granted under the Plan, known as incentive stock options, to be made eligible for the favorable income tax treatment afforded to optionees under Section 421 of the Internal Revenue Code; and
- o for certain forms of equity-based compensation under the Plan to be made eligible for the performance-based compensation exception to the \$1 million compensation deduction limitation imposed under Section 162(m) of the Internal Revenue Code.

The following description of the 2007 Omnibus Incentive Plan is necessarily general in nature and does not purport to reflect all of the terms of the Plan. A copy of the Plan is set forth in Appendix B to this proxy statement. The description of the 2007 Omnibus Incentive Plan contained herein is qualified in its entirety by reference to Appendix B.

What is the purpose of the Plan?

The purpose of the Plan is to encourage employees of our company, its affiliates and subsidiaries to acquire a proprietary and vested interest in the growth and performance of our company. The Plan also is designed to assist our company in attracting and retaining employees and non-employee directors by providing them with the opportunity to participate in the success and profitability of our company. Equity-based awards also are intended to further align the interests of award recipients and with the interests of our stockholders.

Who is eligible to receive an option grant?

The eligible participants in the Plan are all employees of our company, its affiliates and its subsidiaries, including employees who are officers or members of our board of directors, and members of our board who are not employees of our company. Currently, there are approximately 850 officers and employees of our company, its affiliates and its subsidiaries. Since all members of our board of directors are eligible for awards under the Plan, each member of our board has a personal interest in the approval of the Plan.

Who would be responsible for administering the Plan?

The Plan may be administered by our board of directors or a committee consisting of two or more directors, as our board may determine, referred to in this proxy statement as the Committee. Currently, it is anticipated that our compensation committee will administer the Plan and serve as the Committee. All members of the Committee will be outside directors as defined under Section 162(m) of the Internal Revenue Code of 1986, and non-employee directors as defined by the SEC rules under the Securities Act of 1934. The Committee has the sole discretion to administer and

interpret the Plan and determine who will be granted awards under the Plan, the size and types of such awards and the terms and conditions of such awards.

How many shares are subject to the option grant

The Plan permits the issuance of up to 150,000 shares of our common stock pursuant to awards granted under the Plan such as stock options, restricted stock awards, restricted stock units, performance share awards, as well as awards such as stock appreciation rights, performance units, performance shares, bonus share and dividend share awards payable in the form of common stock or cash. The shares that may be issued under the Plan are subject to increase or decrease in the event of any change in our company's capital structure. The shares of common stock to be delivered upon exercise of the option will be made available, at the discretion of our board of directors, from either our authorized but unissued shares of common stock or any shares of common stock held by our company as treasury shares. The per share market value of our common stock on March 1, 2007, computed by reference to the last sale price of our common stock on the AMEX, was \$24.70.

Stock Options. A stock option is the right to purchase shares of common stock at a future date at a specified price per share, which we refer to as the option price. An option may either be an incentive stock option or a nonqualified stock option. Incentive stock options are taxed differently from nonqualified stock options, and are subject to more restrictive terms. Incentive stock options may only be granted to employees of our company or a subsidiary. Both incentive stock options and nonqualified stock options may be granted under the Plan. The per-share exercise price of an option is set by the Committee and generally may not be less than the fair market value of a share of our common stock on the date of grant. Certain incentive stock options granted to individuals owning more than 10% of our company will be required to have a higher option price equal to at least 110% of the value of our common stock on the date of grant. Options granted under the Plan are exercisable at the times and on the terms established by the Committee. The maximum term of an option is ten years from the date of grant. The grant and the terms of incentive stock options will be restricted to the extent required by the Internal Revenue Code. The option price must be paid in full in cash, or the Committee also may permit payment of the option price by the tender of previously acquired shares of our common stock.

Stock Appreciation Rights. A stock appreciation right or SAR is the right to receive payment of an amount equal to the excess of the fair market value of a share of common stock on the date of exercise of the stock appreciation right over the grant price of the stock appreciation right. When a Plan participant exercises a SAR, that participant will receive an amount equal to the value of the stock appreciation for the number of SARs exercised, payable in cash, common stock or combination thereof, in the discretion of the Committee. The Plan permits the grant of two types of SARs: freestanding SARs, tandem SARs, or any combination of the two. A freestanding SAR is a SAR that is granted independently of any stock option. A tandem SAR is a SAR that is granted in connection with a related stock option, the exercise of which requires a forfeiture of the right to purchase a share under the related option (and when a share is purchased under the option, the SAR is similarly canceled). The Committee has complete discretion to determine the number of SARs granted to any participant and the terms and conditions pertaining to such SARs. The grant price will be at least equal to the exercise price of the related option in the case of a tandem SAR, or in the case of a freestanding SAR, the fair market value of a share of our common stock on the date of grant. The maximum term of a stock appreciation right will be determined by the Committee on the date of grant and may be determined by reference to the participant's death, disability, voluntary resignation, cessation as a director, or termination of employment.

Restricted Stock and Restricted Stock Unit Grants. The Plan permits the grant of restricted stock or restricted stock unit awards. Restricted stock and restricted stock units may be issued or transferred for consideration or for no consideration, as determined by the Committee. The Committee may establish conditions under which restrictions on shares of restricted stock or restricted stock units lapse over a period of time or according to such other criteria as the Committee deems appropriate, including the achievement of specific performance goals. Unless the Committee determines otherwise, during the period of time in which the shares of restricted stock are restricted, the participant to whom the shares have been granted will not have the right to vote the shares but will have the right to receive any dividends or other distributions paid on such shares, subject to any restrictions deemed appropriate by the Committee.

Performance Unit and Performance Shares. The Plan permits the grant of performance units and performance share awards which are bonuses payable in cash, common stock or a combination thereof. Each performance unit and performance share will represent the right of the participant to receive an amount based on the value of the performance unit/share, if performance goals established by the Committee are met. A performance unit will have a value based on

such measurements or criteria as the Committee determines. A performance share will have a value equal to the fair market value of a share of our company common stock. When an award of these are granted, the Committee will establish a performance period during which performance will be measured. At the end of each performance period, the Committee will determine to what extent the performance goals and other conditions of the performance units/shares are met. If the holder of a performance unit/share ceases to be an employee after a performance period for any reason other than having been terminated for cause, such holder will be entitled to receive the full amount payable as soon as practicable after the award amount has been determined by the Committee. If the holder of a performance unit/share ceases to be an employee before the end of a performance period by reason of death or disability, such holder will be eligible to receive the amount of any award prorated to reflect the shortened performance period. If the holder of a performance unit/share is terminated for cause at any time before or after the end of a performance period, but before an award has been paid, such holder's participation in the Plan will cease, and any performance units/shares and right to receive payment for any awards will be canceled.

Bonus Shares and Deferred Shares. The Plan permits the grant of shares to participants from time-to-time as a bonus. Such shares may be paid on a current basis or may be deferred and paid in the future. Our board of directors or the Committee may impose such conditions or restrictions on any such deferred shares as it may deem advisable, including time-vesting restrictions and deferred payment features.

Are the awards under the Plan transferable?

Awards under the Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and generally are exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative. The Committee may permit awards to be transferred to certain persons or entities, including members of the recipient's immediate family and charitable institutions, so long as such transfer is for no or nominal consideration.

How would awards under the Plan be affected by a changes in our capital structure?

If, without the receipt of consideration by our company, there is any change in the number or kind of shares of our common stock outstanding by reason of a stock dividend or any other distribution upon the shares payable in stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization, the maximum number of shares of our common stock available for grants, the maximum number of shares of our common stock that any individual participating in the Plan may be granted in any year, and the number of shares covered by outstanding grants will be appropriately adjusted to reflect any increase or decrease in the number of issued shares of our common stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under such grants. Any fractional shares resulting from such adjustment will be rounded up to the nearest whole share. The purchase or exercise price payable by any plan participant with respect to any award also will be adjusted upon the occurrence of any of the events referred to above so that there will be no change in the aggregate price payable by such participant. The manner in which any adjustments are made will be determined by the Committee, and such determination will be final, binding and conclusive.

If our company undergoes a change of control, as that term is defined in the Plan, each option, share of restricted stock and other grant held by a non-employee director will, without regard to any vesting schedule, restriction or performance target, automatically become fully exercisable or payable, as the case may be, as of the date of the change of control.

What are the specific benefits under the Plan?

As of the date of this proxy statement, no awards had been granted under the Plan. The number and dollar amount of benefits under the Plan that will be received by or allocated to our Chief Executive Officer and our other named executive officers, all executive officers as a group, all directors who are not executive officers as a group, each nominee for election as a director, each associate of any current director, executive officer or nominee, and all employees, including officers who are not executive officers, as a group therefore are not currently determinable.

How does our board of directors recommend that I vote?

Our board of directors recommends that you vote FOR approval of 2007 Omnibus Incentive Plan.

CORPORATE GOVERNANCE AND BOARD MATTERS

Communication with the Board

Stockholders may communicate with any director, including the Chairman of the Board and the chairman of any committee of the board, by sending a letter to the attention of the appropriate person (which may be marked as confidential) addressed to our corporate secretary at our corporate headquarters located at 7405 Irvington Road, Omaha, NE 68122. All communications received by the corporate secretary will be forwarded to the appropriate person. In addition, it is the policy of our board of directors that directors attend, and be available to discuss stockholder concerns, at the annual meeting. Upon receipt of a communication for the board or an individual director, the office of our corporate secretary will promptly forward any such communication to all the members of the board or the individual director, as appropriate. If a communication to an individual director deals with a matter regarding our company, our corporate secretary or appropriate officer will forward the communication to the entire board, as well as the individual director.

Neither the board nor a specific director is required to respond to a stockholder communication. To avoid selective disclosure, the board or the individual directors may respond to a stockholder's communication only if the communication involves information which is not material or which is already public. In which case, the board, as a whole, or the individual director may respond, if at all:

- o Directly, following consultation with the office of our corporate secretary or other advisors, as the board determines appropriate;
- o Indirectly through the office of our corporate secretary or other designated officer, following consultation with our corporate secretary or other advisors, as the board determines appropriate;
- o Directly, without additional consultation; indirectly through the office of our corporate secretary or other designated officer, without additional consultation; or
- o Pursuant to such other means as the Board determines appropriate from time to time.

If the communication involves material non-public information, the board or individual director will not provide a response to the stockholder. Our company may, however, publicly provide information responsive to such communication if (following consultation with the office of our corporate secretary or other advisors, as the board determines appropriate) the board determines disclosure is appropriate. In which case, the responsive information will be provided in compliance with SEC Regulation FD and other applicable laws and regulations.

Consideration of Director Nominees

The nominating and corporate governance committee expects to identify nominees to serve as directors of our company primarily by accepting and considering the suggestions and nominee recommendations made by directors, management and stockholders, including the holders of our Series B Convertible Preferred Stock and Series C Convertible Preferred Stock. The nominating and corporate governance committee has not established specific minimum qualifications for recommended nominees. As determining the specific qualifications or criteria against which to evaluate the fitness or eligibility of potential director candidates is necessarily dynamic and an evolving process, the nominating and corporate governance committee believes that it is not always in the best interests of our company or its stockholders to attempt to create an exhaustive list of such qualifications or criteria. Appropriate flexibility is needed to evaluate all relevant facts and circumstances in context of the needs of our board and our company at a particular point in time. Accordingly, the nominating and corporate governance committee reserves the right to consider those factors as it deems relevant and appropriate, including the current composition of our board and its committees, the balance of management and independent directors, the need for audit committee expertise and the evaluations of other prospective nominees. In determining whether to recommend a director for re-election, the nominating and corporate governance committee also

considers the director's past attendance at meetings and participation in and contributions to the activities of our board and of each committee on which such director serves. As a matter of practice, the nominating and corporate governance committee does evaluate recommended nominees for directors based on their integrity, judgment, independence, financial and business acumen, relevant experience, and their ability to represent and act on behalf of all stockholders. Further, the nominating and corporate governance committee evaluates each potential nominee in the context of our board as a whole, with the objective of recommending a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In general, the nominating and corporate governance committee would expect to re-nominate incumbent directors who express an interest in continuing to serve on our board. In connection with this annual meeting, the nominating and corporate governance committee received from the holder of our Series C Convertible Preferred Stock its designation of Jeremy W. Hobbs as the person to be elected by the holders of our Series C Convertible Preferred Stock to serve on our board of directors. Draupnir Capital, LLC, the holder of our Series C Convertible Preferred Stock, is entitled to vote separately as a single class to elect one member of our board of directors. We refer you to the discussion below under the headings "Ownership of Our Common Stock by Our Directors and Executive Officers and Other Principal Stockholders" and "Certain Relationships and Related Transactions" for more information concerning Draupnir Capital's ownership interest in our company and the issuance and sale of our Series C Convertible Preferred Stock.

Stockholders who wish the nominating and corporate governance committee to consider their recommendations for nominees for the position of director should submit their recommendations in writing to the nominating and corporate governance committee in care of our corporate secretary at AMCON Distributing Company, 7405 Irvington Road, Omaha, NE 68122. All nominees, including those submitted by stockholders in accordance with these procedures, will be evaluated using generally the same methods and criteria described above, although those methods and criteria are not standardized and may vary from time to time. Stockholders also may submit director nominations to our company in accordance with the procedures described below under "Advance Notice of Stockholder Proposals."

Meetings of the Board

During our 2006 fiscal year, our board of directors held ten meetings. With the exception of Messrs. Petersen and Loyack, each director attended at least 75% of the total meetings of the board of directors and of the committees of the board on which he or she served during the fiscal year. Our company's directors discharge their responsibilities throughout the year, not only at such board of directors and committee meetings, but through personal meetings and other communications with members of management and others regarding matters of interest and concern to our company.

Directors are encouraged by our company to attend our annual meeting of stockholders if their schedules permit, but our company does not otherwise have a policy regarding such attendance. All directors were present at the annual meeting of the stockholders held on March 15, 2005.

Committees of the Board

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. There currently are no other standing committees of our board of directors. Members of the audit committee, compensation committee and nominating and corporate governance committee serve at the pleasure of our board of directors.

Audit Committee. The members of our audit committee are John R. Loyack (chairperson), Timothy R. Pestotnik and Stanley Mayer. Our board of directors has determined that all members of the audit committee are independent directors under the listing standards adopted by the American Stock Exchange. In addition, our board of directors has determined that Mr. Loyack and Mr. Mayer qualify as "audit committee financial experts" under the rules of the SEC. The audit committee is responsible for reviewing our financial statements, audit reports, internal financial controls and the services performed by the independent registered public accounting firm, and for making recommendations with respect to those matters to our board of directors. A more complete description of the audit committee's functions is provided in its charter, a copy of which is available on our internet website (www.amcon.com). The audit committee held 11 meetings during fiscal year 2006.

Compensation Committee. The members of our compensation committee are Stanley Mayer (chairperson), Raymond F. Bentele and John R. Loyack, each of whom our board of directors has determined to be independent under

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the listing standards adopted by the American Stock Exchange. It is responsible for reviewing and making recommendations to our board of directors with respect to compensation of executive officers. A more complete description of the committee's functions is provided in its charter, a copy of which is available on our internet website (www.amcon.com). The compensation committee held two meetings in fiscal year 2006.

Nominating and Corporate Governance Committee. The members of our nominating and corporate governance committee are Raymond F. Bentele (chairperson), John R. Loyack and Timothy Pestotnik, each of whom our board of directors has determined to be independent under the listing standards adopted by the American Stock Exchange. The nominating and corporate governance committee is responsible for making recommendations to our board of directors of persons to serve as directors of our company and as chairmen and members of our board committees. The nominating and corporate governance committee also is responsible for certain corporate governance practices, including the development of ethical conduct standards for our directors, officers and employees and an annual evaluation to determine whether our board of directors and its committees are functioning effectively. The nominating and corporate governance committee operates under a written charter, a copy of which is available on our internet website (www.amcon.com). The nominating and corporate governance committee met once during fiscal 2006 and met on January 16, 2007 for the purpose of reviewing candidates for the directorships to be voted on at this annual meeting.

Code of Ethics

Our board of directors has adopted a code of ethical conduct that applies to principal executive officers and senior financial officers, as required by Section 406 of the Sarbanes-Oxley Act of 2002. This code of ethical conduct is available to any stockholder who requests it by writing to our corporate secretary. It also is available on our internet website (www.amcon.com).

Compensation of Directors

Directors who are not employees of our company are paid according to the following annual scale with no payment of meeting fees:

Audit Committee Chair	\$40,000
Audit Committee Member	\$35,000
Nominating and Corporate Governance Committee Chair	\$35,000
All Other Outside Directors	\$30,000

In addition, all directors are reimbursed for out of pocket expenses related to attending board and committee meetings. During fiscal 2006, Messrs. Loyack, Bentele and Mayer served on a special committee to the board of directors in connection with the contemplated sale of certain assets of our company to a company in which William F. Wright, our Chairman, would be an investor. As compensation for the additional services, each member of the special committee received \$20,000.

Non-employee directors are eligible to receive awards of nonqualified stock options which entitle them to purchase shares of our common stock at an exercise price equal to the fair market value of the stock on the date of grant. Such option grants are recommended on an annual basis by our compensation committee, subject to approval by our board of directors. These stock options also have varying vesting schedules ranging up to five years and expire ten years after the date of grant. During fiscal year 2006, no stock options were issued to directors.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is currently or was formerly a company officer or employee. There are no compensation committee interlocks and no insider participation in compensation decisions that are required to be reported under the rules and regulations of the Securities Exchange Act of 1934.

EXECUTIVE OFFICERS

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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
William F. Wright	64	Chairman of the Board, Director
Christopher H. Atayan	46	Chief Executive Officer, Vice Chairman, Director
Kathleen M. Evans	60	President, Director
Philip E. Campbell	45	Senior Vice President of Planning and Compliance
Andrew C. Plummer	32	Vice President, Chief Financial Officer and Secretary

The business experience of the executive officers of our company (with the exception of those executive officers previously described under the caption "What is the business experience of the nominees and of our continuing board members?") during the last five years is as follows:

Philip E. Campbell became the Senior Vice President of Planning and Compliance in January 2007. Mr. Campbell has provided consulting services to our company since 2004. Mr. Campbell was most recently the Chief Financial Officer of Franchise Concepts, Inc., a leading franchisor in the retail industry from 2001 to 2004. He has 23 years of accounting, finance and senior management experience in a number of industries and is an officer and director of Hotlink Incorporated.

Andrew C. Plummer became Acting Chief Financial Officer of our company in March 2006 and Chief Financial Officer in January 2007. Prior to his appointment as Acting Chief Financial Officer, he served our company as its Corporate Controller and Manager of SEC Compliance. Prior to joining our company in 2004, Mr. Plummer practiced public accounting for approximately seven years primarily with 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 during the last five years is as follows:

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

There is no arrangement or understanding between any executive officer and any other person pursuant to which such executive officer was selected as an officer except that under our Securities Purchase Agreement dated as of March 3, 2006 with Draupnir Capital, LLC relating to our sale of 80,000 shares of Series C Convertible Preferred Stock we agreed to reorganize the management of our company. In this regard, the Securities Purchase Agreement provided for the creation of a holding company Office of the Chairman under which William F. Wright was designated as Chairman, Christopher H. Atayan was designated as Vice Chairman and the Chief Financial Officer was to be designated by the holder of the Series C Convertible Preferred Stock. However, the Securities Purchase Agreement acknowledged that there is no limitation of our board's discretion to elect or remove officers or otherwise manage the business and affairs of our company.

COMPANY PERFORMANCE

The following stock performance graph and table provide a comparison over the five-year period ending September 30, 2006 of the cumulative total return from a \$100 investment in our company's common stock with the stocks listed on the American Stock Exchange Composite Total Return Index and the Standard & Poor's 600 Food Distributors Index.

The comparison of cumulative total returns presented in the above graph was plotted using the following index values and common stock price values:

	<u>9/28/01</u>	<u>9/27/02</u>	<u>9/26/03</u>	<u>9/24/04</u>	<u>9/30/05</u>	<u>9/30/06</u>
AMCON Distributing Company	\$100.00	\$118.55	\$106.33	\$78.28	\$80.69	\$49.96
AMEX Total Return Index	\$100.00	\$87.99	\$112.81	\$130.70	\$154.58	\$167.59
S&P 600 Food Distributors Index	\$100.00	\$66.44	\$75.29	\$71.95	\$95.30	\$79.09

REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Compensation Philosophy and Objectives. The compensation committee endeavors to establish total compensation packages for each executive officer that (i) fairly reflects the value of that executive officer's services to our company and (ii) that will permit our company to attract, retain and motivate high quality individuals in its key executive positions. The committee's specific objectives are to: (i) provide annual compensation that takes into account our company's performance relative to its financial goals and objectives; (ii) align the financial interests of the executive officers with those of stockholders by providing equity-based long-term incentives; and (iii) offer a total compensation program for executive officers based on the level of responsibility of the executive's position and necessary skills and experience relative to the other senior management positions and comparative compensation of similarly positioned executives and senior managers of peer companies.

Compensation Components and Process. Executive officer compensation for fiscal 2006 generally contains two principal components: (i) a base salary and (ii) a cash bonus. Mr. Wright's and Mr. Hinkfent's base salaries are also set forth in their employment agreements. The base salaries of other officers are determined as a function of their prior base salaries and the compensation committee's view of base salary levels for executive officers with comparable positions and responsibilities in other companies. The compensation committee periodically compares base salaries paid to our company's executive officers with those paid by other public companies engaged in similar industries and that generate revenues in the same range as our company. The compensation committee did not obtain such comparisons in establishing executive compensation for fiscal 2006.

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The process utilized by the committee in determining executive officer compensation levels for all of these components is based upon the committee's judgment and takes into account qualitative and quantitative factors. The compensation committee has adopted an executive compensation plan which established performance goals and criteria relating to the amounts of cash bonuses paid to its executive officers in future years.

The bonus portion of Mr. Wright's, Mr. Atayan's and Ms. Evans's compensation is paid based upon their performance, as evaluated by the compensation committee and approved by the board of directors. In addition to bonuses paid in accordance with the executive compensation plan, the compensation committee may award additional bonus amounts on a discretionary basis if the compensation committee deems it to be appropriate. The bonus portion of Mr. Plummer's, Mr. Hinkefent's and Mr. Campbell's compensation is paid on a discretionary basis based upon the Chief Executive Officer's assessment of individual performance and the overall performance of our company during the most recently completed fiscal year with respect to stockholder value, stock price, sales growth and net income.

Prior to June 1, 2004, the compensation committee granted stock options on a discretionary basis to executives who met performance criteria. On that date our 1994 Stock Option Plan expired. As disclosed elsewhere in this proxy statement, subject to stockholder approval we propose again to provide equity-based long-term incentives as a component of our executive compensation program.

Compensation of Chairman and Former CEO. As discussed above, Mr. Wright's base salary in fiscal 2006 was set by his prior employment agreement. It is the view of the compensation committee, based upon its periodic review of base salaries paid to chief executive officers of similarly situated companies, that Mr. Wright's base salary is reasonable in relation to compensation paid by such other companies. Based on the performance criteria set forth in the executive compensation plan, Mr. Wright was awarded a cash bonus of \$25,000, which was equal to 5.6% of his base salary for fiscal year 2006.

Compensation Committee

Stanley Mayer

Raymond F. Bentele

John R. Loyack

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

The following summary compensation table summarizes compensation information with respect to our chief executive officer and our four other most highly compensated executive officers for our most recent fiscal year. In this proxy statement, these individuals are referred to as our named executive officers. No other executive officers of our company earned salary and bonus in fiscal year 2006 in excess of the disclosure threshold established by federal securities laws.

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Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) (1)	All Other Compensation (\$) (2)
Christopher H. Atayan (3)	2006	138,462	95,000--	--	--
CEO and Vice Chairman	2005	--	----	--	--
	2004	--	----	--	--
William F. Wright	2006	447,500	25,00063,645	11,095	11,095
Chairman and former CEO	2005	435,000	--63,645	10,428	10,428
	2004	421,730	25,00063,645	9,933	9,933
Kathleen M. Evans	2006	364,000	60,000--	17,907	17,907
President	2005	354,000	25,000--	10,240	10,240
	2004	331,430	104,430--	9,417	9,417
	2006	119,096	25,000--	11,742	11,742
Andrew Plummer (4)	2005	--	----	--	--
V.P., Secretary and CFO	2004	--	----	--	--
	2006	150,000	40,000--	6,480	6,480
Eric J. Hinkefent	2005	150,000	25,000--	6,400	6,400
President of HFA and CNF	2004	150,000	5,000--	6,000	6,000
	2006	141,346	--12,500	6,704	6,704
William R. Hoppner (5)	2005	210,000	26,260--	8,346	8,346
Former Senior Vice President	2004	116,667	----	--	--

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- (1) Amount for fiscal 2006 consists of (i) the value of split dollar life insurance of \$39,645 and (ii) auto allowance of \$24,000 for Mr. Wright, and director fees of \$12,500 for Mr. Hoppner. No disclosure is required in this column for any other named executive officer pursuant to applicable SEC regulations, as the aggregate value of items covered by this column does not exceed the lesser of \$50,000 or 10% of the total annual salary and bonus shown for the respective named executive officer.
- (2) These amounts for fiscal year 2006 consist of (i) contributions to our company's Profit Sharing Plan of \$10,000, \$5,336, \$10,000 and \$6,480 for Mr. Wright, Mr. Plummer, Ms. Evans and Mr. Hinkefent, respectively, (ii) the values of term life insurance of \$1,095 and \$907 for Mr. Wright and Ms. Evans, respectively, and (iii) payout of accrued but unused vacation of \$6,406 and \$7,000 for Mr. Plummer and Ms. Evans, respectively.
- (3) In March 2006, Mr. Atayan was elected as our Vice Chairman and Chief Corporate Officer at an annualized base salary of \$300,000. Effective October 4, 2006, Mr. Atayan was elected as our Chief Executive Officer at an annual salary of \$385,000.
- (4) Mr. Plummer became a named executive officer in March 2006 with his appointment as the acting Chief Financial Officer at an annualized base salary of \$130,000. He was elected as our Chief Financial Officer in January 2007 and currently has an annualized salary of \$135,000.
- (5)

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Mr. Hoppner is now a director of our company. From February 2004 through April 2006 he served as our Senior Vice President. Prior to February 2004, Mr. Hoppner provided consulting services to our company and received consulting fees of \$30,000 during fiscal 2004 (which are included in the reported salary).

During fiscal 2006, Mr. Campbell served as a consultant to our company and was paid \$69,062 for those services, in addition to being reimbursed for \$11,198 of expenses.

Stock Option Grants in Our 2006 Fiscal Year

Our company did not grant stock options to any of the named executive officers during fiscal year 2006, as our 1994 Stock Option Plan expired on June 1, 2004.

Option Exercises and Holdings

The following table sets forth information with respect to each named executive officer concerning the exercise of options during fiscal year 2006 and unexercised options held as of September 30, 2006.

Aggregated Option/SAR Exercises in last Fiscal Year and September 30, 2006 Option/SAR Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at September 30, 2006		Value of Unexercised In-the-Money Options/SARs at September 30, 2006(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Christopher H. Atayan	--	--	--	--	--	--
William F. Wright	--	--	--	--	--	--
Kathleen M. Evans	--	--	6,417	--	--	--
Andrew C. Plummer	--	--	--	--	--	--
Eric J. Hinkefent	--	--	917	--	--	--
William R. Hoppner	--	--	1,284	--	--	--

(1) Based on the difference between the closing sale price of our common stock on September 30, 2006 and the exercise price of the options, the options reported had no value as of that date.

Equity Compensation Plan Information

The following equity compensation plan information summarizes plans and securities approved and not approved by security holders as of September 30, 2006.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ¹	23,065	\$30.54	--
Equity compensation plans not approved by security holders ²	8,188	\$30.85	--
Total	31,253	\$30.62	--

¹ Our 1994 Stock Option Plan allowed for the issuance of up to 550,000 shares of common stock. On June 1, 2004, the 1994 Stock Option Plan expired.

² Represents stock options to purchase 8,188 shares of common stock issued to non-employee directors as described in Compensation of Directors.

Long Term Incentive Plans and Other Matters

Our company does not maintain a long term incentive plan or pension plan (as defined in Item 402 of SEC Regulation S-K) for the named executive officers and has not repriced any options or stock appreciation rights for any named executive officers during the last fiscal year.

Employment and Other Compensatory Agreements

On September 26, 2006, our company entered into an agreement with William F. Wright replacing his January 1, 1998 employment agreement. This new agreement provides that Mr. Wright would cease to be our Chief Executive Officer at the earlier of December 31, 2006 or the appointment of a new Chief Executive Officer (which occurred on October 4, 2006 with the appointment of Christopher H. Atayan). This agreement provides that Mr. Wright will continue as Chairman of the Board through December 31, 2007, and then as Vice Chairman through December 31, 2009. Mr. Wright continued to receive compensation and other benefits under the 1998 employment agreement until December 31, 2006. Beginning January 1, 2007, Mr. Wright will be paid the same salary and benefits (including health insurance and auto allowance) as were paid on an annual basis as of the date of the new agreement, subject to increase as described below. Mr. Wright's salary for 2007, 2008 and 2009 will be increased to take into account increases (but not decreases) in the cost of living from January 1, 2006 by increasing his salary as of the first day of 2007, 2008 and 2009 to an amount equal to \$448,000 multiplied by the ratio of (a) the Consumer Price Index Seasonally Adjusted U.S. City Average For All Items For All Urban Consumers (1982-1984 = 100), which we refer to as the "CPI", for the month ending before such first day to (b) the CPI as in effect on January 1, 2006. The CPI is published in the "Monthly Labor Review" of the Bureau of Labor Statistics of the United States Department of Labor.

Our company has entered into an employment agreement with Eric J. Hinkefent, the President of Health Food Associates, Inc. and Chamberlin Natural Foods, Inc. The agreement has a term which automatically is extended for one year each September 30th unless either our company or the Mr. Hinkefent delivers a notice of non-extension at least 90 days prior to the scheduled automatic renewal date. The agreement provides for a base salary in each year of the term thereof and provides that Mr. Hinkefent shall be eligible to receive a bonus of up to 75% of his base salary based upon performance as determined by the compensation committee. If the employment agreement terminates due to an Mr. Hinkefent's disability or death, he or his personal representative is entitled to receive his base salary for a period of six months following the termination. If the employment agreement is terminated for reasons other than serious misconduct (as defined in the agreement), Mr. Hinkefent is entitled to receive a severance package equal to his current base salary plus his previous year's bonus. Mr. Hinkefent was also eligible to participate in our company's 1994 Stock Option Plan, prior to its expiration on June 1, 2004, and in other employee benefit plans maintained by our company, including health and life insurance plans. The agreement contains provisions under which Mr. Hinkefent has agreed to maintain the confidentiality of information concerning our company and its affairs and a covenant not to compete with our company for a period of one year after his employment with our company terminates.

Change of Control Agreements

On December 29, 2006, we entered into a change of control agreement with each of Christopher H. Atayan, our Chief Executive Officer, and Kathleen M. Evans, our President. Each such agreement is referred to in this section as an "Agreement". The initial term of the Agreement extends for two years until December 31, 2008. Beginning on December 31, 2007 and each December 31 following, the Agreement term automatically will be extended for one additional year unless we give the applicable officer notice by September 30 of that year. In addition, if a change in control (as that term is defined in the Agreement) occurs during the term of the Agreement, the term of the Agreement will continue for a period of 24 months after the month in which such change in control occurred.

The Agreement requires Mr. Atayan or Ms. Evans, as applicable, to remain in our employ for a period of six months after a change in control, unless involuntarily terminated by us other than for cause (as that term is defined in the Agreement) or terminated by the officer for good reason (as that term is defined in the Agreement).

If a change of control occurs and the term of the Agreement has not expired, we will owe the applicable officer the following:

- o During any period prior to termination of employment that the officer fails to perform full-time duties as a result of disability, total compensation, including base salary, bonus and any benefits, will continue unaffected until either the officer returns to the full-time performance of duties or employment is terminated.
- o If the officer is terminated for cause or other than for good reason, we will pay the officer his or her full base salary through the date of termination plus all other amounts to which the officer is then entitled under any of our compensation or benefit plans.
- o If employment terminates by reason of death, benefits will be determined in accordance with our retirement, survivor's benefits, insurance and other applicable programs and plans then in effect.
- o If employment is either terminated by our company (other than for cause or disability) or terminated by the officer for good reason, the officer will be entitled to the following benefits:
 - o All accrued compensation and benefits.
 - o Subject to adjustment, a severance payment in the form of a cash lump sum distribution equal to current annual compensation (as that term is defined in the Agreement) multiplied by two.
 - o Subject to adjustment, life and health insurance benefits (for 24 months after termination or until the officer turns 65 if earlier) that are substantially similar to those received immediately prior to the date of termination. These benefits will be provided at a cost that is no greater than the amount paid for such benefits by active employees who participate in such company-sponsored welfare benefit plan or, if less, the amount paid for such benefits by the officer immediately prior to the event date.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

AMCON Corporation. William F. Wright, Kathleen M. Evans, Jeremy W. Hobbs and Allen D. Petersen are officers, directors or stockholders of AMCON Corporation, which is engaged in the beer distribution business in eastern Nebraska through a wholly owned subsidiary. AMCON Corporation provides our company with offices and administrative services and our company reimburses AMCON Corporation for a proportionate share of the costs of these offices and services based upon our respective usages. Our company paid AMCON Corporation \$72,000 during fiscal 2006 under this arrangement. In fiscal 2007, it is anticipated that our company will pay AMCON Corporation \$72,000 under this arrangement. Our company believes the terms on which AMCON Corporation supplies these offices and services to our company are no less favorable than would otherwise be available from unaffiliated parties.

Sale of Series C Convertible Preferred Stock to Draupnir Capital. On March 7, 2006, our company entered into a Securities Purchase Agreement dated as of March 3, 2006 with Draupnir Capital, LLC relating to our sale of 80,000 shares of Series C Convertible Preferred Stock in a private placement under Section 4(2) of the Securities Act of 1933, as amended. The Securities Purchase Agreement provided for a total cash purchase price of \$2,000,000, or \$25 per share. The proceeds from the sale of the Series C Convertible Preferred Stock was used to pay down our company's existing secured credit facilities from LaSalle Bank National Association. As a part of the Series C Convertible Preferred Stock transaction, our company agreed to increase the size of the board and to cause Draupnir Capital's nominee, Jeremy W. Hobbs, to be elected to fill the resulting vacancy. In connection with any vote or meeting of our stockholders at which directors are to be elected, our company has agreed that it will nominate Draupnir Capital's nominee and will use its reasonable best efforts to cause such nominee to be elected to our board. Draupnir Capital is a wholly owned subsidiary of Draupnir, LLC. Allen D. Petersen and Jeremy W. Hobbs are members and managers of Draupnir, LLC, and Mr. Hobbs serves as its Chief Executive Officer. Christopher H. Atayan is an executive consultant to Draupnir, LLC.

Lending Arrangements. Our company's Chairman, William F. Wright, has personally guaranteed repayment of the facility and the term loans. However, the amount of his guaranty is capped at \$10.0 million and is automatically reduced by the amount of the repayment on Term Loan B and certain other deductions, which resulted in the guaranteed

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principal outstanding being reduced to \$6.2 million as of January 25, 2007. AMCON will pay our company's Chairman an annual fee equal to 2% of the guaranteed principal in return for the personal guarantee.

During fiscal 2006, Draupnir, LLC, a private equity firm whose members include Allen D. Petersen and Jeremy W. Hobbs, both directors of our company, extended a \$750,000 loan to our company's subsidiary, Trinity Springs, Inc. (TSI). During fiscal 2005, Allen D. Petersen extended a \$1,000,000 revolving line of credit to TSI. Additionally, AMCON Corporation, Aristide Investments, L.P. and Draupnir, LLC lent TSI \$500,000, \$250,000 and \$250,000, respectively during fiscal 2005. Aristide Investments, L.P. is a California limited partnership of which our Chairman, William F. Wright, is a partner.

Our company's Chairman, William F. Wright, has also guaranteed certain payments in connection with our company's acquisition of TSI in fiscal 2004, but is not being paid a fee in connection with this guarantee.

INDEPENDENT AUDITOR FEES AND SERVICES

Independent Auditor Fees and Services

The following table presents fees for professional audit services rendered by our independent registered public accounting firms for the audit of our annual financial statements for our 2005 and 2006 fiscal years, and fees billed for other services rendered by our independent registered public accounting firms during such fiscal years. All audit and non-audit services provided to our company by our independent registered public accounting firms were approved by our audit committee.

Type of Fee	2005	2006
Audit Fees (1)	\$989,685	\$459,000
Audit-Related Fees (2)	\$14,675	\$34,200
Tax Fees (3)	\$125,621	\$55,786
All Other Fees	\$39,510	\$6,030
Total	\$1,169,491	\$555,016

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- (1) Audit Fees, including those for audits, include the aggregate fees paid by us during our 2005 and 2006 fiscal years for professional services rendered for the audit of our annual financial statements, as well as the review of financial statements included in our quarterly reports on Form 10-Q and the audit of our annual financial statements included in our amendment of our fiscal 2004 annual report on Form 10-K that occurred in fiscal 2005.
 - (2) Audit Related Fees include the aggregate fees paid by us during our 2005 and 2006 fiscal years for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and not included in Audit Fees, including services provided with respect to the audit of our company's employee benefit plans and with respect to business acquisitions and compliance with Sarbanes-Oxley Act and related regulatory matters.
 - (3) Tax Fees include the aggregate fees paid by us during our 2005 and 2006 fiscal years for professional services rendered for preparation of tax returns, research and general advice relating to tax issues and compliance.

In making its determination regarding the independence of Deloitte & Touche, LLP and McGladrey and Pullen, LLP, respectively, our audit committee considered whether the provision of the services for which we incurred the Audit-Related Fees, Tax Fees, and All Other Fees was compatible with maintaining such independence.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services

Pursuant to its charter, the audit committee of our board of directors is responsible for reviewing and approving, in advance, any audit and any permissible non-audit engagement or relationship between our company and its independent auditors. Our engagement of McGladrey and Pullen, LLP to conduct the audit of our company for our 2006 fiscal year was approved by the audit committee on August 30, 2006. Additionally, each permissible non-audit engagement or relationship between our company and our independent registered public accounting firms entered into

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since September 30, 2005 has been reviewed and approved by the audit committee. All audit-related, tax and all other fees were pre-approved by the audit committee. We have been advised by McGladrey and Pullen, LLP that substantially all of the work done in conjunction with its audit of our financial statements for the most recently completed fiscal year was performed by permanent full time employees and partners of McGladrey and Pullen, LLP.

The audit committee of our board of directors has adopted the following guidelines regarding the engagement of our independent registered public accounting firm to perform services for our company:

The audit committee will pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for our company by its independent registered public accounting firm, subject to the exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 which must be approved by the audit committee prior to the completion of the audit.

Change in our Independent Auditor

On August 30, 2006, our audit committee appointed McGladrey and Pullen, LLP as our independent registered public accounting firm to audit our financial statements as of and for the year ended September 30, 2006.

On August 28, 2006, our independent registered public accounting firm, Deloitte & Touche, LLP provided the chairman of our audit committee with the oral communication that it would decline to stand for re-election as our independent registered accounting firm if asked to do so by our company. Deloitte & Touche's reports on our company's financial statements for our 2004 and 2005 fiscal years did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles, except that Deloitte & Touche's report, dated August 21, 2006, on our company's September 30, 2005, September 24, 2004 and September 26, 2003 financial statements included an explanatory paragraph regarding litigation relating to our June 2004 purchase of Trinity Springs, Inc. and an explanatory paragraph relating to the restatement of our company's 2004 financial statements. Additionally, Deloitte & Touche's report dated January 7, 2005, (August 19, 2005 as to the effects of a subsequent event and as to the effects of restatements of our company's 2004 and 2003 financial statements) on our company's September 24, 2004, September 26, 2003 and September 27, 2002 financial statements included an explanatory paragraph related to the restatements of our company's 2004 and 2003 financial statements.

During our 2004 and 2005 fiscal years and the subsequent interim period to August 28, 2006, there were no disagreements with Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte & Touche, would have caused it to make a reference to the subject matter of the disagreement in connection with its reports.

During our 2004 and 2005 fiscal years and the subsequent interim period to August 28, 2006, there have been no events of the type required to be reported pursuant to Item 304(a)(1)(v) of Regulation S-K promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended, except that Deloitte & Touche and our company identified material weaknesses in our company's internal control over financial reporting related to (i) inventory accounting errors that occurred at one of our subsidiaries, (ii) the application of accounting literature for discontinued operations, (iii) insufficient levels of appropriately qualified and trained per