AMCON DISTRIBUTING CO
Form 8-K/A
March 01, 2002

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

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES ACT OF 1934

Date of Report (Date of earliest event reported) December 17, 2001

AMCON DISTRIBUTING COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	0-24708	47-0702918
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

10228 "L" Street, Omaha, NE 68127
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On December 17, 2001, Hawaiian Natural Water Company, Inc., a Hawaii corporation ("HNWC" or "Hawaiian Natural"), was merged (the "Merger") with and into AMCON Merger Sub, Inc. ("Merger Sub"), a wholly-owned subsidiary of AMCON Distributing Company ("AMCON"). Merger Sub is a new corporation that was formed under Delaware law solely for the purpose of effecting the merger and changing the state of incorporation of HNWC from Hawaii to Delaware. The companies were merged pursuant to the Fifth Amended and Restated Agreement and Plan of Merger, dated September 27, 2001 (the "Merger Agreement"), by and among HNWC, AMCON and Merger Sub. The shareholders of HNWC and Merger Sub approved the Merger Agreement on December 17, 2001. As contemplated in the Merger Agreement, AMCON Merger Sub, Inc. has changed its name to Hawaiian

Natural Water Company, Inc.

Under the Merger Agreement, HNWC and AMCON had established the total value of HNWC common stock as $2,865,348. The exchange ratio, which specified the fractional share of AMCON issued for each share of HNWC in the merger, was determined by dividing this agreed upon value by the average AMCON stock price described below and then dividing that resulting quotient by the number of shares of HNWC common stock outstanding immediately prior to the time the Merger was completed. For purposes of this calculation under the Merger Agreement, the average closing price of AMCON common stock was measured during a 20 trading day period ending three days prior to December 17, 2001, the date of the HNWC shareholder vote on the merger. However, the common stock of AMCON would be priced no lower than $6.00 and no greater than $8.00 per share for this purpose. As a result of AMCON's stock price during this measurement period, the exchange ratio was 0.052 of a share of AMCON common stock for each share of HNWC common stock. A total of 477,558 shares of AMCON common stock were therefore issued in the merger, of which AMCON received back 104,000 shares with respect to its ownership of 2,000,000 shares of common stock of HNWC.

The merger is expected to qualify as a tax-free reorganization and has been recorded on AMCON's books using the purchase method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The purchase price valued the entire common equity interest in Hawaiian Natural at approximately $2.9 million, which was paid in cash of $0.8 million during fiscal 2001 and in common stock of AMCON valued at approximately $2.1 million. AMCON funded the cash portion of the purchase price through borrowings on its revolving line of credit. The portion of the purchase price in excess of the fair value of the net assets acquired to be allocated to other intangible assets is approximately $3.4 million. The identifiable intangible asset, the Hawaiian Natural trade name, is being amortized over 20 years.

Although the amounts are subject to change based on evaluations performed subsequently, the final purchase price allocation is not expected to materially differ from those recorded in AMCON's Quarterly Report on Form 10-Q for the first quarter ended December 2001, as filed with the Securities and Exchange Commission on February 11, 2002 (File No. 0-24708).

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(a) Financial Statements of Business Acquired

Hawaiian Natural Water Company, Inc.
Balance Sheet
September 30, 2001
(Unaudited)

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 32,748
Inventories	423,873
Trade accounts receivable, net of allowance for doubtful accounts of $67,408	256,613
Other current assets	109,479
Total Current Assets	822,713

PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $1,275,078	2,049,722
Total Assets	$ 2,872,435

LIABILITIES AND STOCKHOLDERS'(DEFICIT)

CURRENT LIABILITIES:	
Trade accounts payable	$ 968,886
Accrued vacation, payroll and related taxes	77,201
Accrued commissions and billbacks	207,289
Accrued other	243,745
Notes payable - Current portion	1,938,410
Capital lease obligation - Current portion	11,593
Total Current Liabilities	3,447,124
NON-CURRENT LIABILITIES:	
Capital lease obligation - net of current portion	8,127
Notes payable - net of current portion	9,552
Other	41,380
Total Non-Current Liabilities	59,059
Total Liabilities	3,506,183
STOCKHOLDERS' EQUITY(DEFICIT):	
Preferred Stock, $1 par value; 5,000,000 shares authorized; no shares issued or outstanding	-
Common stock, no par value; 20,000,000 shares authorized; 7,935,982 shares issued and outstanding	9,912,446
Common stock warrants and options; 5,624,358 issued and outstanding	3,680,765
Accumulated Deficit	(14,226,959)
Total Stockholders' Equity (Deficit)	(633,748)
Total Liabilities and Stockholders' Equity	$ 2,872,435

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

Hawaiian Natural Water Company, Inc.
Statements of Operations
For the Three and Nine Months Ended September 30, 2000 and 2001
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
NET SALES	$ 944,999	$ 765,629	$ 3,143,112	$ 2,365,029
COST OF SALES	661,677	849,325	2,417,623	2,215,235

Gross Margin	283,322	(83,696)	725,489	149,794
EXPENSES:				
Selling and Marketing	217,451	129,944	759,650	363,238
General and Administrative	281,420	178,165	1,124,195	744,804
	498,871	308,109	1,883,845	1,108,042
OTHER INCOME (EXPENSE)				
Interest income (expense)	24,076	(46,231)	(53,601)	(111,951)
Impairment charge	(122,841)	(188,345)	(1,025,935)	(188,345)
Net Loss	$ (314,314)	$ (626,381)	$(2,237,892)	$(1,258,544)
Preferred stock dividend	49,700	-	113,245	-
Net Loss Applicable to Common Shareholders	$ (364,014)	$ (626,381)	$(2,351,137)	$(1,258,544)
Basic and Diluted Net Loss Per Share:	$ (0.05)	$ (0.08)	$ (0.36)	$ (0.16)
Weighted Average Common Shares Outstanding	7,041,501	7,935,982	6,559,193	7,850,502

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

Hawaiian Natural Water Company, Inc.
Statement of Stockholders' Equity(Deficit) For the
Nine Months Ended September 30, 2001
(Unaudited)

	Common Stock		Common Stock Warrants and Options			
	Number of Shares	Amount	Number of Shares	Amount	Accumulated Deficit	Tot Stockh Equity
BALANCE AT DECEMBER 31, 2000	7,185,966	$ 9,612,446	5,595,558	$ 3,669,035	$(12,968,415)	$ 313
Sale of common stock to AMCON Distributing Company February 1, 2001	750,000	300,000	--	--	--	300

Issuance of common stock options to non-employee directors						
January 1, 2001	--	--	900	--	--	
April 2, 2001	--	--	900	--	--	
Issuance of common stock options to marketing consultants	--	--	27,000	11,730	--	11
Issuance of common stock pursuant to Co-Packing Agreement	16	--	--	--	--	
Net Loss	--	--	--	--	(1,258,544)	(1,258
BALANCE AT SEPTEMBER 30, 2001	7,935,982	$ 9,912,446	5,624,358	$ 3,680,765	$ (14,226,959)	$ (633

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

Hawaiian Natural Water Company, Inc.
Statements of Cash Flows
For the Nine Months Ended September 30, 2000 and 2001
(Unaudited)

	Nine Months Ended September 30, 2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,237,892)	$ (1,258,544)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	286,227	328,317
Amortization of debt discount	25,974	19,108
Impairment charge	1,025,935	188,345
Net income from subsidiary (Aloha Water Co)	(18,435)	-
Issuance of stock and options to consultants, distributors, non-employee directors and employees	70,024	11,730
Net decrease (increase) in current assets	62,125	115,289
Net increase (decrease) in current liabilities	415,599	(113,144)
Net cash used in operating activities	(370,443)	(708,899)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(78,293)	(79,193)
Net cash used in investing activities	(78,293)	(79,193)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sale of preferred stock and common stock warrants	100,000	-
Net proceeds from private placement of common stock and common stock warrants		300,000
Exercise of common stock options and warrants by private investors	431,600	-
Proceeds from note payable	350,000	854,483
Redemption of preferred stock	(179,000)	(150,000)
Repayments of notes payable	(7,060)	(171,195)
Repayment of principal on capital leases	(22,384)	(27,078)
Net cash provided by financing activities	673,156	806,210
NET INCREASE IN CASH AND CASH EQUIVALENTS	224,420	18,118
CASH AND CASH EQUIVALENTS, beginning of period	8,988	14,630
CASH AND CASH EQUIVALENTS, end of period	$ 233,408	$ 32,748
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Addition of capital leases	$ 17,243	-
Preferred shareholder dividends paid in cash	$ 37,461	-
Preferred shareholder dividends accrued	$ 6,366	-

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

HAWAIIAN NATURAL WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2001
(UNAUDITED)

1. GENERAL

The accompanying unaudited financial statements of Hawaiian Natural Water Company, Inc.,(the Company) should be read in conjunction with the audited financial statements for the year ended December 31, 2000 of Hawaiian Natural Water Co., Inc. and notes thereto as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-KSB. The auditor's report on those financial statements included an explanatory fourth paragraph indicating that there is substantial doubt about the Company's ability to continue as a going concern.

In the opinion of management, the accompanying financial statements reflect all adjustments (which consist primarily of normal recurring adjustments) considered necessary to fairly present the financial position of the Company at September 30, 2001, the results of its operations for the three month and nine month periods ended September 30, 2001 and 2000, and the cash flows for the nine month periods ended September 30, 2001 and 2000, in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years. Certain amounts from prior periods have been reclassified to conform to their current period presentation.

Organization and Going Concern

Hawaiian Natural Water Company, Inc. (the Company) was incorporated in the state of Hawaii on September 13, 1994. The Company was formed for the purpose of bottling, marketing and distributing Hawaiian natural water in Hawaii, the United States mainland and foreign markets. The Company's initial product introduction occurred in the first quarter of 1995.

In June 1999 the Company acquired certain assets of Ali'i Water Bottling Co., Inc., which extended the Company's product line to include (1) premium purified bottled water, and (2) the home and office large bottle (3 gallon and 5 gallon) delivery market. This business is concentrated in the Kailua-Kona area of the Big Island of Hawaii.

In January 2000, the Company introduced a line of herbal beverages under the East Meets West XEN-TM-(XEN) name. The beverages were manufactured for the Company pursuant to a co-packing agreement with a Los Angeles area bottler (see Note 5). Due to its inability to successfully market this product line, the Company has discontinued manufacturing and distributing XEN products.

In March 2000, the Company acquired Aloha Water Company Co. Inc., a distributor of purified water in the home and office market in the Honolulu area. This acquisition was subsequently rescinded in December 2000 (see Note 6).

In November 2000, the Company agreed to be acquired by Amcon Distributing Company, an Omaha, Nebraska based distributor, by means of a merger of the Company into a wholly owned subsidiary of Amcon (see Note 7).

Since the execution of the merger agreement, the Company has been substantially dependent upon Amcon for its financing requirements. If the merger agreement were terminated for any reason, the Company would likely not be able to continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred significant losses and negative cash flows from operations since inception. Management expects that the Company will continue to incur additional losses and negative cash flows until the Company achieves significant levels of sales. To date, the Company has been unable to generate cash flow sufficient to support its operations. Additionally, the Company has past due accounts payable of approximately $876,000 and notes payable amounts due in the near term of approximately $1,938,000. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Estimates

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

Revenue Recognition

The Company recognizes revenue on the accrual method of accounting when title transfers: upon shipment, for bottled water products and other beverages, and upon delivery for home and office delivery products. The Company grants customers the right to return goods that are defective or otherwise unsuitable for sale. The Company issues refunds to customers or replaces goods that are rejected.

The Company's policy is to provide a reserve for estimated uncollectible trade accounts receivable. The Company also provides a reserve for estimated sales returns and related disposal costs. Net sales revenue reflects reductions for the reserve for sales returns, discounts, promotional allowances and freight-out. The Company also estimates the amount of billbacks from certain distributors which represents price adjustments for quantity or other discounts to distributors' customers.

Gross Margin

The Company's plant currently has a normal production capacity of approximately 200,000 cases per calendar quarter. The Company is currently operating its plant at approximately 58 percent of this capacity. Since a significant portion of the Company's cost of sales includes fixed production costs, the Company anticipates higher gross margins as production and sales increase.

2. LOSS PER SHARE

Basic and Diluted Loss Per Share is computed by dividing the Net Loss (adjusted for preferred dividends) by the Weighted Average Common Shares Outstanding during the period.

The Company's Basic and Diluted Loss Per Share is the same for 2000 and 2001 in that any exercise of stock options or warrants would have been anti-dilutive.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include savings accounts and investments in a money market account with original maturities less than 90 days.

4. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market. As of September 30, 2001, inventories were comprised of the following:

Raw materials	$337,663
Finished goods	86,210
	$423,873

Raw materials inventory consists of PET pre-forms, caps, labels and various packaging and shipping materials. Finished goods inventory includes materials, labor and manufacturing overhead costs.

5. XEN LINE OF HERBAL BEVERAGES AND IMPAIRMENT CHARGE

In June 1999, the Company purchased for $150,000 the beverage products, trademarks and all other rights related to its XEN line of herbal beverages.

In September 2001, due to unsatisfactory sales volume of this product line, the Company discontinued ongoing marketing efforts. Current marketing activities are limited to the liquidation of inventory on hand, a significant portion of which has been reserved as of September 30, 2001 due to a potential realization issue. The acquisition cost of the XEN product line and related trademark registration expenses had been capitalized and were being amortized over a five-year period. The unamortized balance of the cost of this intangible asset of $98,345, was deemed to be impaired and was written off at September 30, 2001 as an impairment charge.

In June 1999, the Company entered into a five-year agreement with an independent bottler in Los Angeles, California for the production, warehousing, and shipment of the XEN product line. On September 13, 1999, the Company issued an aggregate of 850,000 shares of common stock to the principals of the bottler in partial consideration for these services which were recorded as an asset on the Company's accounting records in the amount of $150,000, based on the fair value of the securities issued. The unamortized balance of the cost of this intangible asset of $90,000 was deemed to be impaired and was written off at September 30, 2001 as an impairment charge.

6. ACQUISITION OF ALOHA WATER COMPANY, INC. AND IMPAIRMENT CHARGE

On March 17, 2000, the Company acquired Aloha Water Company, Inc., (Aloha), a distributor of purified water to the home and office delivery market in the Honolulu area. The acquisition was accomplished through a merger of Aloha into a wholly owned subsidiary of the Company formed for this purpose. The purchase price for Aloha consisted of an aggregate of (i) 750,000 shares of common stock of the Company and (ii) a promissory note of the Company in the amount of $500,000 (the Aloha note) to the stockholders of Aloha. Interest on the note was payable monthly at the annual rate of 10%. The entire principal amount was due on April 1, 2000. The Aloha note was secured by a first priority security interest on all of the capital stock of Aloha.

In August, 2000 the holders of the Aloha note declared a default for failure to make certain interest payments, and foreclosed on their collateral, which was all of the stock of Aloha. As a result, the Company wrote off its investment in Aloha, the related goodwill and the Aloha note.

In December 2000, the parties agreed to rescind the acquisition, as a result of which Aloha returned the Aloha note and the 750,000 shares of the Company's common stock. The fair value of the Company's shares returned was not material.

7. AMCON MERGER

In November 2000, the Company entered into a merger agreement with AMCON Distributing Company (AMCON), pursuant to which the Company has agreed to merge with and into, and thereby become, a wholly owned subsidiary of AMCON. The merger consideration values the entire common equity interest in the Company at $2,865,348, payable in common stock of AMCON, which will be priced at not less than $6.00 or more than $8.00 per share, based on a 20 trading day measuring period ending three trading days before the date of the Company's stockholder vote on the merger. As a result, AMCON will issue an aggregate of not less than 358,168 or more than 477,558 shares. Holders of outstanding options and warrants of the Company would receive comparable options and warrants of AMCON with the exercise price and number of shares covered adjusted based upon the exchange ratio.

The merger is expected to qualify as a tax-free reorganization. It is subject to various conditions, including the effectiveness of a registration statement covering the shares to be issued in the merger, the listing of such shares on the American Stock Exchange, and the approval of the Company's stockholders.

All of the Company's officers and directors and any of their affiliated entities that own shares of the Company's common stock have agreed to vote their shares in favor of the merger.

The Company has established December 17, 2001 as the date for a special meeting of shareholders to vote on the Merger. If approved, as expected, the Company expects the Merger to be completed on the same date. However, the Merger Agreement is terminable under certain circumstances, and there can be no assurance that the Merger will be completed. Pending completion of the Merger, AMCON has made certain interim financing available to the Company. If the Merger Agreement is terminated for any reason, it is likely that the Company will not be able to continue as a going concern.

8. NOTES PAYABLE

In anticipation of acquiring the Company, AMCON has provided certain debt financing to the Company for working capital and other general corporate purposes. AMCON advanced $350,000 in September 2000, $400,000 in October 2000, and an additional $500,000 in June 2001. These loans are evidenced by secured promissory notes (the AMCON notes) bearing interest at a rate of 10% per annum, payable quarterly. The AMCON notes are convertible at the election of AMCON, under certain circumstances, into Series C convertible preferred stock bearing dividends, payable quarterly, of 10% per annum and giving effective control of the Board of Directors to AMCON. The first two AMCON notes are also convertible into common stock of the Company at AMCON's election at a conversion price equal to $2,865,348 divided by the number of shares of common stock outstanding on the conversion date. The AMCON notes are secured by a lien on all of the Company's assets. The third AMCON note is convertible into common stock at a conversion price of $.40 per share. The due date of the AMCON notes, originally February 28, 2001, has been extended to December 31, 2001.

In September 2001, an affiliate of AMCON, provided $354,483 of debt financing to the Company for working capital and other general corporate purposes. This loan is evidenced by a secured promissory note bearing interest at a rate of 8% per annum. The note, along with earned interest, is due and payable on or before December 31, 2001.

In September 1997, the Company acquired certain bottle making equipment used in its bottling operations. The consideration for the equipment was an aggregate of $1.2 million, a portion of which was paid through the issuance of a promissory note in the original principal amount of $825,000, payable in installments, as defined. The Company discounted this equipment note payable using an estimated weighted average cost of capital of 12%, and amortized the resulting discount to interest expense using the effective interest method over the term of the loan. In October 2000, the Company negotiated a restructuring of the $189,000 installment due on September 30, 2000, so as to extend the payment over six months. This installment was paid in full as of May 11, 2001. The outstanding principal balance of this note is due in two equal installments of $165,000 (plus interest) on September 30, 2001 and on September 30, 2002. The Company failed to make the payment due on September 30, 2001 and is in default on the note.

In September 1999, the Company acquired a prefabricated warehouse, which it assembled and installed on its property in Kea'au. The warehouse was purchased for $24,995 with a down payment of $2,000 and a 5-year note, with monthly payments aggregating $22,995, including interest.

The following summarizes the Company's notes payable as of September 30, 2001:

First AMCON note	$ 350,000
Second AMCON note	400,000
Third AMCON note	500,000
AMCON affiliate note	354,483
Equipment note payable in default	330,000
Net notes payable	1,934,483
Warehouse note payable	13,479
Subtotal--notes payable	1,947,962
Less: Current portion	(1,938,410)
Non-current portion	$ 9,552

9. STOCK OPTIONS

The total number of Common Stock warrants and options shown on the balance sheet at September 30, 2001 excludes an aggregate of 438,367 options outstanding at such date held by officers and employees of the Company, of which 150,000 (held by the Company's president) expired unexercised in October 2001. Stock options granted to employees are accounted for under APB Opinion No. 25, under which compensation expense is recognized only if the exercise price is less than the market price at the date of grant. All employee stock options outstanding at September 30, 2001 had an original exercise price of $4.00 per share. In February 2000, the Company reduced the exercise price of the options held by all active employees to $2.00 per share, which has not resulted in any further compensation charges to income through September 30, 2001.

Stock options granted to non-employees are accounted for in accordance with Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock-Based Compensation, which requires that these transactions be accounted for based upon the fair value of consideration received or the fair value of the equity instruments issued, whichever is more reliably determinable.

10. SEGMENT INFORMATION

The Company has three segments: PET, home and office delivery, and XEN. The Company reportable segments are business units defined by product line, the results of which are reported directly to the Company's chief operating decision maker. The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies." The Company manages cash flows and assets on a consolidated basis, and not by segment.

Information for the three-month period ended September 30, 2000, and for the nine-month period ended September 30, 2000, has been recast, as required by SFAS 131, "Disclosure About Segments of an Enterprise and Related Information."

The following tables summarize the operating results by segment for the three-month periods ended September 30, 2000 and 2001:

THREE MONTHS ENDED SEPTEMBER 30, 2000:

	PET	Home and Office	XEN	Corporate	Company Total

Revenue from external customers	$ 807,891	$ 87,745	$ 49,363	$ -	$ 944,999
Depreciation and amortization expense	60,363	15,073	2,959	21,882	100,277
Total operating costs	603,580	82,520	114,187	360,261	1,160,548
Operating income (loss)	204,311	(5,225)	(64,824)	(360,261)	(215,549)
Net interest income	-	-	-	24,076	24,076
Impairment charge	-	(122,841)	-	-	(122,841)
Net income (loss)	204,311	(45,546)	(64,824)	(408,255)	(314,314)

THREE MONTHS ENDED SEPTEMBER 30, 2001:

	PET	Home and Office	XEN	Corporate	Company Total
Revenue from external customers	$ 673,028	$ 84,518	$ 8,083	$ -	$ 765,629
Depreciation and amortization expense	62,928	15,425	459	50,047	128,859
Total operating costs	729,676	94,901	124,283	208,574	1,157,434)
Operating income (loss)	(56,648)	(10,383)	(116,200)	(208,574)	(391,805)
Impairment charge	-	-	188,345		188,345
Net interest expense	-	-	-	46,231	46,231
Net income (loss)	(56,648)	(10,383)	(304,545)	(254,804)	(626,381)

The following tables summarize the operating results by segment for the nine-month periods ended September 30, 2000 and 2001:

NINE MONTHS ENDED SEPTEMBER 30, 2000:

	PET	Home and Office	XEN	Corporate	Company Total
Revenue from external customers	$2,334,242	$ 531,958	$ 276,912	$ -	$ 3,143,112
Depreciation and amortization expense	219,323	42,318	3,571	21,066	287,886
Total operating costs	1,904,035	566,379	455,119	1,375,935	4,301,468
Operating income (loss)	430,207	(34,421)	(178,207)	(1,375,935)	(1,158,356)
Net interest expense	-	1,266	-	52,335	53,601
Impairment charge	-	1,025,935	-	-	1,025,935
Net income (loss)	430,207	(1,061,622)	(178,207)	(1,428,270)	(2,237,892)

NINE MONTHS ENDED SEPTEMBER 30, 2001:

	PET	Home and Office	XEN	Corporate	Company Total

Revenue from external customers	$2,056,821	$ 235,061	$ 73,147	$ -	$ 2,365,029
Depreciation and amortization expense	191,121	46,274	1,377	90,141	328,913
Total operating costs	2,018,695	306,649	239,624	758,309	3,323,277
Operating income (loss)	38,126	(71,588)	(166,477)	(758,309)	(958,248)
Net interest expense	-	-	-	111,951	111,951
Impairment charge	-	-	188,345	-	188,345
Net income (loss)	38,126	(71,588)	(354,822)	(870,260)	(1,258,544)

11. EQUITY TRANSACTIONS

a. Series A Convertible Preferred Stock

In 1999, the Company issued an aggregate of 1,250 shares ($1.25 million in aggregate liquidation preference amount) of Series A convertible preferred stock to an institutional investor. The Company also issued to this investor for no additional consideration warrants to purchase 100,000 shares of common stock at an original exercise price of $3.625 per share.

Each share of Series A preferred stock had a liquidation preference of $1,000, and was entitled to cumulative dividends at an annual rate of 4%, payable quarterly commencing May 31,1999, in cash or common stock at the election of the Company. The Series A preferred stock was convertible into common stock, in whole or in part at the election of the holder, at a variable conversion price based upon a discount to the market price (as defined) of the common stock as of each conversion date (the beneficial conversion feature).

In August 1999, the investor converted six shares of Series A preferred into an aggregate of 11,429 shares of common stock. In September 1999, the Company entered into a standstill agreement with the investor, pursuant to which the investor agreed not to convert any additional shares of Series A preferred and granted the Company an option to redeem the outstanding shares. This standstill agreement was extended continuously until November 2, 2000. Pursuant to this standstill arrangement, the Company redeemed an aggregate of (i) 925 shares of Series A preferred stock for an aggregate of $808,750 in 1999, (ii) 100 shares for an aggregate of $100,000 during the first quarter of 2000, (iii) 79 shares for an aggregate of $79,000 during the second quarter of 2000, and (iv) the remaining 140 shares for an aggregate of $140,000 in October 2000. There are currently no Series A preferred shares outstanding.

As partial consideration for the extension of the standstill agreement, the Company reduced the exercise price of the warrants held by the investor in several increments to $.01 per share. The investor exercised these warrants in full in March 2000.

Primarily as a result of the amortization of the beneficial conversion feature and redemption of the Series A preferred shares, the Company recorded an aggregate preferred stock dividend of $416,379 during 1999. In 2000, the Company redeemed the remaining Series A preferred shares and adjusted the previously accrued preferred stock dividend to the holder, resulting in an aggregate preferred stock dividend of $86,698 for the Series A preferred shares.

b. Series B Convertible Mandatorily Redeemable Preferred Stock

In March 2000, the Company issued 100 shares ($100,000 aggregate liquidation preference amount) of Series B convertible preferred stock to a private investor. Each share of Series B preferred stock has a liquidation preference of $1,000. The Series B preferred stock was mandatorily redeemable, at the election of the holder, at any time within 90 days following the first anniversary date of the date of issuance in the event that the market price (as defined) of the common stock was less than $1.50 per share on the first anniversary date. The redemption price in such event would have been $1,500 per share ($150,000 in the aggregate).

The market price of the common stock was less than $1.50 on the first anniversary date, and the investor delivered to the Company a notice of redemption with respect to all of the outstanding Series B preferred stock. The Company recorded the $50,000 redemption premium as a preferred stock dividend. The Series B preferred stock was redeemed in full during the quarter ended June 30, 2001.

c. Private Offering of Common Stock and Warrants

In September 1999, the Company raised $850,000 ($830,000 net of offering expenses) through a private offering of 850,000 Units at a purchase price of $1.00 per Unit. Each Unit consisted of (i) one share of common stock, (ii) one five year warrant to purchase one share of common stock at an exercise price of $1.00 per share (a $1.00 warrant), and (iii) one five year warrant to purchase 2/3 of one share of common stock at an exercise price of $1.50 per share. An investment of $750,000 was received from two unaffiliated private investors (and certain of their affiliated entities), and an additional investment of $100,000 was received from the Company's Chief Executive Officer. The unaffiliated investors purchased an additional 200,000 Units in December 1999 and 100,000 Units in February 2000 for an aggregate additional investment of $300,000. The unaffiliated investors exercised (i) 50,000 $1.00 warrants for an aggregate of $50,000 in the first quarter of 2000, (ii) 114,600 $1.00 warrants for an aggregate of $114,600 in the second quarter of 2000, and (iii) 66,000 $1.00 warrants for an aggregate of $66,000 in the third quarter of 2000.

d. Issuance of Stock to AMCON

In February 2001, the Company issued 750,000 shares of common stock to AMCON at a purchase price of $.40 per share for an aggregate purchase price of $300,000. These shares will participate in the Merger consideration (see Note 8). In June 2001, the Company issued to AMCON a $500,000 convertible promissory note, convertible at any time at AMCON's election, into an aggregate of 1,250,000 shares of common stock at a conversion price of $.40 per share. This note is expected to be converted prior to the Merger,. The shares issued upon conversion will participate in the Merger consideration.

12. SIGNIFICANT EVENTS

In July and August 2001, the Company took delivery of a new blow molding machine and certain related equipment for installation at the Company's bottling facility. The total value of this new equipment is estimated at $2,000,000. The Company expects this new equipment to significantly enhance the efficiency of its bottling operations. The equipment was acquired by AMCON in its own name. Upon installation, the Company expects to lease this equipment from AMCON, on terms to be agreed upon. This lease is expected to be accounted for as an operating lease by the Company.

In August 2001, the Company commenced construction of an addition to its existing bottling facility to house this new equipment. The Company anticipates this addition to be completed in November 2001, at an estimated cost of $190,000,and the equipment to be fully operational by December 2001.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
Hawaiian Natural Water Company, Inc.:

We have audited the accompanying balance sheet of HAWAIIAN NATURAL WATER COMPANY, INC., (a Hawaii corporation) as of December 31, 2000 and the related statements of operations, stockholders' equity (deficit) and cash flows for the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian Natural Water Company, Inc. as of December 31, 2000 and the results of its operations and its cash flows for the two years in the period then ended, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses and negative cash flows from operations. Additionally, the Company has past due accounts payable of approximately $944,000 and mandatorily redeemable preferred stock and notes payable amounts due in the near term of approximately $1,211,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ ARTHUR ANDERSEN LLP

Honolulu, Hawaii
April 13, 2001

HAWAIIAN NATURAL WATER COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 2000

ASSETS

Current Assets:		
Cash and cash equivalents	$	14,630
Trade accounts receivable, net of allowance for doubtful accounts of $39,062		275,428

Inventories	571,164
Due from officers	21,672
Other current assets	56,100
Total current assets	938,994
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of $989,490	2,256,116
CO-PACKING AGREEMENT, net of accumulated amortization of $37,500	112,500
INTANGIBLE ASSET, net of accumulated amortization of $40,575	118,574
Total assets	$ 3,426,184

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 1,062,487
Book overdraft	59,466
Accrued professional fees	99,001
Accrued vacation	21,363
Accrued commissions and billbacks	195,241
Accrued payroll and related taxes	42,957
Accrued other	155,273
Amount due for mandatorily-redeemable preferred stock	150,000
Notes payable	1,061,437
Capital lease obligation	30,375
Total current liabilities	2,877,600
Non-current Liabilities:	
Notes payable--net of current portion	177,717
Capital lease obligation--net of current portion	16,421
Other	41,380
Total non-current liabilities	235,518
Total liabilities	3,113,118
Stockholders' Equity:	
Preferred stock, $1 par value:	
Authorized - 5,000,000 shares	
No shares outstanding	-
Common Stock, no par value:	
Authorized - 20,000,000 shares	
Issued and outstanding - 7,185,966 shares	9,612,446
Common stock warrants and options:	
Issued and outstanding - 5,595,558 shares	3,669,035
Accumulated deficit	(12,968,415)
Total stockholders' equity	313,066
Total liabilities and stockholders' equity	$ 3,426,184

The accompanying notes are an integral part of this financial statement.

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
NET SALES	$ 3,681,026	$ 3,050,383
COST OF SALES	2,983,160	2,464,403
Gross margin	697,866	585,980
EXPENSES:		
General and administrative	1,589,275	1,436,214
Selling and marketing	900,285	661,289
	2,489,560	2,097,503
	(1,791,694)	(1,511,523)
OTHER INCOME (EXPENSE):		
Impairment charge	(1,025,935)	-
Interest income	-	10,515
Interest expense	(120,029)	(80,935)
NET LOSS	(2,937,658)	(1,581,943)
Preferred Stock Dividend	(136,698)	(416,379)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (3,074,356)	$ (1,998,322)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.45)	$ (0.45)

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

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	COMMON STOCK		COMMON STOCK WARRANTS AND OPTIONS	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUN
BALANCE, January 1, 1999	4,024,563	$6,693,062	3,757,959	$ 2,841
Issuance of common stock and warrants in private offering September 28, 1999	850,000	440,646	1,416,666	389

December 6, 1999	100,000	53,097	166,667	46
December 10, 1999	100,000	53,098	166,666	46
Issuance of common stock for purchase of Net Assets of Ali'i Water Bottling, Inc. June 30, 1999	263,040	312,359	-	
Issuance of common stock for Co-Packing Agreement September 13, 1999	100,000	43,750	-	106
Issuance of common stock and common stock options to professional advisor for services rendered April 1, 1999	-	-	12,500	16
July 1, 1999	-	-	12,500	16
July 14, 1999	2,695	2,695	-	
September 28, 1999	30,000	15,929	50,000	14
October 1, 1999	-	-	12,500	3
Issuance of common stock options to non-employee directors	-	-	9,000	8
Issuance of common stock options to marketing consultant May 20, 1999	-	-	10,000	4
May 24, 1999	-	-	30,000	13
Exercise of common stock options by financial public relations advisor January 11, 1999	50,000	125,000	(50,000)	
Issuance of preferred stock and common stock warrants to institutional investor, net of offering costs March 3, 1999	-	-	100,000	97
Issuance of common stock and common stock warrants to broker for services rendered March 3, 1999	5,000	18,750	15,000	41
Issuance of preferred stock to institutional investor August 10, 1999	-	312,500	-	
Repricing of warrants associated with the outstanding preferred stock August 10, 1999	-	-	-	27
September 23, 1999	-	-	-	19
November 5, 1999	-	-	-	14
Conversion of preferred stock to common stock August 24, 1999	11,429	6,000	-	
Redemption of preferred stock September 23, 1999	-	-	-	
October 1, 1999	-	-	-	
October 8, 1999	-	-	-	

November 5, 1999	-	-	-	
Accrued dividends to preferred Shareholder	-	-	-	
Net loss	-	-	-	
BALANCE at December 31, 1999	5,536,727	$8,076,886	5,709,458	$3,705
Issuance of common stock bonus to executive officer December 15, 2000	350,000	84,370	-	
Issuance of common stock and common stock warrants in private offering February 1, 2000	50,000	26,548	83,333	23
February 20, 2000	50,000	26,548	83,333	23
Exercise of common stock warrants by private investor March 3, 2000	50,000	50,000	(50,000)	
May 25, 2000	35,000	35,000	(35,000)	
June 1, 2000	15,000	15,000	(15,000)	
June 16, 2000	14,600	14,600	(14,600)	

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(CONTINUED)

	COMMON STOCK		COMMON STOCK WARRANTS AND OPTIONS	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUN
June 16, 2000	35,000	35,000	(35,000)	
June 29, 2000	15,000	15,000	(15,000)	
July 21, 2000	26,000	26,000	(26,000)	
August 25, 2000	40,000	40,000	(40,000)	
Issuance of common stock to non-employee directors February 16, 2000	-	-	900	
May 11, 2000	-	-	900	
June 13, 2000	-	-	600	
August 8, 2000	-	-	900	

September 28, 2000	-	-	900	
Redemption of preferred stock				
February 7, 2000	-	-	-	
March 6, 2000	-	-	-	
May 1, 2000	-	-	-	
May 26, 2000	-	-	-	
June 29, 2000	-	-	-	
October 2, 2000	-	-	-	
October 23, 2000	-	-	-	
Issuance of common stock and common stock warrants to professional advisor				
February 1, 2000	10,000	5,310	16,667	4
February 15, 2000	10,000	5,310	16,667	4
March 17, 2000	50,000	50,000	-	
Issuance of common stock to professional advisor				
March 31, 2000	-	-	12,500	12
Issuance of common stock in merger with Aloha Water Co.				
March 17, 2000	750,000	937,500	-	
Return of common stock in conjunction with rescission of agreement to merge with Aloha Water Co.				
December 27, 2000	(750,000)	-	-	
Exercise of stock option by institutional investor				
March 3, 2000	100,000	1,000	(100,000)	
Issuance of common stock to marketing consultant				
March 31, 2000	20,000	20,000	-	
April 12, 2000	3,000	3,000	-	
June 30, 2000	2,250	2,250	-	
September 30, 2000	10,000	10,000	-	
September 30, 2000	6,750	6,750	-	
December 31, 2000	4,500	4,500	-	
Issuance of common stock pursuant to Co-Packing Agreement				
May 5, 2000	3,490	3,490	-	
June 30, 2000	2,618	2,618	-	
July 31, 2000	2,643	512	-	
September 13, 2000	700,000	106,250	-	(106
September 30, 2000	4,483	869	-	
December 31, 2000	1,905	310	-	

Issuance of common stock for U.S. Mainland office rental				
June 5, 2000	1,000	406	-	
June 30, 2000	1,000	438	-	
July 3, 2000	1,000	406	-	
September 1, 2000	1,000	188	-	
October 31, 2000	1,000	200	-	
December 31, 2000	2,000	562	-	
Issuance of common stock to key management executives as incentive compensation				
August 31, 2000	30,000	5,625	-	
Accrued dividend to Series B preferred holder December 31, 2000	-	-	-	
Adjustment of previously accrued dividend to Series A preferred holder	-	-	-	
Net loss	-	-	-	
BALANCE at December 31, 2000	7,185,966	$9,612,446	5,595,558	$3,669

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(CONTINUED)

	PREFERRED STOCK			ST
	NUMBER OF SHARES	AMOUNT	ACCUMULATED DEFICIT	
BALANCE, January 1, 1999	-	$ -	$ (7,895,737)	$ 1,
Issuance of common stock and warrants in private offering				
September 28, 1999	-	-	-	
December 6, 1999	-	-	-	
December 10, 1999	-	-	-	
Issuance of common stock for purchase of Net Assets of Ali'i Water Bottling, Inc.				
June 30, 1999	-	-	-	
Issuance of common stock for Co-Packing Agreement				
September 13, 1999	-	-	-	
Issuance of common stock and common stock options to professional advisor for services rendered				
April 1, 1999	-	-	-	

July 1, 1999	-	-	-	
July 14, 1999	-	-	-	
September 28, 1999	-	-	-	
October 1, 1999	-	-	-	
Issuance of common stock options to non-employee directors	-	-	-	
Issuance of common stock options to marketing consultant				
May 20, 1999	-	-	-	
May 24, 1999	-	-	-	
Exercise of common stock options by financial public relations advisor				
January 11, 1999	-	-	-	
Issuance of preferred stock and common stock warrants to institutional investor, net of offering costs				
March 3, 1999	750	488,397	-	
Issuance of common stock and common stock warrants to broker for services rendered				
March 3, 1999	-	-	-	
Issuance of preferred stock to institutional investor				
August 10, 1999	500	500,000	(312,500)	
Repricing of warrants associated with the outstanding preferred stock				
August 10, 1999	-	(20,252)	-	
September 23, 1999	-	(14,302)	-	
November 5, 1999	-	(10,672)	-	
Conversion of preferred stock to common stock				
August 24, 1999	(6)	(6,000)	-	
Redemption of preferred stock				
September 23, 1999	(250)	(197,680)	(52,320)	
October 1, 1999	(375)	(296,520)	(3,480)	
October 8, 1999	(250)	(197,680)	(11,070)	
November 5, 1999	(50)	(39,536)	(10,464)	
Accrued dividends to preferred Shareholder	-	-	(26,545)	
Net loss	-	-	(1,581,943)	(
BALANCE at December 31, 1999	319	$ 205,755	$(9,894,059)	$
Issuance of common stock bonus to executive officer				
December 15, 2000	-	-	-	
Issuance of common stock and common stock warrants in private offering				
February 1, 2000	-	-	-	
February 20, 2000	-	-		
Exercise of common stock warrants by private investor				
March 3, 2000	-	-	-	
May 25, 2000	-	-	-	
June 1, 2000	-	-	-	
June 16, 2000	-	-	-	
June 16, 2000	-	-	-	
June 29, 2000	-	-	-	

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(CONTINUED)

	PREFERRED STOCK			ST
	NUMBER OF SHARES	AMOUNT	ACCUMULATED DEFICIT	
July 21, 2000	-	-	-	
August 25, 2000	-	-	-	
Issuance of common stock to non-employee directors				
February 16, 2000	-	-	-	
May 11, 2000	-	-	-	
June 13, 2000	-	-	-	
August 8, 2000	-	-	-	
September 28, 2000	-	-	-	
Redemption of preferred stock				
February 7, 2000	(50)	(32,250)	(17,750)	
March 6, 2000	(50)	(32,250)	(17,750)	
May 1, 2000	(35)	(22,575)	(12,425)	
May 26, 2000	(15)	(9,675)	(5,325)	
June 29, 2000	(29)	(18,705)	(10,295)	
October 2, 2000	(40)	(25,800)	(14,200)	
October 23, 2000	(100)	(64,500)	(35,500)	
Issuance of common stock and common stock warrants to professional advisor				
February 1, 2000	-	-	-	
February 15, 2000	-	-	-	
March 17, 2000	-	-	-	
Issuance of common stock to professional advisor				
March 31, 2000	-	-	-	
Issuance of common stock in merger with Aloha Water Co.				
March 17, 2000	-	-	-	
Return of common stock in conjunction with rescission of agreement to merge with Aloha Water Co.				
December 27, 2000	-	-	-	
Exercise of stock option by institutional investor				
March 3, 2000	-	-	-	
Issuance of common stock to marketing consultant				
March 31, 2000	-	-	-	
April 12, 2000	-	-	-	
June 30, 2000	-	-	-	
September 30, 2000	-	-	-	
September 30, 2000	-	-	-	
December 31, 2000	-	-	-	
Issuance of common stock pursuant to Co-Packing Agreement				
May 5, 2000	-	-	-	
June 30, 2000	-	-	-	
July 31, 2000	-	-	-	
September 13, 2000	-	-	-	
September 30, 2000	-	-	-	
December 31, 2000	-	-	-	
Issuance of common stock for U.S. Mainland				

office rental				
June 5, 2000	-	-	-	
June 30, 2000	-	-	-	
July 3, 2000	-	-	-	
September 1, 2000	-	-	-	
October 31, 2000	-	-	-	
December 31, 2000	-	-	-	
Issuance of common stock to key management executives as incentive compensation				
August 31, 2000	-	-	-	
Accrued dividend to Series B preferred holder				
December 31, 2000	-	-	(50,000)	
Adjustment of previously accrued dividend to Series A preferred holder	-	-	26,547	
Net loss	-	-	(2,937,658)	(
BALANCE at December 31, 2000	-	-	$(12,968,415)	$

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

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,937,658)	$(1,581,943)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	384,880	288,759
Amortization of debt discount	35,574	59,398
Impairment charge	1,025,935	-
Net income from subsidiary	(18,435)	-
Issuance of common stock to Co-Packer, landlord and consultants	56,499	-
Issuance of common stock bonuses to executive officer	84,370	-
Issuance of common stock compensation to executives	5,625	-
Issuance of common stock options to consultants and distributors	12,500	85,627
Issuance of common stock options to non-employee directors	972	8,395
Warrants granted for preferred standstill agreement	-	15,075
Loss on sale of equipment	-	3,282
Net decrease (increase) in current assets	304,751	(520,343)
Increase in other noncurrent liabilities	-	41,380
Net increase in current liabilities	436,474	484,915
Net cash used in operating activities	(608,513)	(1,115,455)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(100,877)	(328,902)
Acquisition of intangible asset	-	(159,149)
Proceeds from sale of equipment	-	1,080
Net cash used in investing activities	(100,877)	(486,971)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	796,903	-
Repayments of principal on notes payable	(62,669)	(131,956)
Repayment of principal on capital leases	(31,802)	(69,408)
Net proceeds from sale of preferred stock and common stock warrants	-	1,146,239
Net proceeds from sale of common stock and common stock warrants	100,000	1,030,000
Redemption of preferred stock	(319,000)	(808,750)
Proceeds from exercise of common stock warrants and options	231,600	125,000
Net cash provided by financing activities	715,032	1,291,125
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 5,642	$ (311,301)
CASH AND CASH EQUIVALENTS, beginning of period	8,988	320,289
CASH AND CASH EQUIVALENTS, end of period	$ 14,630	$ 8,988

HAWAIIAN NATURAL WATER COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999
(CONTINUED)

	2000	1999
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
ACQUISITION OF NET OPERATING ASSETS OF ALII WATER BOTTLING, INC. WITH COMMON STOCK	$ -	$ 312,359
CO-PACKING AGREEMENT - PAID WITH COMMON STOCK	$ -	$ 150,000
ADDITION OF CAPITALIZED EQUIPMENT LEASES	$ 17,243	$ 82,176
CAPITAL ADDITION - ACQUIRED WITH NOTE PAYABLE	$ -	$ 22,195
ACQUISITION AND RESCISSION OF NET OPERATING ASSETS OF ALOHA WATER CO.:		
Issuance of common stock and common stock warrants to professional advisor	$ 70,000	$ -
Issuance of common stock in merger	937,500	-
Issuance of note payable	500,000	-
Cancellation of note payable	(500,000)	-

$ 1,007,500	$ -

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

HAWAIIAN NATURAL WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RISK FACTORS

(a) Organization and Going Concern

Hawaiian Natural Water Company, Inc. (the "Company") was incorporated in the State of Hawaii on September 13, 1994. The Company was formed for the purpose of bottling, marketing and distributing Hawaiian natural water in Hawaii, the United States mainland and foreign markets. The Company's initial product introduction occurred in the first quarter of 1995.

In June 1999 the Company acquired certain assets of Ali'i Water Bottling Co., Inc. (see Note 3), which extended the Company's product line to include (1) premium purified bottled water, and (2) the home and office large bottle (3 gallon and 5 gallon) delivery market. This business is concentrated in the Kailua-Kona area of the Big Island of Hawaii.

In January 2000, the Company introduced a line of herbal beverages under the "East Meets West XEN(TM)" name. The beverages are manufactured for the Company pursuant to a co-packing agreement with a Los Angeles area bottler (see Note 10d to the financial statements). Sales efforts in 2000 were concentrated in Southern California, Hawaii and the Vancouver, Canada area.

In March 2000, the Company acquired Aloha Water Company Inc., a distributor of purified water in the home and office market in the Honolulu area. This acquisition was subsequently rescinded in December, 2000 (see Note 4).

In November 2000, the Company agreed to be acquired by AMCON Distributing Company, an Omaha, Nebraska based distributor, by means of a merger of the Company into a wholly owned subsidiary of AMCON (see Note 5).

Since the execution of the merger agreement, the Company has been substantially dependent upon AMCON for its financing requirements. If the merger agreement were terminated for any reason, the Company would likely not be able to continue as a going concern.

As shown in the accompanying financial statements, the Company has incurred significant losses and negative cash flows from operations since inception. Management expects that the Company will continue to incur additional losses and negative cash flows until the Company achieves significant levels of sales. To date, the Company has been unable to generate cash flow sufficient to support its operations. Additionally, the Company has past due accounts payable of approximately $944,000 and mandatorily redeemable preferred stock and notes payable amounts due in near term of approximately $1,211,000. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

(b) Basis of Accounting

The Company's accounting policies are in accordance with generally accepted accounting principles in the United States.

(c) Cash and Cash Equivalents

Cash and cash equivalents include savings accounts and investments in a money market account with original maturities less than 90 days.

(d) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. As of December 31, 2000, inventories were comprised of the following:

Raw materials	$315,873
Finished goods	255,291
	$571,164

Raw materials inventory consists of PET "pre-forms", caps, labels and various packaging and shipping materials. Finished goods inventory includes materials, labor and manufacturing overhead costs.

(e) Property and Equipment

Property and equipment are stated at cost, which includes the cost of labor used to install equipment and construct major leasehold improvements. Maintenance and repairs are expensed as incurred. Depreciation and amortization are provided on the straight-line method over the following estimated useful lives:

Leasehold improvements	The shorter of the useful life or the lease term
Machinery, equipment and assets under capital lease	7-15 years

Property and equipment is summarized as follows:

Machinery and equipment	$2,610,658
Leasehold improvements	529,960
Assets under capital lease	104,988
	3,245,606
Less--Accumulated depreciation and amortization	(989,490)
	$2,256,116

(f) Revenue Recognition

The Company recognizes revenue on the accrual method of accounting when title transfers: upon shipment, for bottled water products and other beverages, and upon delivery for home and office delivery products. The Company grants customers the right to return goods which are defective or otherwise unsuitable for sale. The Company issues refunds to customers or replaces goods which are rejected.

The Company's policy is to provide a reserve for estimated uncollectible trade accounts receivable. The Company also provides a reserve for estimated sales returns and related disposal costs. Net sales revenue reflects reductions for the reserve for sales returns, discounts, promotional allowances and freight-out. The Company also estimates the amount of billbacks from certain distributors which represents price adjustments for quantity or other discounts to distributors' customers.

(g) Advertising

The Company charges the cost of advertising to expense as incurred. The Company incurred approximately $85,000 and $113,000 of advertising expense during the years ended December 31, 2000 and 1999, respectively.

(h) Stock-Based Compensation

The Company accounts for transactions in which its equity instruments are issued to acquire goods or services from non-employees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably determinable. The Company has elected to account for the issuance of equity instruments to employees, using this intrinsic value method under APB Opinion No. 25. (See Note 8).

(i) Basic and Diluted Loss Per Share

Basic and diluted loss per share is calculated using net loss adjusted for dividends to preferred shareholders. The Company's basic and diluted loss per share are the same for both 2000 and 1999 in that any conversion of stock options and warrants would have been anti-dilutive. Basic and diluted loss per share is based on the weighted average number of common shares issued and outstanding during the period of 6,844,744 and 4,476,554 for 2000 and 1999, respectively.

(j) Fair Value of Financial Instruments

The carrying amounts for trade receivables and payables are considered to be their fair values. The fair value of the Company's notes payable at December 31, 2000 may be significantly different from their carrying value as a result of the matters discussed in Note 1a. above and as a result of fluctuations in market interest rates.

(k) Income Taxes

Income tax liabilities and assets are recognized at enacted tax rates for the expected future tax consequences of temporary differences between carrying amounts and the tax bases of assets and liabilities. A reserve is provided to reduce deferred tax assets to estimated realizable value (See Note 9).

(l) Estimates

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

(m) New Accounting Pronouncement

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", which is effective for fiscal years beginning after June 15, 2000 as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments. The statement requires that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in the earnings unless specific hedge accounting criteria are met. The Company did not have any derivative instruments as of December 31, 2000 and believes that the adoption of SFAS No. 133 will not have a material impact on its financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB 101 provides guidance on the recognition, disclosure and presentation of revenue in financial statements. SAB 101, as amended by SAB 101A and SAB 101B, is required to be implemented no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. The adoption of SAB 101 did not have a material impact on the Company's financial position or the results of operations.

In March 2000, the FASB issued interpretation No. 44, "Accounting For Certain Transactions Involving Stock Compensation--an Interpretation of APB Opinion No. 25." The Interpretation clarifies the application of APB Opinion No. 25 in certain situations, as defined. The Interpretation is effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998, but before the effective date. To the extent that events covered by the effective date, the effects of applying this Interpretation would be recognized on a prospective basis from the effective date. Accordingly, upon initial application of the final Interpretation, (a) no adjustments would be made to the financial statements for periods before the effective date and (b) no expense would be recognized for any additional compensation cost measured that is attributable to periods before the effective date. The adoption of this new Interpretation had no impact on the Company's financial statements, based on its current structure and operations.

(n) Long-Lived Assets

Whenever there are recognized events or changes in circumstances that could affect the carrying amount of long-lived assets, management reviews these assets for possible impairment. Management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of these assets. The estimation of expected future net cash flows is inherently uncertain and, relies to a considerable extent on the availability of capital. If in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could impact the carrying amount of these assets.

(o) Reclassifications

Certain 1999 amounts have been reclassified to conform to their 2000 presentation.

2. EQUITY TRANSACTIONS

(a) Investor Relations

On July 31, 1998, the Company engaged a financial public relations advisor for a two-year term. As compensation for its services, the Company issued to this advisor 100,000 shares of Common Stock, plus options to purchase an aggregate of 565,000 additional shares at exercise prices ranging from $2.50 to $6.00 per share. On January 11, 1999 the advisor exercised 50,000 of these options, at an exercise price of $2.50 per share, which resulted in cash proceeds to the Company of $125,000. All of the remaining options have expired unexercised.

(b) Series A Convertible Preferred Stock

In 1999, the Company issued an aggregate of 1,250 shares ($1.25 million in aggregate liquidation preference amount) of Series A convertible preferred stock to an institutional investor. The Company also issued to this investor for no additional consideration warrants to purchase 100,000 shares of common stock at an original exercise price of $3.625 per share.

Each share of Series A preferred stock had a liquidation preference of $1,000, and was entitled to cumulative dividends at an annual rate of 4%, payable quarterly commencing May 31, 1999, in cash or common stock at the election of the Company. The Series A preferred stock was convertible into common stock, in whole or in part at the election of the holder, at a variable conversion price based upon a discount to the market price (as defined) of the common stock as of each conversion date (the "beneficial conversion feature").

In August 1999, the investor converted six shares of Series A preferred into an aggregate of 11,429 shares of common stock. In September 1999, the Company entered into a standstill agreement with the investor, pursuant to which the investor agreed not to convert any additional shares of Series A preferred and granted the Company an option to redeem the outstanding shares. This standstill agreement was extended continuously until November 2, 2000. Pursuant to this standstill arrangement, the Company redeemed an aggregate of (i) 925 shares of Series A preferred stock for an aggregate of $808,750 in 1999, (ii) 100 shares for an aggregate of $100,000 during the first quarter of 2000, (iii) 79 shares for an aggregate of $79,000 during the second quarter of 2000, and (iv) the remaining 140 shares for an aggregate of $140,000 in October 2000. As a result of these redemptions, there were no shares of Series A preferred outstanding at December 31, 2000.

As partial consideration for the extension of the standstill agreement, the Company reduced the exercise price of the warrants held by the investor in several increments to $.01 per share. The investor exercised these warrants in full in March 2000.

Primarily as a result of the amortization of the beneficial conversion feature and redemption of the Series A preferred shares, the Company recorded an aggregate preferred stock dividend of $416,379 during 1999. In 2000, the Company redeemed the remaining Series A preferred shares and adjusted the previously accrued preferred stock dividend to the holder, resulting in an aggregate preferred stock dividend of $86,698 for the Series A preferred shares.

(c) Series B Convertible Mandatorily Redeemable Preferred Stock

In March 2000, the Company issued 100 shares ($100,000 aggregate liquidation preference amount) of Series B convertible preferred stock to a private investor. Each share of Series B preferred stock has a liquidation preference of $1,000. The Series B preferred stock is mandatorily redeemable, at the election of the holder, at any time within 90 days following the first anniversary date of the date of issuance in the event that the market price (as defined) of the common stock is less than $1.50 per share on the first anniversary date. The redemption price in such event is $1,500 per share ($150,000 in the aggregate).

The market price of the common stock was less than $1.50 on the first anniversary date, and the investor has delivered to the Company a notice of redemption with respect to all of the outstanding Series B preferred stock. The Company recorded the $50,000 redemption premium as a preferred stock dividend and classified the original $100,000 of mandatorily redeemable preferred stock as currently payable as of December 31, 2000 in the accompanying Financial Statements.

(d) Private Offering of Common Stock and Warrants

In September 1999, the Company raised $850,000 ($830,000 net of offering expenses) through a private offering of 850,000 Units at a purchase price of $1.00 per Unit. Each Unit consisted of (i) one share of common stock, (ii) one five year warrant to purchase one share of common stock at an exercise price of $1.00 per share (a $1.00 warrant), and (iii) one five year warrant to purchase 2/3 of one share of common stock at an exercise price of $1.50 per share. An investment of $750,000 was received from two unaffiliated private investors (and certain of their affiliated entities), and an additional investment of $100,000 was received from the Company's Chief Executive Officer. The unaffiliated investors purchased an additional 200,000 Units in December 1999 and 100,000 Units in February 2000 for an aggregate additional investment of $300,000. The unaffiliated investors exercised (i) 50,000 $1.00 warrants for an aggregate of $50,000 in the first quarter of 2000, (ii) 114,600 $1.00 warrants for an aggregate of $114,600 in the second quarter of 2000, and (iii) 66,000 $1.00 warrants for an aggregate of $66,000 in the third quarter of 2000.

Approximately $530,000 of the net proceeds of the initial offering was allocated to the warrants granted to the investors, based upon the trading price of the common stock on the date of grant and the Black-Scholes option pricing model.

(e) Stock Bonus

In December 2000, the Company awarded its Chief Executive Officer bonus compensation for 2000, payable in 350,000 shares of common stock. In connection with this award, the $100,000 bonus awarded the Company's Chief Executive Officer for 1999 (issued in January 2000) was rescinded. This earlier award had been granted subject to a commitment by the Chief Executive Officer to purchase an additional 100,000 Units at $1.00 per Unit. See Note 2b. The purchase of these Units was also rescinded in December 2000. The effect of these transactions was in substance a repricing of the January 2000 stock award in December 2000. The compensation expense related to these transactions was $84,370 in accordance with FIN 44. The withholding tax related to the December 2000 award was advanced to the Chief Executive Officer and included in the amount due from officers.

3. ACQUISITION OF ALI'I WATER BOTTLING, INC.

Effective June 30, 1999, the Company purchased all of the operating assets, net of certain liabilities, of Ali'i Water Bottling, Inc. ("Ali'i"). Ali'i bottles and distributes purified water to the home and office market on the Big Island of Hawaii and also sells purified water in PET plastic bottles through retail channels throughout the Hawaiian Islands. The consideration for the net assets purchased was 263,040 shares of common stock of the Company. The Company assumed Ali'i's trade payables and contractual obligations related to continuing operations but did not assume any note(s) payable, line of credit or liabilities for federal, state, or local taxes incurred by Ali'i. The net assets acquired were recorded in the accounting records of the Company on June 30, 1999 in the amount of $312,359, which was the fair value of the 263,040 issued shares. No significant goodwill resulted from this acquisition. Acquisition costs were not material. The shares issued are "restricted securities" as defined in Rule 144 under the Securities Act of 1933, and may not be sold except in compliance with such Rule or other exemption from registration under the Securities Act. Had the acquisition occurred at January 1, 1999, the unaudited and pro forma net sales, net loss, diluted net loss per share and diluted weighted average common shares outstanding for 1999 would be as follows:

	Twelve Months Ended Dec 31, 1999
Net sales	$ 3,303,984
Net loss	$(1,913,388)
Diluted net loss per share	$ (0.43)
Diluted weighted average common shares outstanding	4,476,554

4. ACQUISITION OF ALOHA WATER COMPANY, INC. AND IMPAIRMENT CHARGE

On March 17, 2000, the Company acquired Aloha Water Company, Inc., ("Aloha"), a distributor of purified water to the home and office delivery market in the Honolulu area. The acquisition was accomplished through a merger of Aloha into a wholly owned subsidiary of the Company formed for this purpose. The purchase price for Aloha consisted of an aggregate of (i) 750,000 shares of common stock of the Company and (ii) a promissory note of the Company in the amount of $500,000 (the "Aloha note") to the shareholders of Aloha. Interest on the note was payable monthly at the annual rate of 10%. The entire principal amount was due on April 1, 2000. The Aloha note was secured by a first priority security interest on all of the capital stock of Aloha.

In August, 2000 the holders of the Aloha note declared a default for failure to make certain interest payments, and foreclosed on their collateral, which was all of the stock of Aloha. As a result, the Company has written off its investment in Aloha, the related goodwill and the Aloha note. This write-off is reflected as a total impairment charge in 2000 of $1,025,935, which represented the Company's entire investment in Aloha.

In December 2000, the parties agreed to rescind the acquisition, as a result of which Aloha returned the Aloha note and the 750,000 shares of the Company's common stock. The fair value of the Company's shares returned was not material.

5. AMCON MERGER

In November 2000, the Company entered into a merger agreement with AMCON Distributing Company ("AMCON"), pursuant to which the Company has agreed to merge with and into, and thereby become, a wholly-owned subsidiary of AMCON. The merger consideration values the entire common equity interest in the Company at $2,865,348, payable in common stock of AMCON, which will be priced at not less than $6.00 or more than $8.00 per share, based on a 20 trading day measuring period ending three trading days before the date of the Company's shareholder vote on the merger. As a result, AMCON will issue an aggregate of not less than 358,168 or more than 477,558 shares. Holders of outstanding options and warrants of the Company would receive comparable options and warrants of AMCON with the exercise price and number of shares covered adjusted based upon the exchange ratio.

The merger is expected to qualify as a tax-free reorganization. It is subject to various conditions, including the effectiveness of a registration statement covering the shares to be issued in the merger, the listing of such shares on the American Stock Exchange, and the approval of the Company's shareholders.

All of the Company's officers and directors and any of their affiliated entities that own shares of the Company's common stock have agreed to vote their shares in favor of the merger.

If the Merger Agreement is terminated for any reason, it is likely that the Company will not be able to continue as a going concern.

6. NOTES PAYABLE

In anticipation of acquiring the Company, AMCON has provided certain debt financing to the Company for working capital and other general corporate purposes. AMCON advanced $350,000 in September 2000, and an additional $400,000 in October 2000. These loans are evidenced by secured promissory notes (the "AMCON notes") bearing interest at a rate of 10% per annum, payable quarterly. The AMCON notes are convertible at the election of AMCON, under certain circumstances, into Series C convertible preferred stock bearing dividends, payable quarterly, of 10% per annum and giving effective control of the Board of Directors to AMCON. The AMCON notes are secured by a lien on all of the Company's assets. The due date of the AMCON notes, originally February 28, 2001, has been extended to May 31, 2001.

In September 1997, the Company acquired certain bottle making equipment used in its bottling operations. The consideration for the equipment was an aggregate of $1.2 million, a portion of which was paid through the issuance of a promissory note in the original principal amount of $825,000, payable in installments, as defined. The Company discounted this equipment note payable using an estimated weighted average cost of capital of 12%, and amortized the resulting discount to interest expense using the effective interest method over the term of the loan. In October 2000, the Company renegotiated the payment terms for this promissory note.

In September 1999, the Company acquired a prefabricated warehouse, which it assembled and installed on its property in Kea'au. The warehouse was purchased for $24,995 with a down payment of $2,000 and a 5 year note, with monthly payments aggregating $22,995, including interest.

The following summarizes the Company's notes payable as of December 31, 2000:

Equipment note payable	$ 466,457
Less: Unamortized discount	(19,108)
Net equipment note payable	447,349
First AMCON note	350,000
Second AMCON note	400,000
Note payable to service provider	22,135
Vehicle installment note payable	3,490
Warehouse note payable	16,180
Subtotal - notes payable	1,239,154
Less: Current portion	(1,061,437)
Non-current portion	$ 177,717

Maturities of notes payable, net of discount at December 31, 2000 are as follows:

2001	$1,061,437
2002	169,025
2003, and thereafter	8,692
	$1,239,154

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7. CONSULTING ARRANGEMENTS

During 2000 and 1999, the Company hired various consultants to perform sales, marketing and other functions. The Company recognized consulting expenses of approximately $111,000 and $88,000 for 2000 and 1999, respectively.

8. STOCK OPTIONS

The Board of Directors has authorized an aggregate of 1,000,000 shares of common stock for issuance upon the exercise of stock options which may be granted from time to time to directors, officers, employees and consultants of the Company under the Company's stock option plan. Under this plan, the Company granted to certain consultants and distributors options to purchase an aggregate of 12,500 shares of common stock options in 2000, and 136,500 shares of common stock options in 1999. These options are exercisable for five years at exercise prices ranging from $1.00 to $4.00 per share. Certain of these options were valued based upon the value of services provided and others were valued using the Black-Scholes option pricing model, at $12,500 in 2000, and $75,398 in 1999, which amounts were charged to expense as incurred. These options vested upon grant.

Using the Black-Scholes option valuation model (and the following assumptions), the estimated fair values of options granted ranged from $.13 to $2.21 in 1999. Management believes that the fair value results from using the Black-Scholes calculation may not be indicative of the Company's economic cost of issuing stock options. Principle weighted-average assumptions used in applying the Black-Scholes model were as follow:

	1999
Expected volatility	60.00%
Expected dividend yield	0.00%
Expected term	5 years
Risk-free interest rate	5.63% to 5.78%

In addition, as further described below, at December 31, 2000, outstanding options to purchase an aggregate of 438,367 shares of common stock were held by employees and former employees of the Company. These options are not reflected on the balance sheet as "Common Stock warrants and options, issued and outstanding."

The following summarizes information about stock options granted to employees and former employees during the years ended December 31, 2000 and 1999:

	Shares	Weighted-Average Exercise Price
Balance at January 1, 1999	487,000	$ 4.00
Granted	70,000	$ 4.00
Forfeited	(109,833)	$ 4.00
Balance at December 31, 1999	447,167	$ 4.00

Granted	-	
Forfeited	(8,800)	$ 4.00
Balance at December 31, 2000	438,367	$ 2.25

In February 2000, the Company reduced the exercise price of all stock options held by the current employees from $4.00 to $2.00 per share. This had no impact on compensation expense during 2000.

At December 31, 2000 and 1999, respectively, the Company had 337,825 and 265,925 vested employee options outstanding, exercisable at a weighted-average exercise price of $2.25 and $4.00, respectively.

The Company accounts for stock options granted to employees under APB No. 25, under which expense is recognized if the exercise price of options granted is less than the market price on the date of grant. If compensation expense for stock options granted to employees had been accounted for under SFAS. 123, the Company's net loss per share for 2000 and 1999 would have been $(.47) and $(.51), respectively.

9. INCOME TAXES

Certain items of expense are recognized in different periods for income tax purposes than for financial reporting purposes. As of December 31, 2000, the Company had approximately $7.5 million of net operating loss (NOL) carryforwards available to reduce future taxable income. These NOL carryforwards expire on various dates beginning in 2012 through 2021. The deferred tax asset as of December 31, 2000 consisted primarily of net operating loss carryforwards. A valuation allowance has been provided for the entire deferred tax asset due to the uncertainty of its realization.

The Company is subject to Internal Revenue Code Section 382 which limits the Company's ability to utilize net operating losses generated prior to the closing of its initial public offering (of approximately $2.3 million). The annual net operating loss limitation under Section 382 is approximately $361,000. The current limitation is subject to change as a result of recent equity transactions.

The Company paid no income taxes and had no net deferred or current tax provision/benefit for the years ended December 31, 2000 and 1999.

10. COMMITMENTS AND CONTINGENCIES

(a) Capital Lease Obligations

The Company leases machinery and equipment under capital leases which expire on various dates through August 2005.

As of December 31, 2000, future minimum lease payments were as follows:

2001	36,174
2002	8,801
2003	5,596
2004	5,596
2005	2,798
Total future minimum payments	58,965
Less - Amount representing interest	(12,169)

Total Capital lease obligations	46,796
Less - Current portion	(30,375)
Noncurrent portion	$ 16,421

The capital leases bear interest ranging from 12.5% to 27%, per year.

(b) Operating Lease Obligations

(i) Plant Lease

The Company leases its bottling facility and surrounding property, including the water source and pumping equipment from an affiliate, under a 50 year lease. The lease can be renewed at the Company's option for an additional 50 years. The lease includes the following provisions:

Rent is the greater of $5,335 per month (Base Rent), adjusted every five years based upon changes in the consumer price index in Hawaii, as defined, or 2% of the Company's net revenue, as defined.

The lease entitles the Company to exclusive use of the water source, except that the lessor may draw up to 50% of the water flow for use in beverage production other than the sale of natural water. The Company believes the remaining 50% is adequate for the current and projected future needs of the Company's business.

During 2000, the Company incurred approximately $4,000 for leasehold improvements to this property.

(ii) Warehouse Lease

On February 1999, the Company entered into a one-year lease for warehouse space located near its bottling plant with lease payments of $2,560 per month. In January 2000, this lease was terminated and the warehouse space was replaced with a prefabricated warehouse erected on the Company's leased bottling facility property.

(iii) Office Lease

In October 1996, the Company entered into a three-year office and warehouse lease in Honolulu, with a renewal option. Monthly rental payments were $3,000 through November 1997. Thereafter, monthly rental payments were $4,000. Commencing October 1, 1999 the Company entered into a 45 month lease of office and warehouse space in Pearl City, containing approximately 13,500 square feet of warehouse and 1,500 square feet of office space. Terms of the lease provided for no rental fee for the first month. Thereafter, monthly payments are $6,800 through May 2001, $7,800 through May 2002, and $8,800 through May 2003.

On December 2000, the Company relocated its accounting and administrative operations to its bottling plant in Keaau on the Big Island. In January 2001, the Company entered into an agreement to sublease 11,770 square feet of its Pearl City office space. The sublease is for a 29 month period, ending on May 31, 2003, and the monthly sublease income is $7,062.

On July 1, 1999 the Company entered in to a month-to-month rental agreement for 5,043 square feet of manufacturing and office space for its Ali'i home and office delivery business in Kailua-Kona, Hawaii. The lease is terminable on a 14 day advance notice. Monthly payments are $2,747.

The Company incurred approximately $203,000 and $184,000 in lease expense under all existing facility lease agreements in 2000 and 1999, respectively.

The future minimum lease payments for the plant, warehouse and office leases as of December 31, 2000 were as follow:

2001	$ 167,428
2002	172,428
2003	110,828
2004	66,828
2005	66,828
Thereafter	2,522,757
	$3,107,097

The future sublease income for the Pearl City office and warehouse space are as follow:

2001	$ 84,744
2002	84,744
2003	35,310
	$ 204,798

(c) Sponsorship and Sales Agreement

In June 1999, the Company entered into a five year sponsorship and beverage sales agreement with the USS Missouri Memorial Association, Inc., a nonprofit corporation which operates the Battleship Missouri Memorial (the "Missouri") as a visitor attraction at Pearl Harbor, Hawaii. Under the terms of this agreement, the Company became an official sponsor of the Missouri, and agreed to supply bottled water and vending machines to the Missouri, in exchange for a license to certain of Missouri's trademarks for use in various marketing and promotional activities, and a lease of space for the operation of vending machines at the Missouri. The aggregate sponsorship fee is $100,000, payable $20,000 annually in monthly installments of $1,667. Additionally, the Company is obligated to provide cash and in-kind support for events promoting the Missouri in an aggregate amount of $432,500 (none of which had been provided as of December 31, 2000). In July 2001, the Company has the option to re-negotiate or terminate the agreement if the prior 12 month sales of the Company's bottled water to the Missouri are less than $144,000. In February 2001, based on sales to date, the Company advised the Missouri that it intends to exercise its right to re-negotiate or terminate this agreement. As of December 31, 2000, the Company has accrued approximately $12,000 for unpaid sponsorship fees. In the opinion of management, the outcome of the re-negotiation or termination will not have a material adverse effect on the financial statements.

(d) Co-Packing Agreement

In June 1999, the Company entered into a five year agreement with an independent bottler in Los Angeles, California (the "Bottler") for the production, warehousing, and shipment of herbal beverages. On September 13, 1999, the Company issued 100,000 shares of common stock to the principals of the Bottler in partial consideration for these services. The agreement was recorded as an asset on the Company's accounting records in the amount of $150,000. Initially, $43,750 was allocated to the common stock account (based on the aggregate market value of the 100,000 common shares issued) and the balance ($106,250) was allocated to common stock options. The agreement provided that in the event the market price (as defined) of the Company's common stock on the first anniversary of the date of issuance was less than

$1.50 per share, the Company would issue, for no additional consideration, sufficient additional shares of common stock to bring the then market value of all shares issued (including the initial 100,000 shares) up to $150,000. Pursuant to this provision, on September 13, 2000, the Company issued an additional 700,000 shares of common stock to the principals of the Bottler. Upon issuance of these additional 700,000 shares, the $106,250 initially allocated to common stock options was reclassified to the common stock account.

11. ACQUISITION OF INTANGIBLE ASSET

In June 1999, the Company purchased for $150,000 the beverage products, trademarks and all other rights related to a line of herbal beverages. The acquisition cost and related trademark registration expenses have been capitalized and are being amortized over a five year period.

12. SIGNIFICANT CUSTOMER

For the years ended December 31, 2000 and 1999 approximately 49% and 47%, respectively, of the Company's sales were made through one Hawaii distributor. No other single customer accounted for greater than 10% of sales.

13. SEGMENT INFORMATION

The Company has three segments: PET, home and office delivery, and XEN. The Company's reportable segments are business units defined by product line, the results of which are reported directly to the Company's chief operating decision maker. The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies". The Company manages cash flows and assets on a consolidated basis, and not by segment, and does not allocate or report assets and capital expenditures by segment. Information for the year ended December 31, 1999 has been recast, as required by SFAS 131, "Disclosures About Segments of an Enterprise and Related Information."

The following tables summarize the operating results by segment for the years ended December 31, 1999 and 2000:

YEAR ENDED DECEMBER 31, 1999:

	PET	Home and Office	XEN	Corporate	Company Total
Revenue from external customers	$2,902,949	$ 147,434	$ -	$ -	$ 3,050,383
Depreciation and amortization expense	167,413	26,025	20,698	74,623	288,759
Total operating costs	2,899,211	236,724	20,698	1,405,273	4,561,906
Operating income (loss)	3,738	(89,290)	(20,698)	(1,405,273)	(1,511,523)
Net interest expense	-	10,630	-	59,790	70,420
Net income (loss)	$ 3,738	$ (99,920)	$ (20,698)	$(1,465,063)	$(1,581,943)

YEAR ENDED DECEMBER 31, 2000:

	Home and		Company

	PET	Office	XEN	Corporate	Total
Revenue from external customers	$2,794,919	$ 598,001	$ 288,106	$ -	$ 3,681,026
Depreciation and amortization expense	167,288	82,062	60,907	74,623	384,880
Total operating costs	2,729,618	777,166	572,828	1,393,108	5,472,720
Operating income (loss)	65,301	(179,165)	(284,722)	(1,393,108)	(1,791,694)
Net interest expense	-	8,411	-	111,618	120,029
Impairment charge	-	1,025,935	-	-	1,025,935
Net income (loss)	$ 65,301	$(1,213,511)	$(284,722)	$(1,504,726)	$(2,937,658)

14. 401(k) PLAN

In 1999, the Company established a defined contribution retirement plan (the Plan) governed under Section 401(k) of the Internal Revenue Code. In 2000, prior to implementation of the Plan, the Company determined that based on the Company's current financial condition, it would not be prudent to proceed with the Plan. In December 2000 the Plan was terminated.

15. SUBSEQUENT EVENTS

(a) Issuance of Stock to AMCON

In February 2001, the Company issued 750,000 shares of common stock to AMCON at $.40 per share for an aggregate equity investment of $300,000. These shares will participate in the Merger consideration (see Note 5). AMCON now owns approximately 9.5% of the Company's common stock.

(b) Equipment Lease

The Company has ordered new blow molding and related equipment for installation at the Company's bottling facility. The Company expects this equipment, which will be fully operational by August 2001, to significantly enhance the efficiency of its bottling operations. The equipment was acquired by AMCON in its own name. Upon installation, the Company expects to lease this equipment from AMCON, on terms to be agreed upon. This lease is expected to be accounted for as an operating lease.

16. QUARTERLY DATA (UNAUDITED)

In the opinion of management, the following unaudited, quarterly data reflects all adjustments (consisting primarily of normal recurring adjustments) considered necessary to fairly present the Company's results of operations in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission.

	1999 Quarter Ended*			
	March 31	June 30	September 30 (As Restated)	December 31
	(Unaudited)			

Net Sales	$ 485,805	$ 742,739	$ 929,880	$ 891,959
Cost of Sales	448,645	516,946	709,988	788,824
Gross Margin	37,160	225,793	219,892	103,135
Expenses				
General and Administrative	284,911	343,472	423,584	384,247
Selling and Marketing	149,055	175,311	169,342	167,581
	433,966	518,783	592,926	551,828
Other Income (Expenses)				
Interest Income	3,391	1,166	3,933	2,025
Interest Expense	(23,133)	(16,967)	(18,223)	(22,612)
	(19,742)	(15,801)	(14,290)	(20,587)
Net Loss	$ (416,548)	$ (308,791)	$ (387,324)	$ (469,280)
Preferred Stock Dividend (**)	-	-	(312,500)	(103,879)
Net Loss Applicable to Common Shareholders	$ (416,548)	$ (308,791)	$ (699,824)	$ (573,159)
Basic and Diluted Net Loss Per Share	$ (0.10)	$ (0.08)	$ (0.16)	$ (0.11)
Weighted Average Shares Outstanding	4,070,619	4,079,563	4,395,155	5,357,053

	2000 Quarter Ended*			
	March 31 (As Restated)	June 30	September 30	December 31
	(Unaudited)			
Net Sales	$ 1,024,692	$ 1,173,421	$ 944,999	$ 537,914
Cost of Sales	799,982	955,964	661,677	565,537
Gross Margin	224,710	217,457	283,322	(27,623)
Expenses				
General and Administrative (***)	434,118	408,657	281,420	465,080
Selling and Marketing	225,747	316,452	217,451	140,635
	659,865	725,109	498,871	605,715
Other Income (Expenses)				
Impairment Charge	-	(903,094)	(122,841)	-
Interest Expense	(21,010)	(56,667)	24,076	(66,428)
Net Loss	$ (456,165)	$(1,467,413)	$ (314,314)	(699,766)
Preferred Stock Dividend	(35,500)	(28,045)	(49,700)	(23,453)
Net Loss Applicable to Common Shareholders	$ (491,665)	$(1,495,458)	$ (364,014)	$ (723,219)
Basic and Diluted Net Loss Per Share	$ (0.08)	$ (0.22)	$ (0.05)	$ (0.09)
Weighted Average Shares Outstanding	5,883,760	6,759,582	7,041,501	7,682,761