

CASEYS GENERAL STORES INC

Form 10-Q

March 11, 2009

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Quarter Ended January 31, 2009

Commission File Number 0-12788

## CASEY S GENERAL STORES, INC.

(Exact name of registrant as specified in its charter)

IOWA  
State or other jurisdiction of  
incorporation or organization)

42-0935283  
(I.R.S. Employer  
Identification Number)

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ONE CONVENIENCE BOULEVARD,

ANKENY, IOWA  
(Address of principal executive offices)

50021  
(Zip Code)

(515) 965-6100

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer  Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class                                | Outstanding at March 4, 2009 |
|--------------------------------------|------------------------------|
| Common Stock, no par value per share | 50,826,312 share             |

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## ASSETS

|  | <b>January 31,<br/>2009</b> | <b>April 30,<br/>2008</b> |
|--|-----------------------------|---------------------------|
| Current assets:  |                             |                           |
| Cash and cash equivalents  | \$ 127,459                  | 154,523                   |
| Receivables  | 8,651                       | 16,662                    |
| Inventories  | 99,030                      | 124,503                   |
| Prepaid expenses   | 9,451                       | 9,817                     |
| Income tax receivable  | 6,848                       | 7,751                     |
| <b>Total current assets</b>  | <b>251,439</b>              | <b>313,256</b>            |
| Other assets   | 8,642                       | 8,898                     |
| Goodwill   | 50,956                      | 48,308                    |
| Property and equipment, net of accumulated depreciation of \$638,177 at January 31, 2009 and \$595,316 at April 30, 2008 | 898,979                     | 848,738                   |
|  | <b>\$ 1,210,016</b>         | <b>1,219,200</b>          |

*See notes to unaudited consolidated condensed financial statements.*

**Table of Contents****CASEY S GENERAL STORES, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS***(Unaudited)**(Continued)**(Dollars in Thousands)*

## LIABILITIES AND SHAREHOLDERS' EQUITY

|   | January 31,<br>2009 | April 30,<br>2008 |
|---|---------------------|-------------------|
| Current liabilities:                      |                     |                   |
| Current maturities of long-term debt      | \$ 33,306           | 34,383            |
| Accounts payable                          | 97,001              | 163,343           |
| Accrued expenses                          | 62,041              | 61,373            |
| <b>Total current liabilities</b>          | <b>192,348</b>      | <b>259,099</b>    |
| Long-term debt, net of current maturities | 169,101             | 181,443           |
| Deferred income taxes                     | 113,203             | 105,959           |
| Deferred compensation                     | 10,070              | 10,201            |
| Other long-term liabilities               | 16,553              | 15,026            |
| <b>Total liabilities</b>                  | <b>501,275</b>      | <b>571,728</b>    |
| Shareholders' equity:                     |                     |                   |
| Preferred stock, no par value             |                     |                   |
| Common stock, no par value                | 60,256              | 57,690            |
| Retained earnings                         | 648,485             | 589,782           |
| <b>Total shareholders' equity</b>         | <b>708,741</b>      | <b>647,472</b>    |
|   | <b>\$ 1,210,016</b> | <b>1,219,200</b>  |

*See notes to unaudited consolidated condensed financial statements.*

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**CASEY S GENERAL STORES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS**

*(Unaudited)*

*(Dollars in Thousands, except per share amounts)*

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>January 31,</b>        |             | <b>January 31,</b>       |             |
|   | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Total revenue   | \$ 848,832                | 1,154,500   | 3,804,880                | 3,624,070   |
| Cost of goods sold (exclusive of depreciation and amortization, shown separately below)               | 687,714                   | 994,432     | 3,253,654                | 3,096,414   |
| Gross profit  | 161,118                   | 160,068     | 551,226                  | 527,656     |
| Operating expenses  | 118,886                   | 120,587     | 378,856                  | 357,819     |
| Depreciation and amortization   | 17,148                    | 17,029      | 52,037                   | 50,678      |
| Interest, net   | 2,757                     | 2,317       | 7,734                    | 7,012       |
| Total expenses  | 138,791                   | 139,933     | 438,627                  | 415,509     |
| Earnings from continuing operations before income taxes and (loss) gain on discontinued operations    | 22,327                    | 20,135      | 112,599                  | 112,147     |
| Federal and state income taxes  | 8,292                     | 7,248       | 42,428                   | 41,630      |
| Earnings from continuing operations before (loss) gain on discontinued operations                     | 14,035                    | 12,887      | 70,171                   | 70,517      |
| (Loss) gain on discontinued operations, net of (tax benefit) taxes of \$(9), \$94, \$(23), and \$(20) | (14)                      | 146         | (36)                     | (32)        |
| Net earnings  | \$ 14,021                 | 13,033      | 70,135                   | 70,485      |

*See notes to unaudited consolidated condensed financial statements.*

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**CASEY S GENERAL STORES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS**

*(Unaudited)*

*(Continued)*

*(Dollars in Thousands, except per share amounts)*

|  | Three Months Ended<br>January 31, |            | Nine Months Ended<br>January 31, |            |
|--|-----------------------------------|------------|----------------------------------|------------|
|  | 2009                              | 2008       | 2009                             | 2008       |
| <b>Basic</b>   |                                   |            |                                  |            |
| Earnings from continuing operations before loss on discontinued operations | \$ .28                            | .26        | 1.38                             | 1.39       |
| Loss on discontinued operations  |                                   |            |                                  |            |
| Net earnings per common share  | \$ .28                            | .26        | 1.38                             | 1.39       |
| <b>Diluted</b>   |                                   |            |                                  |            |
| Earnings from continuing operations before loss on discontinued operations | \$ .28                            | .26        | 1.38                             | 1.39       |
| Loss on discontinued operations  |                                   |            |                                  |            |
| Net earnings per common share  | \$ .28                            | .26        | 1.38                             | 1.39       |
| Basic weighted average shares outstanding                                  | 50,809,645                        | 50,700,095 | 50,782,729                       | 50,666,868 |
| Plus effect of stock options   | 148,208                           | 221,353    | 142,931                          | 203,620    |
| Diluted weighted average shares outstanding                                | 50,957,853                        | 50,921,448 | 50,925,660                       | 50,870,488 |

*All stock options outstanding were included in the computations above except for 226,000 options for the three month and nine month periods ended January 31, 2009 and 238,500 options for the three month and nine month periods ended January 31, 2008 that had an anti-dilutive effect.*

*See notes to unaudited consolidated condensed financial statements.*

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**CASEY S GENERAL STORES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

*(Unaudited)*

*(Dollars in Thousand)*

|  | <b>Nine Months Ended<br/>January 31,</b> |                 |
|--|--|-----------------|
|  | <b>2009</b>                              | <b>2008</b>     |
| <b>Cash flows from operating activities:</b>                                     |  |                 |
| Net earnings   | \$ 70,135                                | 70,485          |
| <b>Adjustments to reconcile net earnings to net cash provided by operations:</b> |  |                 |
| Loss from discontinued operations  | 36                                       | 32              |
| Depreciation and amortization  | 52,037                                   | 50,678          |
| Other (accretion) amortization   | (153)                                    | 223             |
| Stock based compensation   | 992                                      | 1,017           |
| Loss on sale of property and equipment   | 4,334                                    | 2,888           |
| Deferred income taxes  | 7,962                                    | 1               |
| Excess tax benefits related to stock option exercises                            | (461)                                    | (602)           |
| <b>Changes in assets and liabilities:</b>  |  |                 |
| Receivables  | 8,011                                    | (1,241)         |
| Inventories  | 25,473                                   | (6,823)         |
| Prepaid expenses   | (352)                                    | (1,444)         |
| Accounts payable   | (66,342)                                 | (6,437)         |
| Accrued expenses   | 668                                      | 9,082           |
| Income taxes   | 3,056                                    | 4,034           |
| Other, net   | (2,569)                                  | 189             |
| <b>Net cash provided by operating activities</b>                                 | <b>102,827</b>                           | <b>122,082</b>  |
| <b>Cash flows from investing activities:</b>                                     |  |                 |
| Purchase of property and equipment   | (107,358)                                | (70,413)        |
| Proceeds from sale of property and equipment                                     | 2,056                                    | 1,420           |
| <b>Net cash used in investing activities</b>                                     | <b>(105,302)</b>                         | <b>(68,993)</b> |
| <b>Cash flows from financing activities:</b>                                     |  |                 |
| Payments of long-term debt   | (15,022)                                 | (20,703)        |
| Proceeds from exercise of stock options  | 1,112                                    | 1,570           |
| Payments of cash dividends   | (11,431)                                 | (9,883)         |
| Excess tax benefits related to stock option exercises                            | 461                                      | 602             |
| <b>Net cash used in financing activities</b>                                     | <b>(24,880)</b>                          | <b>(28,414)</b> |

*See notes to unaudited consolidated condensed financial statements.*



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**CASEY S GENERAL STORES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

*(Unaudited)*

*(Dollars in Thousands)*

*(Continued)*

|  | <b>Nine Months Ended<br/>January 31,</b> |             |
|--|--|-------------|
|  | <b>2009</b>                              | <b>2008</b> |
| Cash flows from discontinued operations:             |  |             |
| Operating cash flows                                 | (18)                                     | 50          |
| Investing cash flows                                 | 309                                      | 1,284       |
| Net cash flows from discontinued operations          | 291                                      | 1,334       |
| Net (decrease) increase in cash and cash equivalents | (27,064)                                 | 26,009      |
| Cash and cash equivalents at beginning of the period | 154,523                                  | 107,067     |
| Cash and cash equivalents at end of the period       | \$ 127,459                               | 133,076     |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION**

|  | <b>Nine Months<br/>Ended<br/>January 31,</b> |             |
|--|--|-------------|
|  | <b>2009</b>                                  | <b>2008</b> |
| Cash paid during the period for:   |  |             |
| Interest, net of amount capitalized  | \$ 9,270                                     | 11,016      |
| Income taxes   | 29,623                                       | 36,737      |
| Noncash investing and financing activities:                                |  |             |
| Remeasurement of income taxes upon adoption of FIN 48                      |  | (646)       |
| Property and equipment acquired through notes payable                      | 1,603  |             |
| <i>See notes to unaudited consolidated condensed financial statements.</i> |  |             |

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**CASEY S GENERAL STORES, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED CONDENSED**

**FINANCIAL STATEMENTS**

*(Dollars in Thousands)*

1. *The accompanying consolidated condensed financial statements include the accounts and transactions of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.*
  
2. *The accompanying consolidated condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these interim consolidated condensed financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of January 31, 2009 and April 30, 2008, and the results of operations for the three and nine months ended January 31, 2009 and 2008, and cash flows for the nine months ended January 31, 2009 and 2008. Certain reclassifications were made on the cash flow statement for the prior year to conform to current year presentation.*
  
3. *The Company recognizes retail sales of gasoline, grocery and general merchandise, prepared food and commissions on lottery, prepaid phone cards, video rentals, and money orders at the time of the sale to the customer. Other maintenance services and transportation charges are recognized at the time the service is provided. Vendor rebates in the form of rack display allowances are treated as a reduction in cost of sales and are recognized incrementally over the period covered by the applicable rebate agreement. Vendor rebates in the form of billbacks are treated as a reduction in cost of sales and are recognized at the time the product is sold.*
  
4. *Under the Company's stock option plans, options may be granted to non-employee directors, certain officers, and key employees to purchase an aggregate of 4,560,000 shares of common stock. Option prices for employees are not to be less than the fair market value of the stock (110% of fair market value for holders of 10% or more of the Company's stock) at the date the options are granted. Options for 354,664 shares were available for grant at January 31, 2009, and options for 697,400 shares (which expire between 2009 and 2018) were outstanding. Any additional option share requirements in the future would require approval by the shareholders of the Company. Additional information is provided in the Company's 2008 Proxy Statement.*

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On June 25, 2007, stock options totaling 246,000 shares were granted to certain officers and key employees. These awards were granted at no cost to the employee. These awards will vest on June 25, 2010 and compensation expense is currently being recognized ratably over the vesting period.

On July 5, 2005, stock options totaling 234,000 shares were granted to certain officers and key employees. These awards were also granted at no cost to the employee. These awards will vest on July 5, 2010 and compensation expense is currently being recognized ratably over the vesting period.

The 2000 Stock Option Plan grants employees options with an exercise price equal to the fair market value of the Company's stock on the date of grant and expire ten years after the date of grant. Vesting is generally over a three to five-year service period. The non-employee Directors Stock Option Plan grants directors options with an exercise price equal to the average of the last reported sale prices of shares of common stock on the last trading day of each of the 12 months preceding the award of the option. The term of such options is ten years from the date of grant, and each option is exercisable immediately upon grant. On May 1, 2008, stock options totaling 12,000 shares were granted to the directors. The aggregate number of shares of Common Stock that may be granted pursuant to the Directors' Stock Option Plan may not exceed 200,000 shares, subject to adjustment to reflect any future stock dividends, stock splits or other relevant capitalization changes.

Information concerning the issuance of stock options is presented in the following table:

|   | <i>Number<br/>of<br/>Shares</i> | <i>Weighted<br/>Average<br/>Exercise<br/>Price</i> |
|---|---------------------------------|--|
| <i>Outstanding at April 30, 2008</i>  | 783,550                         | \$ 19.74   |
| <i>Granted</i>  | 12,000                          | 26.51  |
| <i>Exercised</i>  | (77,150)                        | 14.42  |
| <i>Forfeited</i>  | (21,000)                        | 23.80  |
| <i>Outstanding at January 31, 2009</i>  | 697,400                         | \$ 20.32   |
| <i>Weighted average fair value of options granted during the nine-month period ended January 31, 2009</i> |                                 | \$ 8.30  |

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At January 31, 2009, all outstanding options had an aggregate intrinsic value of \$1,969 and a weighted average remaining contractual life of 6 years. The vested options totaled 286,400 shares with a weighted average exercise price of \$15.14 per share and a weighted average remaining contractual life of 3.9 years. The aggregate intrinsic value for the vested options as of January 31, 2009, was \$1,857. The aggregate intrinsic value for the total of all options exercised during the nine months ended January 31, 2009, was \$1,011 and the total fair value of shares vested during the nine months ended January 31, 2009, was \$100.

The fair value of the 2009 stock options granted was estimated utilizing the Black Scholes valuation model. The grant date fair values for the May 1, 2008 options was \$8.30. Significant assumptions include:

|                         | <b>May 1, 2008</b> |
|-------------------------|--------------------|
| Risk-free interest rate | 4.3%               |
| Expected option life    | 8.9 years          |
| Expected volatility     | 37%                |
| Expected dividend yield | 1.7%               |

The option life of each award granted was based upon historical experience of employees and directors exercise behavior. Expected volatility was based upon historical volatility levels. Expected dividend yield was based on expected dividend rate. Risk free interest rate reflects the yield of a zero coupon U.S. Treasury over the expected option life at the time of grant. Total compensation costs recorded for the nine months ended January 31, 2009 and 2008, were \$992 and \$1,017, respectively, for the stock option awards. As of January 31, 2009, there was \$1,218 of total unrecognized compensation costs related to the 2000 Stock Option Plan for stock options which is expected to be recognized ratably through fiscal 2011.

- The results of operations of owned stores are presented as discontinued operations beginning in the quarter in which management commits to a plan to close the related store and actively markets the store. The results of operations of a leased store are presented as discontinued operations beginning in the quarter in which the related store ceases operations. The results of operations include writedowns of discontinued stores to estimated net realizable value. The Company does not allocate interest expense to discontinued operations. Amounts related to prior periods for discontinued operations determined in the current periods have been reclassified to conform to discontinued operations of the current period in the accompanying consolidated condensed statements of earnings.

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The stores presented as discontinued operations had total revenues and pretax gain (loss) as follows for the periods presented (in thousands):

|                           | <i>Three months</i>      |                          | <i>Nine months</i>       |                          |
|---------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                           | <i>ended January 31,</i> | <i>ended January 31,</i> | <i>ended January 31,</i> | <i>ended January 31,</i> |
|                           | <i>2009</i>              | <i>2008</i>              | <i>2009</i>              | <i>2008</i>              |
| <i>Total revenue</i>      | \$ 442                   | 3,013                    | 2,202                    | 11,897                   |
| <i>Pretax gain (loss)</i> | (23)                     | 240                      | (59)                     | (52)                     |

Included in the loss on discontinued operations is a gain on disposal of \$16 for the nine-month period ended January 31, 2009. There were no disposals during the three-month period ended January 31, 2009. Included in the loss on discontinued operations is a gain on disposal of \$115 for the nine-month period ending January 31, 2008 and a gain on disposal of \$354 for the three-month period ended January 31, 2008. Included in property and equipment in the accompanying condensed consolidated balance sheets are \$266 and \$1,650 in assets held for sale as of January 31, 2009 and April 30, 2008, respectively.

6. The Company is named as a defendant in four lawsuits ( hot fuel cases) brought in the federal courts in Kansas and Missouri against a variety of gasoline retailers. The complaints generally allege that the Company, along with numerous other retailers, has misrepresented gasoline volumes dispensed at its pumps by failing to compensate for expansion that occurs when fuel is sold at temperatures above 60°F. Fuel is generally measured at 60°F in wholesale purchase transactions and computation of motor fuel taxes in Kansas and Missouri. The complaints all seek certification as class actions on behalf of gasoline consumers within those two states, and one of the complaints also seeks certification for a class consisting of gasoline consumers in all states. The actions generally seek recovery for alleged violations of state consumer protection or unfair merchandising practices statutes, negligent and fraudulent misrepresentation, unjust enrichment, civil conspiracy, and violation of the duty of good faith and fair dealing; several seek injunctive relief and punitive damages.

These actions are part of a number of similar lawsuits that have been filed since November 2006 in 28 jurisdictions, including 26 states, Guam and the District of Columbia, against a wide range of defendants that produce, refine, distribute, and/or market gasoline products in the United States. On June 18, 2007, the Federal Judicial Panel on Multidistrict Litigation ordered that all of the pending hot fuel cases (officially, the Motor Fuel Temperature Sales Practices Litigation ) be transferred to the U.S. District Court for the District of Kansas in Kansas City, Kansas, for coordinated or consolidated pretrial proceedings, including rulings on discovery matters, various pretrial motions, and class certification. Discovery efforts by both sides are being pursued.

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*The Company also is the defendant in an action now pending in the United States District Court for the Southern District of Iowa, filed May 30, 2007 by two former employees claiming that Casey's failed to properly pay overtime compensation to its assistant managers. Specifically, plaintiffs claim that the assistant managers were treated as nonexempt employees entitled to overtime pay, but that the Company did not properly record all hours worked and failed to pay the assistant managers overtime pay for all hours worked in excess of 40 per week. The action purports to be a collective action under the Fair Labor Standards Act (FLSA) brought on behalf of all persons who are currently or were employed during the three-year period immediately preceding the filing of [the] complaint as Assistant Managers at any Casey's General Store operated by [the] Defendant (directly or through one of its wholly owned subsidiaries), who worked overtime during any given week within that period, and who have not filed a complaint to recover overtime wages.*

*The complaint seeks relief in the form of back wages owed all members of the class during the three-year period preceding the filing of the complaint, liquidated damages, attorneys fees, and costs.*

*In October 2007, the Court conditionally certified the collective action as to any employees who are or have been employed by Casey's as an assistant manager at any time since November 1, 2004, and who have unresolved claims for unpaid overtime, and authorized the mailing of notice of the action to all such persons. The deadline for potential class members to elect to opt-in and become collective class members has now expired. A total of 631 potential class members have elected to opt-in. The Company will be allowed to move to decertify the collective action after discovery is conducted.*

*In November 2007, the plaintiffs filed a motion to amend their complaint to include class claims alleging violations of the state laws of eight states where the Company operates, based on the same general factual allegations underlying the FLSA claim. The court allowed the amended complaint to be filed, with modifications. The plaintiffs subsequently filed amended collective and class action complaints, essentially asserting the same claims alleged in previous filings, but expanding the class claims under State law and extending them to include violations of Wisconsin law. In addition, the plaintiffs added as parties defendant five former and current officers of the Company. The claims against these five named officers are limited to alleged violation of the FLSA. Discovery activities are being pursued by both the plaintiffs and the Company.*

*On January 10, 2008, seven current and former store employees filed a case similar to the action brought by assistant managers discussed above, which is also pending in the U.S. District Court for the Southern District of Iowa in Des Moines. This action also is filed as a collective action pursuant to the FLSA, and also alleges class claims based on the independent statutory state wage and hours laws of Iowa, Illinois, Indiana, Kansas, Missouri, Nebraska and South Dakota. The action purports to be brought on behalf of a class consisting of essentially all*

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*Casey's non-management-level store employees employed during the three-year period immediately preceding the filing of [the] complaint at any Casey's General Store, whether operated directly by Defendant or through one of its wholly owned subsidiaries.*

*The complaint alleges that the subject employees were denied overtime pay for hours worked in excess of 40 hours per week, as well as mandatory meal and rest breaks, and that the Company failed to accurately record actual hours worked and willfully encouraged the employees to work off-the-clock. The complaint seeks damages, including alleged unpaid back wages, liquidated damages, pre- and post-judgment interest, court costs and attorneys fees, as well as equitable relief pursuant to various state laws.*

*Approximately 30,000 potential collective action members were provided notice of the action and their right to opt-in to the FLSA claims. A total of 2,649 potential members have opted-in to the collective action claim. The opt-in period has now expired.*

*The plaintiffs have filed amended collective and class action complaints, essentially asserting the same claims alleged in previous filings, but expanding the class claims under state law and extending them to include violations of Minnesota law. In addition, the plaintiffs added as parties defendant five former and current officers of the Company. The claims against these five named officers are limited to alleged violation of the FLSA. Discovery activities are being pursued by both the plaintiffs and the Company.*

*In each of the foregoing lawsuits, management believes there are substantial factual and legal defenses to the claims made by the plaintiffs, and intends to contest the matters vigorously. However, due to the uncertainties of litigation generally, the resolution of these lawsuits cannot be accurately predicted and no assurance can be given that the Company will be successful in its defense on the merits or otherwise. If not successful, it is possible the Company could incur judgments or enter into settlements of specific claims that may adversely affect the Company's operating results in a particular period or its financial statements as a whole. Management cannot at this time reasonably estimate the possible loss or range of loss, if any, that may arise in connection with these lawsuits.*

*From time to time we are involved in other legal and administrative proceedings or investigations arising from the conduct of our business operations, including contractual disputes; environmental contamination or remediation issues; employment or personnel matters; personal injury and property damage claims; and claims by federal, state, and local regulatory authorities relating to the sale of products pursuant to licenses and permits issued by those authorities. Claims for compensatory or exemplary damages in those actions may be substantial. While the outcome of such litigation, proceedings, investigations, or claims is never certain, it is our opinion, after taking into consideration legal counsel's assessment and the availability of insurance proceeds and other collateral sources to cover potential losses, that the ultimate disposition of such other matters currently pending or threatened, individually or cumulatively, will not have a material adverse effect on our consolidated financial position and results of operation.*

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7. *In the first quarter of 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes and Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the application of FASB Statement No. 109 by providing guidance on the recognition and measurement of an enterprise's tax positions taken in a tax return. FIN 48 additionally clarifies how an enterprise should account for a tax position depending on whether the position is more likely than not to pass a tax examination. The interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company recognized additional tax liabilities of \$646 with a corresponding reduction to beginning retained earnings as of May 1, 2007 as a result of the adoption of FIN 48. The total amount of gross unrecognized tax benefits was \$4,037, as of May 1, 2007, the date of adoption and \$5,655 at April 30, 2008. At January 31, 2009, the company had a total of \$7,147 in gross unrecognized tax benefits. Of this amount, \$5,308 represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$749 at January 31, 2009 and \$548 at April 30, 2008. Net interest and penalties included in income tax expense for the nine months ended January 31, 2009 was approximately \$201 and was not material for the comparable period in the prior year. These unrecognized tax benefits relate to the state income tax filing positions and federal tax credits claimed for the Company's corporate subsidiaries.*

*A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the expiration of the statute of limitations, examinations or other unforeseen circumstances. As of January 31, 2009, the Company did not have any ongoing federal income tax examinations. Two states have examinations in progress. The Company did not have any outstanding litigation related to tax matters. At this time, management expects the aggregate amount of unrecognized tax benefits to decrease by approximately \$676 within the next 12 months. This expected decrease is due to the expiration of statute of limitations related to certain state income tax filing positions.*

*The statute of limitations for federal income tax filings remains open for the years 2005 and forward. Tax years 2003 and forward are subject to audit by state tax authorities depending on the tax code of each state.*

*In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157*



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*establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, thereby requiring an entity to develop its own assumptions. The Company adopted SFAS No. 157 on May 1, 2008 and it did not have a material impact on the Company's consolidated financial statements. In accordance with FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, the Company has deferred the adoption of SFAS No. 157 as it relates to nonfinancial assets and nonfinancial liabilities.*

*In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which permits many financial instruments and certain other items to be measured at fair value at the option of the Company. The Company adopted SFAS No. 159 on May 1, 2008 and it did not have a material impact on the Company's consolidated financial statements.*

*In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS No. 141R replaces SFAS No. 141, and establishes requirements for recognition and measurement of identifiable assets acquired, liabilities assumed, noncontrolling interest of the acquiree, goodwill acquired, and gain from bargain purchase. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after December 15, 2008. The Company will adopt SFAS No. 141R on May 1, 2009.*

*In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 amends and expands disclosure requirements for derivative instruments to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is to be applied prospectively for the first reporting period beginning on or after November 15, 2008. The Company will adopt SFAS No. 161 on February 1, 2009 and does not expect it to have a material impact on its consolidated financial statements.*

8. *The Company's financial condition and results of operations are affected by a variety of factors and business influences, certain of which are described in the Cautionary Statement Relating to Forward-Looking Statements filed as Exhibit 99 to the Annual Report on Form 10-K for the fiscal year ended April 30, 2008. These interim consolidated condensed financial statements should be read in conjunction with that Cautionary Statement.*

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in Thousands).**  
**Overview**

Casey's General Stores, Inc. (Casey's) and its wholly-owned subsidiaries (Casey's, together with its subsidiaries, are referred to herein as the Company) operate convenience stores under the name Casey's General Store, HandyMart and Just Diesel in nine Midwestern states, primarily Iowa, Missouri and Illinois. On January 31, 2009, there were a total of 1,469 stores in operation. All stores offer gasoline for sale on a self-serve basis and carry a broad selection of food (including freshly prepared foods such as pizza, donuts and sandwiches), beverages, tobacco products, health and beauty aids, automotive products and other non-food items. The Company derives its revenue primarily from the retail sale of gasoline and the products offered in Company stores.

Approximately 61% of all Casey's General Stores are located in areas with populations of fewer than 5,000 persons, while approximately 13% of all stores are located in communities with populations exceeding 20,000 persons. The Company operates a central warehouse, the Casey's Distribution Center, adjacent to its Corporate Headquarters facility in Ankeny, Iowa, through which it supplies grocery and general merchandise items to Company stores. At January 31, 2009, the Company owned the land at 1,420 locations and the buildings at 1,429 locations, and leased the land at 49 locations and the buildings at 40 locations.

During the third quarter of fiscal 2009, the Company earned \$0.28 in earnings per share from continuing operations compared to \$0.26 per share for the same quarter a year ago. Nine-month earnings per share came to \$1.38 versus \$1.39 for the first nine months of fiscal 2008. The Company's business is seasonal, and generally the Company experiences higher sales and profitability during the first and second fiscal quarters (May-October), when customers tend to purchase greater quantities of gasoline and certain convenience items such as beer and soft drinks.

Through the end of the third fiscal quarter, the Company had acquired 14 convenience stores from other parties and completed 7 new store constructions. Management plans to have 17 new store constructions opened by the end of this fiscal year. The annual goal is to increase the number of Company stores by 4%.

The third quarter results reflected a 2.1% increase in same-store gasoline gallons sold, with an average margin of approximately 9.9 cents per gallon. The Company policy is to price to the competition, so the timing of retail price changes is driven by local competitive conditions. Although the Company tends to experience lower gasoline margins as wholesale costs increase, and higher margins as wholesale costs decrease, retail prices were very responsive to the decline in wholesale costs during the third quarter which put pressure on the margin. However, as wholesale costs stabilized toward the end of the quarter the margin improved.

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Same store sales of grocery and other merchandise and prepared foods and fountain also showed gains during the third quarter. Operating expenses decreased due to lower credit card fees and a decline in fleet fuel expense, conditions which are expected to continue into the fourth quarter.

The weakening U.S. economy and increased unemployment have had an adverse impact on consumer disposable income generally in the Midwest. These conditions have not lowered the over-all demand for gasoline and the merchandise sold in Company stores, but management expects to continue facing a challenging operating environment in the coming months. For further information concerning the Company's operating environment and certain of the conditions that may affect future performance, see the Cautionary Statements at the end of this Item 2.

**Three Months Ended January 31, 2009 Compared to****Three Months Ended January 31, 2008**

*(Dollars and Amounts in Thousands)*

|                                   |                 | <b>Grocery &amp;<br/>Other<br/>Merchandise</b> | <b>Prepared<br/>Food &amp;<br/>Fountain</b> | <b>Other</b> | <b>Total</b> |
|-----------------------------------|-----------------|--|---|--------------|--------------|
| <b>Three months ended 1/31/09</b> | <b>Gasoline</b> |  |   |              |              |
| Revenue                           | \$ 531,891      | 231,337  | 81,048                                      | 4,556        | 848,832      |
| Gross profit                      | 30,574          | 76,147   | 50,077                                      | 4,320        | 161,118      |
| Margin                            | 5.7%            | 32.9%  | 61.8%                                       | 94.8%        | 19.0%        |
| Gasoline gallons                  | 307,446         |  |   |              |              |
|                                   |                 | <b>Grocery &amp;<br/>Other<br/>Merchandise</b> | <b>Prepared<br/>Food &amp;<br/>Fountain</b> | <b>Other</b> | <b>Total</b> |
| <b>Three months ended 1/31/08</b> | <b>Gasoline</b> |  |   |              |              |
| Revenue                           | \$ 860,015      | 214,843  | 73,421                                      | 6,221        | 1,154,500    |
| Gross profit                      | 40,183          | 68,541   | 46,686                                      | 4,658        | 160,068      |
| Margin                            | 4.7%            | 31.9%  | 63.6%                                       | 74.9%        | 13.9%        |
| Gasoline gallons                  | 297,132         |  |   |              |              |

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Total revenue for the third quarter of fiscal 2009 decreased by \$305,668 (26.5%) over the comparable period in fiscal 2008. Retail gasoline sales decreased by \$328,124 (38.2%) as the number of gallons sold increased by 10,314 (3.5%) while the average retail price per gallon decreased 40.2%. During this same period, retail sales of grocery and general merchandise increased by \$16,494 (7.7%) and prepared food and fountain sales increased by \$7,627 (10.4%), due to the continued popularity of menu offerings and strategic price increases.

The other revenue category has primarily consisted of wholesale gasoline and grocery sales to franchise stores and lottery, prepaid phone cards and video rental commissions received. These revenues decreased \$1,665 (26.8%) for the third quarter of fiscal 2009 primarily due to the elimination of the franchise program effective December 31, 2008. However, the gross profit margin only decreased \$338 (7.3%) primarily due to the increase in lottery commissions of \$200 (9.2%) from the comparable period in the prior year.

Cost of goods sold as a percentage of total revenue was 81% for the third quarter of fiscal 2009, compared to 86.1% for the comparable period in the prior year primarily due to the decrease in the average retail price per gallon of gasoline sold. The gross profit margin on retail gasoline sales increased (to 5.7%) during the third quarter of fiscal 2009 from the third quarter of the prior year (4.7%). However, the gross profit margin per gallon decreased (to \$.0994) in the third quarter of fiscal 2009 from the comparable period in the prior year (\$.1352) primarily due to the competitive response of the retail environment to the downward movement of wholesale costs. The gross profit margin on retail sales of grocery and other merchandise increased (to 32.9%) from the comparable period in the prior year (31.9%). The increase was caused by enhanced profitability in the beer and beverage categories and increased pack versus carton sales in cigarettes. These increases were partially offset by the decrease in the prepared food margin (to 61.8%) from the comparable period in the prior year (63.6%). This decrease was caused by increased product costs, primarily cheese.

Operating expenses as a percentage of total revenue were 14% for the third quarter of fiscal 2009 compared to 10.4% for the comparable period in the prior year. The increase in operating expenses as a percentage of total revenue was caused primarily by a decrease in the average retail price per gallon of gasoline sold. Operating expenses decreased 1.4% in the third quarter of 2009 from the comparable period in the prior year, due to an 18.9% decrease in credit card fees due to lower gasoline prices and a significant decline in fleet fuel expense.

The effective tax rate increased 1.1% to 37.1% in the third quarter of fiscal year 2009 from 36% in the third quarter of fiscal year 2008. The increase in the effective tax rate was primarily due to the increase in the FASB Interpretation No. 48 (FIN 48) tax contingencies. This increase was partially offset by the increase in federal tax credits.

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Net earnings increased by \$988 (7.6%). The increase in net earnings was attributable primarily to the increase in the gross profit dollars from grocery and other merchandise sales, and prepared food and fountain sales and the decrease in operating expenses. However, much of the increase was offset by the decrease in the gross profit margin per gallon of gasoline sold.

**Nine Months Ended January 31, 2009 Compared to****Nine Months Ended January 31, 2008**

*(Dollars and Amounts in Thousands)*

|                                  | <b>Gasoline</b> | <b>Grocery &amp;<br/>Other<br/>Merchandise</b> | <b>Prepared<br/>Food &amp;<br/>Fountain</b> | <b>Other</b> | <b>Total</b> |
|----------------------------------|-----------------|--|---|--------------|--------------|
| <b>Nine months ended 1/31/09</b> |                 |  |   |              |              |
| Revenue                          | \$ 2,763,518    | 770,766  | 254,533                                     | 16,063       | 3,804,880    |
| Gross profit                     | 123,668         | 259,311  | 155,112                                     | 13,135       | 551,226      |
| Margin                           | 4.5%            | 33.6%  | 60.9%                                       | 81.8%        | 14.5%        |
| Gasoline gallons                 | 942,480         |  |   |              |              |

|                                  | <b>Gasoline</b> | <b>Grocery &amp;<br/>Other<br/>Merchandise</b> | <b>Prepared<br/>Food &amp;<br/>Fountain</b> | <b>Other</b> | <b>Total</b> |
|----------------------------------|-----------------|--|---|--------------|--------------|
| <b>Nine months ended 1/31/08</b> |                 |  |   |              |              |
| Revenue                          | \$ 2,652,663    | 725,029  | 228,054                                     | 18,324       | 3,624,070    |
| Gross profit                     | 132,257         | 239,619  | 143,136                                     | 12,644       | 527,656      |
| Margin                           | 5.0%            | 33.0%  | 62.8%                                       | 69.0%        | 14.6%        |
| Gasoline gallons                 | 924,091         |  |   |              |              |

Total revenue for the first nine months of fiscal 2009 increased by \$180,810 (5%) over the comparable period in fiscal 2008. Retail gasoline sales increased by \$110,855 (4.2%) as the number of gallons sold increased by 18,389 (2%) while the average retail price per gallon increased 2.1%. During this same period, retail sales of grocery and general merchandise increased by \$45,737 (6.3%) and prepared food and fountain sales increased by \$26,479 (11.6%), due to the continued popularity of menu offerings and strategic price increases.

The other revenue category has primarily consisted of wholesale gasoline and grocery sales to franchise stores and lottery, prepaid phone cards, and video rental commissions received. These revenues decreased \$2,261 (12.3%) for the first nine months of fiscal 2009 primarily due to the phase out of the franchise program. However, the gross profit margin increased \$491 (3.9%) primarily due to the increase in lottery commissions of \$849 (14.3%) from the comparable period in the prior year.

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Cost of goods sold as a percentage of total revenue was 85.5% for the first nine months of fiscal 2009, compared to 85.4% for the comparable period in the prior year partially due to the decrease in the prepared food margin (to 60.9%) from the comparable period in the prior year (62.8%). This decrease was caused by increased product costs, primarily cheese. The gross profit margins on retail gasoline sales decreased (to 4.5%) during the first nine months of fiscal 2009 from the comparable period in the prior year (5%). The gross profit margin per gallon also decreased (to \$.1312) during the first nine months of fiscal 2009 from the comparable period in the prior year (\$.1431). These decreases were partially offset by the increase in the gross profit margin on retail sales of grocery and other merchandise (to 33.6%) from the comparable period in the prior year (33%). The increase was caused by enhanced profitability in the beer and beverage categories and increased pack versus carton sales in cigarettes.

Operating expenses as a percentage of total revenue were 10% for the first nine months of fiscal 2009 compared to 9.9% for the comparable period in the prior year. Operating expenses increased 5.9% in the first nine months of 2009 from the comparable period in the prior year, primarily due to a 13% increase in credit card fees, impairment charges of \$2,553 related to five stores damaged by the significant flooding in the upper Midwest in June 2008, and several large health insurance claims.

Depreciation and amortization expense increased 2.7% to \$52,037 for the nine months of fiscal year 2009 from \$50,678 for the comparable period in the prior year. The increase was due to capital expenditures made during the last fiscal year.

The effective tax rate increased .6% to 37.7% for the first nine months of fiscal year 2009 from 37.1% for the comparable period in the prior year. The increase in the effective tax rate was primarily due to the increase in the FASB Interpretation No. 48 (FIN 48) tax contingencies. This increase was partially offset by the increase in federal tax credits.

Net earnings decreased by \$350 (0.5%). The decrease in net earnings was attributable primarily to the decrease in the gross profit margin per gallon of gasoline sold and the increase in operating expenses. However, a majority of the decrease was offset by the increases in the gross profit dollars from grocery and other merchandise sales, and prepared food and fountain sales.

## **Critical Accounting Policies**

Critical accounting policies are those accounting policies that management believes are important to the portrayal of the Company's financial condition and results of operations and require management's most difficult, subjective judgments, often because of the need to estimate the effects of inherently uncertain factors.

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**Inventory.** Inventories, which consist of merchandise and gasoline, are stated at the lower of cost or market. For gasoline, cost is determined through the use of the first-in, first-out (FIFO) method. For merchandise inventories, cost is determined through the use of the last-in, first-out (LIFO) method applied to inventory values determined primarily by the FIFO method for warehouse inventories and the retail inventory method (RIM) for store inventories, except for cigarettes, beer, pop, and prepared foods, which are valued at cost. RIM is an averaging method widely used in the retail industry because of its practicality.

Under RIM, inventory valuations are at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to sales. Inherent in the RIM calculations are certain management judgments and estimates, which could affect the ending inventory valuation at cost and the resulting gross margins.

Vendor allowances include rebates and other funds received from vendors to promote their products. The Company often receives such allowances on the basis of quantitative contract terms that vary by product and vendor or directly on the basis of purchases made. Vendor rebates in the form of rack display allowances are treated as a reduction in cost of sales and are recognized incrementally over the period covered by the applicable rebate agreement. Vendor rebates in the form of billbacks are treated as a reduction in cost of sales and are recognized at the time the product is sold. Reimbursements of an operating expense (e.g., advertising) are recorded as reductions of the related expense.

**Long-lived Assets.** The Company periodically monitors under-performing stores for an indication that the carrying amount of assets may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recognized. Impairment is based on the estimated fair value of the asset. Fair value is based on management's estimate of the amount that could be realized from the sale of assets in a current transaction between willing parties. The estimate is derived from offers, actual sale or disposition of assets subsequent to period end, and other indications of asset value. In determining whether an asset is impaired, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, which for the Company is generally on a store-by-store basis. Management expects to continue its on-going evaluation of under-performing stores, and may periodically sell specific stores where further operational and marketing efforts are not likely to improve their performance. The Company recognized charges of \$2,553 for five stores damaged by the significant flooding in June 2008. The Company incurred additional impairment charges of \$1,985 during the nine months ended January 31, 2009 for stores not affected by the flooding. The impairment charges are a component of operating expenses.

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**Self-insurance.** The Company is primarily self-insured for employee health care, workers' compensation, general liability, and automobile claims. The self-insurance claim liability is determined actuarially based on claims filed and an estimate of claims incurred but not yet reported. Actuarial projections of the losses are employed due to the high degree of variability in the liability estimates. Some factors affecting the uncertainty of claims include the time frame of development, settlement patterns, litigation and adjudication direction, and medical treatment and cost trends. The liability is not discounted.

**Recent accounting pronouncements.** In the first quarter of 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the application of FASB Statement No. 109 by providing guidance on the recognition and measurement of an enterprise's tax positions taken in a tax return. FIN 48 additionally clarifies how an enterprise should account for a tax position depending on whether the position is more likely than not to pass a tax examination. The interpretation provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company recognized additional tax liabilities of \$646 with a corresponding reduction to beginning retained earnings as of May 1, 2007 as a result of the adoption of FIN 48. The total amount of gross unrecognized tax benefits was \$4,037, as of May 1, 2007, the date of adoption and \$5,655 at April 30, 2008. At January 31, 2009, the company had a total of \$7,147 in gross unrecognized tax benefits. Of this amount, \$5,308 represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$749 at January 31, 2009 and \$548 at April 30, 2008. Net interest and penalties included in income tax expense for the nine months ended January 31, 2009 was approximately \$201 and was not material for the comparable period in the prior year. These unrecognized tax benefits relate to the state income tax filing positions and federal tax credits claimed for the Company's corporate subsidiaries.

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**Liquidity and Capital Resources (Dollars in Thousands)**

Due to the nature of the Company's business, cash provided by operations is the Company's primary source of liquidity. The Company finances its inventory purchases primarily from normal trade credit aided by the relatively rapid turnover of inventory. This turnover allows the Company to conduct its operations without large amounts of cash and working capital. As of January 31, 2009, the Company's ratio of current assets to current liabilities was 1.31 to 1. The ratio at January 31, 2008 and April 30, 2008 was 1.21 to 1. Management believes that the Company's current \$50,000 bank line of credit, together with cash flow from operations, will be sufficient to satisfy the working capital needs of its business.

Net cash provided by operating activities decreased \$19,255 (15.8%) in the nine months ended January 31, 2009 from the comparable period in the prior year, primarily as a result of a large decrease in accounts payable due to the lower cost per gallon of gasoline at the end of the period. This result was partially offset by the decrease in inventories. Cash used in investing activities in the nine months ended January 31, 2009 increased primarily due to the purchase of additional property and equipment. Cash used in financing activities decreased, primarily due to fewer repayments of long-term debt during the nine months ended January 31, 2009.

Capital expenditures represent the single largest use of Company funds. Management believes that by reinvesting in Company stores, the Company will be better able to respond to competitive challenges and increase operating efficiencies. During the first nine months of fiscal 2009, the Company expended \$107,358 for property and equipment, primarily for the construction, acquisition and remodeling of Company stores, compared to \$70,413 for the comparable period in the prior year. The Company has budgeted approximately \$130,000 in fiscal 2009 for construction, acquisition and remodeling of Company stores, primarily from existing cash and funds generated by operations.

As of January 31, 2009, the Company had long-term debt, net of current maturities, of \$169,101, consisting of \$100,000 in principal amount of 5.72% Senior Notes, Series A and B, \$30,000 in principal amount of 7.38% Senior Notes, \$18,000 in principal amount of Senior Notes, Series A through Series F, with interest rates ranging from 6.18% to 7.23%, \$11,429 in principal amount of 7.89% Senior Notes, Series A, \$1,344 of mortgage notes payable, and \$8,328 of capital lease obligations.

To date, the Company has funded capital expenditures primarily from the proceeds of the sale of Common Stock, issuance of 6-1/4% Convertible Subordinated Debentures (which were converted into shares of Common Stock in 1994), the above-described Senior Notes, a mortgage note, and through funds generated from operations. Future capital needs required to finance operations, improvements and the anticipated growth in the number of Company stores are expected to be met from cash generated by operations, the bank line of credit, and additional long-term debt or other securities as circumstances may dictate, and are not expected to adversely affect liquidity.

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**Cautionary Statements (Dollars in Thousands)**

The foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the Company's expectations or beliefs concerning future events, including (i) any statements regarding future sales and gross profit percentages, (ii) any statements regarding the continuation of historical trends and (iii) any statements regarding the sufficiency of the Company's cash balances and cash generated from operations and financing activities for the Company's future liquidity and capital resource needs. The Company cautions that these statements are further qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, including, without limitations, the following factors described more completely in the Form 10-K for the fiscal year ended April 30, 2008:

**Competition.** The Company's business is highly competitive, and marked by ease of entry and constant change in terms of the numbers and type of retailers offering the products and services found in Company stores. Many of the food (including prepared foods) and non-food items similar or identical to those sold by the Company are generally available from a variety of competitors in the communities served by Company stores, and the Company competes with other convenience store chains, gasoline stations, supermarkets, drug stores, discount stores, club stores, mass merchants and fast-food outlets (with respect to the sale of prepared foods). Sales of such non-gasoline items (particularly prepared food items) have contributed substantially to the Company's gross profits from retail sales in recent years. Gasoline sales are also intensely competitive. The Company competes with both independent and national brand gasoline stations in the sale of gasoline, other convenience store chains and several non-traditional gasoline retailers such as supermarkets in specific markets. Some of these other gasoline retailers may have access to more favorable arrangements for gasoline supply than do the Company or the firms that supply its stores. Some of the Company's competitors have greater financial, marketing and other resources than the Company, and, as a result, may be able to respond better to changes in the economy and new opportunities within the industry.

**Gasoline operations.** Gasoline sales are an important part of the Company's sales and earnings, and retail gasoline profit margins have a substantial impact on the Company's net earnings. Profit margins on gasoline sales can be adversely affected by factors beyond the control of the Company, including the supply of gasoline available in the retail gasoline market, uncertainty or volatility in the wholesale gasoline market, increases in wholesale gasoline costs generally during a period and price competition from other gasoline marketers.

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The market for crude oil and domestic wholesale petroleum products is marked by significant volatility, and is affected by general political conditions and instability in oil producing regions such as the Middle East and South America. The volatility of the wholesale gasoline market makes it extremely difficult to predict the impact of future wholesale cost fluctuation on the Company's operating results and financial conditions. These factors could materially impact the Company's gasoline gallon volume, gasoline gross profit and overall customer traffic levels at Company stores. Any substantial decrease in profit margins on gasoline sales or in the number of gallons sold by Company stores could have a material adverse effect on the Company's earnings.

The Company purchases its gasoline from a variety of independent national and regional petroleum distributors. Although in recent years the Company's suppliers have not experienced any difficulties in obtaining sufficient amounts of gasoline to meet the Company's needs, unanticipated national and international events could result in a reduction of gasoline supplies available for distribution to the Company. Any substantial curtailment in gasoline supplied to the Company could adversely affect the Company by reducing its gasoline sales. Further, management believes that a significant amount of the Company's business results from the patronage of customers primarily desiring to purchase gasoline and, accordingly, reduced gasoline supplies could adversely affect the sale of non-gasoline items. Such factors could have a material adverse impact upon the Company's earnings and operations.

**Tobacco Products.** Sales of tobacco products represent a significant portion of the Company's revenues. Significant increases in wholesale cigarette costs and tax increases on tobacco products, as well as national and local campaigns to discourage smoking in the United States, could have an adverse effect on the demand for cigarettes sold by Company stores. The Company attempts to pass price increases onto its customers, but competitive pressures in specific markets may prevent it from doing so. These factors could materially impact the retail price of cigarettes, the volume of cigarettes sold by Company stores and overall customer traffic.

**Environmental Compliance Costs.** The United States Environmental Protection Agency and several states, including Iowa, have established requirements for owners and operators of underground gasoline storage tanks (USTs) with regard to (i) maintenance of leak detection, corrosion protection and overflow/spill protection systems; (ii) upgrade of existing tanks; (iii) actions required in the event of a detected leak; (iv) prevention of leakage through tank closings; and (v) required gasoline inventory recordkeeping. Since 1984, new Company stores have been equipped with non-corroding fiberglass USTs, including many with double-wall construction, over-fill protection and electronic tank monitoring. The Company currently has 3,197 USTs, of which 2,683 are fiberglass and 514 are steel. Management believes that its existing gasoline procedures and planned capital expenditures will continue to keep the Company in substantial compliance with all current federal and state UST regulations.

Several of the states in which the Company does business have trust fund programs with provisions for sharing or reimbursing corrective action or remediation costs incurred by UST owners,

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including the Company. The extent of available coverage or reimbursement under such programs for costs incurred by the Company is not fully known at this time. In each of the years ended April 30, 2008 and 2007, the Company spent approximately \$1,133 and \$1,431, respectively, for assessments and remediation. During the nine months ended January 31, 2009, the Company expended approximately \$852 for such purposes. Substantially all of these expenditures have been submitted for reimbursement from state-sponsored trust fund programs and as of January 31, 2009, approximately \$11,805 has been received from such programs since their inception. Such amounts are typically subject to statutory provisions requiring repayment of the reimbursed funds for non-compliance with upgrade provisions or other applicable laws. No amounts are currently expected to be repaid. The Company has an accrued liability at January 31, 2009 of approximately \$237 for estimated expenses related to anticipated corrective actions or remediation efforts, including relevant legal and consulting costs. Management believes the Company has no material joint and several environmental liability with other parties.

Although the Company regularly accrues expenses for the estimated costs related to its future corrective action or remediation efforts, there can be no assurance that such accrued amounts will be sufficient to pay such costs, or that the Company has identified all environmental liabilities at all of its current store locations. In addition, there can be no assurance that the Company will not incur substantial expenditures in the future for remediation of contamination or related claims that have not been discovered or asserted with respect to existing store locations or locations that the Company may acquire in the future, or that the Company will not be subject to any claims for reimbursement of funds disbursed to the Company under the various state programs or that additional regulations, or amendments to existing regulations, will not require additional expenditures beyond those presently anticipated.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

As of the end of the period covered by this report, the Company was not a party to any derivative financial instruments. In addition, management believes that the Company is not materially at risk for changes in interest rates relating to its investment portfolio and long-term debt obligations. The Company places its investments with high quality credit issuers and, by policy, limits the amount of credit exposure to any one issuer. As stated in its policy, the Company's first priority is to reduce the risk of principal loss. Consequently, the Company seeks to preserve its invested funds by limiting default risk, market risk and reinvestment risk. The Company mitigates default risk by investing in only high quality credit securities that it believes to be low risk and by positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only money market funds and marketable securities with active secondary or resale markets to ensure portfolio liquidity.

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**Item 4. Controls and Procedures.**

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 240.13a-15(e)). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The information required by this Item is set forth in Note 6 to the consolidated condensed financial statements included in Part I, Item 1 of this Form 10-Q and is incorporated herein by this reference.

**Item 1A. Risk Factors.**

We are adding the following risk factor to those disclosed in our 2008 Annual Report on Form 10-K and in our Form 10-Q for the fiscal quarter ended October 31, 2008:

We face certain litigation risks that could be harmful to our consolidated financial position and results of operation. There are several lawsuits pending against us asserting various employment-related and other claims. These lawsuits are discussed in footnote 6 to our unaudited consolidated condensed financial statements, beginning on page 11. The results of complex legal proceedings are difficult to predict. Moreover, the complaints filed against us do not specify the amount of damages the Plaintiffs seek, and we therefore are unable to estimate the possible range of damages that might be incurred, should these lawsuits be resolved against us. However, the types of claims asserted in these lawsuits, if resolved against us, could give rise to substantial damages. Our defense costs and any resulting damage awards or settlement amounts may not be fully covered by our insurance policies. Thus, an unfavorable outcome or settlement of one or more of these lawsuits could have a material adverse effect on our financial position, liquidity and results of operations in a particular period or periods.

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**Item 6. Exhibits.**

(a) The following exhibits are filed with this Report or, if so indicated, incorporated by reference:

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 4.2                | Rights Agreement between Casey's General Stores, Inc. and United Missouri Bank of Kansas City, N.A., as Rights Agent <i>(incorporated by reference from the Registration Statement on Form 8-A (0-12788) filed June 19, 1989 relating to Common Share Purchase Rights)</i> , and amendments thereto <i>(incorporated by reference from the Form 8 (Amendment No. 1 to the Registration Statement on Form 8-A filed June 19, 1989) filed September 10, 1990; the Form 8-A/A (Amendment No. 3 to the Registration Statement on Form 8-A filed June 19, 1989) filed March 30, 1994; the Form 8-A12G/A (Amendment No. 2 to the Registration Statement on Form 8-A filed June 19, 1989) filed July 29, 1994; the Current Report on Form 8-K filed May 10, 1999; and the Current Report on Form 8-K filed September 27, 1999.)</i> |
| 4.4                | Note Agreement dated as of December 1, 1995 between Casey's General Stores, Inc. and Principal Mutual Life Insurance Company <i>(incorporated by reference from the Current Report on Form 8-K filed January 11, 1996)</i> .   |
| 4.6                | Note Agreement dated as of April 15, 1999 among the Company and Principal Life Insurance Company and other purchasers of the 6.18% to 7.23% Senior Notes, Series A through Series F <i>(incorporated by reference from the Current Report on Form 8-K filed May 10, 1999)</i> .  |
| 4.7                | Note Purchase Agreement dated as of May 1, 2000 among the Company and the purchasers of the 7.89% Senior Notes, Series 2000-A <i>(incorporated by reference from the Current Report on Form 8-K filed May 23, 2000)</i> .  |
| 4.8                | Note Purchase Agreement dated as of September 29, 2006 among the Company and the purchasers of the 5.72% Senior Notes, Series A and Series B <i>(incorporated by reference from the Current Report on Form 8-K filed September 29, 2006)</i> .   |
| 21                 | Subsidiaries of Casey's General Stores, Inc.   |
| 31.1               | Certification of Robert J. Myers under Section 302 of the Sarbanes Oxley Act of 2002   |
| 31.2               | Certification of William J. Walljasper under Section 302 of the Sarbanes Oxley Act of 2002   |
| 32.1               | Certificate of Robert J. Myers under Section 906 of Sarbanes-Oxley Act of 2002   |
| 32.2               | Certificate of William J. Walljasper under Section 906 of Sarbanes-Oxley Act of 2002   |

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**SIGNATURE**

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

**CASEY S GENERAL STORES, INC.**

Date: March 11, 2009

By: /s/ William J. Walljasper  
William J. Walljasper  
Senior Vice President and Chief Financial Officer  
*(Authorized Officer and Principal  
Financial and Accounting Officer)*



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