

CASEYS GENERAL STORES INC
Form 10-Q
March 11, 2019

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, 2019
Commission File Number 001-34700

CASEY'S GENERAL STORES, INC.
(Exact name of registrant as specified in its charter)

IOWA 42-0935283
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

ONE SE CONVENIENCE BOULEVARD, 50021
ANKENY, IOWA
(Address of principal executive offices) (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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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Indicated 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 February 28, 2019 |
|--------------------------------------|----------------------------------|
| Common stock, no par value per share | 36,630,667 shares |

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

CASEY'S GENERAL STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(DOLLARS IN THOUSANDS)

| | January 31, April 30, | |
|--|-----------------------|-----------|
| | 2019 | 2018 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$34,169 | 53,679 |
| Receivables | 40,899 | 45,045 |
| Inventories | 250,897 | 241,668 |
| Prepaid expenses | 9,752 | 5,766 |
| Income tax receivable | 15,555 | 50,682 |
| Total current assets | 351,272 | 396,840 |
| Other assets, net of amortization | 46,519 | 29,909 |
| Goodwill | 144,948 | 140,258 |
| Property and equipment, net of accumulated depreciation of \$1,771,005 at January 31, 2019 and \$1,611,177 at April 30, 2018 | 3,040,860 | 2,902,920 |
| Total assets | \$3,583,599 | 3,469,927 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable to bank | \$50,000 | 39,600 |
| Current maturities of long-term debt | 16,637 | 15,374 |
| Accounts payable | 242,399 | 321,419 |
| Accrued expenses | 154,665 | 131,457 |
| Total current liabilities | 463,701 | 507,850 |
| Long-term debt, net of current maturities | 1,288,952 | 1,291,725 |
| Deferred income taxes | 379,376 | 341,946 |
| Deferred compensation | 15,571 | 15,928 |
| Insurance accruals, net of current portion | 21,395 | 19,748 |
| Other long-term liabilities | 23,736 | 21,589 |
| Total liabilities | 2,192,731 | 2,198,786 |
| Shareholders' equity: | | |
| Preferred stock, no par value | — | — |
| Common stock, no par value | 12,279 | — |
| Retained earnings | 1,378,589 | 1,271,141 |
| Total shareholders' equity | 1,390,868 | 1,271,141 |
| Total liabilities and shareholders' equity | \$3,583,599 | 3,469,927 |

See notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | January 31, | | January 31, | |
| | 2019 | 2018 | 2019 | 2018 |
| Total revenue (a) | \$2,048,076 | \$2,054,603 | \$7,174,513 | \$6,302,087 |
| Cost of goods sold (exclusive of depreciation and amortization, shown separately below) (a) | 1,577,811 | 1,634,679 | 5,672,159 | 4,937,809 |
| Operating expenses | 341,536 | 323,041 | 1,045,114 | 967,237 |
| Depreciation and amortization | 61,324 | 57,042 | 181,520 | 163,568 |
| Interest, net | 13,310 | 13,470 | 41,907 | 37,821 |
| Income before income taxes | 54,095 | 26,371 | 233,813 | 195,652 |
| Federal and state income taxes | 12,260 | (166,594) | 55,139 | (102,989) |
| Net income | \$41,835 | \$192,965 | \$178,674 | \$298,641 |
| Net income per common share | | | | |
| Basic | \$1.14 | \$5.13 | \$4.87 | \$7.87 |
| Diluted | \$1.13 | \$5.08 | \$4.83 | \$7.80 |
| Basic weighted average shares outstanding | 36,717,415 | 37,579,497 | 36,694,308 | 37,932,071 |
| Plus effect of stock compensation | 296,411 | 372,643 | 291,783 | 369,842 |
| Diluted weighted average shares outstanding | 37,013,826 | 37,952,140 | 36,986,091 | 38,301,913 |
| Dividends declared per share | \$0.29 | \$0.26 | \$0.87 | \$0.78 |
| (a) Includes excise taxes of: | \$238,306 | \$231,422 | \$751,389 | \$709,050 |

See notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands, except per share and share amounts) (unaudited)

| | Shares Outstanding | Common stock | Retained earnings | Shareholders' Equity |
|---|-----------------------|-----------------|----------------------|-------------------------|
| Balance at April 30, 2018 | 36,874,322 | \$— | \$1,271,141 | \$1,271,141 |
| Implementation of ASU 2014-09 | — | — | (4,140) | \$(4,140) |
| Net income | — | — | 178,674 | \$178,674 |
| Dividends declared (87 cents per share) | — | — | (31,839) | \$(31,839) |
| Exercise of stock options | 37,692 | 1,168 | — | \$1,168 |
| Repurchase of common stock | (352,592) | — | (35,247) | \$(35,247) |
| Stock based compensation | 71,245 | 11,111 | — | \$11,111 |
| Balance at January 31, 2019 | 36,630,667 | \$12,279 | \$1,378,589 | \$1,390,868 |

See notes to unaudited condensed consolidated financial statements.

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CASEY'S GENERAL STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(DOLLARS IN THOUSANDS)

| | Nine months ended January 31, | |
|---|----------------------------------|-----------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income | \$ 178,674 | 298,641 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 181,520 | 163,568 |
| Stock-based compensation | 11,111 | 16,378 |
| Loss on disposal of assets and impairment charges | 1,159 | 2,010 |
| Deferred income taxes | 38,925 | (115,552) |
| Changes in assets and liabilities: | | |
| Receivables | 4,146 | 1,737 |
| Inventories | (8,252) | (52,870) |
| Prepaid expenses | (3,986) | 1,982 |
| Accounts payable | (66,946) | (13,341) |
| Accrued expenses | 22,772 | 15,700 |
| Income taxes | 36,685 | (11,867) |
| Other, net | (18,052) | (10,410) |
| Net cash provided by operating activities | 377,756 | 295,976 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (311,165) | (426,398) |
| Payments for acquisition of businesses, net of cash acquired | (21,021) | (26,192) |
| Proceeds from sales of property and equipment | 4,159 | 3,857 |
| Net cash used in investing activities | (328,027) | (448,733) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | — | 400,000 |
| Repayments of long-term debt | (7,839) | (8,097) |
| Net borrowings (repayments) of short-term debt | 10,400 | (900) |
| Proceeds from exercise of stock options | 1,168 | 801 |
| Payments of cash dividends | (30,808) | (29,023) |
| Repurchase of common stock | (37,479) | (144,104) |
| Tax withholdings on employee share-based awards | (4,681) | (3,926) |
| Net cash (used in) provided by financing activities | (69,239) | 214,751 |
| Net (decrease) increase in cash and cash equivalents | (19,510) | 61,994 |
| Cash and cash equivalents at beginning of the period | 53,679 | 76,717 |
| Cash and cash equivalents at end of the period | \$34,169 | 138,711 |

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

(Unaudited)

(Continued)

(DOLLARS IN THOUSANDS)

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

| | Nine months ended January 31, | |
|---|-------------------------------------|--------|
| | 2019 | 2018 |
| Cash paid (received) during the period for: | | |
| Interest, net of amount capitalized | \$33,354 | 28,281 |
| Income taxes, net | (21,977) | 24,274 |

Noncash investing and financing activities:

| | | |
|--|-------|--------|
| Purchased property and equipment in accounts payable | 2,172 | 13,700 |
| Shares repurchased in accounts payable | — | 575 |

See notes to unaudited condensed consolidated financial statements.

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CASEY'S GENERAL STORES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

(Dollars in Thousands, Except Share and Per Share Amounts)

1. Presentation of Financial Statements

The accompanying condensed consolidated financial statements include the accounts and transactions of Casey's General Stores, Inc. (hereinafter referred to as the Company or Casey's) and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

2. Basis of Presentation

The accompanying condensed consolidated 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 U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (including normal recurring accruals) necessary to present fairly the financial position as of January 31, 2019 and April 30, 2018, the results of operations for the three and nine months ended January 31, 2019 and 2018, shareholders' equity for the nine months ended January 31, 2019, and cash flows for the nine months ended January 31, 2019 and 2018. Although management believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto. See the Form 10-K for the year ended April 30, 2018 for our consideration of new accounting pronouncements.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). We adopted the standard on May 1, 2018 using the modified retrospective approach. The Company adopted two changes that affect the timing of recognition of revenues related to gift card breakage income and the redemption of coupon box tops attached to our pizza boxes. The impact related to gift cards was \$879, net of \$321 of deferred taxes and was an increase to shareholders' equity with a reduction in deferred income. The impact related to box tops was \$5,019 net of \$1,816 of deferred taxes and was a reduction in shareholders' equity, with an increase in deferred income.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-02.

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other than Inventory. We adopted the standard in the quarter ended July 31, 2018. There was no material impact to the Company for the adoption of this standard.

In January 2017, the FASB issued ASU 2017-01, Business Combinations, Clarifying the Definition of a Business. The standard clarifies the definition of a business and adds guidance to assist entities in the determination of whether an acquisition (or disposal) represents assets or a business. The guidance requires the Company to utilize various criteria to evaluate whether or not an acquisition is a business. First, if substantially all of the fair value of the assets acquired is concentrated in a single asset or a group of similar identifiable assets, the acquired assets do not represent a business. If that is not the case, the update provides further guidance to evaluate if the acquisition represents a business focused on the nature and substance of the inputs and process acquired. The standard is generally expected to reduce the number of business combinations, which may impact the allocation of purchase consideration in future acquisitions. Where it is determined that an acquisition is not a business combination, there would be no resulting goodwill recorded. The Company prospectively adopted this guidance for all future acquisitions in the first quarter of

fiscal 2019.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This standard provides guidance on accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The amendments in the update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use

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software and hosting arrangements that include an internal-use software license. The guidance is effective for the Company beginning in the first quarter of fiscal 2021 with early adoption permitted. The amendments in the update can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company adopted this guidance retrospectively, in the first quarter of fiscal 2019. The adoption did not have a material impact on our consolidated financial statements.

3. Revenue and Cost of Goods Sold

The Company recognizes retail sales of fuel, grocery and other merchandise, prepared food and fountain and other revenue at the time of the sale to the customer. The Company adopted ASU 2014-09 in the quarter ended July 31, 2018. As a result, revenue from sales of pizza that include a redeemable box top coupon are deferred until redemption for the portion of the sale that represents the estimated future redemption of the box top coupon. Gift card revenue is now recognized based on the estimated gift card breakage rate over the pro-rata usage of the card.

Renewable Identification Numbers (RINs) are treated as a reduction in cost of goods sold in the period the Company commits to a price and agrees to sell the RIN. Vendor rebates are treated as a reduction in cost of goods sold and are recognized pro rata over the period covered by the applicable rebate agreement. Vendor rebates in the form of billbacks are treated as a reduction in cost of goods sold and are recognized at the time the product is sold.

Warehousing costs are recorded within operating expenses on the income statement. Sales taxes collected from customers and remitted to the government are recorded on a net basis in the consolidated financial statements.

4. Long-Term Debt and Fair Value Disclosure

The fair value of the Company's long-term debt is estimated based on the current rates offered to the Company for debt of the same or similar issues. The fair value of the Company's long-term debt was approximately \$1,278,000 and \$1,277,000 at January 31, 2019 and April 30, 2018, respectively.

In January 2019, the Company entered into a new credit agreement that provides for a \$300 million unsecured revolving credit facility which includes a \$30 million sublimit for letters of credit and a \$30 million sublimit for swingline loans (the "Credit Facility"). The maturity date is January 11, 2024. Amounts borrowed under the Credit Facility bear interest at variable rates based upon, at the Company's option, either (a) LIBOR plus an applicable margin or (b) an alternate base rate. The Credit Facility also carries a facility fee between 0.2% and 0.4% per annum based on the Company's consolidated leverage ratio as defined in the credit agreement. The Company has \$50 million outstanding under the new Credit Facility at January 31, 2019. Concurrently with this new credit agreement, the Company also reduced its existing unsecured revolving line of credit from \$150,000 to \$25,000 (the "Bank Line"), under which there was \$0 outstanding at January 31, 2019 and \$39,600 outstanding at April 30, 2018.

5. Disclosure of Compensation Related Costs, Share Based Payments

The 2018 Stock Incentive Plan (the "2018 Plan"), was approved by the Board in June 2018 and approved by the Company's shareholders on September 5, 2018 ("the "2018 Plan Effective Date"). The 2018 Plan replaced the 2009 Stock Incentive Plan (the "2009 Plan") under which no new awards are allowed to be granted as of the 2018 Plan Effective Date. The 2009 Plan previously replaced and superseded the 2000 Stock Option Plan and the Non-Employees Directors' Stock Option Plan (collectively with the 2009 Plan, the "Prior Plans").

Awards under the 2018 Plan may take the form of stock options, stock appreciation rights, restricted stock, restricted stock units and other equity-based and equity-related awards. Each share issued pursuant to a stock option and each share with respect to which a stock-settled stock appreciation right is exercised (regardless of the number of shares actually delivered) is counted as one share against the maximum limit under the 2018 Plan, and each share issued pursuant to an award of restricted stock or restricted stock units is counted as two shares against the maximum limit. At January 31, 2019, there were 2,984,032 shares available for grant under the 2018 Plan.

We account for stock-based compensation by estimating the fair value of stock options using the Black Scholes model, and value restricted stock unit awards granted under the Plan using the market price of a share of our common stock on the date of grant. For market based awards we use the "Monte Carlo" approach to estimate the value of the awards, which simulates the prices of the Company's and each member of the performance peer groups' common stock

price at the end of the relevant performance period, taking into account volatility and the specifics surrounding each total shareholder return metric under the relevant plan. We recognize these amounts as an operating expense in our consolidated statements of income ratably over the requisite service period using the straight-line method, as adjusted for certain retirement provisions, and updated estimates of performance based awards. All awards have been granted at

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no cost to the grantee and/or non-employee member of the Board. Additional information regarding the 2018 Plan is provided in the Company's 2019 Proxy Statement and Proxy Supplement.

At January 31, 2019, options for 143,681 shares (which expire between 2019 and 2021) were outstanding for the Prior Plans (no stock option awards have been granted under the 2018 Plan). Information concerning the issuance of stock options under the Prior Plans is presented in the following table:

| | Number of option shares | Weighted average option exercise price |
|---------------------------------|----------------------------|--|
| Outstanding at April 30, 2018 | 181,673 | \$ 39.48 |
| Granted | — | — |
| Exercised | 37,692 | 31.05 |
| Forfeited | 300 | 25.26 |
| Outstanding at January 31, 2019 | 143,681 | \$ 41.73 |

At January 31, 2019, all 143,681 outstanding options were vested, and had an aggregate intrinsic value of \$12,493 and a weighted average remaining contractual life of 2.14 years. The aggregate intrinsic value for the total of all options exercised during the nine months ended January 31, 2019, was \$3,661.

Information concerning the unvested restricted stock units under the 2009 Plan and the 2018 Plan is presented in the following table:

| | |
|-------------------------------|-----------|
| Unvested at April 30, 2018 | 338,981 |
| Granted | 172,232 |
| Vested | (104,166) |
| Forfeited | (8,769) |
| Performance Award Adjustments | (7,717) |
| Unvested at January 31, 2019 | 390,561 |

Total employee compensation costs recorded for the nine months ended January 31, 2019 and 2018, respectively, were \$13,719 and \$15,458 for the stock option, restricted stock, and restricted stock unit awards to employees. As of January 31, 2019, there were no unrecognized compensation costs related to the Plan and Prior Plans for stock options and \$10,028 of unrecognized compensation costs related to restricted stock units which are expected to be recognized through fiscal 2022. Certain awards in the 2017 and 2018 long term incentive compensation program grants have performance-based conditions based on the three-year average return on invested capital (ROIC) calculation.

6. Commitments and Contingencies

From time to time we may be involved in legal or administrative proceedings or investigations arising from the conduct of our business operations, including, but not limited to, contractual disputes; employment, personnel, or accessibility 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 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 matters currently pending or threatened, individually or cumulatively, will not have a material adverse effect on our consolidated financial position and results of operations.

7. Unrecognized Tax Benefits & Impact of Tax Reform Act

The total amount of gross unrecognized tax benefits was \$6,421 at April 30, 2018. At January 31, 2019, gross unrecognized tax benefits were \$8,331. If this unrecognized tax benefit were ultimately recognized, \$6,604 is the amount that would impact our effective tax rate. The total amount of accrued interest and penalties for such

unrecognized tax benefits was \$318 at January 31, 2019, and \$191 at April 30, 2018. Net interest and penalties included in income tax expense for the nine months ended January 31, 2019, was a net expense of \$127, with a net expense of \$113 for the same period in 2018.

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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. The IRS is currently examining tax year 2012. The Company has no other ongoing federal or state income tax examinations. At this time, the Company's best estimate of the reasonably possible change in the amount of the gross unrecognized tax benefits is a decrease of \$1,300 during the next twelve months mainly due to the expiration of certain statute of limitations.

The federal statute of limitations remains open for the tax years 2012 and forward. Tax years 2012 and forward are subject to audit by state tax authorities depending on open statute of limitations waivers and the tax code of each state. On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the "Tax Reform Act") was enacted. U.S. GAAP requires that the impact of tax legislation be recognized in the period in which the law was enacted. In December 2017, the SEC issued Staff Accounting Bulletin No. 118, which allowed a company to report provisional numbers related to the Tax Reform Act and adjust those amounts during a measurement period not to exceed one year. The Company recorded the provisional impact of the Tax Reform Act in the fiscal year ended April 30, 2018. During the nine months ended January 31, 2019, the Company did not record any material adjustments to the amounts previously recorded as a result of the Tax Reform Act. The measurement period allowed by SAB No. 118 is now closed.

8. Segment Reporting

As of January 31, 2019, we operated 2,123 stores in 16 states. Our convenience stores offer a broad selection of merchandise, fuel and other products and services designed to appeal to the convenience needs of our customers. We manage the business on the basis of one operating segment. Our stores sell similar products and services, and use similar processes to sell those products and services directly to the general public. We make specific disclosures concerning the three broad merchandise categories of fuel, grocery and other merchandise, and prepared food and fountain because it allows us to more effectively discuss trends and operational programs within our business and industry. Although we can separate revenues and cost of goods sold within these categories (and further sub-categories), the operating expenses associated with operating a store that sells these products are not separable by these three categories.

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

Overview

Casey's and its wholly-owned subsidiaries operate convenience stores under the names "Casey's" and "Casey's General Store" (hereinafter referred to as the "Company", "Casey's Store" or "Stores") in 16 Midwestern states, primarily Iowa, Missouri and Illinois. The Company also operates two stores selling primarily tobacco products, one grocery store, and two liquor stores. As of January 31, 2019, there were a total of 2,123 stores in operation. All convenience stores offer fuel for sale on a self-serve basis and most stores 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 fuel and the products offered in its stores.

Approximately 56% of our stores were opened in areas with populations of fewer than 5,000 persons, while approximately 18% of all stores were opened in communities with populations exceeding 20,000 persons. Two distribution centers are in operation, which supply grocery and general merchandise items to stores. One is adjacent to the Corporate Headquarters facility in Ankeny, Iowa, and the other is located in Terre Haute, Indiana. As of January 31, 2019, the Company owned the land at 2,103 locations and the buildings at 2,107 locations, and leased the land at 20 locations and the buildings at 16 locations.

The Company reported diluted earnings per common share of \$1.13 for the third quarter of fiscal 2019. For the same quarter a year-ago, diluted earnings per common share were \$5.08, of which \$4.60 was related to the adoption of the Tax Reform Act.

The following table represents the roll forward of store growth through the third quarter of fiscal 2019:

| | Store Count |
|---------------------------|-------------|
| Stores at 4/30/18 | 2,073 |
| New Store Construction | 41 |
| Acquisitions | 13 |
| Acquisitions not opened | (1) |
| Prior Acquisitions opened | 5 |
| Closed | (8) |
| Stores at 1/31/19 | 2,123 |

The Company had 17 acquisition stores under agreement to purchase and a new store pipeline of 133 sites, including 48 under construction, as of January 31, 2019.

Same-store sales is a common metric used in the convenience store industry. We define same-store sales as the total sales increase (or decrease) for stores open during the full time of both periods being presented. We exclude from the calculation any acquired stores and any stores that have been replaced with a new store, until such stores have been open during the full time of both periods being presented. Stores that have undergone a major remodel, had adjustments in hours of operation, added pizza delivery, or had other revisions to their operating format remain in the calculation.

The third quarter results reflected a 3.4% decrease in same-store fuel gallons sold, with an average fuel revenue less related cost of goods sold (exclusive of depreciation and amortization) of 22.1 cents per gallon, compared to 18.6 cents per gallon in the same quarter a year ago. Historically, our retail fuel strategy has been to price to the competition, where the timing of retail price changes was driven by local competitive conditions. Over the course of fiscal 2019, the Company, as part of its evolving strategy around fuel price optimization, has been more proactive and balanced in driving changes to market prices to grow profitability, which has contributed to a higher fuel margin and lower same-store fuel gallons sold. In addition, softer demand in the Midwest adversely impacted same-store fuel gallons sold in the quarter. The Company sold 20.6 million renewable fuel credits for \$3.6 million during the quarter, compared to 18.2 million renewable fuel credits in the third quarter of the prior year, which generated \$14.6 million. Same-store sales of grocery and other merchandise increased 3.4% and prepared food and fountain increased 1.5% during the third quarter. Operating expenses increased 5.7% in the quarter primarily due to operating 103 more stores compared to the same period a year ago.

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Three Months Ended January 31, 2019 Compared to
Three Months Ended January 31, 2018
(Dollars and Amounts in Thousands)

| Three months ended 1/31/2019 | Fuel | Grocery & Other Merchandise | Prepared Food & Fountain | Other | Total | | |
|---|----------------|-----------------------------------|--------------------------------|----------|-------------|---|---|
| Revenue | \$1,233,620 | \$543,773 | \$256,144 | \$14,539 | \$2,048,076 | | |
| Revenue less cost of goods sold (excluding depreciation and amortization) | \$122,559 | \$173,512 | \$159,682 | \$14,512 | \$470,265 | | |
| Fuel gallons | 9.9 554,479 | % 31.9 | % 62.3 | % 99.8 | % 23.0 | % | % |
| Three months ended 1/31/2018 | Fuel | Grocery & Other Merchandise | Prepared Food & Fountain | Other | Total | | |
| Revenue | \$1,297,340 | \$502,750 | \$240,618 | \$13,895 | \$2,054,603 | | |
| Revenue less cost of goods sold (excluding depreciation and amortization) | \$100,272 | \$160,150 | \$145,632 | \$13,870 | \$419,924 | | |
| Fuel gallons | 7.7 539,665 | % 31.9 | % 60.5 | % 99.8 | % 20.4 | % | % |

Total revenue for the third quarter of fiscal 2019 decreased by \$6,527 (0.3%) over the comparable period in fiscal 2018. Retail fuel sales decreased by \$63,720 (4.9%) as the average retail price per gallon decreased 7.5% (amounting to a \$96,679 decrease), and the number of gallons sold increased by 14,814 (2.7%). During this same period, retail sales of grocery and other merchandise increased by \$41,023 (8.2%), and prepared food and fountain sales increased by \$15,526 (6.5%), both primarily due to operating 103 more stores than a year ago.

The other revenue category primarily consists of lottery, car wash, and prepaid phone cards, which are presented net of applicable costs. These revenues increased \$644 (4.6%) for the third quarter of fiscal 2019.

Revenue less cost of goods sold (excluding depreciation and amortization) was 23.0% of revenue for the third quarter of fiscal 2019, compared to 20.4% for the comparable period in the prior year. Fuel revenue less related cost of goods sold (exclusive of depreciation and amortization) was 9.9% of fuel revenue during the third quarter of fiscal 2019 compared to 7.7% in the third quarter of the prior year. Revenue per gallon less cost of goods sold per gallon (exclusive of depreciation and amortization) was 22.1 cents in the third quarter of fiscal 2019 compared to 18.6 cents in the prior year. Grocery and other merchandise revenue less related cost of goods sold (exclusive of depreciation and amortization) was 31.9% of grocery and other merchandise revenue, equivalent to the 31.9% rate in the prior year. Prepared food and fountain revenue less related cost of goods sold (exclusive of depreciation and amortization) was 62.3% of revenue compared to 60.5% in the prior year, primarily due to strategic price increases and favorable commodity prices that helped improve margins compared to the same quarter in the prior period.

Operating expenses increased \$18,495 (5.7%) in the third quarter of fiscal 2019 from the comparable period in the prior year, primarily due to operating 103 more stores than a year ago. Same store operating expenses excluding credit card fees were down 2.1% for the quarter, primarily related to the Company's enhancements to its store labor management.

Depreciation and amortization expense increased 7.5% to \$61,324 in the third quarter of fiscal 2019 from \$57,042 for the comparable period in the prior year. The increase was due primarily to capital expenditures during the previous twelve months.

The effective tax rate increased to 22.7% in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. The increase in the effective tax rate was primarily due to the one-time benefit of the adoption of the 2017 Tax Cuts and Jobs Act ("Tax Reform Act") in the prior year.

Net income decreased by \$151,130 (78.3%) to \$41,835 from \$192,965 in the prior year. The decrease in net income was primarily attributable to the benefits upon adoption of the Tax Reform Act in the prior year, offset by gross profit dollar growth across all categories, and slower growth in overall operating expenses mainly due to labor hour reductions at stores.

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Nine Months Ended

January 31, 2019 Compared to

Nine Months Ended

January 31, 2018

(Dollars and Amounts in Thousands)

| | Fuel | Grocery & Other Merchandise | Prepared Food & Fountain | Other | Total | |
|--|-------------|-----------------------------------|--------------------------------|----------|-------------|---|
| Nine months ended 1/31/2019 | | | | | | |
| Revenue | \$4,502,904 | \$1,806,822 | \$820,208 | \$44,579 | \$7,174,513 | |
| Revenue less cost of goods sold (exclusive of depreciation and amortization) | \$364,691 | \$582,629 | \$510,540 | \$44,494 | \$1,502,354 | |
| | 8.1 | % 32.2 | % 62.2 | % 99.8 | % 20.9 | % |
| Fuel gallons | 1,750,024 | | | | | |
| Nine months ended 1/31/2018 | | | | | | |
| Revenue | \$3,824,571 | \$1,672,315 | \$764,456 | \$40,745 | \$6,302,087 | |
| Revenue less cost of goods sold (exclusive of depreciation and amortization) | \$320,170 | \$533,647 | \$469,787 | \$40,674 | \$1,364,278 | |
| | 8.4 | % 31.9 | % 61.5 | % 99.8 | % 21.6 | % |
| Fuel gallons | 1,666,404 | | | | | |

Total revenue for the first nine months of fiscal 2019 increased by \$872,426 (13.8%) over the comparable period in fiscal 2018. Retail fuel sales increased by \$678,333 (17.7%) as the average retail price per gallon increased 12.1% (amounting to a \$463,174 increase) while the number of gallons sold increased by 83,620 (5.0%). During this same period, retail sales of grocery and other merchandise increased by \$134,507 (8.0%), and prepared food and fountain sales increased by \$55,752 (7.3%), both primarily due to operating 103 more stores than a year ago.

The other revenue category primarily consists of lottery, car wash, and prepaid phone cards, which are presented net of applicable costs. These revenues increased \$3,834 (9.4%) through the third quarter of fiscal 2019, primarily driven by multiple significant lottery awards in the current year.

Revenue less cost of goods sold (excluding depreciation and amortization) was 20.9% for the first nine months of fiscal 2019, compared to 21.6% for the comparable period in the prior year. Fuel revenue less related cost of goods sold (exclusive of depreciation and amortization) was 8.1% during the first nine months of fiscal 2019 compared to 8.4% in the first nine months of the prior year. Revenue per gallon less cost of goods sold per gallon (exclusive of depreciation and amortization) was 20.8 cents per gallon in the first nine months of fiscal 2019 compared to 19.2 cents per gallon in the first nine months of the prior year. Grocery and other merchandise revenue less related cost of goods sold (exclusive of depreciation and amortization) increased to 32.2% from 31.9% in the comparable period in the prior year, due in part to a product mix shift to higher margin products in the current year. Prepared food and fountain revenue less related cost of goods sold (exclusive of depreciation and amortization) was 62.2%, compared to 61.5% in the prior year, primarily due to strategic price increases that helped improve margins compared to the same period a year ago.

Operating expenses increased \$77,877 (8.1%) in the first nine months of fiscal 2019 from the comparable period in the prior year primarily due to operating 103 more stores than a year ago. Same store operating expenses excluding credit card fees were down 0.1% for the period, primarily related to the Company's enhancements to its store labor management.

Depreciation and amortization expense increased 11.0% to \$181,520 in the first nine months of fiscal 2019 from \$163,568 for the comparable period in the prior year. The increase was due primarily to capital expenditures made during the previous twelve months.

The effective tax rate increased to 23.6% in the first nine months of fiscal year 2019 compared to the comparable period of fiscal year 2018. The increase in the effective tax rate was primarily due to the one-time benefit of the adoption of the Tax Reform Act in the prior year.

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Net income decreased by \$119,967 (40.2%) to \$178,674 from \$298,641 in the prior year. The decrease in net income was primarily attributable to the benefits upon adoption of the Tax Reform Act in the prior year, offset by gross profit dollar growth across all categories, and slower growth in overall operating expenses mainly due to labor hour reductions at stores.

Use of Non-GAAP Measures

We define EBITDA as net income before net interest expense, income taxes, depreciation and amortization. Adjusted EBITDA further adjusts EBITDA by excluding the gain or loss on disposal of assets as well as impairment charges. Neither EBITDA nor Adjusted EBITDA are considered GAAP measures, and should not be considered as a substitute for net income, cash flows from operating activities or other income or cash flow statement data. These measures have limitations as analytical tools, and should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP. We strongly encourage investors to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

We believe EBITDA and Adjusted EBITDA are useful to investors in evaluating our operating performance because securities analysts and other interested parties use such calculations as a measure of financial performance and debt service capabilities, and they are regularly used by management for internal purposes including our capital budgeting process, evaluating acquisition targets, and assessing performance.

Because non-GAAP financial measures are not standardized, EBITDA and Adjusted EBITDA, as defined by us, may not be comparable to similarly titled measures reported by other companies. It therefore may not be possible to compare our use of these non-GAAP financial measures with those used by other companies.

The following table contains a reconciliation of net income to EBITDA and Adjusted EBITDA for the three and nine months ended January 31, 2019 and 2018:

| | Three months ended | | Nine months ended | |
|---|--------------------|-------------|-------------------|-------------|
| | January 31, | January 31, | January 31, | January 31, |
| | 2019 | 2018 | 2019 | 2018 |
| Net income | \$41,835 | 192,965 | \$178,674 | 298,641 |
| Interest, net | 13,310 | 13,470 | 41,907 | 37,821 |
| Federal and state income taxes | 12,260 | (166,594) | 55,139 | (102,989) |
| Depreciation and amortization | 61,324 | 57,042 | 181,520 | 163,568 |
| EBITDA | \$128,729 | 96,883 | \$457,240 | 397,041 |
| Loss on disposal of assets and impairment charges | 29 | 919 | 1,159 | 2,010 |
| Adjusted EBITDA | \$128,758 | 97,802 | \$458,399 | 399,051 |

For the three months ended January 31, 2019, EBITDA and adjusted EBITDA increased 32.9% and 31.7%, respectively, when compared to the same period a year ago. The result is primarily due to lower operating expense growth, stronger fuel margins, improved inside margins, and operating 103 more stores than a year ago. For the nine months ended January 31, 2019, EBITDA and adjusted EBITDA increased 15.2% and 14.9%, respectively, when compared to the same period a year ago. That is primarily due to improved fuel margins, lower operating expense growth, improved inside margins, and operating 103 more stores than a year ago.

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. The Company's critical accounting policies are described in the Form 10-K for the year ended April 30, 2018, and such discussion is incorporated herein by reference. There have been no changes to these policies in the nine months ended January 31, 2019, other than those described in note 2 to the financial statements.

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, 2019, the Company's ratio of current assets to current liabilities was 0.76 to 1. The ratio at January 31, 2018 and April 30, 2018 was 1.03 to 1 and 0.78 to 1, respectively. Management believes that the Company's current \$25,000 bank line of credit, its credit facility of \$300,000 initiated in 2019, combined with the current cash and cash equivalents and the future cash flow from operations will be sufficient to satisfy the working capital needs of our business.

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Net cash provided by operations increased \$81,780 (27.6%) in the nine months ended January 31, 2019 from the comparable period in the prior year, due primarily to reductions in income taxes receivable and smaller increases in inventory from prior period. Cash used in investing in the nine months ended January 31, 2019 decreased \$120,706 (26.9%) over prior year, in line with the expected decline in capital expenditures. Cash used in financing increased \$283,990 (132.2%), primarily reflecting proceeds from issuance of long-term debt in the prior year that did not reoccur in the current year, offset by reductions in share buyback activity.

Capital expenditures represent the single largest use of Company funds. Management believes that by acquiring, building, and reinvesting in stores, the Company will be better able to respond to competitive challenges and increase operating efficiencies. During the first nine months of fiscal 2019, the Company expended \$332,186 primarily for property and equipment, resulting from the construction, remodeling, and acquisition of stores, compared to \$452,590 for the comparable period in the prior year. The Company has budgeted \$466 million in fiscal 2019 for construction, acquisition and remodeling of stores, sourced primarily from existing cash, funds generated by operations, and the prior year issuance of senior notes.

As of January 31, 2019, the Company had long-term debt (net of related debt issuance costs) of \$1,288,952, (net of current maturities of \$16,637), consisting of \$569,000 in principal amount of 5.22% Senior Notes, \$150,000 in principal amount of 3.67% Senior Notes, Series A, \$50,000 in principal amount of 3.75% Senior Notes Series B, \$7,500 in principal amount of 5.72% Senior Notes, Series A and B, \$50,000 in principal amount of 3.65% Senior Notes Series C, \$50,000 in principal amount of 3.72% Senior Notes Series D, \$150,000 in principal amount of 3.51% Senior Notes Series E, \$250,000 in principal amount of 3.77% Senior Notes Series F, and \$13,688 of capital lease obligations. The Company also has a \$25,000 bank line of credit with \$0 outstanding at January 31, 2019, and a \$300,000 credit facility with \$50,000 outstanding at January 31, 2019.

To date, the Company has funded capital expenditures primarily from the proceeds of the sale of Common Stock, issuance of debt, existing cash, and funds generated from operations. Future capital needs required to finance operations, improvements and the anticipated growth in the number of stores are expected to be met from cash generated by operations, the Bank Line and the Credit Facility, and additional long-term debt or other securities as circumstances may dictate, and are not expected to adversely affect liquidity.

Cautionary Statements (Dollars in Thousands)

This Form 10-Q, including 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 words "believe," "expect," "anticipate," "intend," "estimate," "project" and similar expressions are used to identify forward-looking statements. 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, 2018:

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 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 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-fuel items (particularly prepared food items) have contributed substantially to the Company's gross profits from retail sales in recent years. Fuel sales are also intensely competitive. The Company competes with both independent and national brand gasoline stations in the sale of fuel, other convenience store chains and several non-traditional fuel retailers such as supermarkets in specific markets. Some of these other fuel retailers may have access to more favorable arrangements for fuel supply

then 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.

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

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marketers. 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 fuel 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 fuel gallon volume, fuel gross profit, and overall customer traffic levels at stores. Any substantial decrease in profit margins on fuel sales or in the number of gallons sold by stores could have a material adverse effect on the Company's earnings.

Fuel is purchased from a variety of independent national and regional petroleum distributors at current daily prices at the rack in which the fuel is loaded onto tanker trucks. While annual purchase agreements exist with a few distributors, those agreements primarily specify purchasing volumes that must be maintained to be eligible for certain discounts. Although in recent years suppliers have not experienced difficulties in obtaining sufficient amounts of fuel to meet the Company's needs, unanticipated national and international events, such as threatened or actual acts of war or terrorism, natural disasters, and instability in oil producing regions could result in a reduction of fuel supplies available for distribution. Any substantial curtailment in the availability of fuel could adversely affect the Company by reducing its fuel sales. Further, management believes that a significant amount of the Company's business results from the patronage of customers primarily desiring to purchase fuel and, accordingly, reduced fuel supplies could adversely affect the sale of non-fuel items. Such factors could have a material adverse impact upon the Company's earnings and operations.

Tobacco Products. Sales of tobacco products, including vapor products and e-cigarettes, represent a significant portion of the Company's grocery and other merchandise category. Significant increases in wholesale cigarette costs and tax increases on tobacco products, as well as national and local campaigns to further regulate and discourage smoking and the use of other tobacco products in the United States, have had, and are expected to continue having, an adverse effect on the demand for cigarettes and other tobacco products sold in our stores. Also, increasing regulations related to, and restricting the sale of, vapor products and e-cigarettes, may offset some of the recent gains we have experienced from selling these types of products. The Company attempts to pass price increases through to its customers, but competitive pressures in specific markets may prevent it from doing so. These factors could materially impact the product mix of tobacco products, the retail price and margins of cigarettes and other tobacco products, the volume of cigarettes and other tobacco products sold by stores and overall customer traffic, any of which may have a material adverse impact on the grocery and other merchandise category and the Company's earnings and profits.

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 overfill/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 4,819 USTs, of which 3,934 are fiberglass and 885 are steel. Management believes that its existing fuel 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, including the Company. In the years ended April 30, 2018 and 2017, the Company spent approximately \$1,255 and \$1,323, respectively, for assessments and remediation. During the nine months ended January 31, 2019, the Company expended approximately \$684 for such purposes. Substantially all of these expenditures have been submitted for reimbursement from state-sponsored trust fund programs and as of January 31, 2019, approximately \$22,833 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, 2019 of approximately \$381 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

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various state programs or that additional regulations, or amendments to existing regulations, will not require additional expenditures beyond those presently anticipated.

Other Factors. Other factors and risks that may cause actual results to differ materially from those in the forward-looking statements include the risk that our cash balances and cash generated from operations and financing activities will not be sufficient for our future liquidity and capital resource needs, tax increases, potential liabilities and expenditures related to compliance with environmental and other laws and regulations, the seasonality of demand patterns, and weather conditions; the increased indebtedness that the Company has incurred to purchase shares of our common stock in our self-tender offer; and the other risks and uncertainties included from time to time in our filings with the SEC. We further caution you that other factors we have not identified may in the future prove to be important in affecting our business and results of operations. We ask you not to place undue reliance on any forward-looking statements because they speak only of our views as of the statement dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company's exposure to market risk for changes in interest rates relates primarily to our investment portfolio and long-term debt obligations. We place our investments with high-quality credit issuers and, by policy, limit the amount of credit exposure to any one issuer. Our first priority is to attempt to reduce the risk of principal loss. Consequently, we seek to preserve our invested funds by limiting default risk, market risk, and reinvestment risk. We attempt to mitigate default risk by investing in only high-quality credit securities that we believe to be low risk and by positioning our portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. We believe an immediate 100-basis-point move in interest rates affecting our floating and fixed rate financial instruments as of January 31, 2019 would have no material effect on pretax earnings.

We do from time to time, participate in a forward buy of certain commodities, primarily cheese and coffee. These contracts are not accounted for as derivatives as they meet the normal purchases exclusion under derivative accounting.

Item 4. Controls and Procedures.

Evaluation of Disclosure 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 Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC'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 disclosures.

Changes in Internal Controls Over Financial Reporting

In November 2018, the Company completed implementation of the first phase of a new enterprise resource planning (ERP) system, which is designed to replace or enhance certain internal financial and operating systems. In connection with the ERP implementation, we updated the processes and controls that constitute our internal control over financial reporting, as necessary, to accommodate related changes to our accounting procedures and business processes. There have been no other changes in the Company's internal control over financial reporting during the quarter ended January 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

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Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Except for the update set forth below, there have been no material changes in our “risk factors” from those previously disclosed in our 2018 Annual Report on Form 10-K.

We may experience increased costs, disruptions or other difficulties with the implementation, operation and functionality of our new enterprise resource planning system.

We are engaged in a phased implementation of a new enterprise resource planning (ERP) system, which will replace or enhance certain internal financial and operating systems that are critical to our business operations. The first phase of implementation was completed in November 2018. The implementation, operation, and proper functionality of the ERP system has and will continue to require a significant investment of human, technological, and financial resources.

While we have invested, and continue to invest, significant resources in planning, project management, consulting, and training, it is possible that significant implementation, operational, and functionality issues may arise during the course of implementing and utilizing the ERP system, and it is further possible that we may experience significant delays, increased costs, and other difficulties that are not presently contemplated. Any significant disruptions, delays, deficiencies, or errors in the design, implementation, and utilization of the ERP system could adversely affect our operations, prevent us from accurately and timely reporting our financial results, and negatively impact our business, results of operations and financial condition. Additionally, if we do not effectively implement and utilize the ERP system as planned or the system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess it adequately could be delayed.

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

The following table sets forth information with respect to the Company's repurchases of common stock during the quarter ended January 31, 2019:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|-------------------------------|---|---------------------------------------|--|--|
| Third Quarter: | | | | |
| November 1- November 30, 2018 | — | \$ | — | 300,000,000 |
| December 1-December 31, 2018 | — | \$ | — | 300,000,000 |
| January 1 - January 31, 2019 | — | \$ | — | 300,000,000 |
| Total | — | \$ | — | 300,000,000 |

On March 7, 2018, the Company announced a share repurchase program, wherein the Company is authorized to repurchase up to an aggregate of \$300 million of the Company's outstanding common stock. The authorization is valid for two years. The timing and number of repurchase transactions under the program depends on a variety of factors including, but not limited to, market conditions, corporate considerations, business opportunities, debt agreements, and regulatory requirements. The program can be suspended or discontinued at any time. No stock was repurchased in the quarter related to that authorization.

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Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 3.1 | <u>Second Restatement of the Restated and Amended Articles of Incorporation, as amended September 5, 2018 (incorporated by reference to Exhibit 3.1 to Form 10-Q as filed September 10, 2018)</u> |
| 3.2a | <u>Fourth Amended and Restated Bylaws, as amended September 5, 2018 (incorporated by reference to Exhibit 3.2a to Form 10-Q as filed September 10, 2018)</u> |
| 10.28 (d) | <u>Promissory Note delivered to UMB Bank, n.a. and related Negative Pledge, dated January 11, 2019 (incorporated by reference to Exhibit 10.28(d) to Form 8-K as filed January 17, 2019)</u> |
| 10.28 (e) | <u>Credit Agreement dated January 11, 2019, among Casey's General Stores, Inc., as borrower, Royal Bank of Canada, as administrative agent, and the lenders and issuing banks from time to time party thereto (incorporate by reference to Exhibit 10.28(e) to Form 8-K as filed January 17, 2019)</u> |
| 31.1* | <u>Certification of Terry W. Handley under Section 302 of the Sarbanes Oxley Act of 2002</u> |
| 31.2* | <u>Certification of William J. Walljasper under Section 302 of the Sarbanes Oxley Act of 2002</u> |
| 32.1* | <u>Certification of Terry W. Handley under Section 906 of Sarbanes-Oxley Act of 2002</u> |
| 32.2* | <u>Certification of William J. Walljasper under Section 906 of Sarbanes-Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

* Filed herewith

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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, 2019 By: /s/ William J. Walljasper

William J. Walljasper

Senior Vice President and

Its: Chief Financial Officer

(Authorized Officer and Principal

Financial and Accounting Officer)