

CASEYS GENERAL STORES INC  
Form 10-Q  
December 07, 2007  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

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Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Fiscal Quarter Ended October 31, 2007

Commission File Number 0-12788

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## CASEY S GENERAL STORES, INC.

(Exact name of registrant as specified in its charter)

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IOWA  
State or other jurisdiction of  
incorporation or organization)

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

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)

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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

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 December 3, 2007 |
|--------------------------------------|---------------------------------|
| Common Stock, no par value per share | 50,680,962 shares               |

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****CASEY S GENERAL STORES, INC. AND SUBSIDIARIES****CONSOLIDATED CONDENSED BALANCE SHEETS***(Unaudited)**(Dollars in Thousands)*

## ASSETS

|   | <b>October 31,<br/>2007</b> | <b>April 30,<br/>2007</b> |
|---|-----------------------------|---------------------------|
| Current assets:   |                             |                           |
| Cash and cash equivalents   | \$ 145,969                  | 107,067                   |
| Receivables   | 13,884                      | 13,432                    |
| Inventories   | 114,086                     | 109,702                   |
| Prepaid expenses  | 8,859                       | 7,891                     |
| Income taxes receivable   |                             | 2,733                     |
| <b>Total current assets</b>   | <b>282,798</b>              | <b>240,825</b>            |
| Other assets  | 9,109                       | 8,550                     |
| Goodwill  | 47,233                      | 46,588                    |
| Property and equipment, net of accumulated depreciation of \$566,010 at October 31, 2007, and \$538,121 at April 30, 2007 | 844,644                     | 833,308                   |
|   | <b>\$ 1,183,784</b>         | <b>1,129,271</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

|   | October 31,<br>2007 | April 30,<br>2007 |
|---|---------------------|-------------------|
| Current liabilities:                      |                     |                   |
| Current maturities of long-term debt      | \$ 47,226           | 47,566            |
| Accounts payable                          | 134,890             | 134,375           |
| Accrued expenses                          | 59,327              | 52,326            |
| Income taxes payable                      | 4,095               |                   |
| Total current liabilities                 | 245,538             | 234,267           |
| Long-term debt, net of current maturities | 187,071             | 199,504           |
| Deferred income taxes                     | 103,309             | 105,724           |
| Deferred compensation                     | 9,624               | 9,016             |
| Other long-term liabilities               | 13,600              | 8,496             |
| Total liabilities                         | 559,142             | 557,007           |
| Shareholders' equity:                     |                     |                   |
| Preferred stock, no par value             |                     |                   |
| Common Stock, no par value                | 55,706              | 53,547            |
| Retained earnings                         | 568,936             | 518,717           |
| Total shareholders' equity                | 624,642             | 572,264           |
|   | \$ 1,183,784        | 1,129,271         |

*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>Six Months Ended</b> |              |
|---|---------------------------|--------------|-------------------------|--------------|
|   | <b>October 31,</b>        |              | <b>October 31,</b>      |              |
|   | <b>2007</b>               | <b>2006</b>  | <b>2007</b>             | <b>2006</b>  |
| Net sales   | \$ 1,189,178              | \$ 1,005,777 | \$ 2,468,354            | \$ 2,101,371 |
| Franchise revenue   | 160                       | 173          | 325                     | 362          |
|   | 1,189,338                 | 1,005,950    | 2,468,679               | 2,101,733    |
| Cost of goods sold  | 1,010,213                 | 860,599      | 2,101,205               | 1,810,840    |
| Operating expenses  | 115,405                   | 100,437      | 237,119                 | 200,813      |
| Depreciation and amortization   | 17,431                    | 15,465       | 33,627                  | 30,918       |
| Interest, net   | 2,350                     | 2,687        | 4,695                   | 5,082        |
|   | 1,145,399                 | 979,188      | 2,376,646               | 2,047,653    |
| Earnings from continuing operations before income taxes and gain (loss) on discontinued operations      | 43,939                    | 26,762       | 92,033                  | 54,080       |
| Federal and state income taxes  | 16,247                    | 9,601        | 34,390                  | 19,830       |
| Earnings from continuing operations before gain (loss) on discontinued operations                       | 27,692                    | 17,161       | 57,643                  | 34,250       |
| Gain (loss) on discontinued operations, net of taxes (tax benefit) of (\$10), \$7, (\$122), and (\$113) | (16)                      | 11           | (191)                   | (177)        |
| Net earnings  | \$ 27,676                 | \$ 17,172    | \$ 57,452               | \$ 34,073    |

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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 |            | Six Months Ended |            |
|--|--------------------|------------|------------------|------------|
|  | October 31,        |            | October 31,      |            |
|  | 2007               | 2006       | 2007             | 2006       |
| <b>Basic:</b>  |                    |            |                  |            |
| Earnings from continuing operations before loss on discontinued operations | \$ .55             | \$ .34     | \$ 1.13          | \$ .68     |
| Loss on discontinued operations  |                    |            |                  |            |
| Net earnings per common share  | \$ .55             | \$ .34     | \$ 1.13          | \$ .68     |
| <b>Diluted:</b>  |                    |            |                  |            |
| Earnings from continuing operations before loss on discontinued operations | \$ .54             | \$ .34     | \$ 1.13          | \$ .67     |
| Loss on discontinued operations  |                    |            |                  |            |
| Net earnings per common share  | \$ .54             | \$ .34     | \$ 1.13          | \$ .67     |
| Basic weighted average shares outstanding                                  | 50,671,795         | 50,429,362 | 50,650,254       | 50,411,012 |
| Plus effect of stock options   | 222,354            | 253,078    | 211,712          | 250,877    |
| Diluted weighted average shares outstanding                                | 50,894,149         | 50,682,440 | 50,861,966       | 50,661,889 |

*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>Six Months Ended<br/>October 31,</b> |                  |
|---|---|------------------|
|   | <b>2007</b>                             | <b>2006</b>      |
| Cash flows from operations:   |   |                  |
| Net earnings from continuing operations                                   | \$ 57,643                               | 34,250           |
| Adjustments to reconcile net earnings to net cash provided by operations: |   |                  |
| Depreciation and amortization   | 33,627                                  | 30,918           |
| Other amortization  | 232                                     | 479              |
| Stock based compensation  | 559                                     | 374              |
| Loss on sale of property and equipment                                    | 1,459                                   | 853              |
| Deferred income taxes   | (2,415)                                 | 361              |
| Changes in assets and liabilities, net of acquisition:                    |   |                  |
| Receivables   | (452)                                   | 1,036            |
| Inventories   | (4,384)                                 | (1,685)          |
| Prepaid expenses  | (968)                                   | (464)            |
| Accounts payable  | 515                                     | (33,736)         |
| Accrued expenses  | 7,001                                   | 469              |
| Income taxes  | 11,469                                  | (671)            |
| Other, net  | (582)                                   | 103              |
| <b>Net cash provided by operations</b>                                    | <b>103,704</b>                          | <b>32,287</b>    |
| Cash flows from investing:  |   |                  |
| Purchase of property and equipment  | (47,929)                                | (48,827)         |
| Payments for acquisition of business                                      |   | (66,729)         |
| Proceeds from sale of property and equipment                              | 794                                     | 1,345            |
| <b>Net cash used in investing activities</b>                              | <b>(47,135)</b>                         | <b>(114,211)</b> |



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

*(Unaudited)*

*(Dollars in Thousands)*

*(Continued)*

|  | <b>Six Months Ended<br/>October 31,</b> |               |
|--|---|---------------|
|  | <b>2007</b>                             | <b>2006</b>   |
| Cash flows from financing:                                 |   |               |
| Proceeds from long-term debt                               |   | 50,000        |
| Payment of long-term debt                                  | (12,773)                                | (15,598)      |
| Net borrowings of short-term debt                          |   | 7,800         |
| Proceeds from exercise of stock options                    | 1,169                                   | 1,078         |
| Payment of cash dividends                                  | (6,586)                                 | (5,043)       |
| <b>Net cash (used in) provided by financing activities</b> | <b>(18,190)</b>                         | <b>38,237</b> |
| Cash flows from discontinued operations:                   |   |               |
| Operating cash flows                                       | 214                                     | (173)         |
| Investing cash flows                                       | 309                                     | 770           |
| <b>Net cash flows from discontinued operations</b>         | <b>523</b>                              | <b>597</b>    |
| Net increase (decrease) in cash and cash equivalents       | 38,902                                  | (43,090)      |
| Cash and cash equivalents at beginning of the period       | 107,067                                 | 75,369        |
| Cash and cash equivalents at end of the period             | \$ 145,969                              | 32,279        |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION**

|   | <b>Six Months Ended<br/>October 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                             | <b>2006</b> |
| Cash paid during the period for:  |   |             |
| Interest, net of amount capitalized   | \$ 7,988                                | 5,481       |
| Income taxes  | 24,436                                  | 19,256      |
| Noncash investing and financing activities  |   |             |
| Remeasurement of income taxes upon adoption of FIN 48   | (646)                                   |             |
| Property and equipment acquired through installment purchases or business acquisitions                              |   | 8,585       |
| Noncash operating and financing activities:   |   |             |
| Increase in common stock and change in income taxes payable/receivable due to tax benefits related to stock options | 430                                     | 352         |

*See notes to unaudited consolidated condensed financial statements.*

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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 October 31, 2007, and the results of operations for the three and six months ended October 31, 2007 and 2006, and cash flows for the six months ended October 31, 2007 and 2006. Certain reclassifications for video rental commissions were made to balances 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, and video rentals at the time of the sale to the customer. Wholesale sales to franchisees are recognized at the time of delivery to the franchise location. Franchise fees, license fees from franchisees, and rent for franchise signage and facades are recognized monthly when billed to the franchisees. 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. Options for 366,664 shares were available for grant at October 31, 2007, and options for 899,250 shares (which expire between 2008 and 2017) 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 2007 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, 2007, stock options totaling 14,000 shares were granted to the directors. The aggregate number of shares of Common Stock that may be granted pursuant to the Director Stock 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 of<br/>Shares</i> | <i>Weighted Average<br/>Exercise Price</i> |
|--|-----------------------------|--|
| <i>Outstanding at April 30, 2007</i>   | 729,500                     | \$ 16.10                                   |
| <i>Granted</i>   | 260,000                     | 26.77                                      |
| <i>Exercised</i>   | (88,750)                    | 13.17                                      |
| <i>Forfeited</i>   | (1,500)                     | 17.70                                      |
| <i>Outstanding at October 31, 2007</i>   | 899,250                     | \$ 19.47                                   |
| <i>Weighted average fair value of options granted during the six-month period ended<br/>October 31, 2007</i> |                             | \$ 10.17                                   |

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At October 31, 2007, all outstanding options had an aggregate intrinsic value of \$7,731 and a weighted average remaining contractual life of 6.7 years. The vested options totaled 423,250 shares with a weighted average exercise price of \$14.48 per share and a weighted average remaining contractual life of 4.5 years. The aggregate intrinsic value for the vested options as of October 31, 2007, was \$5,932. The aggregate intrinsic value for the total of all options exercised during the six months ended October 31, 2007, was \$1,360, and the total fair value of shares vested during the six months ended October 31, 2007, was \$163.

The fair value of the 2007 stock options granted was estimated utilizing the Black Scholes valuation model. The grant date fair values for the May 1, 2007 and the June 25, 2007 options were \$11.65 and \$10.09, respectively. Significant assumptions include:

|                         | May 1, 2007 | June 25, 2007 |
|-------------------------|-------------|---------------|
| Risk-free interest rate | 4.84%       | 4.65%         |
| Expected option life    | 8.94 years  | 6.18 years    |
| Expected volatility     | 37%         | 34%           |
| Expected dividend yield | 1.35%       | 1.15%         |

The option term of each award granted was based upon historical experience of employees and directors exercise behavior. Expected volatility was based upon historical volatility levels and future expected volatility of common stock. 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. Total compensation costs recorded for the six months ended October 31, 2007 and 2006, were \$559 and \$374, respectively, for the stock option awards. As of October 31, 2007, there was \$2,984 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.

5. 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 related writedowns of 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 condensed consolidated statements of earnings.

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

|                    | Three Months Ended<br>October 31, |       | Six Months<br>Ended<br>October 31, |        |
|--------------------|-----------------------------------|-------|------------------------------------|--------|
|                    | 2007                              | 2006  | 2007                               | 2006   |
| Total revenue      | \$ 4,491                          | 5,862 | 9,775                              | 13,318 |
| Pretax gain (loss) | (26)                              | 18    | (313)                              | (290)  |

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Included in the loss on discontinued operations is a loss on disposal of \$239 for the six-month period ended October 31, 2007. There were no disposals during the three-month period ended October 31, 2007. Included in the gain (loss) on discontinued operations is a gain on disposal of \$223 for the three-month and six-month periods ending October 31, 2006. Included in property and equipment in the accompanying condensed consolidated balance sheets are \$2,275 and \$2,900 in assets held for sale as of October 31, 2007 and April 30, 2007, respectively.

6. On October 3 and October 4, 2006, the Company acquired the assets comprising the HandiMart convenience store chain that was owned by Nordstrom Oil Company and headquartered in Cedar Rapids, Iowa. The Company did not issue any stock for the transaction, nor acquire any stock of the selling company. The tradename HandiMart is included in the assets purchased. The chain acquired consisted of thirty-two (32) HandiMart convenience stores and one truckstop operated under the name Just Diesel. The convenience stores will continue to operate under the HandiMart name for the present, though all have been converted to the Company's system of operation and Casey's identifying signage has been incorporated into each of them. These stores were acquired to increase our market presence within eastern Iowa.

The results of operations of the HandiMart stores from the dates of acquisition through October 31, 2007 are included in the statement of earnings and statement of cash flows.

The following unaudited pro forma information presents a summary of the Company's consolidated results of operations, including the HandiMart convenience store chain acquired in October of 2006 as if the transaction occurred at the beginning of the fiscal years (amounts in thousands, except per share data):

|  | Three Months Ended<br>October 31, |           | Six Months Ended<br>October 31, |           |
|--|-----------------------------------|-----------|---------------------------------|-----------|
|  | 2007                              | 2006      | 2007                            | 2006      |
| Total revenues   | \$ 1,189,338                      | 1,042,279 | 2,468,679                       | 2,189,089 |
| Earnings from continuing operations before gain or loss on discontinued operations | \$ 27,692                         | 17,438    | 57,643                          | 35,098    |
| Net earnings   | \$ 27,676                         | 17,449    | 57,452                          | 34,921    |
| Earnings per share   |                                   |           |                                 |           |
| Basic  | \$ .55                            | .35       | 1.13                            | 0.69      |
| Diluted  | \$ .54                            | .34       | 1.13                            | 0.69      |

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7. *On September 29, 2006, the Company authorized the issuance of \$100,000 aggregate principal amount of its 5.72% Senior Notes consisting of \$50,000 Series A, due September 30, 2019, and \$50,000 Series B, due March 30, 2020. The Company received the \$50,000 Series A proceeds on September 29, 2006, and received the additional \$50,000 Series B proceeds on March 30, 2007. Interest on the 5.72% Senior Notes, Series A and Series B, is payable on the 30th day of March and September in each year, at the rate of 5.72% per annum. Principal prepayments commence on September 30, 2012 and March 30, 2013 for Series A and Series B, respectively. The Company may prepay the 5.72% Senior Notes, Series A and B, in whole or in part at any time in an amount not less than \$2,000 in the case of a partial prepayment at a redemption price calculated in accordance with the Note Purchase Agreement dated as of September 29, 2006 between the Company and the purchasers of the 5.72% Senior Notes.*
  
8. *The Company is named as a defendant in five (5) 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 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, and several seek injunction relief and punitive damages. These actions are part of a number of similar*

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*lawsuits that have been filed within the past year in different states against a wide range of defendants that produce, refine, distribute and/or market gasoline products in the United States. The Federal Judicial Panel on Multidistrict Litigation has assigned all of the pending cases to the United States District Court for the Eastern District of Kansas for rulings on discovery matters, various pre-trial motions and class certification issues applicable to all of the cases. All other proceedings, including discovery, have been stayed pending rulings on various motions now pending in that Court.*

*The Company also is named as defendant in an action brought under the Fair Labor Standards Act on behalf of two named plaintiffs individually and all persons who are or were employed during the three-year period immediately preceding May 30, 2007 as assistant managers at any store operated by the Company or one of its subsidiaries, who worked overtime during any given week within that period and have not filed individual complaints to recover uncompensated overtime wages. The Company has filed an answer denying the claims. The case is now pending in the U.S. District Court for the Southern District of Iowa sitting in Des Moines. The Court has 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. The plaintiffs are now seeking leave of the court to file an amended complaint asserting additional claims under state wage laws, for which they seek certification as a class action.*

*In both of the above matters, management has denied the plaintiffs' allegations and intends to contest the matters vigorously. While the outcome of any pending litigation cannot be predicted, management does not believe that the pending litigation will have a material adverse effect on the Company's business or its financial position. The outcome of litigation is always uncertain, however, and unforeseen results can occur. It is possible that such outcomes could materially affect net income in a particular quarter or annual period.*

9. *In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN48 ), which is an Interpretation of FASB Statement No. 109, Accounting for Income Taxes. The Company was required to adopt the provisions of FIN 48, effective May 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.*

*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. Of this amount, \$3,286 represents the amount of unrecognized tax benefits that, if recognized,*

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would impact our effective tax rate. These unrecognized tax benefits relate to the state income tax filing positions and federal tax credits claimed for the Company's corporate subsidiaries. The Company does not expect the aggregate amount of unrecognized tax benefits to change significantly within the next twelve months. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$130 as of May 1, 2007, the date of adoption. Interest and penalties related to income taxes are classified as income tax expense in our financial statements.

The statute of limitations for the federal tax returns remains open for the years 2003 and forward. Tax years 2002 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 Standard (SFAS) No. 157, Fair Value Measurements, which clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Company has not yet determined the impact that the implementation of SFAS No. 157 will have on the consolidated financial statements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

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. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect SFAS No. 159 to have a significant impact on the consolidated financial statements.

10. 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, 2007. These interim consolidated condensed financial statements should be read in conjunction with that Cautionary Statement.

**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



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name Casey's General Store, HandyMart and Just Diesel in nine Midwestern states, primarily Iowa, Missouri and Illinois. 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. On October 31, 2007, there were a total of 1,465 stores in operation, of which 1,450 were owned by the Company and 15 stores were operated by franchisees. A typical store is generally not profitable for its first year of operation due to start-up costs and will usually attain representative levels of sales and profits during its third or fourth year of operation.

The Company derives its revenue primarily from the retail sale of gasoline and the products offered in Company stores. The Company also generates a small amount of its revenues from the Company's franchisees and from the wholesale sale of certain grocery and general merchandise items and gasoline to franchised 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 and franchised stores.

At October 31, 2007, the Company owned the land at 1,373 locations and the buildings at 1,383 locations, and leased the land at 77 locations and the buildings at 67 locations. The Company treats any lease payment escalations under all operating leases on a straight line basis.

Long-lived assets are reviewed quarterly for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company did not incur any impairment charges during the six months ended October 31, 2007. The Company values the locations addressed above based on their expected resale value. The impairment charges are reported as a component of operating expenses when they occur.

**Three Months Ended October 31, 2007 Compared to Three Months Ended October 31, 2006 (Dollars and Amounts in Thousands)**

| <b>Three months ended 10/31/07</b> | <b>Gasoline</b> | <b>Grocery &amp; other<br/>merchandise</b> | <b>Prepared food<br/>&amp; fountain</b> | <b>Other</b> | <b>Total</b> |
|------------------------------------|-----------------|--|---|--------------|--------------|
| Sales                              | \$ 854,034      | 250,153                                    | 79,142                                  | 5,849        | 1,189,178    |
| Gross profit                       | 42,562          | 82,731                                     | 49,884                                  | 3,788        | 178,965      |
| Margin                             | 5%              | 33.1%                                      | 63%                                     | 64.8%        | 15%          |
| Gasoline Gallons                   | 313,370         |  |   |              |              |

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| Three months ended 10/31/06 | Gasoline   | Grocery & other merchandise | Prepared food & fountain | Other | Total     |
|-----------------------------|------------|-----------------------------|--------------------------|-------|-----------|
| Sales                       | \$ 714,810 | 216,336                     | 69,063                   | 5,568 | 1,005,777 |
| Gross profit                | 28,492     | 70,632                      | 42,539                   | 3,515 | 145,178   |
| Margin                      | 4%         | 32.6%                       | 61.6%                    | 63.1% | 14.4%     |

Gasoline Gallons 301,582

Net sales for the second quarter of fiscal 2008 increased by \$183,401 (18.2%) over the comparable period in fiscal 2007. Retail gasoline sales increased by \$139,224 (19.5%) as the number of gallons sold increased by 11,788 (3.9%) while the average retail price per gallon increased 15.2%. During this same period, retail sales of grocery and general merchandise increased by \$33,817 (15.6%) and prepared food and fountain sales increased by \$10,079 (14.6%), due to strong fountain sales, the introduction of new products, and strategic price increases.

The other sales category primarily consists of wholesale gasoline and grocery sales to franchise stores and lottery, prepaid phone cards and video rental commissions received. These sales increased \$281 (5%) for the second quarter of fiscal 2008 primarily due to the increase in lottery and prepaid phone card commissions. These increases were partially offset by a reduction in wholesale sales to franchise stores. The gross profit margin also increased \$273 (7.8%) primarily due to the increase in lottery commissions of \$495 (33.3%) and prepaid phone card commissions of \$38 (9.6%) from the comparable period in the prior year.

Cost of goods sold as a percentage of net sales was 85% for the second quarter of fiscal 2008, compared to 85.6% for the comparable period in the prior year. The gross profit margins on retail gasoline sales increased (to 5%) during the second quarter of fiscal 2008 from the second quarter of the prior year (4%). The gross profit margin per gallon also increased (to \$.1358) in the second quarter of fiscal 2008 from the comparable period in the prior year (\$.0945) primarily due to a declining trend in wholesale costs. Although the Company achieved above average gross profit margins per gallon during the quarter, management expects market conditions to eventually stabilize and return to historical levels of 10 to 11 cents per gallon over the long term. The gross profits on retail sales of grocery and general merchandise increased (to 33.1%) from the comparable period in the prior year (32.6%), and the prepared food margin also increased (to 63%) from the comparable period in the prior year (61.6%). The increase in the prepared food margin was primarily due to strong fountain sales, strategic price increases, and the continued utilization of point-of-sale information.

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Operating expenses as a percentage of net sales were 9.7% for the second quarter of fiscal 2008 compared to 10% for the comparable period in the prior year. The decrease in operating expenses as a percentage of net sales was caused primarily by an increase in the average retail price per gallon of gasoline sold. Operating expenses increased 14.9% in the second quarter of 2008 from the comparable period in the prior year, primarily due to a 26.7% increase in fees resulting from customers' greater use of credit cards.

Net earnings increased by \$10,504 (61.2%). The increase in net earnings was attributable primarily to the increase in the gross profit margin per gallon of gasoline sold, strong same-store sales increases, and increases in the gross profit margins on grocery and other merchandise sales and on prepared food and fountain sales.

**Six Months Ended October 31, 2007 Compared to Six Months Ended October 31, 2006 (Dollars and Amounts in Thousands)**

| Six months ended 10/31/07 | Gasoline     | Grocery & other merchandise | Prepared food & fountain | Other  | Total     |
|---------------------------|--------------|-----------------------------|--------------------------|--------|-----------|
| Sales                     | \$ 1,792,053 | 509,941                     | 154,583                  | 11,777 | 2,468,354 |
| Gross profit              | 92,040       | 171,028                     | 96,422                   | 7,659  | 367,149   |
| Margin                    | 5.1%         | 33.5%                       | 62.4%                    | 65%    | 14.9%     |
| Gasoline Gallons          | 626,755      |                             |                          |        |           |

| Six months ended 10/31/06 | Gasoline     | Grocery & other merchandise | Prepared food & fountain | Other  | Total     |
|---------------------------|--------------|-----------------------------|--------------------------|--------|-----------|
| Sales                     | \$ 1,514,289 | 441,543                     | 134,745                  | 10,794 | 2,101,371 |
| Gross profit              | 57,037       | 143,268                     | 83,844                   | 6,382  | 290,531   |
| Margin                    | 3.8%         | 32.4%                       | 62.2%                    | 59.1%  | 13.8%     |
| Gasoline Gallons          | 592,172      |                             |                          |        |           |

Net sales for the first six months of fiscal 2008 increased by \$366,983 (17.5%) over the comparable period in fiscal 2007. Retail gasoline sales increased by \$277,764 (18.3%) as the number of gallons sold increased by 34,583 (5.8%) while the average retail price per gallon increased 11.8%. During this same period, retail sales of grocery and general merchandise increased by \$68,398 (15.5%) and prepared food and fountain sales increased by \$19,838 (14.7%), due to strong fountain sales, the introduction of new products, and strategic price increases.

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The other sales category primarily consists of wholesale gasoline and grocery sales to franchise stores and lottery, prepaid phone cards, and video rental commissions received. These sales increased \$983 (9.1%) for the first six months of fiscal 2008 primarily due to the increase in lottery and prepaid phone card commissions. These increases were partially offset by a reduction in wholesale sales to franchise stores. The gross profit margin also increased \$1,277 (20%) primarily due to the increase in lottery commissions of \$884 (30.7%) and prepaid phone card commissions of \$80 (9.8%) from the comparable period in the prior year.

Cost of goods sold as a percentage of net sales was 85.1% for the first six months of fiscal 2008, compared to 86.2% for the comparable period in the prior year. The gross profit margins on retail gasoline sales increased (to 5.1%) during the first six months of fiscal 2008 from the comparable period in the prior year (3.8%). The gross profit margin per gallon also increased (to \$.1469) during the first six months of fiscal 2008 from the comparable period in the prior year (\$.0963) primarily due to a declining trend in wholesale costs. Although the Company achieved above average gross profit margins per gallon during the six months, management expects market conditions to eventually stabilize and return to historical levels of 10 to 11 cents per gallon over the long term. The gross profits on retail sales of grocery and general merchandise increased (to 33.5%) from the comparable period in the prior year (32.4%), and the prepared food margin also increased (to 62.4%) from the comparable period in the prior year (62.2%). The increase in the prepared food margin was caused primarily by strong fountain sales, strategic price increases, and the continued utilization of point-of-sale information.

Operating expenses as a percentage of net sales were 9.6% for the first six months of fiscal 2008 and 2007. Operating expenses increased 18.1% in the first six months of 2008 from the comparable period in the prior year, primarily due to a 26.6% increase in fees resulting from customers greater use of credit cards to purchase more expensive gasoline.

Net earnings increased by \$23,379 (68.6%). The increase in net earnings was attributable primarily to the increase in the gross profit margin per gallon of gasoline sold, strong same-store sales increases, and increases in the gross profit margins on grocery and other merchandise sales and on 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.

Inventory. Inventories, which consist of merchandise and gasoline, are stated at the lower of

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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, including goodwill where applicable, 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.

Self-insurance. The Company is primarily self-insured for 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.

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**Recent accounting pronouncements.** In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN48 ), which is an Interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. The Company was required to adopt the provisions of FIN 48, effective May 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

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. Of this amount, \$3,286 represents the amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate. These unrecognized tax benefits relate to the state income tax filing positions and federal tax credits claimed for the Company's corporate subsidiaries. The Company does not expect the aggregate amount of unrecognized tax benefits to change significantly within the next twelve months. The total amount of accrued interest and penalties for such unrecognized tax benefits was \$130 as of May 1, 2007, the date of adoption. Interest and penalties related to income taxes are classified as income tax expense in our financial statements.

The statute of limitations for the federal tax returns remains open for the years 2003 and forward. Tax years 2002 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 Standard (SFAS) No. 157, *Fair Value Measurements*, which clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The Company has not yet determined the impact that the implementation of SFAS No. 157 will have on the consolidated financial statements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

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. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not expect SFAS No. 159 to have a significant impact on the consolidated financial statements.

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

Due to the nature of the Company's business, most sales are for cash, and 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 October 31, 2007, the Company's ratio of current assets to current liabilities was 1.15 to 1. The ratio at October 31, 2006 and April 30, 2007 was .71 to 1 and 1.03 to 1, respectively. 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 operations increased \$71,417 (221.2%) in the six months ended October 31, 2007 from the comparable period in the prior year, primarily as a result of an increase in net earnings from continuing operations and increases in accrued expenses and income taxes payable. Additionally, this increase was the result of a large decrease in accounts payable during the comparable period in the prior year due to the lower cost per gallon of gasoline during that period. Cash used in investing in the six months ended October 31, 2007 decreased primarily due to the acquisition of the HandiMart stores during the comparable period in the prior year. Cash used in financing decreased, primarily due to the proceeds from long-term debt and short-term borrowings during the comparable period in the prior year.

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 six months of fiscal 2008, the Company expended \$47,929 for property and equipment and goodwill, primarily for the construction, acquisition and remodeling of Company stores, compared to \$115,556 for the comparable period in the prior year. The Company has budgeted approximately \$135,000 in fiscal 2008 for construction, acquisition and remodeling of Company stores, primarily from existing cash and funds generated by operations.

As of October 31, 2007, the Company had long-term debt of \$187,071, consisting of \$100,000 in principal amount of 5.72% Senior Notes, Series A, \$30,000 in principal amount of 7.38% Senior Notes, \$23,000 in principal amount of Senior Notes, Series A through Series F, with interest rates ranging from 6.18% to 7.23%, \$22,857 in principal amount of 7.89% Senior Notes, Series A, \$2,184 of mortgage notes payable, and \$9,030 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, 2007:

**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. The market for crude oil and domestic wholesale petroleum products is marked by significant volatility, and is affected by general political conditions and



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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 affect 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 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 3,093 USTs, of which 2,632 are fiberglass and 461 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.

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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. 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, 2007 and 2006, the Company spent approximately \$1,431 and \$1,519, respectively, for assessments and remediation. During the six months ended October 31, 2007, the Company expended approximately \$582 for such purposes. Substantially all of these expenditures have been submitted for reimbursement from state-sponsored trust fund programs and as of October 31, 2007, approximately \$10,448 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. The Company has an accrued liability at October 31, 2007 of approximately \$367 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.**

The Company's exposure to market risk for changes in interest rates relates primarily 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 marketable securities with active secondary or resale markets to ensure portfolio liquidity. The Company believes that an immediate 100 basis point move in interest rates affecting the Company's floating and fixed rate financial instruments as of October 31, 2007 would have an immaterial effect on the Company's pretax earnings.

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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.

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 Company is named as a defendant in five 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 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 within the past year 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 be transferred to the U.S. District Court for the Eastern District of Kansas for coordinated or consolidated pretrial proceedings, including rulings on discovery matters, various pretrial motions, and class certification. All other proceedings have been stayed pending rulings on such matters. Management does not believe the Company is liable to the defendants for the conduct complained of, and intends to contest the matters vigorously.

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On May 30, 2007, a complaint was filed against the Company in the United States District Court for the Northern District of Iowa by two former employees, in which the claim is made that Casey's failed to properly pay overtime compensation to two or more of 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.

The Company filed an answer denying the claims, as well as a motion for change of venue to the U.S. District Court for the Southern District of Iowa sitting in Des Moines. That motion was granted on August 30, 2007 and the case has been transferred to Des Moines. On October 31, 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. Notice recipients who elect to participate in the lawsuit are required to file a form opting in to the lawsuit. The Company will be allowed to move to decertify the collective action after discovery is conducted.

On November 20, 2007, the plaintiffs filed a motion to amend their complaint to include class claims under the state laws of eight states where the Company operates, based on the same general factual allegations underlying the FLSA claim. Management has denied the plaintiffs' allegations and intends to contest the matter vigorously.

The Company from time to time is a party to other legal proceedings arising from the conduct of its business operations, including proceedings relating to personal injury, property damage and employment claims, environmental remediation or contamination, and claims by state and federal regulatory authorities relating to the sale of products pursuant to state or federal licenses or permits. Claims for compensatory or exemplary damages in those actions may be substantial. Management does not believe that the potential liability of the Company with respect to such other proceedings pending as of the date of this Form 10-Q is material in the aggregate.

**Table of Contents****Item 1A. Risk Factors.**

There have been no material changes in our risk factors from those disclosed in our 2007 Annual Report on Form 10-K.

**Item 4. Submission of Matters to a Vote of Security Holders.**

At the Annual Meeting of shareholders held on September 14, 2007, nine directors were elected for a term of one year. Each of the nominees so elected, with the exception of Ms. Bridgewater, previously has been elected by shareholders as a director of the Company.

The votes cast or withheld for each nominee were as follows:

| Name                    | Number of Shares<br>Voting For | Number of Shares That<br>Withheld Authority |
|-------------------------|--------------------------------|---|
| Donald F. Lamberti      | 46,303,987                     | 1,689,047                                   |
| John R. Fitzgibbon      | 47,079,201                     | 913,833                                     |
| Ronald M. Lamb          | 45,564,102                     | 2,428,932                                   |
| Patricia Clare Sullivan | 46,789,919                     | 1,203,115                                   |
| Robert J. Myers         | 47,061,699                     | 931,335                                     |
| Kenneth H. Haynie       | 44,766,199                     | 3,226,835                                   |
| William C. Kimball      | 47,101,124                     | 891,910                                     |
| Johnny Danos            | 44,804,734                     | 3,188,300                                   |
| Diane C. Bridgewater    | 47,278,867                     | 714,167                                     |

**Item 6. Exhibits.**

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

| Exhibit No. | Description  |
|-------------|--|
| 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</i> ) |

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*(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.)*

- 4.4 Note Agreement dated as of December 1, 1995 between Casey s General Stores, Inc. and Principal Mutual Life Insurance Company *(incorporated by reference from the Current Report on Form 8-K filed January 11, 1996).*
- 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 *(incorporated by reference from the Current Report on Form 8-K filed May 10, 1999).*
- 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 *(incorporated by reference from the Current Report on Form 8-K filed May 23, 2000).*
- 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 *(incorporated by reference from the Current Report on Form 8-K filed September 29, 2006).*
- 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: December 6, 2007

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

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**EXHIBIT INDEX**

The following exhibits are filed herewith:

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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       |