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SPECIAL ANALYSIS

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Convenience Store Segment

Industry Analysis

Introduction

The convenience store retail segment continues to evolve, and the economic environment has posed particular challenges. In recent years, the industry has faced higher fuel prices, lower fuel margins, mounting credit card fees and unpredictable customer traffic. The industry players are changing, mergers and acquisitions are on the rise, and many companies are revising strategies to get consumers into their stores.

According to the National Association of Convenience Stores (NACS), in 2007 convenience store industry sales increased by 1.4%, reaching $577.4 billion, and store count grew by 0.8%. Though the industry accounted for 4.17% of the $13.8 trillion U.S. gross domestic product in 2007, profits are under pressure. Credit card fees reached $7.6 billion in 2007, more than twice the industry's $3.4 billion in profits, and fuel margins shrunk to their lowest level since 1983. Overall, profits dropped by $1.4 billion.

The gap is widening between the industry's top and bottom performers. The top stores had average operating profits of $17,715 per month, while the bottom reported $599 per month. Since 2000, the number of one-store operators has grown 51% from 59,876 stores to 90,683 stores, as major oil companies continue to divest retail assets, and operators sell off underperforming stores, frequently to new entrants. Currently, the major oil companies own and operate less than 3% of all convenience stores that sell fuel. Additionally, competition for consumers from mass retailers like supermarkets, discount stores and warehouse clubs are putting pressure on convenience store operators.

The major players are responding differently to the difficult economic environment; some are focusing on remodeling and revamping store designs, while others are expanding in-store offerings and services. Across the board, however, companies are recognizing the potential of increased foodservice programs, particularly private-label or branded products, to remain competitive.

Industry Snapshot

	2006	2007	Change
Industry Stores	145,119	146,294	0.8%
Industry Sales	$569.4B	$577.4B	1.4%
Industry Profits	$4.8B	$3.4B	- 29.2%
Credit Card Fees	$6.6B	$7.6B	15.2%
Number of Employees	1.54 million	1.71 million	11.1%
Fuel Margin (cpg)	13.7¢	14.3¢	0.6¢
Margin after CC fees (cpg)	10.1¢	10.1¢	Flat

Source: Nielsen & NACS State of the Industry

Monthly Sales Per Store

	2006	2007	Change
In-store Sales	$99,853	$106,064	6.2%
Merchandise Sales	$84,646	$90,564	7.0%
Foodservice Sales	$17,010	$16,755	-1.5
Fuel Gallons	117,039	119,374	2.0%
Fuel Sales	$293,981	$326,277	11.0%
Average Selling Price	$2.51	$2.73	8.8%

Source: NACS State of the Industry Survey, converted from annual data

Overview

The term 'convenience store' is broad and encompasses a wide variety of formats. Development of the convenience channel has led to increased segmentation with further definition of consumer convenience needs and the formats that best suit those needs. Convenience stores are often characterized by several key features including small size (occupying less than 5,000 square feet of floor space), off-street parking and/or convenient pedestrian access, extended hours of operation (in some cases, open 24 hours, seven days a week) and stocking at least 500 SKUs, including grocery type items such as soft drinks, snacks, confectionery and tobacco. Others have in-store chain restaurants. The NACS classifies different types of convenience stores as follows:

- Kiosk
- Limited Selection Convenience Store
- Expanded Convenience Store
- Mini Convenience Store
- Traditional Convenience Store
- Hyper Convenience Store

Below is a ranking of the top 25 convenience store operators in the U.S. by store count according to TDLinx, a division of ACNielsen, for 2008:

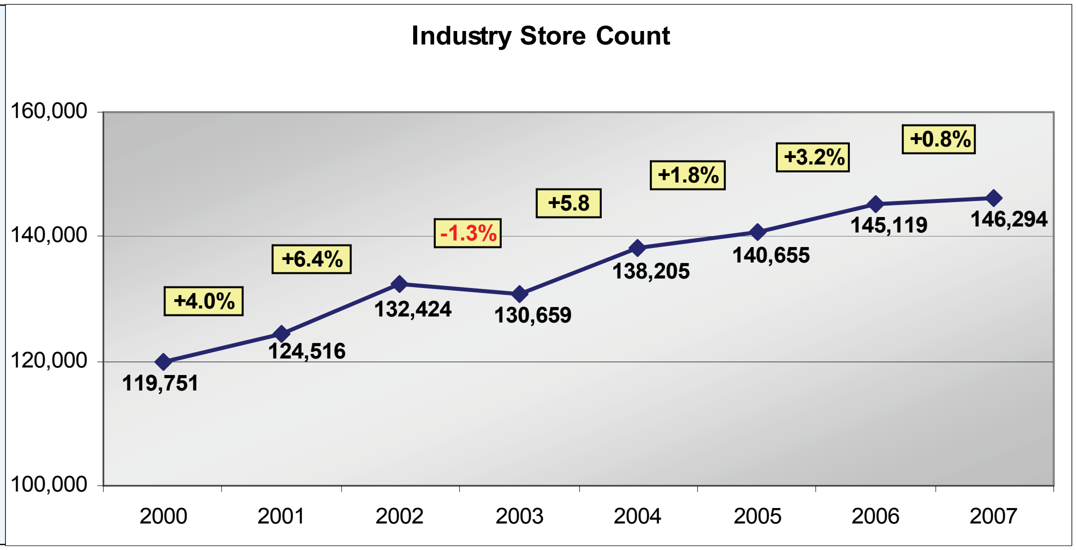
Rank	Company / Headquarters	Store Count	Annual Commodity Volume* (millions)	Select Banner Names
1	7-Eleven Inc, Dallas TX	6,271	$ 13,114	7-Eleven
2	BP North America, Warrenville IL	4,863	$ 15,769	ampm Mini Market, Amoco, Arco, Arco Thrifty, BP, BP Connect, BP Shop
3	Shell Oil Products, Houston TX	4,673	$ 9,865	Shell
4	Exxon Mobil Corp., Irving TX	4,466	$ 9,714	Exxon, Mobil
5	ChevronTexaco Corp., San Ramon CA	4,011	$ 9,151	Chevron, Texaco, Chevron Extra Mile
6	Alimentation Couche-Tard, Quebec CAN[1]	3,083	$ 8,697	Circle K, Mac's, Couche-Tard
7	Speedway SuperAmerica, Enon OH[2]	2,829	$ 8,745	SuperAmerica, Marathon, Speedway, Rich Oil
8	CITGO, Tulsa OK	2,005	$ 4,016	CITGO
9	Sunoco Inc., Philadelphia PA	1,797	$ 5,019	A Plus, Coastal, Optima, Sunoco
10	The Pantry Inc., Sanford NC	1,664	$ 6,848	Pantry, Golden Gallon, Li'l Champ, Sprint, Campus, Cowboys, Etna, Golden Gallon, Kangaroo, On the Way, Petro Express, Smokers Express
11	Valero Energy Corp, San Antonio CA	1,536	$ 7,638	Valero, Diamond Shamrock, Ultramart, Beacon, Corner Store, Total
12	Conoco Phillips Inc, Houston TX	1,475	$ 3,330	76, Conoco, Phillips 66
13	Casey's General Stores, Ankeny IA	1,454	$ 4,007	Casey's General Store
14	Kroger, Cincinnati OH	799	$ 2,823	Kroger, Kwik Shop, Quik Stop, Loaf N' Jug, Mini-Mart, Tom Thumb, Smith's, Turkey Hill, King Sooper's
15	Amerada Hess Corp., Woodbridge NJ	708	$ 3,246	Hess, Hess Express
16	Wawa, Wawa PA	580	$ 3,908	Wawa
17	Cumberland Farms Inc., Canton MA	572	$ 2,564	Cumberland Farms
18	Racetrac Petroleum, Smyrna GA	517	$ 2,637	Racetrac, Raceway
19	Susser Holdings Corp./SSP Partners Corpus Christi TX	500	$ 848	Stripes, Town & Country
20 (t)	Delek US Holdings Inc., Franklin TN	499	$ 1,322	East Coast, Fast Food & Fuel, MAPCO, Favorite
20 (t)	QuikTrip Corp., Tulsa OK	499	$ 4,424	QuikTrip
22	Kum & Go L.C., West Des Moines IA	438	$ 1,408	Kum & Go
23	Holiday Cos. Inc., Minneapolis MN	427	$ 1,630	Holiday Stationstore
24	Military, Arlington VA	405	$ 2,372	Coast Guard Mini Mart, Marine Corps Shoppette, NEXCOM Mini Mart, Shoppette
25	Sheetz Inc., Altoona PA	350	$ 3,436	Sheetz

*All commodity volume (ACV) figures are annualized ranges of the estimated retail sales volume of all items sold in a store that pass through the retailer's cash registers. Lottery sales are not included; gas sales are included where applicable. TDLinx ACV is an estimate—a directional measure to be used as an indicator of company size. Store counts and ACV are as of August 2008, according to *Convenience Store News'* Top 100 Rankings.

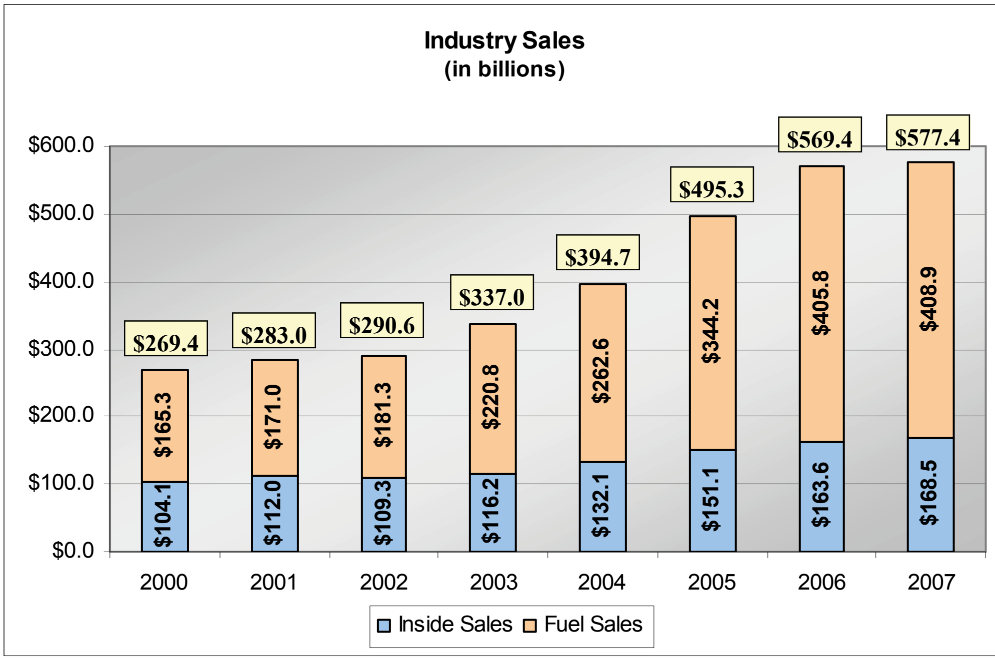
[1] Alimentation Couche-Tard operates stores in both Canada and the U.S. For this ranking, only U.S. stores are counted.

[2] Speedway SuperAmerica LLC is owned by Marathon Oil Co., Houston.

Industry store count grew less than 1% in 2007. More than 7,700 stores closed, 8,300 opened and more than 43,000 stores changed ownership in 2007. Net store count increased 22.2% between 2000 and 2007.



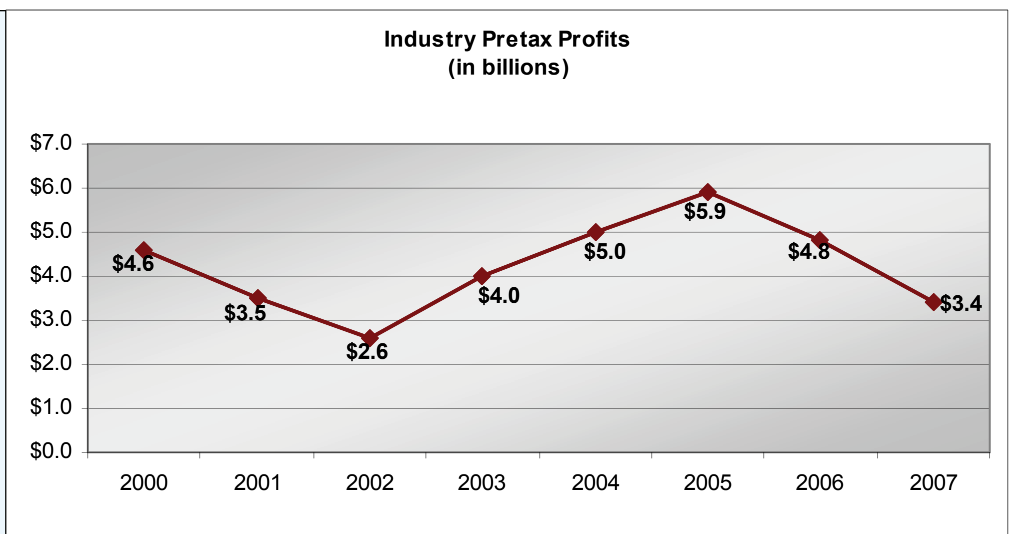
Source: TDLinx, a service of the Nielsen Company



Industry sales have jumped almost 115% since 2000, with a 1.4% increase in 2007. Fuel sales comprise an increasing percentage of total sales; in 2000, fuel sales represented 61.4% and by 2007 approached 71%.

Source: NACS State of the Industry Survey, 2008

Pretax profit has been on the decline for the past two years, with a net decrease of 26% since 2000.

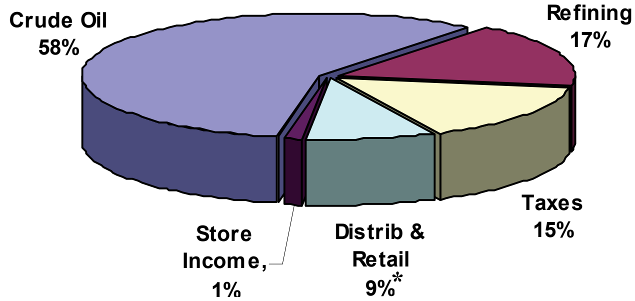


Source: NACS State of the Industry Survey, 2008

Fuel Sales

Fuel sales comprise the largest percentage of the convenience store industry's business but generate a diminishing percentage of its profits. Of the total U.S. convenience store count, 115,157 stores—or 79%—sell fuel. Convenience stores sell an estimated 80% of fuels purchased in the U.S., and fuel sales comprise 70.8% of industry sales. Fuel prices increased 8.8% in 2007, but fuel sales rose only 0.7% to reach $408.9 billion. Furthermore, because of low gross margins, fuels accounted for only 33.8% of the convenience store industry's gross profit dollars in 2007. Fuel gross margins shrank to 5.2% in 2007, the lowest level since 1983.

Fuel Cost Distribution for Convenience Stores

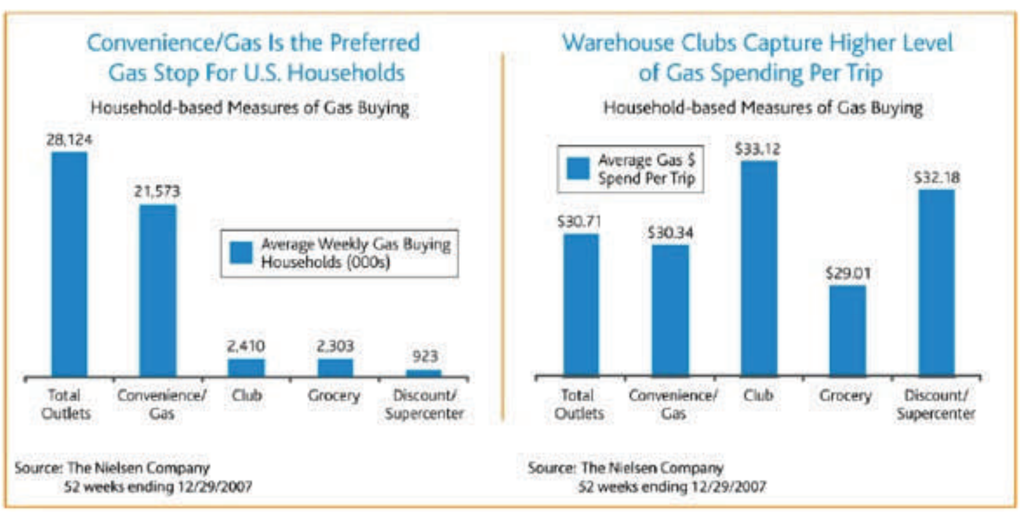


* 20% of distribution and retail costs go to credit card companies
Source: NACS, U.S. Energy Information Administration

Gas prices jumped 8.9% in 2007 and 26.9% in the first nine months of 2008. However, prices dropped 25.6 cents between the end of October and beginning of November, and in some areas prices are now below $2.00 per gallon. Oil dropped nearly 7% to under $66 a barrel in early November after a U.S. government report demonstrated rising fuel stockpiles and slowing demand. Gasoline stocks rose in October, as demand for fuel fell 2.3% over the four-week period ending October 31. The Energy Information Administration indicated that consumption of petroleum products has fallen in 2008, driven down by price increases and the weakening economy. Prices are expected to decrease in 2009, following movements in crude oil prices.

According to a 2008 NACS consumer survey, 45% of consumers polled said that high gas prices have significantly affected their spending, which is twice that of any other economic concern. When asked which factor was most important when buying gas, almost three quarters of consumers selected price, with location and brand at a very distant second and third, respectively. To save a penny per gallon, translating to approximately 10 cents a fill-up, about a third of consumers would inconvenience themselves in terms of time or changing behaviors. The survey also found that as gas prices increase, more than 20% of consumers said they would be less likely to purchase in-store items.

The Nielsen Company's results indicated that in 2007 convenience stores were the preferred destination for consumers buying gas, attracting nine times more gas buyers than warehouse clubs or grocery stores (which typically have fewer pumps). However, warehouse clubs are capturing more dollars per trip:



As for regional differences, Texas reports the most convenience stores selling fuel—11,885 stores, which is 84% of all stores in the state, according to the NACS. Iowa, Montana, North Dakota, Nebraska and South Dakota have the highest percentage selling fuel, approximately 96% of convenience stores in each state. New Jersey (38%) and Oregon (58%) have among the smallest percentage of stores selling fuel; these two states also mandate full service for fuel sales. Other states with low percentages include Massachusetts (44%), New York (53%) and Rhode Island (57%).

Credit Card Fees

Credit card fees in the convenience and petroleum industry surged $1.0 billion, or 15.2%, to reach $7.6 billion in 2007, compared to the industry's $3.4 billion in profits. Last year was the first year that credit card fees surpassed store profits, jumping to levels more than twice profits.

According to the NACS, when a driver pays for gas with a credit card, retailers must pay an interchange fee to both the retailer's bank and the card-issuing bank, at a total average of 2.5% of the sale price. With gas prices between $3 and $4 a gallon, retailers have been paying anywhere from $0.08 - $0.10 per gallon, on average, for card transactions. If, as per the Oil Price Information Service, retailers average $0.12 cents a gallon in gross profit each month, then they net roughly $0.02 profit per gallon. The U.S. has the highest fee scale of the industrialized world, ranging from 2% - 4%, with Australia (0.5%) and the U.K. (0.7%) significantly lower.

Credit card companies have come under scrutiny by retailers and consumers for having too much power in setting fees. Visa and MasterCard, who control roughly 80% of the U.S. credit card market, have been thus far able to set rates that retailers can 'take or leave.' The Electronic Payments Coalition, which is made up of banks and major credit card companies, claim the fees are needed because they allow banks to take on fraud risk and other card operations. Starting in April 2007, MasterCard capped interchange fees on credit or debit gas purchases of $50 or more. In mid-2008, Visa announced it would also cap fees on gas purchases at $0.95 per transaction and ease purchase amount restrictions known as 'holds' or 'blocks.' This year, two bills introduced in the House of Representatives and Senate ordered credit card companies and retailers to bargain on interchange rates; a government-appointed arbitration panel would step in where an agreement could not be reached.

While gas prices are high, convenience store profits are pressured due to the rising credit card fees. To remain competitive in the midst of fuel price fluctuations and cash-strapped consumers, some retailers are offering discounts for purchases with cash or charging higher prices for in-store items. Though credit card fees proved problematic for convenience store operators over the last few years, gas prices have started to fall and are expected to continue to decrease in 2009, which may translate into relief for retailers.

In-Store Sales

Cigarettes continue to dominate in-store sales, accounting for more than one in every three dollars spent in stores. In 2007, nearly 80% of in-store sales and over 70% of gross margin dollars were from the top five categories:

Category	% of In-Store Sales
1. Cigarettes	36.9%
2. Packaged beverages	16.0%
3. Beer	13.2%
4. Food prepared on site	7.9%
5. Hot dispensed beverages	5.5%
Total	**79.5%**

Category	% of Gross Profit
1. Packaged beverages	20.1%
2. Cigarettes	18.9%
3. Food prepared on site	12.3%
4. Hot dispensed beverages	11.0%
5. Beer	8.4%
Total	**70.7%**

The packaged beverage category has had an increasingly significant impact on in-store sales and currently produces the most customer traffic. At an October 2008 presentation to the convenience store industry, Coca Cola's VP of shopper marketing Diane Wallace offered the following statistics:

- The non-alcoholic beverages category is growing at about 7% annually, with vitamin-enhanced waters and energy drinks in the lead.
- The energy drink category is growing rapidly and generates about $3.50 billion in annual sales. The top three manufacturers in the category capture nearly 84% of dollar sales: Red Bull (36.7%), Hansen's Monster (26.2%) and Coca-Cola (20.8%).
- Energy shots represent a small but fast-growing category, generating more than $122.0 million in sales and more than tripling in size over the past year.
- Sports drinks are fairly flat, but within the category the diet or light segment is up 136.6%.
- Single-service water is up 13.1% in the latest year. Vitamin-enhanced water is up 77%.
- Ready-to-drink tea is up 12.6%, driven by premium brands; ready-to-drink coffee, led by energy drink hybrids like Java Monster, is also growing though it is a small category.
- Soft drinks have been flat to slightly down but are still the top destination category after gas; the category has a 96% household penetration. Soft drink consumers comprise approximately 82% of convenience store traffic.

In-Store Sales (cont.)

In the cigarette category, state excise tax hikes, smoking bans and an increasingly cash-conscious consumer have affected sales and changed purchasing behaviors. Many customers have responded by cutting back, promotion shopping and trading down, while retailers who make better margins on premium bands sacrifice profitability for sales. In its 2008 Industry Report, *Convenience Store News* found branded discount and generic cigarette brands increased market share by 2% and 0.3%, respectively, while premium brands fell in market share by 3.1%. Nationwide, average sales per store for premium brands (Marlboro, Camel and Newport) declined more than $15,700, while branded discount (Doral, Pall Mall and Basic) grew nearly $6,000 per store and generic brands (Gold Coast and private label) increased $800.

The beer category has historically fared well during economic downturns. According to lobbying group Beer Institute, beer sales rose approximately 11% in 2007 and were up 1.4% through the first nine months of 2008. According to Nielsen statistics, this summer convenience store sales of "super premium" beers, including Michelob and Rolling Rock, increased in the double digits. Beer has experienced some minor inflation but has not been significantly affected by changes in grain and sugar product prices as have the snack and candy categories. However, many customers are trading down. Tom LeFevers, director of merchandising for Speedway SuperAmerica, commented, "There's a definite movement away from premium to less expensive beer."

Because of the continued growth of coffee and hot beverage sales, this category is no longer grouped under foodservice. Hot dispensed beverages, including coffee, now ranks in the top five in both percentage of sales dollars (5.5%) and gross margin dollars (11%). According to the NACS, more than two-thirds of those who buy coffee at a convenience store do so four or more times a week. Further, when factoring in hot beverages, drinks account for close to 40% of convenience stores' gross margin dollars.

With cigarettes and gas not bringing in the high margins they once did, retailers are turning to in-store sales to revive profit. In light of the shift in profitable sales channels, in-store sales—particularly related to foodservice programs—are becoming the differentiating factor among convenience stores. 7-Eleven president and CEO Joe DePinto commented further, "Many consumers are driving less frequently and using convenience stores for fill-in shopping with frozen foods, condiments, paper goods and health and beauty items."

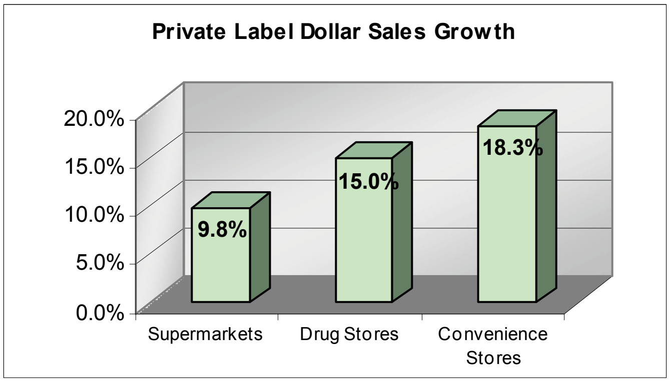
Foodservice and Private Label

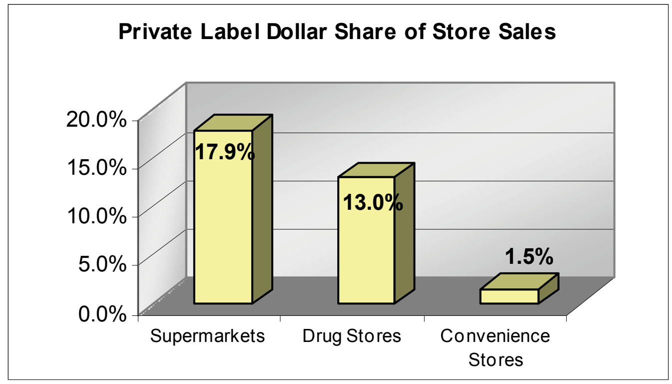
With fuel margins dwindling and consumers conservative with spending, convenience store operators are assessing their foodservice offerings in hopes of capturing profit dollars. The convenience store industry accounts for approximately $9.3 billion in combined sales of food prepared onsite and packaged sandwiches, and in 2007, food prepared on site represented 7.9% of in-store sales and 12.3% of gross margin dollars. As a percentage of total sales, foodservice is small, but it boasts significant profit margins. According to research firm Technomic, foodservice earns roughly 40% - 60% profit margins.

In the 2008 *Convenience Store/Petroleum News* annual Outlook Survey, 41.7% of retailers surveyed said they planned to expand their foodservice offerings in the coming year, making food the number one area for expansion. Similar to other channels like grocery stores, the product mix in convenience stores is also shifting with consumer demand. Many consumers are seeking healthy options; healthier snack sales jumped 6.6% in 2007. Additionally, with price as a top consumer concern, private label products are making waves. According to The Nielsen Company, private-label products are growing faster in convenience stores compared to other stores. Nielsen's research shows that in 2007 sales of private-label products rose by nearly 20% to $826.0 million in the channel, compared to a 15% increase in drug stores and just under 10% in supermarkets. However, overall, private-label share is significantly lower in convenience stores—only 1.5%—compared to a 13% share of drug stores' dollar sales and a nearly 18% share of supermarkets' dollar sales.

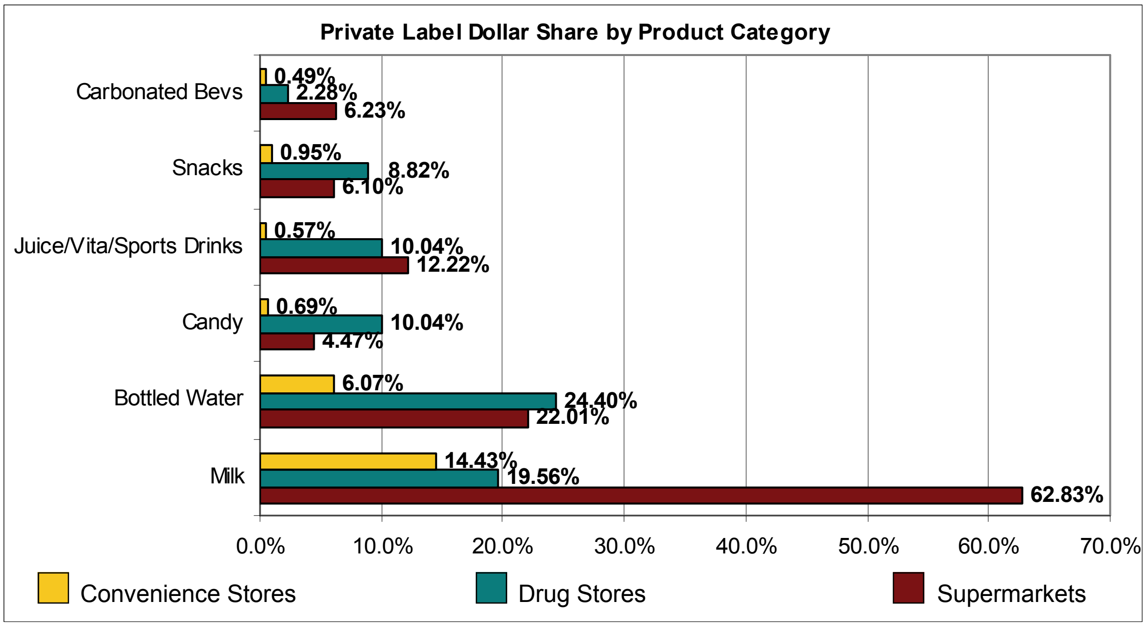
Store operators continue to focus heavily on offering consumers variety and convenience as they enhance foodservice offerings. Many are also increasing their selections of prepared meals and coffees, utilizing freshness criteria and experimenting with online ordering. This phenomenon is beginning to cut into fast-food operators' business; consumers looking for low prices as well as a large selection, particularly for snacks and packaged beverages, may opt for the convenience store. As consumers look to combine trips to save money and time, gas margins remain low, and other channels like big-box retailers stay competitive, foodservice offerings will be crucial to convenience stores in maintaining or increasing profits.

Foodservice and Private Label (cont.)





Source: The Nielsen Company, YTD Dollar Sales Ending 6/9/08 vs. Year Ago, Total U.S.



Source: The Nielsen Company, 52 Weeks Ending 6/9/08, Total U.S.

Hypermarket Competition

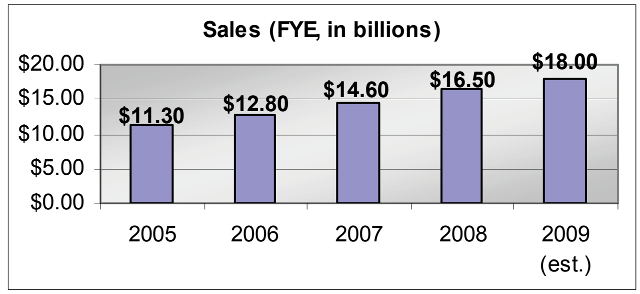
Mass retailers like supermarkets, discount retailers and warehouse clubs are entering the market to sell fuel, competing with convenience stores. These "hypermarkets" are attracting consumers with one-stop shopping, often driving store traffic with sharper fuel pricing. Energy Analysts International predicts that by 2012, five companies will be responsible for 77% of all hypermarket fuel sales: Wal-Mart/Sam's Club, Costco, Kroger, Safeway and BJ's.

According to a 2008 survey of 4,000 shoppers nationwide by consultant group TNS Retail Forward, as many as one third of consumers are buying most of their gasoline at alternative retailers like supercenters, supermarkets and warehouse clubs, up from 22% just three years ago. Currently, these retailers capture an estimated 13% of U.S. fuel sales, and TNS believes that figure will rise to 16% by 2012. Many hypermarkets are increasingly offering lower gas prices or gas discounts based on in-store purchases, further attracting penny-wise consumers.

Additionally, a number of retailers are testing or already operating smaller-format stores, including Wal-Mart, Tesco, Safeway and Supervalu. While initially these stores may not directly compete with convenience stores , their focus on fresh and prepared foods, placement in urban markets, and discounted prices may translated into competition for convenience stores in the long term.

Besides the appeal of one-stop shopping and discounted gas prices, hypermarkets offer aggressive promotions and rewards programs that may win over the convenience store customer base. While profit margins on gas will be further pressured by these offerings, the appeal of these destination stores is likely to help increase traffic and profits. Convenience stores have been moderately successful in attracting consumers making stops between larger shopping trips to supermarkets or big-box retailers. Still, convenience stores must continue to respond to this growing threat to remain competitive in a shifting market.

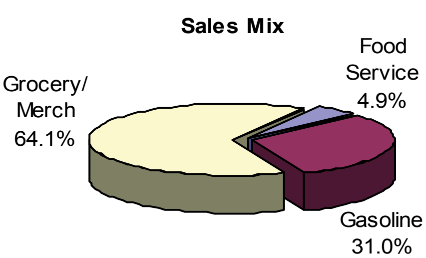
7-Eleven operates, franchises or licenses more than 34,800 stores in 17 countries. Approximately 19%, nearly 6,600 stores, are located in the United States. During 2007, 7-Eleven stores worldwide generated total sales of more than $46.6 billion, with U.S. sales increasing 9.1% to approximately $18.0 billion. The Company has implemented several growth strategies and has more in line for the coming years. In January of this year, the Company announced plans to grow its North American store base to 8,000 by 2010, at a time when other retailers are scaling back. The regions targeted for accelerated openings include the I-95 corridor from Boston to Washington D.C., southern California and northern Florida. The Company made two acquisitions in the past year: McKee Oil Company (Salt Lake City, UT; 10 units) in December 2007 and Neighborhood Convenience (Gloucester, VA; 7 units) in January 2008.



*Fiscal year ends in February

The Company's long-term focus is franchising, with a goal of converting the entire U.S. operations to franchise control by 2012. Roughly three-quarters of U.S. units are currently franchised. The franchise model is unique in that the Company owns or leases the stores and equipment used by franchisees, and the ongoing royalties received from franchisees are based on a percentage of store gross profit. The Company is also expanding through its Business Conversion Program (BCP), whereby independent business owners can apply to convert their stores to 7-Eleven stores. The stores receive a discounted makeover and branded merchandise, while splitting profits with the Company. Slow sales due to the economy, credit card fees and shrinking fuel margins have been beneficial to the BCP since these issues are pressuring convenience store owners to convert. According to CEO Joe DePinto, about 75 independents have been converted under the program; after conversions, sales for those stores increased 40% to 100%.

Fuel sales represent 31% of business across all stores, much less than its competitors, and has decreased from 34.1% in 2005. Margins have fallen significantly. "We made about 12 to 13 cents a gallon profit when gas was $1.50 a gallon, and we make 12 to 13 cents a gallon today," Mr. DePinto commented earlier this year. "If we lowered our margins, we'll lose money. If we raise them, competitors will take our business." Converted stores can choose their own gasoline brand, as independent gas stations look for ways to make their stores more competitive.

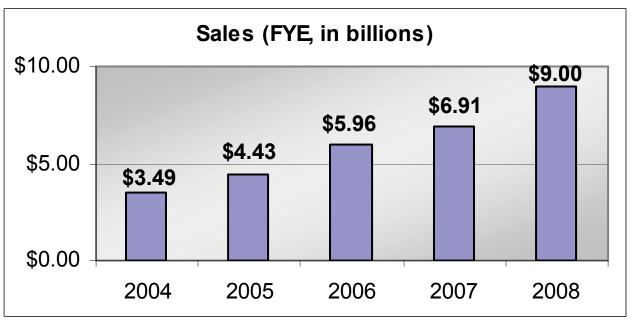


Foodservice currently represents 4.9% of sales. 7-Eleven has contracted with third-party bakeries and commissaries. The Company's system of 23 combined distribution centers in the U.S. and Canada are operated by third-party logistics providers and average approximately 20,000 square feet in size. Fresh foods, as well as a number of products developed specifically for the Company, are delivered daily. Proprietary items typically provide higher profit margins than other products. In March 2008, 7-Eleven said that it would introduce several new food items: gourmet iced and regular coffees, fresh produce, baked goods, pizza, chicken tenders, burritos, chicken wings, cheese steaks and churros. Assortments of these items will be tested in stores according to region. By August, the Company completed a six-month pilot program at 100 North American stores. Based on the initial performance, management plans to expand the program and hopes to add the new prepared foods to approximately 800 stores a year.

In 2009, 7-Eleven will test centralized distribution for bottled and canned beverage deliveries at 300 stores in Los Angeles. The average store gets 62 deliveries a week, including 18 - 20 deliveries from beer, water and soft drink companies. Consolidating trips would improve delivery accuracy, increase shopper convenience and lower fuel costs. If the Los Angeles test works out, Mr. DePinto said the Company will eventually assess consolidating distribution for groceries, frozen foods and newspapers and magazines.

Additionally, 7-Eleven's new fast-cook ovens that prepare made-to-order hot foods in two minutes or less may grab even more customers from fast-food operators and quick-serve restaurants. Pizza will be sold by the slice or as whole pies—promoted as a grab-and-go dinner option, cooked in 90 seconds and sold for $9.99. The Company is also looking to add new drink products, such as value-priced gourmet coffees and "energy" and coffee-infused versions of its Slurpee. In response to Latino demand, 7-Eleven partnered with Anheuser-Busch to develop Chelada brand beer, which the Company claims is selling well.

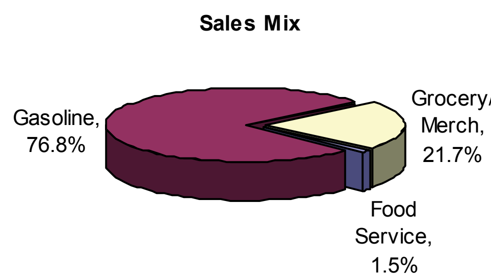
The Pantry, headquartered in Sanford, NC, operates convenience stores across the southeastern United States. The Company was ranked the tenth largest convenience store operator based on store count in 2008, with approximately 1,664 stores in eleven states under several banners, including Kangaroo Express, Pantry, Golden Gallon, Li'l Champ, Sprint, Campus, Cowboys, Etna, Golden Gallon, Kangaroo, On the Way, Petro Express and Smokers Express. 80% of the Company's stores operate under the Kangaroo Express banner. The Pantry's stores are focused on highly traveled roads, coastal resorts and suburban markets; more than 95% of its stores sell gasoline. The Company had fiscal 2008 sales of $9.00 billion. The Pantry's two most recent acquisitions involve Willard Oil Company (Spartanburg, SC; 11 units) in April 2007, and Anglers Mini-Mart (Summerville, SC; 16 units) and Petro Express (Charlotte, NC; 66 units) both in January 2007. The latter acquisition, which also included the wholesale fuels business of Carolina Petroleum Distributors of Charlotte, involved 66 stores that generated revenues of approximately $629.0 million in 2006. The $275.0 million purchase price was financed with roughly $160.0 million of sale-leaseback proceeds and $115.0 million in cash. In April 2008, The Pantry acquired 16 Sayle Oil convenience stores located in North Mississippi. The Company is one of only a few top convenience store chains that remain 100% Company-owned and operated and pursues growth through acquisitions. However, in May the Pantry announced that, due to rising oil prices, shrinking margins and declining sales, it would delay expansion plans and would temporarily halt acquisitions until early 2009.



*Fiscal year ends in September

The Pantry relies heavily on gasoline sales, which make up more than three quarters of its sales mix. Rising fuel prices resulted in reduced margins; the Company is anticipating full-year margins of $0.10 - $0.12 per gallon. Fiscal 2008 third quarter margins were 10.7 cents per gallon, and second quarter margins were squeezed to 9.0 cents. The Pantry's gasoline profits were further troubled this year by the Company's failed attempt to hedge higher fuel costs, causing a $0.23 per-share loss in the 2008 second quarter. In June, The Pantry filed a lawsuit against CITGO, claiming that CITGO miscalculated the price of the ethanol blend it sells to the Company. The Pantry is alleging a breach of contract; the agreement was signed in 2003 and runs through 2010.

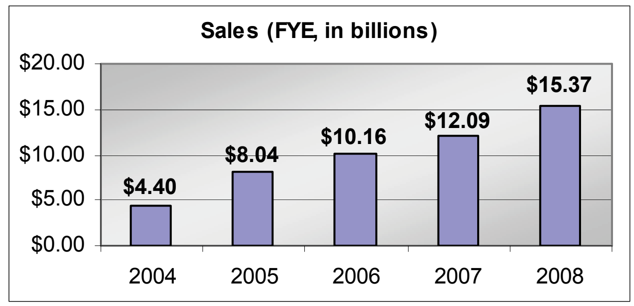
Credit card fees have also eaten into profits. The Company, which reportedly paid $27.3 million for processing credit-card transactions between October 2007 and June 2008, has seen credit-card fees rise 32% in 2008. For gas fill-ups paid by credit card, the Pantry pays 1.69% per sale to the credit card processor. Plus, the Pantry is charged a $0.15 flat fee for each swipe of a credit card on top of that percentage, even if consumers are only partially filling their tanks.



The Pantry's merchandise products include tobacco products, packaged beverages, beer and wine, health and beauty care products, self-service fast foods and beverages, snacks, fast food, candy, dairy products, bread and cakes, grocery and other merchandise, and newspapers and magazines. Services revenue is derived from sales of lottery tickets, prepaid products, money orders, and car washes as well as public telephones, ATMs, amusement and video gaming. As of October 2008, the Company operated 239 quick-service restaurants (QSRs), including 105 Subway locations, which offer nationally branded food franchises including Subway, Hardee's, Blimpie, Krystal, Church's, Bojangle's, Dairy Queen, TCBY and Baskin-Robbins. The Company also has a variety of proprietary foodservice programs featuring hot food offerings. In recent years, The Pantry has been experiencing weaker sales of sodas, snacks and other food products and has been negatively affected by rising food costs. Foodservice represents only 1.5% of the Company's sales mix; the percentage of merchandise/ foodservice sales has dropped since 2005, when the combined categories brought in 30.5% of total sales and gasoline represented less than 70%.

Couche-Tard

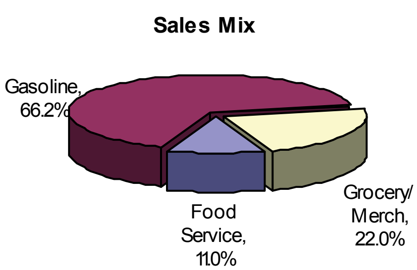
Alimentation Couche-Tard is the sixth largest convenience store operator by U.S. store count. Headquartered in Quebec, Canada, Couche-Tard operates 5,615 stores in 25 U.S. states and seven Canadian provinces. Approximately 80% of the stores are Company-operated, and the remainder are affiliated stores. The Company's stores are operated under three banners: Circle K (2,731), Couche-Tard (2,204) and Mac's (680). In July, management announced an aggressive plan to remodel approximately 350 stores and acquire between 200 and 300 units during the fiscal year ending April 2009. Also in July, the Company completed its acquisition of 83 stores—69 operating under the Convenient Food Mart banner, the others operating as dealers—in Central Illinois and the St. Louis, MO area, from Spirit Energy, LLC. In April, the Company completed its acquisition of 15 corporate stores from Speedway Superamerica LLC. Other recent acquisitions include Sterling Stores (Wauseon, OH; 28 units) and Richcor, Inc. (Pensacola, FL; 13 units). Mergers and acquisitions have long been profitable for Couche-Tard; the Company almost quadrupled the size of its U.S. operations when it bought the 1,663 Circle K stores and gasoline stations from ConocoPhillips in December 2003. The $812.0 million cash purchase was the largest in Couche-Tard's history. At a time when other convenience store operators are clamping down on costs and capital investments, Couche-Tard plans to utilize its strong capital structure to expand its store base through substantial acquisitions.



*Fiscal year ends in April; results in Canadian dollars

Couche-Tard saw profitability decline at both the operating and net level in 2008. For its fiscal year ended April 27, 2008, the Company generated total sales of $15.37 billion, with U.S. sales representing $12.37 billion or over 80% of total sales. Not surprisingly, oil price increases helped boost revenue through higher retail prices of gasoline but ultimately hurt profit margins since the increased costs eroded gross margin.

Couche-Tard has sounded off about credit card fees, launching an offensive for its U.S. stores over the summer involving consumer awareness and a lobbying effort. Couche-Tard president and CEO Alain Bouchard claims it is not right that merchants in Europe pay less than one-half of one percent of the sale price in a credit card transaction, while those in the U.S. pay more than 2%.

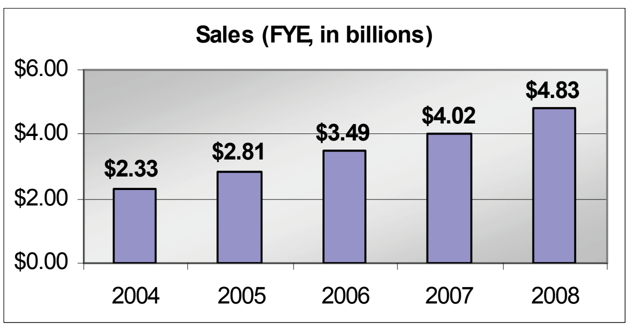


Gasoline sales represent 66.2% of the Company's sales mix. U.S. fuel revenue was $8.89 billion and gasoline gross profits were $393.9 million (4.4%) in fiscal 2008. Fuel gross margin for Company-operated stores in the U.S. decreased 1.18 cents per gallon, from 16.73 cents per gallon last year to 15.55 cents per gallon this year. Foodservice sales account for 11% of the Company's business. Stores offer nationally branded food franchises such as Dunkin' Donuts, Noble's Roman Pizza, Quizno's, Subway and Taco Del Mar. In September 2008, the Company terminated its five-year-old master franchise agreement with Dunkin' Brands for the Quebec province. The Company will remain a franchisee and will continue to operate its 22 Dunkin' Donuts sites; however, management plans to focus foodservice offerings on its proprietary brands and quick-service restaurants.

In May, the Company introduced its Couche-Tard Menu store concept, featuring a self-service environment with brand-name prepared meals, warm pastries and specialty coffees. The product mix is designed to maximize sales potential for morning, lunch and after-work shoppers. The Company spent $2.0 million renovating stores to implement the new concept, and the model was launched in eight stores in the Greater Montreal Region. The stores offer foods like sushi, soups, mousses, salads, smoothies, Asian and Italian dishes, pizza, pasta sauces, lasagna, wraps, breakfast sandwiches, fajitas, sorbets, pâtés, yogurts, low-calorie meals, desserts, Viennese pastries, cappuccinos, espressos and lattes. Each Menu store, organized around a central counter, will have a food advisor to help customers and monitor product quality and freshness. According to the Company, the concept is aimed at responding to the lifestyles of customers who seek high-quality, ready-to-eat foods at prices competitive with those in supermarkets. Executives expect foodservice sales will account for approximately 20% of sales at Couche-Tard Menu stores, compared to about 5% at its traditional stores. Although the Company did not discuss specific expansion plans for the concept, an executive with Couche-Tard said, "We believe 20% of our current store network in Quebec can be converted to this offering." The criteria to determine if a store is eligible for conversion are space (the Menu stores must be 1,200 square feet or larger), sales potential, geography and surrounding demographics, and traffic patterns. For those Quebec stores that do not qualify, the Company will reportedly evaluate the sales performance of new products to determine if any can be stocked in non-converted stores.

A convenience store and a whole lot more

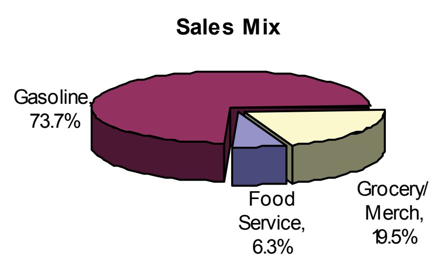
Casey's General Stores, headquartered in Ankeny, IA, operates 1,468 stores under the name "Casey's General Store" in nine Midwestern states, primarily Iowa, Missouri and Illinois. In addition to offering self-service gasoline, the stores carry a broad selection of food, beverages, tobacco products, health and beauty aids, automotive products and other nonfood items. The 13th largest convenience operator by store count, approximately 61% of Casey's stores are located in areas with populations of fewer than 5,000, and about 13% of its stores are located in communities with populations of more than 20,000. Thus, the Company is sheltered from big-box retailer competition as well as other chains that do not target these less populated areas. Casey's owns all its assets and has recently cut down on franchising efforts. At one time, the Company had roughly 200 franchise locations, but most were repurchased by Casey's. As of April 2008, the Company had 14 franchises and, by the end of the calendar year, all remaining franchise agreements are set to expire, at which point Casey's will be 100% Company owned and operated. In August 2006, Casey's signed a definitive purchase agreement with Nordstrom Oil Company (Cedar Rapids, IA) for 33 convenience stores operating under the HandiMart banner. The stores, which were acquired to increase Casey's market presence within eastern Iowa, have all been converted to Company operations and branded with Casey's signage. The Company has since made several smaller acquisitions across the Midwest. For fiscal 2009, Casey's is targeting a 4% increase in total number of stores and considers acquisitions the most cost-effective way to grow.



*Fiscal year ends in April

For its fiscal year ended April 30, 2008, Casey's generated total sales of $4.83 billion and experienced a 17.6% increase in total gross profit. Gasoline accounts for the highest portion of Casey's sales; in 2008, nearly 74% of net sales were derived from fuel, and gallons sold increased 2%. Gasoline margins were 13.9 cents per gallon, above expectations, and Casey's saw a 1.8% increase in total gallons sold. However, most of the Company's profit now comes from inside the store, as total in-store sales increased 11.1%. In the last three fiscal years, retail sales of non-gasoline items generated about 27% of net sales but resulted in approximately 74% of gross profits.

Foodservice represents 6.3% of the Company's sales mix, with grocery and merchandise at 19.5%. Stores carry a wide selection of food items, including prepared foods like pizza, donuts and sandwiches, primarily national brands as well as regional brands of dairy and bakery products. About 88% of stores sell beer. Gross profit margins on prepared food items averaged approximately 62% in the past three fiscal years—significantly higher than the gross profit margin on gasoline sales, which averaged 5%. Casey's also has a proprietary prepared food program and self-distributes roughly 90% of the grocery products in its stores from a distribution center located at its headquarters.

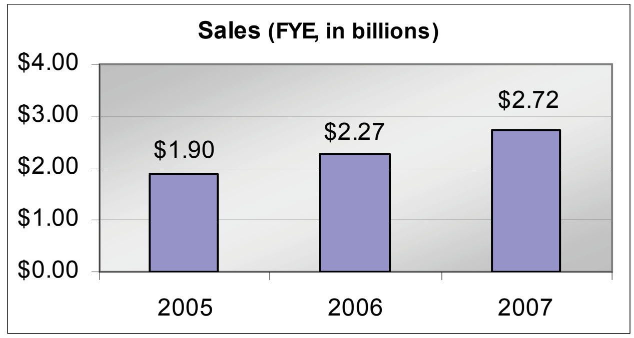


In September, Casey's announced the roll-out of a new 3,700 square-foot store design (traditional stores average 2,700 square feet), with the first opening in Greenup, IL and more to follow. The new stores have additional refrigeration units, mainly to accommodate a wider selection of energy drinks, vitamin water and craft beers. Prepared food offerings will also be expanded, including proprietary coffee blends, creamers, syrups and iced coffee. In select stores, Casey's will launch a made-to-order sandwich program, and some will have a seating area where customers can dine. The new design will debut in three ways—new store constructions, store replacements, and major remodels in the form of additions to existing Casey's stores. The Company's tentative plans for fiscal 2009 are for 20 new constructions, 15 to 20 replacements, and 10 major remodels. The stores will be distributed across rural, interstate and urban areas. According to the Company, the goal of the new stores is to increase gross-profit dollars by driving traffic to higher-margin, faster-moving products such as packaged beverages and prepared foods.

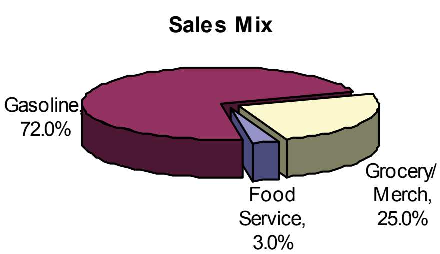
In fiscal 2009, Casey's system-wide goals are to increase same-store gasoline gallons sold 2% with an average margin of 10.8 cents per gallon, increase same-store grocery and other merchandise sales 7% with an average margin of 33.2%, increase same-store prepared foods & fountain sales 6.8% with an average margin of 61.2%. The Company also plans to test new food items and experiment with marketing techniques and pricing.

Susser Holdings Corporation, based in Corpus Christi, TX, is a third-generation family-run business and operates 509 convenience stores in Texas, New Mexico and Oklahoma under the Stripes, Town & Country and Village Market banners. The Company also supplies branded motor fuel to approximately 375 independent dealers through its wholesale fuel division. Susser announced its IPO and began trading on the NASDAQ in October 2006. In February 2007, the Company completed a rebranding campaign for both its convenience stores to the Stripes brand and its fueling islands to the Valero brand. Operating under a single brand is a key element in the Company's growth strategy. Susser began rebranding its convenience stores from the Circle K licensed brand to its own proprietary Stripes brand in the second quarter of 2006 and began rebranding its fueling islands from CITGO to Valero in the third quarter after signing a new 12-year supply agreement with Valero in July 2006. In September 2007, Susser announced that it had signed a definitive agreement to acquire TCFS Holdings, Inc., the parent company of San Angelo, TX-based Town & Country Food Stores, in an all-cash transaction valued at approximately $361.0 million. Susser completed the acquisition of the 168 Texas and New Mexico locations by November 2007, thereby increasing its retail store count by 50%. The total number of stores built and acquired in 2007 was 186, including 18 new retail stores plus the Town & Country stores. According to *Convenience Store News*, the Company was the top gainer in store count between 2007 and 2008.

Susser has made significant gains over the past few quarters and has become an up-and-coming player in the industry. In October, the Company posted third quarter sales growth of 80.1% to $1.21 billion, bolstered by the Town & Country acquisition. Comparable-store sales were up 4.8% while pro forma sales increased 6.7%. Fuel sales increased 81.6% to $1.02 billion, though average retail fuel volume per store was down 2.4% on a reported basis and 6.2% on a pro forma basis. Fuel sales average 72% of the Company's mix, though in recent quarters it's reached over 80% of sales. The Company offers Valero, Shamrock, Chevron, Shell, Texaco, Phillips 66 and Exxon branded motor fuel and unbranded motor fuel, approximately 63% of which was branded under the Valero name as of the end of calendar 2007. The Company's wholesale motor fuel segment purchases branded and unbranded motor fuel from refiners and distributes it to its retail convenience stores, dealers, commercial users and unbranded stores. During fiscal 2007, Susser supplied 456.5 million gallons of motor fuel to its retail stores and 465.2 million gallons of motor fuel to other customers.



*Fiscal year ends in December; 2007 results reflect 48 days of TCFS operating results



For the first nine months of 2008, Susser's convenience store merchandise sales reached $545.9 million, an increase of 77.5% on a reported basis and 12.2% pro forma, versus the comparable year-ago period. Growth was driven by strong increases in sales of cigarettes, foodservice and beer. Approximately 99% of the Company's convenience stores are freestanding, average 3,300 square feet, and carry a varied selection of prepared foods, beverages, snacks, grocery, candy and non-food merchandise, including magazines, newspapers, and health and beauty aids. The approximately 2,300 - 3,000 SKUs sold within each store are customized based on local customer demand and preferences. Susser also has a number of proprietary offerings: Laredo Taco Company and Country Cookin' in-house restaurants, Cafe de la Casa coffee, Slush Monkey frozen carbonated beverages, Quake energy drink and its own Royal brand cigarettes. Stores also offer automated teller machines (ATM), pay telephones and money order systems, as well as lottery, prepaid telephone cards, wireless services and car washes.

Foodservice represents roughly 3.0% of the Company's sales mix, less than several other convenience store operators. Susser offers restaurant service at more than 270 of its stores, under the Laredo Taco Company and Country Cookin' brands. Laredo Taco Company, located in close to 170 Company stores, serves breakfast and lunch tacos, fried and rotisserie chicken, and other hot food offerings targeted to the local populations. Country Cookin' is a Town & Country restaurant operation that features sandwiches and burritos, fried chicken, finger foods and burgers for lunch and dinner in more than 100 stores. Seven of the stores acquired from Town & Country operate under the Village Market banner, and supply grocery products to small rural communities. Village Market stores average approximately 12,500 square feet. The Company has been focusing its 2008 convenience store expansion proportionally within its operating area; two-thirds of new store construction is occurring in the Company's Southern Region, which includes the South Texas/Rio Grande Valley areas, and one-third in the Western Region, which includes West Texas/Eastern New Mexico.

CONCLUSION

While the convenience store industry has faced significant challenges in recent years, top companies continue to find ways to maintain customers and improve profit margins, despite the economic climate. Faced with diminishing gasoline margins, rising credit card fees and a growing competitive landscape, stores are trying to lure customers inside to make purchases. The industry's core products, gasoline and cigarettes, are no longer producing the profits they once did, and this trend is likely to continue. Additionally, many grocery chains and big-box retailers now sell gasoline, and even drug stores and specialty retailers, like dollar stores, office supply stores, pet stores and sporting goods stores, have begun selling drinks and snack items at checkout counters.

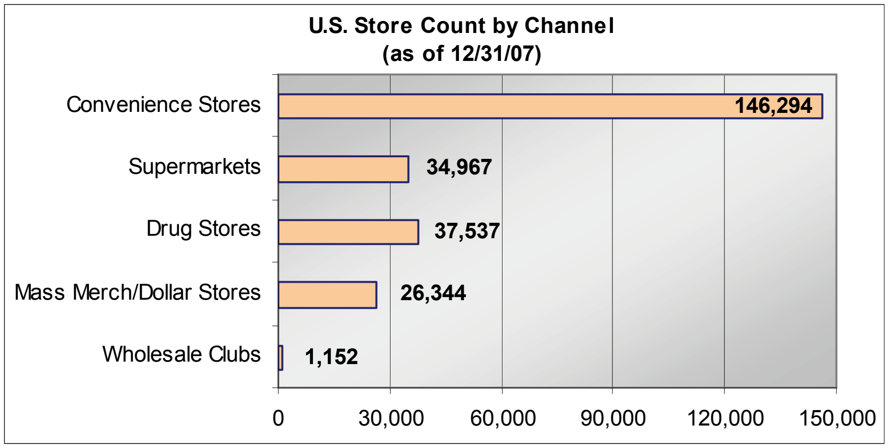
Retailers are increasingly focusing on foodservice sales as the key to improving profit; this category is now bringing in the highest margins. Many store operators are investing in in-store full-service restaurants, delis and coffee bars. The addition of more fresh and hot prepared food items is further positioning convenience stores as competitors to fast food restaurants. Convenience stores offering nationally branded food franchises seem to find additional success in establishing the quality of their food products and winning over customers. Retailers are also diversifying food offerings to meet the demands of increasingly health-conscious consumers looking for quick and inexpensive snacks, in addition to typical snack offerings. Customer demographics may have far-reaching implications for convenience stores down the road. According to U.S. census data, the Hispanic population will reach approximately 55.1 million by 2020, or 17% of the total population; thus, retailers are likely to make some adjustments to their product offerings to capture this market.

In turn, the addition of more types of prepared foods, packaged beverages, and coffee and hot beverage products are changing retailers' square-footage needs. Many companies are creating broader aisles and adding kitchens as well as space for additional departments, like bakery and hot beverage stations. Casey's General Stores' new store design is 1,000 feet larger than its traditional stores. QuikTrip has grown its average store size from 3,000 to 4,600 square feet and is in the process of adding kitchens to each store to expand prepared food offerings.

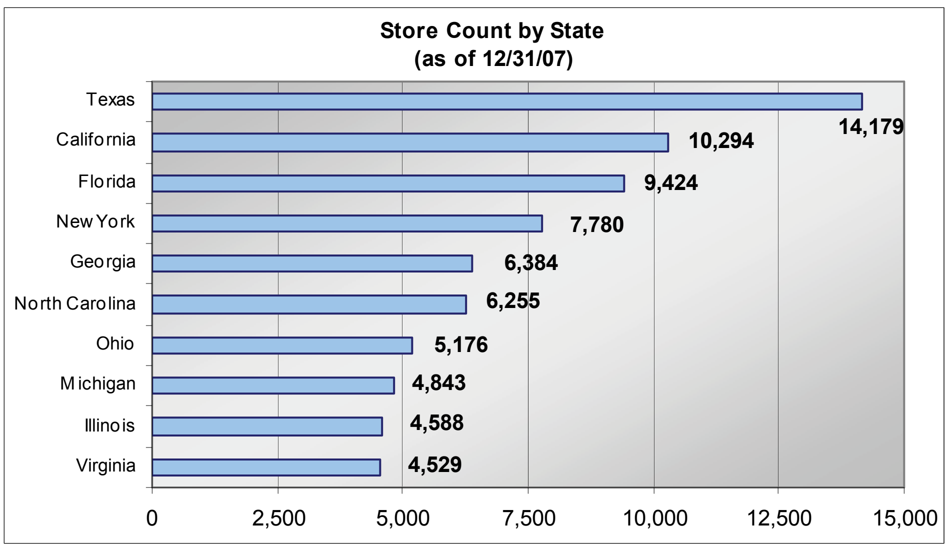
Technological innovation is becoming a distinguishing factor for some convenience stores. Wawa, for example, recently announced the expansion of a pilot for a new service that allows customers to pre-order food items over the internet or through cell phone text messaging, pay and then pick up orders at the store without ever waiting in line. Increased attention to environmentally friendly packaging is another distinguishing factor, with 7-Eleven leading the charge by using recycled cardboard for their prepared food products.

The industry is highly fragmented, with about two-thirds of operators owning ten stores or fewer. Mergers and acquisitions are aiding the growth of many of the convenience giants. Those companies operating over 200 stores are grabbing close to an 80% market share, though they comprise only about 10% of all convenience store operators. Big oil companies like Exxon Mobil and ConocoPhillips announced this year that they plan on divesting their retail businesses to focus on wholesale gasoline sales.

Still, big-box retailers like Wal-Mart and Tesco, as well as grocery retailers, are stepping in with store designs that are sized between a grocery store and a convenience store and offering many fresh food items for "fill-in" shopping. In October, Wal-Mart opened four Marketplace stores averaging 15,000 square feet in the Phoenix, AZ metropolitan area that offer "quick-strike, affordable" fresh groceries and prepared foods. British retailer Tesco has already opened close to 100 of its Fresh & Easy Neighborhood Market stores, which average 10,000 square feet and offer ready meals and grab-and-go items, in Arizona, California and Nevada. In May, Safeway debuted The Market at Vons, a 15,000 square-foot store with prepared and fresh foods, in California. Supervalu recently opened an "Urban Fresh, by Jewel" store in Chicago, an approximately 15,000 square-foot concept with a focus on fresh, prepared foods, ready-to-eat entrees and convenience items designed for urban areas. Golub's Price Chopper is reportedly also considering an approximately 15,000 square-foot concept designed to operate in urban areas. While these companies may not currently target the same customers as convenience stores, they still pose a threat in the foodservice category since they are positioned to fulfill the needs of customers making quick trips for fresh and competitively priced food items.

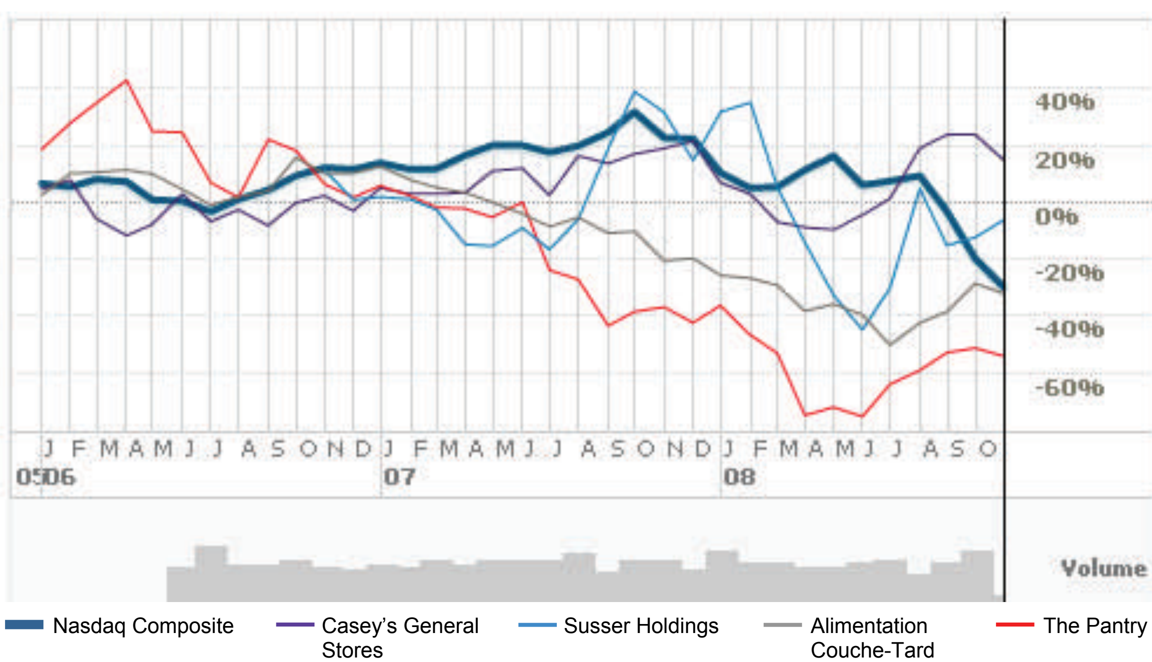


Source: The Nielsen Company, 2008; NACS, 2008



Source: NACS, 2008

Three-Year Stock Performance



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