

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-35711



**CROSSAMERICA PARTNERS LP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**600 Hamilton Street, Suite 500  
Allentown, PA**

(Address of Principal Executive Offices)

**45-4165414**

(I.R.S. Employer  
Identification No.)

**18101**

(Zip Code)

**(610) 625-8000**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Units	Trading Symbol(s) CAPL	Name of each exchange on which registered New York Stock Exchange
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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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

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

As of November 4, 2019, the registrant had outstanding 34,459,936 common units.

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## COMMONLY USED DEFINED TERMS

The following is a list of certain acronyms and terms generally used in the industry and throughout this document:

### *CrossAmerica Partners LP and subsidiaries:*

CrossAmerica Partners LP	CrossAmerica, the Partnership, we, us, our
LGW	Lehigh Gas Wholesale LLC
LGPR	LGP Realty Holdings LP
LGWS	Lehigh Gas Wholesale Services, Inc. and subsidiaries

### *CrossAmerica Partners LP related parties:*

Circle K	Circle K Stores Inc., a Texas corporation, and a wholly owned subsidiary of Couche-Tard
Couche-Tard	Alimentation Couche-Tard Inc. (TSX: ATD.A ATD.B)
CST	CST Brands, LLC and subsidiaries, indirectly owned by Circle K.
CST Fuel Supply	CST Fuel Supply LP is the parent of CST Marketing and Supply, indirectly owned by Circle K. Since July 1, 2015, we have owned a 17.5% limited partner interest in CST Fuel Supply.
CST Marketing and Supply	CST Marketing and Supply, LLC, indirectly owned by Circle K. It is CST's wholesale motor fuel supply business, which provides wholesale fuel distribution to the majority of CST's legacy U.S. retail convenience stores on a fixed markup per gallon.
CST Services	CST Services, LLC, a wholly owned subsidiary of Circle K
DMI	Dunne Manning Inc. (formerly Lehigh Gas Corporation), an entity affiliated with Joseph V. Topper, Jr., a member of the Board, a related party and large holder of our common units
DMS	Dunne Manning Stores LLC (formerly known as Lehigh Gas-Ohio, LLC), an entity affiliated with the family of Joseph V. Topper, Jr., a member of the Board, a related party and large holder of our common units. DMS is an operator of retail motor fuel stations. DMS leases retail sites from us in accordance with a master lease agreement and DMS purchases substantially all of its motor fuel for these sites from us on a wholesale basis under rack plus pricing. The financial results of DMS are not consolidated with ours.
General Partner	CrossAmerica GP LLC, the General Partner of CrossAmerica, a Delaware limited liability company, indirectly owned by Circle K.
Topstar	Topstar Enterprises, an entity affiliated with Joseph V. Topper, Jr. Topstar is an operator of convenience stores that leases retail sites from us but does not purchase fuel from us.

### *Recent Acquisitions:*

Franchised Holiday Stores	The franchised Holiday stores acquired in March 2016
Jet-Pep Assets	The assets acquired from Jet-Pep, Inc. in November 2017

### *Other Defined Terms:*

Amended Omnibus Agreement	The Amended and Restated Omnibus Agreement, dated October 1, 2014, as amended effective January 1, 2016, February 1, 2018 and April 29, 2019 by and among CrossAmerica, the General Partner, DMI, DMS, CST Services and Joseph V. Topper, Jr., which amends and restates the original omnibus agreement that was executed in connection with CrossAmerica's IPO on October 30, 2012. The terms of the Amended Omnibus Agreement were approved by the conflicts committee of the Board. Pursuant to the Amended Omnibus Agreement, CST Services agrees, among other things, to provide, or cause to be provided, to the Partnership certain management services.
Applegreen	Applegreen plc or one of its subsidiaries
ASC	Accounting Standards Codification
ASU	Accounting Standards Update

Board	Board of Directors of our General Partner
BP	BP p.l.c.
DTW	Dealer tank wagon contracts, which are variable cent per gallon priced wholesale motor fuel distribution or supply contracts. DTW also refers to the pricing methodology under such contracts
EBITDA	Earnings before interest, taxes, depreciation, amortization and accretion, a non-GAAP financial measure
EMV	Payment method based upon a technical standard for smart payment cards, also referred to as chip cards
Exchange Act	Securities Exchange Act of 1934, as amended
ExxonMobil	ExxonMobil Corporation
FASB	Financial Accounting Standards Board
Form 10-K	CrossAmerica's Annual Report on Form 10-K for the year ended December 31, 2018
FTC	U.S. Federal Trade Commission
Getty Lease	In May 2012, the Predecessor Entity, which represents the portion of the business of DMI and its subsidiaries and affiliates contributed to the Partnership in connection with the IPO, entered into a 15-year master lease agreement with renewal options of up to an additional 20 years with Getty Realty Corporation.
IDRs	Incentive Distribution Rights represent the right to receive an increasing percentage of quarterly distributions after the target distribution levels have been achieved, as defined in our Partnership Agreement. Circle K is the indirect owner of 100% of the outstanding IDRs of CrossAmerica.
Internal Revenue Code	Internal Revenue Code of 1986, as amended
IPO	Initial public offering of CrossAmerica Partners LP on October 30, 2012
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Motiva	Motiva Enterprises LLC
Partnership Agreement	The First Amended and Restated Agreement of Limited Partnership of CrossAmerica Partners LP, dated as of October 1, 2014, as amended
Plan	In connection with the IPO, the General Partner adopted the Lehigh Gas Partners LP 2012 Incentive Award Plan, a long-term incentive plan for employees, officers, consultants and directors of the General Partner and any of its affiliates who perform services for the Partnership
Predecessor Entity	Wholesale distribution business of DMS and real property and leasehold interests contributed to the Partnership in connection with the IPO
Retail Site	A general term to refer to convenience stores, including those operated by commission agents, independent dealers, Circle K, DMS or lessee dealers, as well as company operated sites
RIN	Renewable identification number, an identifier used by governmental agencies to track a specific batch of renewable fuel
SEC	U.S. Securities and Exchange Commission
Terms Discounts	Discounts for prompt payment and other rebates and incentives from our suppliers for most of the gallons of motor fuel purchased by us, which are recorded within cost of sales. Prompt payment discounts are based on a percentage of the purchase price of motor fuel.
U.S. GAAP	U.S. Generally Accepted Accounting Principles
UST	Underground storage tanks

Valero

Valero Energy Corporation and, where appropriate in context, one or more of its subsidiaries, or all of them taken as a whole

WTI

West Texas Intermediate crude oil

**CROSSAMERICA PARTNERS LP**  
**CONSOLIDATED BALANCE SHEETS**  
(Thousands of Dollars, except unit data)

	September 30, 2019 (Unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,385	\$ 3,191
Accounts receivable, net of allowances of \$525 and \$607, respectively	21,977	16,160
Accounts receivable from related parties	10,878	9,697
Inventories	5,841	14,083
Assets held for sale	5,831	2,218
Other current assets	6,334	5,513
Total current assets	56,246	50,862
Property and equipment, net	582,560	647,413
Right-of-use assets, net	122,474	—
Intangible assets, net	47,578	59,063
Goodwill	88,764	88,764
Other assets	21,439	20,820
Total assets	<u>\$ 919,061</u>	<u>\$ 866,922</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of debt and finance lease obligations	\$ 2,427	\$ 2,296
Current portion of operating lease obligations	23,615	—
Accounts payable	40,379	32,632
Accounts payable to related parties	34,115	25,045
Accrued expenses and other current liabilities	17,065	17,871
Motor fuel taxes payable	12,479	10,604
Total current liabilities	130,080	88,448
Debt and finance lease obligations, less current portion	520,772	519,276
Operating lease obligations, less current portion	101,551	—
Deferred tax liabilities, net	19,899	19,929
Asset retirement obligations	35,741	32,747
Other long-term liabilities	19,226	95,589
Total liabilities	827,269	755,989
Commitments and contingencies		
Equity:		
Common units—(34,459,936 and 34,444,113 units issued and outstanding at September 30, 2019 and December 31, 2018, respectively)	91,792	110,933
General Partner's interest	—	—
Total Partners' Capital	91,792	110,933
Total liabilities and equity	<u>\$ 919,061</u>	<u>\$ 866,922</u>

See Condensed Notes to Consolidated Financial Statements.

**CROSSAMERICA PARTNERS LP**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Thousands of Dollars, except unit and per unit amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating revenues(a)	\$ 559,736	\$ 670,810	\$ 1,637,050	\$ 1,898,675
Costs of sales	518,591	627,012	1,517,458	1,770,954
Gross profit	41,145	43,798	119,592	127,721
Income from CST Fuel Supply equity interests	3,927	3,479	11,087	11,024
Operating expenses:				
Operating expenses	12,978	15,261	42,541	47,294
General and administrative expenses	3,937	4,310	12,464	13,840
Depreciation, amortization and accretion expense	14,063	13,993	39,620	51,425
Total operating expenses	30,978	33,564	94,625	112,559
Loss on dispositions and lease terminations, net	(1,745)	(61)	(2,173)	(6,678)
Operating income	12,349	13,652	33,881	19,508
Other income, net	168	104	352	287
Interest expense	(6,532)	(8,145)	(21,105)	(24,354)
Income (loss) before income taxes	5,985	5,611	13,128	(4,559)
Income tax (benefit) expense	(1,180)	303	(690)	(2,122)
Net income (loss)	7,165	5,308	13,818	(2,437)
Less: net loss attributable to noncontrolling interests	—	—	—	(5)
Net income (loss) attributable to limited partners	7,165	5,308	13,818	(2,432)
IDR distributions	(133)	(133)	(399)	(1,446)
Net income (loss) available to limited partners	\$ 7,032	\$ 5,175	\$ 13,419	\$ (3,878)
<b>Basic and diluted income (loss) per limited partner unit</b>	<b>\$ 0.20</b>	<b>\$ 0.15</b>	<b>\$ 0.39</b>	<b>\$ (0.11)</b>

**Weighted-average limited partner units:**

Basic common units	34,453,162	34,439,416	34,447,185	34,311,998
Diluted common units(b)	34,464,027	34,439,416	34,447,723	34,311,998

**Supplemental information:**

(a) Includes excise taxes of:	\$ 21,292	\$ 25,176	\$ 61,642	\$ 74,984
(a) Includes revenues from fuel sales to and rental income from related parties of:	80,667	122,383	242,655	350,454

(b) Diluted common units were not used in the calculation of diluted earnings per common unit for the three and nine months ended September 30, 2018 because to do so would have been antidilutive.

See Condensed Notes to Consolidated Financial Statements.

**CROSSAMERICA PARTNERS LP**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Thousands of Dollars)  
(Unaudited)

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 13,818	\$ (2,437)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	39,620	51,425
Amortization of deferred financing costs	776	1,227
Amortization of above market leases, net	—	(18)
Provision for losses on doubtful accounts	259	278
Deferred income taxes	4,099	(3,124)
Equity-based employee and director compensation expense	547	340
Amended Omnibus Agreement fees settled in common units	—	3,300
Loss on dispositions and lease terminations, net	2,173	6,678
Changes in operating assets and liabilities, net of acquisitions	8,210	(399)
Net cash provided by operating activities	<u>69,502</u>	<u>57,270</u>
<b>Cash flows from investing activities:</b>		
Principal payments received on notes receivable	803	718
Proceeds from sale of assets	1,000	5,043
Proceeds from sale of assets to Circle K	3,148	—
Capital expenditures	(18,398)	(10,217)
Cash paid to Circle K in connection with acquisitions	—	(485)
Net cash used in investing activities	<u>(13,447)</u>	<u>(4,941)</u>
<b>Cash flows from financing activities:</b>		
Borrowings under the revolving credit facility	68,442	106,720
Repayments on the revolving credit facility	(62,442)	(96,220)
Payments of long-term debt and finance lease obligations	(1,708)	(2,319)
Payments of sale leaseback obligations	—	(750)
Payment of deferred financing costs	(3,441)	(901)
Distributions paid on distribution equivalent rights	(63)	(22)
Distributions paid to holders of the IDRs	(399)	(1,446)
Distributions paid to noncontrolling interests	—	(18)
Distributions paid on common units	(54,250)	(57,479)
Net cash used in financing activities	<u>(53,861)</u>	<u>(52,435)</u>
Net increase (decrease) in cash and cash equivalents	2,194	(106)
<b>Cash and cash equivalents at beginning of period</b>	<u>3,191</u>	<u>3,897</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 5,385</u>	<u>\$ 3,791</u>

See Condensed Notes to Consolidated Financial Statements.



**CROSSAMERICA PARTNERS LP**  
**CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME**  
(Thousands of Dollars, except unit amounts)  
(Unaudited)

	Limited Partners' Interest		General Partner's Interest	Incentive Distribution Rights	Noncontrolling Interest	Equity
	Common Unitholders					
	Units	Dollars	Dollars	Dollars	Dollars	Dollars
<b>Balance at December 31, 2018</b>	34,444,113	\$ 110,933	\$ —	\$ —	\$ —	\$ 110,933
Transition adjustment upon adoption of ASC 842, net of tax	—	28,896	—	—	—	28,896
Net income and comprehensive income	—	79	—	133	—	212
Distributions paid	—	(18,099)	—	(133)	—	(18,232)
<b>Balance at March 31, 2019</b>	34,444,113	\$ 121,809	\$ —	\$ —	\$ —	\$ 121,809
Vesting of incentive and director awards, net of units withheld for tax	243	4	—	—	—	4
Asset exchange with Circle K, net of tax	—	(6,357)	—	—	—	(6,357)
Net income and comprehensive income	—	6,308	—	133	—	6,441
Distributions paid	—	(18,099)	—	(133)	—	(18,232)
<b>Balance at June 30, 2019</b>	34,444,356	\$ 103,665	\$ —	\$ —	\$ —	\$ 103,665
Vesting of incentive and director awards, net of units withheld for tax	15,580	263	—	—	—	263
Asset exchange with Circle K, net of tax	—	(1,053)	—	—	—	(1,053)
Net income and comprehensive income	—	7,032	—	133	—	7,165
Distributions paid	—	(18,115)	—	(133)	—	(18,248)
<b>Balance at September 30, 2019</b>	34,459,936	\$ 91,792	\$ —	\$ —	\$ —	\$ 91,792
<b>Balance at December 31, 2017</b>	34,111,461	\$ 171,337	\$ —	\$ —	\$ (318)	\$ 171,019
Issuance of units to Circle K for the payment of fees under the Amended Omnibus Agreement	136,882	3,218	—	—	—	3,218
Net (loss) income and comprehensive (loss) income	—	(1,985)	—	1,180	(2)	(807)
Distributions paid	—	(21,415)	—	(1,180)	(18)	(22,613)
<b>Balance at March 31, 2018</b>	34,248,343	\$ 151,155	\$ —	\$ —	\$ (338)	\$ 150,817
Issuance of units to Circle K for the payment of fees under the Amended Omnibus Agreement	155,236	3,300	—	—	—	3,300
Vesting of incentive and director awards, net of units withheld for tax	29,995	642	—	—	—	642
Acquisition of leasehold interest in three sites from Circle K	—	(56)	—	—	—	(56)
Net (loss) income and comprehensive (loss) income	—	(7,068)	—	133	(3)	(6,938)
Distributions paid	—	(18,002)	—	(133)	—	(18,135)
<b>Balance at June 30, 2018</b>	34,433,574	\$ 129,971	\$ —	\$ —	\$ (341)	\$ 129,630
Vesting of incentive and director awards, net of units withheld for tax	10,539	(150)	—	—	341	191
Net (loss) income and comprehensive (loss) income	—	5,175	—	133	—	5,308
Distributions paid	—	(18,084)	—	(133)	—	(18,217)
<b>Balance at September 30, 2018</b>	34,444,113	\$ 116,912	\$ —	\$ —	\$ —	\$ 116,912

See Condensed Notes to Consolidated Financial Statements.

**Note 1. DESCRIPTION OF BUSINESS AND OTHER DISCLOSURES**

***Description of Business***

Our business consists of:

- the wholesale distribution of motor fuels;
- the retail distribution of motor fuels to end customers at retail sites operated by commission agents or, through September 2019, us;
- the owning or leasing of retail sites used in the retail distribution of motor fuels and, in turn, generating rental income from the lease or sublease of the retail sites; and
- through September 2019, the operation of retail sites.

The financial statements reflect the consolidated results of the Partnership and its wholly owned subsidiaries. Our primary operations are conducted by the following consolidated wholly owned subsidiaries:

- LGW, which distributes motor fuels on a wholesale basis and generates qualifying income under Section 7704(d) of the Internal Revenue Code;
- LGPR, which functions as our real estate holding company and holds assets that generate qualifying rental income under Section 7704(d) of the Internal Revenue Code; and
- LGWS, which owns and leases (or leases and sub-leases) real estate and personal property used in the retail distribution of motor fuels, as well as provides maintenance and other services to its customers. In addition, LGWS sells motor fuel on a retail basis at sites operated by commission agents. Through September 2019, LGWS also distributed motor fuels on a retail basis and sold convenience merchandise items to end customers at company operated retail sites. Income from LGWS generally is not qualifying income under Section 7704(d) of the Internal Revenue Code.

***Interim Financial Statements***

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and the Exchange Act. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Management believes that the disclosures made are adequate to keep the information presented from being misleading. The financial statements contained herein should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K. Financial information as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018 included in the consolidated financial statements has been derived from our unaudited financial statements. Financial information as of December 31, 2018 has been derived from our audited financial statements and notes thereto as of that date.

Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. Our business exhibits seasonality due to our wholesale and retail sites being located in certain geographic areas that are affected by seasonal weather and temperature trends and associated changes in retail customer activity during different seasons. Historically, sales volumes have been highest in the second and third quarters (during the summer activity months) and lowest during the winter months in the first and fourth quarters.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results and outcomes could differ from those estimates and assumptions. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances could result in revised estimates and assumptions.

***Significant Accounting Policies***

Certain new accounting pronouncements have become effective for our financial statements, but the adoption of these pronouncements did not materially impact our financial position, results of operations or disclosures, other than as described below.

**New Accounting Guidance Adopted – Lease Accounting**

In February 2016, the FASB issued ASU 2016-02–Leases (Topic 842). This standard modifies existing guidance for reporting organizations that enter into leases to increase transparency by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance was effective for us on January 1, 2019.

We elected the package of practical expedients permitted under the transition guidance within the new standard, which allows us to not reassess: 1) whether any expired or existing contracts are or contain leases; 2) lease classifications for any expired or existing leases; and 3) initial direct costs for any existing leases. We also elected the practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under ASC 840 are or contain a lease under ASC 842. We did not elect the hindsight practical expedient and thus did not reassess the lease term for existing leases. We did not elect the practical expedient to not separate lease components from non-lease components for any classes of assets. We made an accounting policy election to not recognize lease assets and lease liabilities on the balance sheet for leases with an initial term of one year or less. We elected the current period adjustment transition method as permitted by ASU 2018-10 and recorded a cumulative effect adjustment to equity effective January 1, 2019.

There was no impact from the adoption of this ASU on the accounting for our capital (now called finance) lease obligations.

Since our previous sale-leaseback transactions were accounted for as failed sale-leasebacks, we are required to reassess these leases under the new guidance as part of adopting ASC 842. We concluded that control, including the significant risks and rewards of ownership, transferred to the buyer-lessor at the inception of each sale-leaseback transaction, and as a result these leasing transactions do not represent financing obligations under ASC 842. Therefore, these leases are accounted for as operating leases under the new guidance and the \$42.0 million of net property and equipment and \$76.1 million of sale-leaseback financing obligations recorded on the balance sheet as of December 31, 2018 were removed as part of our transition adjustment effective January 1, 2019. In addition, \$5.2 million of deferred tax assets relating to the failed sale-leasebacks were removed from the balance sheet as part of our transition adjustment.

In order to measure our lease liability under our leases as lessee, we are required to discount our minimum rental payments using the rate implicit in the lease, unless such rate cannot be readily determined, in which case our incremental borrowing rate is used. As we do not know the amount of our lessors' initial direct costs, we are generally unable to determine the rate implicit in our leases. As a result, we generally use our incremental borrowing rate, which is the rate we would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment. We considered the rates we paid in previous financing and sale-leaseback transactions, the rates on our borrowings under our prior secured revolving credit facility and mortgage rates on commercial properties for various terms in developing our incremental borrowing rates. See Note 8 for a discussion of the New Credit Agreement (as defined below) we entered into on April 1, 2019.

Effective January 1, 2019, we recognized right-of-use assets related to operating leases, inclusive of direct costs of entering leases and below market lease intangible assets and net of deferred rent expense and above market lease liabilities, totaling \$133.3 million. We recorded lease liabilities related to operating leases, including related to the sale-leaseback transactions noted above, totaling \$135.9 million.

The net adjustment recorded to equity as of January 1, 2019 was a credit of \$28.9 million.

**CROSSAMERICA PARTNERS LP**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The table below summarizes these adjustments to the January 1, 2019 balance sheet (in millions).

	<u>As Reported</u>	<u>Remove sale- leaseback balances</u>	<u>Record ROU asset/ lease liability</u>	<u>Balance sheet reclasses</u>	<u>As Adjusted</u>
Property and equipment, net	\$ 647.4	\$ (42.0)	\$ —	\$ —	\$ 605.4
Right-of-use assets, net	—	—	135.9	(2.6)	133.3
Intangible assets, net	59.1	—	—	(1.0)	58.1
Accrued expenses and other current liabilities	17.9	(1.1)	—	—	16.8
Current portion of operating lease obligations	—	—	24.3	—	24.3
Operating lease obligations, less current portion	—	—	111.6	—	111.6
Deferred tax liabilities, net	19.9	5.2	—	—	25.1
Other long-term liabilities	95.6	(75.0)	—	(3.6)	17.0
Equity	110.9	28.9	—	—	139.8

Since we are not restating prior periods as part of adopting this guidance, our results for the three and nine months ended September 30, 2019 are not directly comparable to our results for periods before January 1, 2019. Specifically, payments on our failed sale-leaseback obligations were characterized as principal and interest expense in periods prior to January 1, 2019. Beginning on January 1, 2019, these payments are characterized as rent expense and thus reduce gross profit and operating income (primarily from the Wholesale segment), income before income taxes and net income relative to the results reported for periods prior to January 1, 2019.

See Notes 8, 9 and 16 for additional information.

**Concentration Risk**

For the nine months ended September 30, 2019, we distributed 8% of our total wholesale distribution volumes to DMS and DMS accounted for 7% of our rental income. For the nine months ended September 30, 2018, we distributed 12% of our total wholesale distribution volumes to DMS and DMS accounted for 17% of our rental income. See Note 10 for information on an amendment to the master lease and master fuel supply agreements with DMS.

In June 2018, we executed master fuel supply and master lease agreements with Applegreen, to whom we transitioned 43 sites in Florida from DMS in the third quarter of 2018. The master fuel supply and master lease agreements have an initial 10-year term with four 5-year renewal options. See Note 10 for information relating to our recapture of these sites from the master lease agreement with DMS.

For the nine months ended September 30, 2019, we distributed 7% of our total wholesale distribution volume to Circle K retail sites that are not supplied by CST Fuel Supply and received 17% of our rental income from Circle K. For the nine months ended September 30, 2018, we distributed 7% of our total wholesale distribution volume to CST retail sites that are not supplied by CST Fuel Supply and received 20% of our rental income from Circle K.

For more information regarding transactions with DMS and Circle K, see Note 10.

For the nine months ended September 30, 2019, our wholesale business purchased approximately 26%, 22%, 12% and 16% of its motor fuel from ExxonMobil, BP, Motiva and Circle K, respectively. For the nine months ended September 30, 2018, our wholesale business purchased approximately 26%, 26%, 12% and 10% of its motor fuel from ExxonMobil, BP, Motiva and Circle K, respectively. No other fuel suppliers accounted for 10% or more of our motor fuel purchases during the nine months ended September 30, 2019 and 2018.

Valero supplied substantially all of the motor fuel purchased by CST Fuel Supply during all periods presented.

**Note 2. ASSET EXCHANGE TRANSACTIONS WITH CIRCLE K**

On December 17, 2018, as approved by the independent conflicts committee of the Board, we entered into an Asset Exchange Agreement (the “Asset Exchange Agreement”) with Circle K. Pursuant to the Asset Exchange Agreement, the parties have agreed to exchange (i) certain assets of CrossAmerica related to 56 convenience and fuel retail stores currently leased and operated by Circle K pursuant to a master lease that CrossAmerica previously purchased jointly with or from CST (the “master lease properties”), and 17 convenience and fuel retail stores currently owned and operated by CrossAmerica located in the U.S. Upper Midwest (collectively, including the master lease properties, the “CAPL Properties”), having an aggregate fair value of approximately \$184.5 million, for (ii) certain assets of Circle K related to 192 (162 fee and 30 leased) company-operated convenience and fuel retail stores (the “CK Properties”), having an aggregate fair value of approximately \$184.5 million. The existing fuel supply arrangements for the 56 master lease properties will remain unchanged.

The assets being exchanged by CrossAmerica include (i) its fee simple title to all land and other real property and related improvements owned by CrossAmerica at the CAPL Properties, (ii) all buildings and other improvements located on the CAPL Properties, (iii) all tangible personal property owned by CrossAmerica and primarily used in connection with the operation of the CAPL Properties, including all underground storage tanks located on such properties and owned by CrossAmerica, (iv) CrossAmerica’s rights under certain contracts related to the CAPL Properties, (v) all in-store cash, inventory owned by CrossAmerica and assignable permits owned or held by CrossAmerica at the 17 convenience store sites owned and operated by CrossAmerica, (vi) all real estate records and related registrations and reports relating exclusively to the CAPL Properties, and (vii) all goodwill and other intangible assets associated with the foregoing assets (collectively, the “CAPL Assets”). The assets being exchanged by Circle K include (a) its fee simple title to all land and other real property and related improvements owned by Circle K at the CK Properties, (b) all buildings and other improvements located on the CK Properties, (c) all tangible personal property owned by Circle K and primarily used in connection with the operation of the CK Properties, including all underground storage tanks located on such properties and owned by Circle K, (d) Circle K’s rights under the dealer agreements and agent agreements to be entered into and assigned to CrossAmerica relating to each CK Property that will be dealerized as contemplated by the Asset Exchange Agreement, (e) Circle K’s rights under certain contracts related to the CK Properties, (f) all real estate records and related registrations and reports relating exclusively to the CK Properties, and (g) all goodwill and other intangible assets associated with the foregoing assets (collectively, the “CK Assets”). CrossAmerica will also assume certain liabilities associated with the CK Assets, and Circle K will assume certain liabilities associated with the CAPL Assets.

The CK Properties will be assigned to CrossAmerica in multiple tranches after Circle K has executed a dealer agreement or agent agreement, as applicable, with respect to each CK Property to be included in a tranche and the applicable dealer or agent has assumed possession and operating control of such property. As a result, it is expected that the exchange of assets pursuant to the Asset Exchange Agreement will occur in a series of separate tranche closings over a period of up to 24 months as Circle K enters into such dealer agreements or agent agreements. At each separate closing, CK Properties and related CK Assets will be exchanged for CAPL Properties and related CAPL Assets of approximately equivalent value. After the final tranche closing, any net valuation difference will be paid by the party owing such amount to the other.

Each separate closing is subject to the satisfaction or waiver of customary closing conditions. The Asset Exchange Agreement contains customary representations, warranties, agreements and obligations of the parties, including covenants regarding the conduct by CrossAmerica and Circle K with respect to the CAPL Properties and the CK Properties, respectively, prior to closing. CrossAmerica and Circle K have generally agreed to indemnify each other for breaches of the representations, warranties and covenants contained in the Asset Exchange Agreement for a period of 18 months after the date of the final closing (or for certain specified losses, until the expiration of the applicable statute of limitations). Except for such specified losses, the respective indemnification obligations of each of CrossAmerica and Circle K to the other will not apply to the first \$1.845 million of losses and the aggregate indemnification obligations will not exceed \$39.9 million. The Asset Exchange Agreement may be terminated by mutual written consent of CrossAmerica and Circle K.

In connection with the execution of the Asset Exchange Agreement, CrossAmerica and Circle K also entered into an Environmental Responsibility Agreement (the “ERA”), which agreement sets forth the parties’ respective liabilities and obligations with respect to environmental matters relating to the CAPL Properties and the CK Properties. Generally, (i) each party will retain liability for known contamination at the sites it is transferring to the other party and (ii) each party will assume liability for unknown contamination at the sites it is receiving from the other party, except that the ERA does not affect any liability that Circle K currently has under the existing master lease of the master lease properties.

**First Asset Exchange**

On May 21, 2019, the closing of the first separate tranche of asset exchanges under the Asset Exchange Agreement occurred (the “First Asset Exchange”). In this First Asset Exchange, Circle K transferred to the Partnership 60 (52 fee and 8 leased) U.S. company-operated convenience and fuel retail stores having an aggregate fair value of approximately \$58.1 million, and the Partnership transferred to Circle K all 17 of the Upper Midwest properties and the real property for eight of the master lease properties having an aggregate fair value of approximately \$58.3 million.

**Second Asset Exchange**

On September 5, 2019, the closing of the second separate tranche of asset exchanges under the Asset Exchange Agreement occurred (the “Second Asset Exchange”). In this Second Asset Exchange, Circle K transferred to the Partnership 56 (51 fee and 5 leased) U.S. company-operated convenience and fuel retail stores having an aggregate fair value of approximately \$50.2 million, and the Partnership transferred to Circle K the real property for 19 of the master lease properties having an aggregate fair value of approximately \$51.4 million.

In connection with the closing of the First Asset Exchange and Second Asset Exchange (collectively, the “Closed Asset Exchange Transactions”), the stores transferred by Circle K were dealerized as contemplated by the Asset Exchange Agreement and Circle K’s rights under the dealer agreements and agent agreements that were entered into in connection therewith were assigned to the Partnership. Additionally, at the closing of the First Asset Exchange, LGW and Circle K entered into a Sub-Jobber Agreement, dated as of May 21, 2019 (the “Sub-Jobber Agreement”), pursuant to which Circle K will supply fuel to LGW for resale to the dealers at the stores that Circle K transferred to the Partnership in the Closed Asset Exchange Transactions. While there is no minimum or maximum quantity of products that LGW is required to purchase from Circle K, for each store location covered by the Sub-Jobber Agreement, LGW must purchase from Circle K all of the requirements for motor fuel at the stores covered by the Sub-Jobber Agreement, except in certain limited circumstances described in the Sub-Jobber Agreement. The term of the Sub-Jobber Agreement will expire on May 21, 2024, unless earlier terminated by either party in accordance with the terms of the Sub-Jobber Agreement. Circle K also has the right to grant temporary extensions of the Sub-Jobber Agreement of up to 180 days per extension.

After each subsequent separate “tranche” closing under the Asset Exchange Agreement, the Sub-Jobber Agreement will be amended by agreement of LGW and Circle K to add the store locations acquired by the Partnership at such closing to the Sub-Jobber Agreement.

The purchases and sales were accounted for as transactions between entities under common control. As such, the sites divested were recorded as a charge against equity. The sites acquired were recorded at carryover book basis from Circle K’s balance sheet as a contribution to equity.

We recorded the following to reflect the divestiture of the CAPL Properties in the Closed Asset Exchange Transactions with the net assets divested recorded through equity (in thousands).

	<u>First Asset Exchange</u>	<u>Second Asset Exchange</u>
Property and equipment, net	\$ 40,686	\$ 37,955
Right-of-use assets, net	3,077	—
Intangible assets, net	2,135	—
<b>Total assets</b>	<b>\$ 45,898</b>	<b>\$ 37,955</b>
Current portion of operating lease obligations	\$ 448	\$ —
Operating lease obligations, less current portion	2,629	—
Deferred income taxes	4,804	(151)
Asset retirement obligations	821	318
<b>Total liabilities</b>	<b>\$ 8,702</b>	<b>\$ 167</b>
<b>Net assets divested</b>	<b>\$ 37,196</b>	<b>\$ 37,788</b>

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We recorded the following to reflect the acquisition of the CK Properties in the Closed Asset Exchange Transactions with the net assets acquired recorded through equity (in thousands).

	First Asset Exchange	Second Asset Exchange
Property and equipment, net	\$ 35,345	\$ 36,891
Right-of-use assets, net	1,956	781
Total assets	\$ 37,301	\$ 37,672
Current portion of operating lease obligations	\$ 563	\$ 241
Operating lease obligations, less current portion	1,393	540
Deferred income taxes	(2,282)	(2,368)
Asset retirement obligations	1,887	1,617
Total liabilities	\$ 1,561	\$ 30
Net assets acquired	\$ 35,740	\$ 37,642
Net decrease in net assets	\$ (1,456)	\$ (146)
Note receivable from Circle K(a)	234	1,171
Income tax liability incurred on sale	(5,135)	(2,078)
Net charge to equity	\$ (6,357)	\$ (1,053)

- (a) Because the fair value of the properties divested to Circle K was \$0.2 million greater than the fair value of the properties acquired from Circle K in the First Asset Exchange and \$1.2 million greater than the fair value of the properties acquired from Circle K in the Second Asset Exchange, we recognized a receivable for \$1.4 million.

In connection with the closing of the First Asset Exchange, we received \$2.8 million in cash from Circle K during the second quarter of 2019 as consideration primarily for 1) inventory transferred by us to Circle K at the 17 company operated sites; and 2) security deposits from dealers assigned by Circle K to us. In connection with the closing of the Second Asset Exchange, we received \$0.3 million in cash from Circle K during the third quarter of 2019 as consideration primarily for security deposits from dealers assigned by Circle K to us.

The third tranche is anticipated to close in the first quarter of 2020, subject to approval by the independent conflicts committee of the Board. All sites are anticipated to be exchanged by the end of the first quarter of 2020.

**Note 3. ASSETS HELD FOR SALE**

We have classified twelve sites and two sites as held for sale at September 30, 2019 and December 31, 2018, respectively. At September 30, 2019, assets held for sale include four sites acquired in the Second Asset Exchange, of which three are anticipated to be sold but will continue to be supplied under long-term supply agreements. Assets held for sale are expected to be sold within one year of such classification and consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Land	\$ 4,324	\$ 2,029
Buildings and site improvements	1,776	417
Equipment	1,140	238
Total	7,240	2,684
Less accumulated depreciation	(1,409)	(466)
Assets held for sale	\$ 5,831	\$ 2,218

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**Note 4. INVENTORIES**

Inventories consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Retail site merchandise	\$ —	\$ 7,085
Motor fuel	5,841	6,998
Inventories	<u>\$ 5,841</u>	<u>\$ 14,083</u>

See Note 2 for additional information related to the May 2019 closing of the first tranche of the asset exchange with Circle K and Note 16 for additional information related to the dealerization of our company operated sites.

**Note 5. PROPERTY AND EQUIPMENT**

Property and equipment, net consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Land	\$ 264,698	\$ 283,137
Buildings and site improvements	300,732	361,579
Leasehold improvements	8,576	7,936
Equipment	191,838	184,653
Construction in progress	7,765	3,841
Property and equipment, at cost	773,609	841,146
Accumulated depreciation and amortization	(191,049)	(193,733)
Property and equipment, net	<u>\$ 582,560</u>	<u>\$ 647,413</u>

As a result of the adoption of ASC 842, on January 1, 2019, we recorded a transition adjustment removing the \$42.0 million of property and equipment, net, recorded on the December 31, 2018 balance sheet related to leases previously accounted for as failed sale-leaseback transactions. See Note 1 for additional information.

As discussed in Note 8, we lease sites under our Getty Lease, for which the building and equipment components are classified as a finance lease. The right-of-use asset associated with this finance lease is included in the table above and totaled \$14.6 million at September 30, 2019, net of accumulated amortization. Amortization of this right-of-use asset is included in depreciation, amortization and accretion expense on the statement of operations and amounted to \$0.5 million and \$1.8 million for the three and nine months ended September 30, 2019.

We recorded impairment charges totaling \$1.8 million during the three and nine months ended September 30, 2019 related to certain sites classified within assets held for sale and certain vacant land properties.

We recorded impairment charges totaling \$8.9 million during the nine months ended September 30, 2018 related to the FTC-required divestitures, included within depreciation, amortization and accretion expense on the statement of operations. The impairment charges include \$1.2 million of wholesale fuel distribution rights and \$0.3 million of goodwill, most of which related to the Retail segment.

See Note 2 for additional information on the closings of the first two tranches of the asset exchange with Circle K.

**Note 6. INTANGIBLE ASSETS**

Intangible assets consisted of the following (in thousands):

	September 30, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net Carrying Amount	Gross Amount	Accumulated Amortization	Net Carrying Amount
Wholesale fuel supply contracts/rights	\$ 124,479	\$ (77,256)	\$ 47,223	\$ 126,734	\$ (69,265)	\$ 57,469
Trademarks	1,078	(1,055)	23	1,095	(1,006)	89
Covenant not to compete	4,552	(4,220)	332	4,581	(4,077)	504
Below market leases	—	—	—	11,177	(10,176)	1,001
Total intangible assets	<u>\$ 130,109</u>	<u>\$ (82,531)</u>	<u>\$ 47,578</u>	<u>\$ 143,587</u>	<u>\$ (84,524)</u>	<u>\$ 59,063</u>



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As a result of the adoption of ASC 842, on January 1, 2019, we recorded a transition adjustment reclassifying below market lease intangible assets (and above market lease liabilities) to the right-of-use asset. See Note 1 for additional information.

See Note 2 for additional information on the May 2019 closing of the first tranche of the asset exchange with Circle K.

**Note 7. GOODWILL**

Changes in goodwill during the three and nine months ended September 30, 2019 were as follows (in thousands):

	Wholesale Segment	Retail Segment	Consolidated
Balance at December 31, 2018	\$ 69,687	\$ 19,077	\$ 88,764
Reassignment	4,451	(4,451)	—
Balance at September 30, 2019	<u>\$ 74,138</u>	<u>\$ 14,626</u>	<u>\$ 88,764</u>

As a result of converting our remaining company-operated sites to dealer-operated sites in the third quarter of 2019 and the resulting reduction in future cash flows in the Retail segment and the expected increase in future cash flows that will be received by the Wholesale segment subsequent to the date of conversion, \$4.5 million of the goodwill originally assigned to the Retail segment was reassigned to the Wholesale segment. See Note 16 for additional information on the dealerization of our company operated sites.

**Note 8. DEBT**

Our balances for long-term debt and finance lease obligations are as follows (in thousands):

	September 30, 2019	December 31, 2018
Revolving credit facility	\$ 504,000	\$ 498,000
Finance lease obligations	23,219	24,927
Total debt and finance lease obligations	527,219	522,927
Current portion	2,427	2,296
Noncurrent portion	524,792	520,631
Deferred financing costs, net	4,020	1,355
Noncurrent portion, net of deferred financing costs	<u>\$ 520,772</u>	<u>\$ 519,276</u>

As of September 30, 2019, future principal payments on debt and future minimum rental payments on finance lease obligations were as follows (in thousands):

	Debt	Finance Lease Obligations	Total
2019	\$ —	\$ 775	\$ 775
2020	—	3,166	3,166
2021	—	3,266	3,266
2022	—	3,367	3,367
2023	—	3,469	3,469
Thereafter	504,000	12,307	516,307
Total future payments	504,000	26,350	530,350
Less interest component	—	3,131	3,131
	504,000	23,219	527,219
Current portion	—	2,427	2,427
Long-term portion	<u>\$ 504,000</u>	<u>\$ 20,792</u>	<u>\$ 524,792</u>

Our borrowings under the revolving credit facility had a weighted-average interest rate of 4.31% as of September 30, 2019 (LIBOR plus an applicable margin, which was 2.25% as of September 30, 2019). Letters of credit outstanding at September 30, 2019 and December 31, 2018 totaled \$5.4 million and \$5.2 million, respectively. The amount of availability under the credit facility at September 30, 2019, after taking into consideration debt covenant restrictions, was \$120.5 million.

***New Credit Agreement***

On April 1, 2019, we entered into a credit agreement with the lenders from time to time party thereto and Citizens Bank, N.A., as administrative agent, swing line lender and letter of credit issuer (the “New Credit Agreement”).

The New Credit Agreement replaced our previous credit agreement, dated as of March 4, 2014 (as amended, the “Existing Credit Agreement”), and provided the following key benefits:

- Increased commitments from \$650 million to \$750 million with the ability to increase commitments by \$300 million, subject to certain conditions;
- Provides for the current and future asset exchange transactions with Circle K, subject to certain conditions being satisfied;
- Provided for a general reduction in the applicable margin;
- Increased the maximum permitted leverage ratio during most periods;
- Reduced cost of compliance, including removal of the requirement to mortgage real property; and
- Extended the maturity from April 2020 to April 2024.

The New Credit Agreement is a \$750 million senior secured revolving credit facility, maturing in April 2024. The facility can be increased from time to time upon our written request, subject to certain conditions, up to an additional \$300 million. The aggregate amount of the outstanding loans and letters of credit under the New Credit Agreement cannot exceed the combined revolving commitments then in effect. All obligations under the New Credit Agreement are secured by substantially all of the Partnership’s assets.

Borrowings under the credit facility bear interest, at the Partnership’s option, at (1) a rate equal to LIBOR for interest periods of one, two, three or six months (or, if consented to by all lenders, for such other period that is twelve months or a period shorter than one month), plus a margin ranging from 1.50% to 2.50% per annum depending on our consolidated leverage ratio (as defined in the New Credit Agreement) or (2) (a) a base rate equal to the greatest of, (i) the federal funds rate, plus 0.5% per annum, (ii) LIBOR for one month interest periods, plus 1.00% per annum or (iii) the rate of interest established by the agent, from time to time, as its prime rate, plus (b) a margin ranging from 0.50% to 1.50% per annum depending on our consolidated leverage ratio. In addition, we incur a commitment fee based on the unused portion of the credit facility at a rate ranging from 0.25% to 0.45% per annum depending on our consolidated leverage ratio.

We also have the right to borrow swingline loans under the New Credit Agreement in an amount up to \$35.0 million. Swingline loans will bear interest at the base rate plus the applicable base rate margin.

Standby letters of credit are permissible under the New Credit Agreement up to an aggregate amount of \$65.0 million. Standby letters of credit are subject to a 0.125% fronting fee and other customary administrative charges. Standby letters of credit will accrue a fee at a rate based on the applicable margin of LIBOR loans.

The New Credit Agreement also contains certain financial covenants. For each quarter ending on or after September 30, 2019, we are required to maintain a consolidated leverage ratio for the most recently completed four fiscal quarters of 4.75 to 1.00. Such threshold is increased to 5.50 to 1.00 for the quarter during a specified acquisition period (as defined in the New Credit Agreement). Upon the occurrence of a qualified note offering (as defined in the New Credit Agreement), the consolidated leverage ratio when not in a specified acquisition period is increased to 5.25 to 1.00, while the specified acquisition period threshold remains 5.50 to 1.00. Upon the occurrence of a qualified note offering, we are also required to maintain a consolidated senior secured leverage ratio (as defined in the New Credit Agreement) for the most recently completed four fiscal quarter period of not greater than 3.75 to 1.00. Such threshold is increased to 4.00 to 1.00 for the quarter during a specified acquisition period. We are also required to maintain a consolidated interest coverage ratio (as defined in the New Credit Agreement) of at least 2.50 to 1.00. As of September 30, 2019, we were in compliance with these financial covenants.

In addition to rolling the \$516.5 million of borrowings under the Existing Credit Agreement into the New Credit Agreement, we also initially drew \$4.8 million and used \$0.3 million of cash to pay \$2.0 million of accrued interest under the Existing Credit Agreement and to pay \$3.1 million of fees and expenses in connection with entering into the New Credit Agreement. Future borrowings will be used to provide ongoing working capital.

The New Credit Agreement prohibits us from making cash distributions to our unitholders if any event of default occurs or would result from the distribution.

**Finance Lease Obligations**

In May 2012, the Predecessor Entity entered into a 15-year master lease agreement with renewal options of up to an additional 20 years with Getty Realty Corporation. Since then, the agreement has been amended from time to time to add or remove retail sites. As of September 30, 2019, we lease 114 sites under this lease with a weighted-average remaining lease term of 7.6 years. We pay fixed rent, which increases 1.5% per year. In addition, the lease requires variable lease payments based on gallons of motor fuel sold.

Because the fair value of the land at lease inception was estimated to represent more than 25% of the total fair value of the real property subject to the lease, the land element of the lease was analyzed for operating or capital treatment separately from the rest of the property subject to the lease. The land element of the lease was classified as an operating lease and all of the other property was classified as a capital lease. This assessment was not required to be reassessed upon adoption of ASC 842. As such, future minimum rental payments are included in both the finance lease obligations table above as well as the operating lease table in Note 9.

The weighted-average discount rate for this finance lease obligation at September 30, 2019 was 3.5%. Interest on this finance lease obligation amounted to \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2019, respectively.

**Note 9. OPERATING LEASES**

**Operating Leases of Retail Sites as Lessee**

We lease approximately 400 retail sites from third parties under certain non-cancelable operating leases that expire from time to time through 2033. The weighted-average remaining lease term was 5.9 years as of September 30, 2019.

Lease expense for the three and nine months ended September 30, 2019 was classified in the statement of operations as follows (in thousands):

	Three Months	Nine Months
Cost of sales	\$ 7,003	\$ 20,475
Operating expenses	29	379
General and administrative expenses	171	513
Total	<u>\$ 7,203</u>	<u>\$ 21,367</u>

Variable lease payments included in the above table are based on future inflation, revenues or volumes and totaled \$0.5 million and \$1.4 million for the three and nine months ended September 30, 2019, respectively. Short-term lease payments included in the table above that are excluded from the lease liability were \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2019, respectively. Cash paid for amounts included in the measurement of lease liabilities under operating leases totaled \$6.5 million and \$19.3 million for the three and nine months ended September 30, 2019, respectively.

As of September 30, 2019, future minimum rental payments under operating leases, excluding variable lease payments or short-term lease payments, were as follows (in thousands). The weighted-average discount rate as of September 30, 2019 was 6.9%.

2019	\$ 6,325
2020	23,756
2021	21,065
2022	19,472
2023	17,434
Thereafter	81,074
Total future minimum rental payments	<u>169,126</u>
Less impact of discounting	43,960
	<u>125,166</u>
Current portion	23,615
Long-term portion	<u>\$ 101,551</u>

Most lease agreements include provisions for renewals. We generally do not include renewal options in our lease term for purposes of measuring our lease liabilities and right-of-use assets unless the sublease to our customer extends beyond the term of the head lease.

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Substantially all these retail sites are then subleased to lessee dealers (including DMS) or commission agents under leases with terms generally ranging from one to ten years and which may include renewal options. Sublease rental income amounted to \$9.6 million and \$28.3 million for the three and nine months ended September 30, 2019, respectively.

**Operating Leases of Retail Sites as Lessor**

Motor fuel stations are leased to tenants under operating leases with various expiration dates ranging through 2033. Most lease agreements include provisions for renewals. We generally do not include renewal options in our lease term. Future minimum rental payments under non-cancelable operating leases with third parties, Circle K and DMS as of September 30, 2019 were as follows (in thousands):

	<u>Third Party</u>	<u>Circle K</u>	<u>DMS</u>	<u>Total</u>
2019	\$ 13,257	\$ 2,173	\$ 1,199	\$ 16,629
2020	48,906	8,692	4,885	62,483
2021	43,064	8,692	4,946	56,702
2022	32,603	8,692	5,018	46,313
2023	25,284	8,692	5,091	39,067
Thereafter	88,885	20,535	23,548	132,968
Total future minimum rental payments	<u>\$ 251,999</u>	<u>\$ 57,476</u>	<u>\$ 44,687</u>	<u>\$ 354,162</u>

The future minimum rental payments presented above do not include contingent rent based on future inflation, future revenues or volumes of the lessee or non-lease components for amounts that may be received as tenant reimbursements for certain operating costs.

Deferred rent income from straight-line rent relates to the cumulative amount by which straight-line rental income recorded to date exceeds cash rents billed to date under the lease agreement and totaled \$6.5 million and \$6.3 million at September 30, 2019 and December 31, 2018, respectively.

**Note 10. RELATED-PARTY TRANSACTIONS**

**Transactions with Circle K**

Fuel Sales and Rental Income

We sell wholesale motor fuel under a master fuel distribution agreement to 47 Circle K retail sites and lease real property on 46 retail sites to Circle K under a master lease agreement, each having initial 10-year terms. The master fuel distribution agreement provides us with a fixed wholesale mark-up per gallon. The master lease agreement is a triple net lease.

Revenues from wholesale fuel sales and real property rental income from Circle K were as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues from motor fuel sales to Circle K	\$ 40,435	\$ 46,060	\$ 116,056	\$ 125,627
Rental income from Circle K	3,367	4,198	11,539	12,593

Accounts receivable from Circle K for fuel amounted to \$3.1 million and \$2.6 million at September 30, 2019 and December 31, 2018, respectively.

CST Fuel Supply Equity Interests

CST Fuel Supply provides wholesale motor fuel distribution to the majority of CST's legacy U.S. retail sites at cost plus a fixed markup per gallon. Since July 1, 2015, we have owned a 17.5% total interest in CST Fuel Supply. We account for the income derived from our equity interest of CST Fuel Supply as "Income from CST Fuel Supply equity interests" on our statement of operations, which amounted to \$3.9 million and \$3.5 million for the three months ended September 30, 2019 and 2018, respectively and \$11.1 million and \$11.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Purchase of Fuel from Circle K

During the nine months ended September 30, 2019, we purchased the fuel supplied to the following sets of sites from Circle K:

- retail sites acquired in the Jet-Pep Assets acquisition;
- Franchised Holiday Stores in the Upper Midwest; we also pay a franchise fee to Circle K, which amounted to \$0.1 million and \$0.4 million for the three months ended September 30, 2019 and 2018 and \$0.5 million and \$0.9 million for the nine months ended September 30, 2019 and 2018, respectively;
- retail sites in which we have a leasehold interest that we acquired from Circle K in March and May of 2018 for \$0.5 million;
- retail sites acquired from CST in February 2015;
- retail sites acquired from Circle K in the first two tranches of the asset exchange; and
- certain other retail sites at which we are evaluating our fuel supply options.

In total, we purchased \$82.3 million and \$52.7 million of motor fuel from Circle K for the three months ended September 30, 2019 and 2018, and \$193.8 million and \$154.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Effective February 1, 2018, Couche-Tard began renegotiating fuel carrier agreements, including our wholesale transportation agreements, with third party carriers. The independent conflicts committee of our Board approved an amendment to the Amended Omnibus Agreement effective February 1, 2018 providing for the payment by us to an affiliate of Couche-Tard of a commission based on the volume purchased by us on the renegotiated wholesale transportation contracts. This commission is to compensate such affiliate of Couche-Tard for its services in connection with the renegotiations of our fuel carrier agreements with third party carriers, which resulted in overall reductions in transportation costs to us. This commission amounted to \$0.2 million and \$0.1 million for the three months ended September 30, 2019 and 2018 and \$0.7 million and \$0.4 million for the nine months ended September 30, 2019 and 2018, respectively.

Amounts payable to Circle K related to these fuel purchases and freight commissions totaled \$10.3 million and \$4.3 million at September 30, 2019 and December 31, 2018, respectively.

Amended Omnibus Agreement and Management Fees

We incurred expenses under the Amended Omnibus Agreement, including incentive compensation costs and non-cash stock-based compensation expense, totaling \$3.0 million and \$2.9 million for the three months ended September 30, 2019 and 2018, and \$8.6 million and \$8.9 million for the nine months ended September 30, 2019 and 2018, respectively. Such expenses are included in operating expenses and general and administrative expenses in the statement of operations. Amounts payable related to Circle K related to expenses incurred by Circle K in accordance with the Amended Omnibus Agreement totaled \$23.5 million and \$20.2 million at September 30, 2019 and December 31, 2018, respectively.

On October 29, 2019, the Amended Omnibus Agreement was amended and restated, effective as of April 29, 2019, to: a) remove references to fixed and variable management fees and call for a simplified quarterly settlement based on actual underlying costs incurred by Circle K; and b) permit for a one-time charge of \$183,000 from Circle K to us related to costs incurred by Circle K in connection with the strategic review of our fuel supply.

Common Units Issued to Circle K as Consideration for Amounts Due Under the Amended Omnibus Agreement

As approved by the independent conflicts committee of the Board, the Partnership and Circle K mutually agreed to settle, from time to time, some or all of the amounts due under the terms of the Amended Omnibus Agreement in newly issued common units representing limited partner interests in the Partnership. We issued the following common units to Circle K as consideration for amounts due under the terms of the Amended Omnibus Agreement:

<u>Period</u>	<u>Date of Issuance</u>	<u>Number of Common Units Issued</u>
Quarter ended December 31, 2017	March 1, 2018	136,882
Quarter ended March 31, 2018	May 21, 2018	155,236

No charges allocated to us by Circle K under the Amended Omnibus Agreement since the first quarter of 2018 have been settled in common units.

**CROSSAMERICA PARTNERS LP**  
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IDR and Common Unit Distributions

We distributed \$0.1 million to Circle K related to its ownership of our IDRs and \$3.9 million related to its ownership of our common units during the three months ended September 30, 2019 and 2018, respectively. We distributed \$0.4 million and \$1.4 million to Circle K related to its ownership of our IDRs and \$11.8 million and \$12.3 million related to its ownership of our common units during the nine months ended September 30, 2019 and 2018, respectively.

***Transactions with Affiliates of Members of the Board***

Wholesale Motor Fuel Sales and Real Estate Rentals

Revenues from motor fuel sales and rental income from DMS were as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	2019	2018	2019	2018
Revenues from motor fuel sales to DMS	\$ 35,308	\$ 68,987	\$ 110,008	\$ 201,283
Rental income from DMS	1,485	3,078	4,871	10,768

Accounts receivable from DMS totaled \$4.5 million and \$5.6 million at September 30, 2019 and December 31, 2018, respectively.

In March 2019, we entered into an amendment of the master lease and master fuel supply agreements with DMS. These amendments resulted in the following:

- DMS severed 17 sites from the master lease. Since April 1, 2019, DMS has not been charged rent on these sites. We transitioned substantially all of these sites to other dealers by June 30, 2019.
- Rental income from DMS for the remainder of the lease term was reduced effective April 1, 2019 by \$0.5 million annually. We will make a total of \$1.25 million in capital expenditures at certain DMS sites by December 31, 2019. Of the remaining 70 sites covered by the master lease agreement, DMS may sever up to 20 sites and we may sever up to eight sites. No severals may be made in 2019 beyond the 17 sites noted above, and the required notification period for severals was extended from 30 days to 180 days.
- The markup charged on fuel deliveries to the remaining 85 DMS sites covered by the master fuel supply agreement was reduced effective April 1, 2019 by \$0.01 per gallon and by an additional \$0.005 per gallon effective January 1, 2020.

During the third quarter of 2019, DMS gave notice to sever 12 sites in early 2020 from the master lease and master fuel supply agreements, resulting in the write-off of deferred rent income of \$0.6 million, classified within the loss on dispositions and lease terminations, net line item of the statement of operations.

During the second quarter of 2018, in connection with the transition of 43 sites in Florida from DMS to Applegreen, we accrued a \$3.8 million contract termination payment paid in cash to DMS during the third quarter of 2018. This payment was approved by the independent conflicts committee of our Board. Additionally, we recorded a \$2.2 million charge to write off deferred rent income related to our recapture of these sites from the master lease agreement with DMS. These charges are included in loss on dispositions and lease terminations, net in the statement of operations. See Note 1 for additional information on the agreements entered into with Applegreen.

Revenues from rental income from Topstar, an entity affiliated with a member of the Board, were \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2019 and 2018, respectively.

CrossAmerica leases real estate from certain entities affiliated with Joseph V. Topper, Jr., a member of the Board. Rent expense paid to these entities was \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2019 and 2018, respectively.

Maintenance and Environmental Costs

Certain maintenance and environmental monitoring and remediation activities are performed by an entity affiliated with Joseph V. Topper, Jr., a member of the Board, as approved by the independent conflicts committee of the Board. We incurred charges with this related party of \$0.1 million and \$0.1 million for the three months ended September 30, 2019 and 2018 and \$0.7 million and \$0.4 million for the nine months ended September 30, 2019 and 2018, respectively. Accounts payable to this related party amounted to \$0.2 million at September 30, 2019 and December 31, 2018.

Principal Executive Offices

Our principal executive offices are in Allentown, Pennsylvania. We sublease office space from Circle K that Circle K leases from an affiliate of John B. Reilly, III and Joseph V. Topper, Jr., members of our Board. Rent expense amounted to \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2019 and 2018, respectively.

Public Relations and Website Consulting Services

We have engaged a company affiliated with a member of the Board for public relations and website consulting services. The cost of these services was insignificant for the three and nine months ended September 30, 2019 and 2018.

**Note 11. COMMITMENTS AND CONTINGENCIES**

***Purchase Commitments***

We have minimum volume purchase requirements under certain of our fuel supply agreements with a purchase price at prevailing market rates for wholesale distribution. In the event we fail to purchase the required minimum volume for a given contract year, the underlying third party's exclusive remedies (depending on the magnitude of the failure) are either termination of the supply agreement and/or a financial penalty per gallon based on the volume shortfall for the given year. We did not incur any significant penalties during the nine months ended September 30, 2019 or 2018.

***Litigation Matters***

We are from time to time party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damages, environmental damages, employment-related claims and damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, we record a reserve when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In addition, we disclose matters for which management believes a material loss is at least reasonably possible. None of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows. In all instances, management has assessed the matter based on current information and made a judgment concerning its potential outcome, giving due consideration to the nature of the claim, the amount and nature of damages sought and the probability of success. Management's judgment may prove materially inaccurate, and such judgment is made subject to the known uncertainties of litigation.

As part of Circle K's acquisition of Holiday Stationstores, LLC, the FTC issued a decree in which nine sites were required to be divested. These sites were divested in September 2018, after the June 15, 2018 deadline specified in the FTC orders. As a result, Couche-Tard and/or the Partnership may be subject to civil penalties, up to a maximum allowed by law of \$41,000 per day per violation of the FTC divestiture orders. Circle K has agreed that it would be solely responsible for any such penalties and we have not accrued any liability for such penalties.

***Environmental Matters***

We currently own or lease retail sites where refined petroleum products are being or have been handled. These retail sites and the refined petroleum products handled thereon may be subject to federal and state environmental laws and regulations. Under such laws and regulations, we could be required to remove or remediate containerized hazardous liquids or associated generated wastes (including wastes disposed of or abandoned by prior owners or operators), to remediate contaminated property arising from the release of liquids or wastes into the environment, including contaminated groundwater, or to implement best management practices to prevent future contamination.

We maintain insurance of various types with varying levels of coverage that is considered adequate under the circumstances to cover operations and properties. The insurance policies are subject to deductibles that are considered reasonable and not excessive. In addition, we have entered into indemnification and escrow agreements with various sellers in conjunction with several of their respective acquisitions, as further described below. Financial responsibility for environmental remediation is negotiated in connection with each acquisition transaction. In each case, an assessment is made of potential environmental liability exposure based on available information. Based on that assessment and relevant economic and risk factors, a determination is made whether to, and the extent to which we will, assume liability for existing environmental conditions.

Environmental liabilities recorded on the balance sheet within accrued expenses and other current liabilities and other long-term liabilities totaled \$3.5 million and \$3.6 million at September 30, 2019 and December 31, 2018, respectively. Indemnification assets related to third-party escrow funds, state funds or insurance recorded on the balance sheet within other current assets and other noncurrent assets totaled \$3.1 million and \$3.2 million at September 30, 2019 and December 31, 2018, respectively. State funds represent probable state reimbursement amounts. Reimbursement will depend upon the continued maintenance and solvency of the state. Insurance coverage represents amounts deemed probable of reimbursement under insurance policies.

The estimates used in these reserves are based on all known facts at the time and an assessment of the ultimate remedial action outcomes. We will adjust loss accruals as further information becomes available or circumstances change. Among the many uncertainties that impact the estimates are the necessary regulatory approvals for, and potential modifications of remediation plans, the amount of data available upon initial assessment of the impact of soil or water contamination, changes in costs associated with environmental remediation services and equipment and the possibility of existing legal claims giving rise to additional claims.

Environmental liabilities related to the sites contributed to the Partnership in connection with our IPO have not been assigned to us and are still the responsibility of the Predecessor Entity. Under the Amended Omnibus Agreement, the Predecessor Entity must indemnify us for any costs or expenses that we incur for environmental liabilities and third-party claims, regardless of when a claim is made, that are based on environmental conditions in existence prior to the closing of the IPO for contributed sites. As such, these environmental liabilities and indemnification assets are not recorded on the balance sheet of the Partnership.

#### **Note 12. FAIR VALUE MEASUREMENTS**

We measure and report certain financial and non-financial assets and liabilities on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). U.S. GAAP specifies a three-level hierarchy that is used when measuring and disclosing fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfers occurred. There were no transfers between any levels during the nine months ended September 30, 2019 or the year ended December 31, 2018.

As further discussed in Note 13, we have accrued for unvested phantom units and phantom performance units as a liability and adjust that liability on a recurring basis based on the market price of our common units each balance sheet date. Such fair value measurements are deemed Level 1 measurements.

The fair value of our accounts receivable, notes receivable, and accounts payable approximated their carrying values as of September 30, 2019 and December 31, 2018 due to the short-term maturity of these instruments. The fair value of the revolving credit facility approximated its carrying values of \$504.0 million at September 30, 2019 and \$498.0 million at December 31, 2018, due to the frequency with which interest rates are reset and the consistency of the market spread. See Note 8 for a discussion of the New Credit Agreement we entered into on April 1, 2019.



**Note 13. EQUITY-BASED COMPENSATION**

**Partnership Equity-Based Awards**

CrossAmerica equity-based award activity was as follows:

	Employees of Circle K		Directors	Total
	Phantom Units	Phantom Performance Units	Phantom Units	
<b>Nonvested at December 31, 2018</b>	827	13,607	15,580	30,014
Forfeited	—	(717)	—	(717)
<b>Nonvested at March 31, 2019</b>	827	12,890	15,580	29,297
Vested	(407)	—	—	(407)
<b>Nonvested at June 30, 2019</b>	420	12,890	15,580	28,890
Granted	—	14,712	16,440	31,152
Vested	—	—	(15,580)	(15,580)
<b>Nonvested at September 30, 2019</b>	420	27,602	16,440	44,462

Equity-based compensation expense related to these awards was \$0.1 million for both the three months ended September 30, 2019 and 2018 and \$0.3 million and \$0.1 million for the nine months ended September 30, 2019 and 2018, respectively. The liability related to these awards totaled \$0.2 million and \$0.1 million at September 30, 2019 and December 31, 2018, respectively.

In July 2019, the Partnership granted 14,712 phantom performance unit awards to employees of Circle K who provide services to us under the Amended Omnibus Agreement, for which 35% vest upon the third anniversary of the grant date of such awards. The remaining 65% are subject to performance conditions relating to fuel volume, Adjusted EBITDA and employee engagement. These awards were accompanied by tandem distribution equivalent rights that entitle the holder to cash payments equal to the amount of unit distributions authorized to be paid to the holders of our common units. These awards may be settled in common units or cash at the discretion of the Board.

In July 2019, the Partnership granted 16,440 phantom units to non-employee directors of the Board as a portion of director compensation. Such awards vest in one year and were accompanied by tandem distribution equivalent rights that entitle the holder to cash payments equal to the amount of unit distributions authorized to be paid to the holders of our common units.

**CST Equity-Based Awards**

Equity-based compensation expense for CST equity-based awards charged to us under the Amended Omnibus Agreement amounted to \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2019 and 2018, respectively. Unrecognized compensation expense associated with CST equity-based awards amounted to \$0.1 million at September 30, 2019 and \$0.3 million as of December 31, 2018, which will be recognized over the vesting term through January 2020.

**Note 14. INCOME TAXES**

As a limited partnership, we are not subject to federal and state income taxes. However, our corporate subsidiaries are subject to income taxes. Income tax attributable to our taxable income (including any dividend income from our corporate subsidiaries), which may differ significantly from income for financial statement purposes, is assessed at the individual limited partner unitholder level. We are subject to a statutory requirement that non-qualifying income, as defined by the Internal Revenue Code, cannot exceed 10% of total gross income for the calendar year. If non-qualifying income exceeds this statutory limit, we would be taxed as a corporation. The non-qualifying income did not exceed the statutory limit in any period presented.

Certain activities that generate non-qualifying income are conducted through our wholly owned taxable corporate subsidiary, LGWS. Current and deferred income taxes are recognized on the earnings of LGWS. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates.

As discussed in Note 1, we removed \$5.2 million of deferred tax assets related to our previous sale-leaseback transactions as part of our January 1, 2019 transition adjustment in connection with the adoption of ASC 842.

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As discussed in Note 2, we removed \$4.8 million of net deferred tax liabilities and recorded income taxes payable of \$5.1 million with respect to the divested sites in connection with the closing of the First Asset Exchange. We also recorded \$2.3 million of net deferred tax assets with respect to the acquired sites in connection with the closing of the First Asset Exchange. Also as discussed in Note 2, we removed \$0.2 million of net deferred tax assets and recorded income taxes payable of \$2.1 million with respect to the divested sites in connection with the closing of the Second Asset Exchange. We also recorded \$2.4 million of net deferred tax assets with respect to the acquired sites in connection with the closing of the Second Asset Exchange. Each of these adjustments was recorded through equity based on accounting guidance for transactions between entities under common control.

We recorded income tax (benefit) expense of \$(1.2) million and \$0.3 million for the three months ended September 30, 2019 and 2018 and \$(0.7) million and \$(2.1) million for the nine months ended September 30, 2019 and 2018, respectively, as a result of the (losses) income generated by our corporate subsidiaries. The effective tax rate differs from the combined federal and state statutory rate primarily because only LGWS is subject to income tax.

**Note 15. NET INCOME PER LIMITED PARTNER UNIT**

In addition to the common units, we have identified the IDRs as participating securities and compute income per unit using the two-class method under which any excess of distributions declared over net income shall be allocated to the partners based on their respective sharing of income as specified in the Partnership Agreement. Net income per unit applicable to limited partners is computed by dividing the limited partners' interest in net income (loss), after deducting the IDRs, by the weighted-average number of outstanding common units.

The following tables provide a reconciliation of net income (loss) and weighted-average units used in computing basic and diluted net income (loss) per limited partner unit for the following periods (in thousands, except unit and per unit amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Numerator:</b>				
Distributions paid	\$ 18,115	\$ 18,084	\$ 54,313	\$ 57,501
Allocation of distributions in excess of net income (loss)	(11,083)	(12,909)	(40,894)	(61,379)
Limited partners' interest in net income (loss) - basic and diluted	<u>\$ 7,032</u>	<u>\$ 5,175</u>	<u>\$ 13,419</u>	<u>\$ (3,878)</u>
<b>Denominator:</b>				
Weighted-average limited partnership units outstanding - basic	34,453,162	34,439,416	34,447,185	34,311,998
Adjustment for phantom and phantom performance units <sup>(a)</sup>	10,865	—	538	—
Weighted-average limited partnership units outstanding - diluted	<u>34,464,027</u>	<u>34,439,416</u>	<u>34,447,723</u>	<u>34,311,998</u>
Net income (loss) per limited partnership unit - basic and diluted	<u>\$ 0.20</u>	<u>\$ 0.15</u>	<u>\$ 0.39</u>	<u>\$ (0.11)</u>
Distributions paid per common unit	\$ 0.5250	\$ 0.5250	\$ 1.5750	\$ 1.6775
Distributions declared (with respect to each respective period) per common unit	\$ 0.5250	\$ 0.5250	\$ 1.5750	\$ 1.5750

(a) Excludes 21,393 and 15,521 potentially dilutive securities from the calculation of diluted earnings per common unit because to do so would be antidilutive for the three and nine months ended September 30, 2018.

**CROSSAMERICA PARTNERS LP**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Distributions**

Distribution activity for 2019 is as follows:

<u>Quarter Ended</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Cash Distribution (per unit)</u>	<u>Cash Distribution (in thousands)</u>
December 31, 2018	February 11, 2019	February 19, 2019	\$ 0.5250	\$ 18,099
March 31, 2019	May 6, 2019	May 13, 2019	0.5250	18,099
June 30, 2019	July 30, 2019	August 6, 2019	0.5250	18,115
September 30, 2019	November 5, 2019	November 12, 2019	0.5250	18,115

The amount of any distribution is subject to the discretion of the Board, which may modify or revoke our cash distribution policy at any time. Our Partnership Agreement does not require us to pay any distributions. As such, there can be no assurance we will continue to pay distributions in the future.

**Note 16. SEGMENT REPORTING**

We conduct our business in two segments: 1) the Wholesale segment and 2) the Retail segment. The Wholesale segment includes the wholesale distribution of motor fuel to lessee dealers, independent dealers, commission agents, DMS, Circle K and, through September 2019, company operated retail sites. We have exclusive motor fuel distribution contracts with lessee dealers who lease the property from us. We also have exclusive distribution contracts with independent dealers to distribute motor fuel but do not collect rent from the independent dealers. Similar to lessee dealers, we have motor fuel distribution agreements with DMS and Circle K and collect rent from both. The Retail segment includes the retail sale of motor fuel at retail sites operated by commission agents and through September 2019, the sale of convenience merchandise items and the retail sale of motor fuel at company operated retail sites. A commission agent is a retail site where we retain title to the motor fuel inventory and sell it directly to our end user customers. At commission agent retail sites, we manage motor fuel inventory pricing and retain the gross profit on motor fuel sales, less a commission to the agent who operates the retail site. Similar to our Wholesale segment, we also generate revenues through leasing or subleasing real estate in our Retail segment.

Unallocated items consist primarily of general and administrative expenses, depreciation, amortization and accretion expense, gains on dispositions and lease terminations, net, and the elimination of the Retail segment's intersegment cost of revenues from motor fuel sales against the Wholesale segment's intersegment revenues from motor fuel sales. The profit in ending inventory generated by the intersegment motor fuel sales is also eliminated. Total assets by segment are not presented as management does not currently assess performance or allocate resources based on that data.

**CROSSAMERICA PARTNERS LP**  
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The following table reflects activity related to our reportable segments (in thousands):

	<u>Wholesale</u>	<u>Retail</u>	<u>Unallocated</u>	<u>Consolidated</u>
<b>Three Months Ended September 30, 2019</b>				
Revenues from fuel sales to external customers	\$ 426,161	\$ 99,935	\$ —	\$ 526,096
Intersegment revenues from fuel sales	76,491	—	(76,491)	—
Revenues from food and merchandise sales	—	9,729	—	9,729
Rent income	20,734	2,187	—	22,921
Other revenue	990	—	—	990
<b>Total revenues</b>	<b>\$ 524,376</b>	<b>\$ 111,851</b>	<b>\$ (76,491)</b>	<b>\$ 559,736</b>
Income from CST Fuel Supply equity interests	\$ 3,927	\$ —	\$ —	\$ 3,927
Operating income (loss) <sup>(a)</sup>	\$ 31,519	\$ 523	\$ (19,693)	\$ 12,349
<b>Three Months Ended September 30, 2018</b>				
Revenues from fuel sales to external customers	\$ 473,682	\$ 148,155	\$ —	\$ 621,837
Intersegment revenues from fuel sales	117,468	—	(117,468)	—
Revenues from food and merchandise sales	—	27,039	—	27,039
Rent income	19,128	2,021	—	21,149
Other revenue	785	—	—	785
<b>Total revenues</b>	<b>\$ 611,063</b>	<b>\$ 177,215</b>	<b>\$ (117,468)</b>	<b>\$ 670,810</b>
Income from CST Fuel Supply equity interests	\$ 3,479	\$ —	\$ —	\$ 3,479
Operating income (loss) <sup>(a)</sup>	\$ 30,022	\$ 2,065	\$ (18,435)	\$ 13,652
<b>Nine Months Ended September 30, 2019</b>				
Revenues from fuel sales to external customers	\$ 1,198,486	\$ 320,344	\$ —	\$ 1,518,830
Intersegment revenues from fuel sales	247,381	—	(247,381)	—
Revenues from food and merchandise sales	—	49,382	—	49,382
Rent income	60,188	6,331	—	66,519
Other revenue	2,319	—	—	2,319
<b>Total revenues</b>	<b>\$ 1,508,374</b>	<b>\$ 376,057</b>	<b>\$ (247,381)</b>	<b>\$ 1,637,050</b>
Income from CST Fuel Supply equity interests	\$ 11,087	\$ —	\$ —	\$ 11,087
Operating income (loss) <sup>(a)</sup>	\$ 85,487	\$ 2,430	\$ (54,036)	\$ 33,881
<b>Nine Months Ended September 30, 2018</b>				
Revenues from fuel sales to external customers	\$ 1,333,244	\$ 422,966	\$ —	\$ 1,756,210
Intersegment revenues from fuel sales	332,978	—	(332,978)	—
Revenues from food and merchandise sales	—	75,759	—	75,759
Rent income	58,277	6,054	—	64,331
Other revenue	2,375	—	—	2,375
<b>Total revenues</b>	<b>\$ 1,726,874</b>	<b>\$ 504,779</b>	<b>\$ (332,978)</b>	<b>\$ 1,898,675</b>
Income from CST Fuel Supply equity interests	\$ 11,024	\$ —	\$ —	\$ 11,024
Operating income (loss) <sup>(a)</sup>	\$ 86,373	\$ 5,312	\$ (72,177)	\$ 19,508

- (a) As discussed in Note 1, as a result of the adoption of ASC 842, operating income for the three and nine months ended September 30, 2019 is not comparable to operating income for the three and nine months ended September 30, 2018. Most significantly, payments on our previous failed sale-leaseback obligations were characterized as principal and interest expense in periods prior to 2019. Starting in 2019, these payments are characterized as rent expense and thus reduce operating income. These payments for the Wholesale and Retail segments amounted to approximately \$1.7 million and \$0.1 million for the three months ended September 30, 2018 and \$5.0 million and \$0.4 million for the nine months ended September 30, 2018, respectively.

**CROSSAMERICA PARTNERS LP**  
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Receivables relating to the revenue streams above are as follows (in thousands):

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Receivables from fuel and merchandise sales	\$ 25,584	\$ 19,247
Receivables for rent and other lease-related charges	7,271	6,610
Total accounts receivable	<u>\$ 32,855</u>	<u>\$ 25,857</u>

Performance obligations are satisfied as fuel is delivered to the customer. Many of our contracts with our customers include minimum purchase volumes measured on a monthly basis, although such revenue is not material. Receivables from fuel are recognized on a per-gallon rate and are generally collected within 10 days of delivery.

The balance of unamortized costs incurred to obtain certain contracts with customers was \$6.7 million and \$5.7 million at September 30, 2019 and December 31, 2018, respectively. Amortization of such costs is recorded against operating revenues and amounted to \$0.3 million and \$0.7 million for the three and nine months ended September 30, 2019 and 2018, respectively.

Receivables from rent and other lease-related charges are generally collected at the beginning of the month.

Dealerization of Our Remaining Company Operated Sites

When we convert company owned retail sites from our Retail segment to lessee dealers in our Wholesale segment, we no longer generate revenues from the retail sale of motor fuel or merchandise at these stores subsequent to the date of conversion and we no longer incur retail operating expenses related to these retail sites. However, we continue to supply these retail sites with motor fuel on a wholesale basis pursuant to the fuel supply contract with the lessee dealer. Further, we continue to own or lease the property and earn rental income under lease/sublease agreements with the lessee dealers under triple net leases. The lessee dealer owns all motor fuel and convenience merchandise and retains all gross profit on such operating activities.

In June 2019, we entered into master fuel supply and master lease agreements with Applegreen. During the third quarter of 2019, we dealerized 46 company operated Upper Midwest sites. The master fuel supply and master lease agreements have an initial 10-year term with four 5-year renewal options. Base rent generally increases by 1.5% annually, including during the renewal options. Applegreen has the right to sever up to 10 specifically identified sites, for which notice must be provided prior to the end of the first year, and the effective date will be after the second year. Applegreen has the right to sever up to eight of the remaining 36 sites with proper notice. We have committed to making certain EMV upgrades at these 46 sites totaling approximately \$2.2 million by October 1, 2020.

In connection with the conversion of these company operated sites in our Retail segment to lessee dealer sites in our Wholesale segment, we recognized a \$0.5 million loss on sale of inventory to Applegreen, classified within the loss on dispositions and lease terminations, net line item of the statement of operations. As further discussed in Note 7, we also reassigned \$4.5 million of goodwill from the Retail segment to the Wholesale segment.

As a result of this transition, we do not have any company operated sites as of September 30, 2019, and our sole focus is on our wholesale and commission operations.

**Note 17. SUPPLEMENTAL CASH FLOW INFORMATION**

In order to determine net cash provided by operating activities, net income is adjusted by, among other things, changes in operating assets and liabilities as follows (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Decrease (increase):		
Accounts receivable	\$ (6,053)	\$ 999
Accounts receivable from related parties	(2,087)	(413)
Inventories	7,665	(914)
Other current assets	(1,313)	407
Other assets	(3,169)	304
Increase (decrease):		
Accounts payable	7,747	3,158
Accounts payable to related parties	8,555	380
Motor fuel taxes payable	1,875	(1,144)
Accrued expenses and other current liabilities	(7,142)	(871)
Other long-term liabilities	2,132	(2,305)
Changes in operating assets and liabilities, net of acquisitions	<u>\$ 8,210</u>	<u>\$ (399)</u>

The above changes in operating assets and liabilities may differ from changes between amounts reflected in the applicable balance sheets for the respective periods due to acquisitions.

Supplemental disclosure of cash flow information (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash paid for interest	\$ 20,605	\$ 23,145
Cash paid for income taxes, net of refunds received	3,393	1,385

Supplemental schedule of non-cash investing and financing activities (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Amended Omnibus Agreement fees settled in our common units	\$ —	\$ 6,518
Lease liabilities arising from obtaining right-of-use assets	2,879	—
Net charge to equity as a result of the Closed Asset Exchange Transactions	(7,410)	—

**Note 18. SEPARATION BENEFITS**

As discussed in Note 16, we dealerized the remaining 46 company operated sites in the third quarter of 2019. As a result of communicating a plan to exit the company operated business, we recorded separation benefit costs totaling \$0.4 million in the first quarter of 2019, which is anticipated to be paid by early 2020.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements, including in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, credit ratings, distribution growth, potential growth opportunities, potential operating performance improvements, potential improvements in return on capital employed, the effects of competition and the effects of future legislation or regulations. You can identify our forward-looking statements by the words "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "seek," "should," "will," "would," "expect," "objective," "projection," "forecast," "guidance," "outlook," "effort," "target" and similar expressions. Such statements are based on our current plans and expectations and involve risks and uncertainties that could potentially affect actual results. These forward-looking statements include, among other things, statements regarding:

- future retail and wholesale gross profits, including gasoline, diesel and convenience store merchandise gross profits;
- our anticipated level of capital investments, primarily through acquisitions, and the effect of these capital investments on our results of operations;
- anticipated trends in the demand for, and volumes sold of, gasoline and diesel in the regions where we operate;
- volatility in the equity and credit markets limiting access to capital markets;
- our ability to integrate acquired businesses and to transition retail sites to dealer operated sites;
- expectations regarding environmental, tax and other regulatory initiatives; and
- the effect of general economic and other conditions on our business.

In general, we based the forward-looking statements included in this report on our current expectations, estimates and projections about our company and the industry in which we operate. We caution you that these statements are not guarantees of future performance and involve risks and uncertainties we cannot predict. We anticipate that subsequent events and market developments will cause our estimates to change. In addition, we based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecasted in the forward-looking statements. Any differences could result from a variety of factors, including the following:

- Couche-Tard's business strategy and operations and Couche-Tard's conflicts of interest with us;
- availability of cash flow to pay the current quarterly distributions on our common units;
- the availability and cost of competing motor fuels;
- motor fuel price volatility or a reduction in demand for motor fuels;
- competition in the industries and geographical areas in which we operate;
- the consummation of financing, acquisition or disposition transactions and the effect thereof on our business;
- environmental compliance and remediation costs;
- our existing or future indebtedness and the related interest expense and our ability to comply with debt covenants;
- our liquidity, results of operations and financial condition;
- failure to comply with applicable tax and other regulations or governmental policies;
- future legislation and changes in regulations, governmental policies, immigration laws and restrictions or changes in enforcement or interpretations thereof;
- future regulations and actions that could expand the non-exempt status of employees under the Fair Labor Standards Act;
- future income tax legislation;
- changes in energy policy;

- increases in energy conservation efforts;
- technological advances;
- the impact of worldwide economic and political conditions;
- the impact of wars and acts of terrorism;
- weather conditions or catastrophic weather-related damage;
- earthquakes and other natural disasters;
- hazards and risks associated with transporting and storing motor fuel;
- unexpected environmental liabilities;
- the outcome of pending or future litigation; and
- our ability to comply with federal and state laws and regulations, including those related to environmental matters, the sale of alcohol, cigarettes and fresh foods, employment and health benefits, including the Affordable Care Act, immigration and international trade.

You should consider the areas of risk described above, as well as those set forth in the section entitled “Risk Factors” included in our Form 10-K for the year ended December 31, 2018, in connection with considering any forward-looking statements that may be made by us and our businesses generally. We cannot assure you that anticipated results or events reflected in the forward-looking statements will be achieved or will occur. The forward-looking statements included in this report are made as of the date of this report. We undertake no obligation to publicly release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events after the date of this report.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following MD&A is intended to help the reader understand our results of operations and financial condition. This section is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes to these financial statements contained elsewhere in this report, and the MD&A section and the consolidated financial statements and accompanying notes to those financial statements in our Form 10-K. Our Form 10-K contains a discussion of other matters not included herein, such as disclosures regarding critical accounting policies and estimates and contractual obligations.

MD&A is organized as follows:

- **Recent Developments**—This section describes significant recent developments, including our asset exchange transaction with Circle K.
- **Significant Factors Affecting Our Profitability**—This section describes the significant impact on our results of operations caused by crude oil commodity price volatility, seasonality and acquisition and financing activities.
- **Results of Operations**—This section provides an analysis of our results of operations, including the results of operations of our business segments, for the three and nine months ended September 30, 2019 and 2018 and non-GAAP financial measures.
- **Liquidity and Capital Resources**—This section provides a discussion of our financial condition and cash flows. It also includes a discussion of our debt, capital requirements, other matters impacting our liquidity and capital resources and an outlook for our business.
- **New Accounting Policies**—This section describes new accounting pronouncements that we have already adopted, those that we are required to adopt in the future and those that became applicable in the current year as a result of new circumstances.
- **Critical Accounting Policies Involving Critical Accounting Estimates**—This section describes the accounting policies and estimates that we consider most important for our business and that require significant judgment.



*Asset Exchange Transactions with Circle K*

On December 17, 2018, as approved by the independent conflicts committee of the Board, we entered into an Asset Exchange Agreement (the “Asset Exchange Agreement”) with Circle K. Pursuant to the Asset Exchange Agreement, the parties have agreed to exchange (i) certain assets of CrossAmerica related to 56 convenience and fuel retail stores currently leased and operated by Circle K pursuant to a master lease that CrossAmerica previously purchased jointly with or from CST (the “master lease properties”), and 17 convenience and fuel retail stores currently owned and operated by CrossAmerica located in the U.S. Upper Midwest (collectively, including the master lease properties, the “CAPL Properties”), having an aggregate fair value of approximately \$184.5 million, for (ii) certain assets of Circle K related to 192 (162 fee and 30 leased) company-operated convenience and fuel retail stores (the “CK Properties”), having an aggregate fair value of approximately \$184.5 million. The existing fuel supply arrangements for the 56 master lease properties will remain unchanged. The estimated positive net impact to our annual EBITDA following the close of all tranches is \$7 to \$8 million.

The assets being exchanged by CrossAmerica include (i) its fee simple title to all land and other real property and related improvements owned by CrossAmerica at the CAPL Properties, (ii) all buildings and other improvements located on the CAPL Properties, (iii) all tangible personal property owned by CrossAmerica and primarily used in connection with the operation of the CAPL Properties, including all underground storage tanks located on such properties and owned by CrossAmerica, (iv) CrossAmerica’s rights under certain contracts related to the CAPL Properties, (v) all in-store cash, inventory owned by CrossAmerica and assignable permits owned or held by CrossAmerica at the 17 convenience store sites owned and operated by CrossAmerica, (vi) all real estate records and related registrations and reports relating exclusively to the CAPL Properties, and (vii) all goodwill and other intangible assets associated with the foregoing assets (collectively, the “CAPL Assets”). The assets being exchanged by Circle K include (a) its fee simple title to all land and other real property and related improvements owned by Circle K at the CK Properties, (b) all buildings and other improvements located on the CK Properties, (c) all tangible personal property owned by Circle K and primarily used in connection with the operation of the CK Properties, including all underground storage tanks located on such properties and owned by Circle K, (d) Circle K’s rights under the dealer agreements and agent agreements to be entered into and assigned to CrossAmerica relating to each CK Property that will be dealerized as contemplated by the Asset Exchange Agreement, (e) Circle K’s rights under certain contracts related to the CK Properties, (f) all real estate records and related registrations and reports relating exclusively to the CK Properties, and (g) all goodwill and other intangible assets associated with the foregoing assets (collectively, the “CK Assets”). CrossAmerica will also assume certain liabilities associated with the CK Assets, and Circle K will assume certain liabilities associated with the CAPL Assets.

The CK Properties will be assigned to CrossAmerica in multiple tranches after Circle K has executed a dealer agreement or agent agreement, as applicable, with respect to each CK Property to be included in a tranche and the applicable dealer or agent has assumed possession and operating control of such property. As a result, it is expected that the exchange of assets pursuant to the Asset Exchange Agreement will occur in a series of separate tranche closings over a period of up to 24 months as Circle K enters into such dealer agreements or agent agreements. At each separate closing, CK Properties and related CK Assets will be exchanged for CAPL Properties and related CAPL Assets of approximately equivalent value. After the final tranche closing, any net valuation difference will be paid by the party owing such amount to the other.

Each separate closing is subject to the satisfaction or waiver of customary closing conditions. The Asset Exchange Agreement contains customary representations, warranties, agreements and obligations of the parties, including covenants regarding the conduct by CrossAmerica and Circle K with respect to the CAPL Properties and the CK Properties, respectively, prior to closing. CrossAmerica and Circle K have generally agreed to indemnify each other for breaches of the representations, warranties and covenants contained in the Asset Exchange Agreement for a period of 18 months after the date of the final closing (or for certain specified losses, until the expiration of the applicable statute of limitations). Except for such specified losses, the respective indemnification obligations of each of CrossAmerica and Circle K to the other will not apply to the first \$1.845 million of losses and the aggregate indemnification obligations will not exceed \$39.9 million. The Asset Exchange Agreement may be terminated by mutual written consent of CrossAmerica and Circle K.

In connection with the execution of the Asset Exchange Agreement, CrossAmerica and Circle K also entered into an Environmental Responsibility Agreement (the “ERA”), which agreement sets forth the parties’ respective liabilities and obligations with respect to environmental matters relating to the CAPL Properties and the CK Properties. Generally, (i) each party will retain liability for known contamination at the sites it is transferring to the other party and (ii) each party will assume liability for unknown contamination at the sites it is receiving from the other party, except that the ERA does not affect any liability that Circle K currently has under the existing master lease of the master lease properties.

### First Asset Exchange

On May 21, 2019, the closing of the first separate tranche of asset exchanges under the Asset Exchange Agreement occurred (the “First Asset Exchange”). In this First Asset Exchange, Circle K transferred to the Partnership 60 (52 fee and 8 leased) U.S. company-operated convenience and fuel retail stores having an aggregate fair value of approximately \$58.1 million, and the Partnership transferred to Circle K all 17 of the Upper Midwest properties and the real property for eight of the master lease properties having an aggregate fair value of approximately \$58.3 million.

### Second Asset Exchange

On September 5, 2019, the closing of the second separate tranche of asset exchanges under the Asset Exchange Agreement occurred (the “Second Asset Exchange”). In this Second Asset Exchange, Circle K transferred to the Partnership 56 (51 fee and 5 leased) U.S. company-operated convenience and fuel retail stores having an aggregate fair value of approximately \$50.2 million, and the Partnership transferred to Circle K the real property for 19 of the master lease properties having an aggregate fair value of approximately \$51.4 million.

In connection with the closing of the First Asset Exchange and the Second Asset Exchange (collectively, the “Closed Asset Exchange Transactions”), the stores transferred by Circle K were dealerized as contemplated by the Asset Exchange Agreement and Circle K’s rights under the dealer agreements and agent agreements that were entered into in connection therewith were assigned to the Partnership. Additionally, at the closing of the First Asset Exchange, LGW, a wholly-owned subsidiary of the Partnership, and Circle K entered into a Sub-Jobber Agreement, dated as of May 21, 2019 (the “Sub-Jobber Agreement”), pursuant to which Circle K will supply fuel to LGW for resale to the dealers at the stores that Circle K transferred to the Partnership in the Closed Asset Exchange Transactions. While there is no minimum or maximum quantity of products that LGW is required to purchase from Circle K, for each store location covered by the Sub-Jobber Agreement, LGW must purchase from Circle K all of the requirements for motor fuel at the stores covered by the Sub-Jobber Agreement, except in certain limited circumstances described in the Sub-Jobber Agreement. The term of the Sub-Jobber Agreement will expire on May 21, 2024, unless earlier terminated by either party in accordance with the terms of the Sub-Jobber Agreement. Circle K also has the right to grant temporary extensions of the Sub-Jobber Agreement of up to 180 days per extension.

After each subsequent separate “tranche” closing under the Asset Exchange Agreement, the Sub-Jobber Agreement will be amended by agreement of LGW and Circle K to add the store locations acquired by the Partnership at such closing to the Sub-Jobber Agreement.

The third tranche is anticipated to close in the first quarter of 2020, subject to approval by the independent conflicts committee of the Board. All sites are anticipated to be exchanged by the end of the first quarter of 2020.

See Note 2 to the financial statements for additional information.

### ***Dealerization of Our Remaining Company Operated Sites***

In June 2019, we entered into master fuel supply and master lease agreements with Applegreen. During the third quarter of 2019, we dealerized 46 company operated Upper Midwest sites. The master fuel supply and master lease agreements have an initial 10-year term with four 5-year renewal options. Base rent generally increases by 1.5% annually, including during the renewal options. Applegreen has the right to sever up to 10 specifically identified sites, for which notice must be provided prior to the end of the first year, and the effective date will be after the second year. Applegreen has the right to sever up to eight of the remaining 36 sites with proper notice. We have committed to making certain EMV upgrades at these 46 sites by October 1, 2020.

As a result of this transition, we do not have any company operated sites and our sole focus is on our wholesale and commission operations.

See Note 16 to the financial statements for additional information.

## ***New Credit Facility***

On April 1, 2019, we entered into a new credit agreement, which provides the following key benefits:

- Increased commitments from \$650 million to \$750 million with the ability to increase commitments by \$300 million, subject to certain conditions;
- Provides for the current and future asset exchange transactions with Circle K, subject to certain conditions being satisfied;
- Provided for a general reduction in the applicable margin;
- Increased the maximum permitted leverage ratio during most periods;
- Reduced cost of compliance, including removal of the requirement to mortgage real property; and
- Extended the maturity from April 2020 to April 2024.

See Note 8 to the financial statements for additional information.

## **Significant Factors Affecting our Profitability**

### ***The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit***

#### **Wholesale segment**

The prices paid to our motor fuel suppliers for wholesale motor fuel (which affects our cost of sales) are highly correlated to the price of crude oil. The crude oil commodity markets are highly volatile, and the market prices of crude oil, and, correspondingly, the market prices of wholesale motor fuel, experience significant and rapid fluctuations. We receive a fixed mark-up per gallon on approximately 82% of gallons sold to our customers. The remaining gallons are primarily DTW priced contracts with our customers. These contracts provide for variable, market-based pricing that results in motor fuel gross profit effects similar to retail motor fuel gross profits (as crude oil prices decline, motor fuel gross profit generally increases, as discussed in our Retail segment below). The increase in DTW gross profit results from the cost of wholesale motor fuel declining at a faster rate as compared to the rate that retail motor fuel prices decline. Conversely, our DTW motor fuel gross profit declines when the cost of wholesale motor fuel increases at a faster rate as compared to the rate that retail motor fuel prices increase.

From the time of the November 2017 Jet-Pep acquisition through October 31, 2018, we purchased motor fuel for our Jet-Pep Assets from Circle K at Circle K's cost plus terminal and administration fees of \$0.015 per gallon. Circle K's cost to supply these sites included price fluctuations associated with index-based motor fuel pricing for pipeline delivery and the generation and sale of Renewable Identification Numbers ("RINs"). Effective November 1, 2018, we amended our contract with Circle K such that our cost is based on a rack-based price, which reduces our exposure to price fluctuations inherent in the previous pricing methodology. We completed the upgrades of dispensers and the rebranding of substantially all these sites to a major fuel supplier in the third quarter of 2019 and anticipate a positive impact on volume and fuel margin.

Regarding our supplier relationships, a majority of our total gallons purchased are subject to Terms Discounts. The dollar value of these discounts increases and decreases corresponding to motor fuel prices. Therefore, in periods of lower wholesale motor fuel prices, our gross profit is negatively affected, and, in periods of higher wholesale motor fuel prices, our gross profit is positively affected (as it relates to these discounts). We expect the impact of these Terms Discounts to diminish as we enter into new fuel supply contracts and as we increase the amount of fuel purchased from Circle K under subjobber agreements which do not include prompt-pay discounts. We anticipate this to reduce the volatility of our fuel gross margin thereby making our cash flows more stable.

#### **Retail segment**

We attempt to pass along wholesale motor fuel price changes to our retail customers through "at the pump" retail price changes; however, market conditions do not always allow us to do so immediately. The timing of any related increase or decrease in "at the pump" retail prices is affected by competitive conditions in each geographic market in which we operate. As such, the prices we charge our customers for motor fuel and the gross profit we receive on our motor fuel sales can increase or decrease significantly over short periods of time.

Changes in our average motor fuel selling price per gallon and gross margin are directly related to the changes in crude oil and wholesale motor fuel prices. Variations in our reported revenues and cost of sales are, therefore, primarily related to the price of crude oil and wholesale motor fuel prices and generally not as a result of changes in motor fuel sales volumes, unless otherwise indicated and discussed below.

We typically experience lower retail motor fuel gross profits in periods when the wholesale cost of motor fuel increases, and higher retail motor fuel gross profits in periods when the wholesale cost of motor fuel declines.

See “Recent Developments—Dealerization of Our Remaining Company Operated Sites” in Item 2 and Note 16 to the financial statements for information on the dealerization of our remaining company operated sites in the third quarter of 2019. As a result of this transition, we do not have any company operated sites and our sole focus is on our wholesale and commission operations.

### ***Seasonality Effects on Volumes***

Our business is subject to seasonality due to our wholesale and retail sites being located in certain geographic areas that are affected by seasonal weather and temperature trends and associated changes in retail customer activity during different seasons. Historically, sales volumes have been highest in the second and third quarters (during the summer months) and lowest during the winter months in the first and fourth quarters.

### ***Impact of Inflation***

Inflation affects our financial performance by increasing certain of our operating expenses and cost of goods sold. Operating expenses include labor costs, leases, and general and administrative expenses. While our Wholesale segment benefits from higher Terms Discounts as a result of higher fuel costs, inflation could negatively impact our operating expenses. Although we have historically been able to pass on increased costs through price increases, there can be no assurance that we will be able to do so in the future.

### ***Acquisition and Financing Activity***

Our results of operations and financial condition are also impacted by our acquisition and financing activities as summarized below.

- In March and May 2018, we purchased the leasehold interest in three retail sites from Circle K for \$0.5 million.
- In July and September 2018, respectively, we sold two sites acquired in the Jet-Pep Assets acquisition and nine Upper Midwest sites to unaffiliated third parties as a result of FTC orders for total proceeds of \$4.9 million.
- On April 1, 2019, we entered into a new credit facility as further discussed in “Liquidity and Capital Resources—Debt” and Note 8 to the financial statements.
- On May 21, 2019 and September 5, 2019, we completed the Closed Asset Exchange Transactions as further discussed in “Recent Developments—Asset Exchange Transactions with Circle K” and Note 2 to the financial statements.

### ***Adoption of ASC 842***

As further discussed in Notes 1 and 16 to the financial statements, we adopted ASC 842 effective January 1, 2019, and as a result, our results for the three and nine months ended September 30, 2019 are not directly comparable to the results for the three and nine months ended September 30, 2018. Most significantly, payments on our previous failed sale-leaseback obligations were characterized as principal and interest expense in periods prior to 2019. Starting in 2019, these payments are characterized as rent expense. These payments for the Wholesale and Retail segments amounted to approximately \$1.7 million and \$0.1 million for the three months ended September 30, 2018 and \$5.0 million and \$0.4 million for the nine months ended September 30, 2018, respectively. Of the total payments, \$1.4 million and \$4.1 million was classified as interest expense for the three and nine months ended September 30, 2018, respectively. See “Results of Operations—Non-GAAP Financial Measures” for additional information.

## Results of Operations

### Consolidated Income Statement Analysis

Below is an analysis of our consolidated statements of operations and provides the primary reasons for significant increases and decreases in the various income statement line items from period to period. Our consolidated statements of operations are as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 559,736	\$ 670,810	\$ 1,637,050	\$ 1,898,675
Costs of sales	518,591	627,012	1,517,458	1,770,954
Gross profit	41,145	43,798	119,592	127,721
Income from CST Fuel Supply equity interests	3,927	3,479	11,087	11,024
Operating expenses:				
Operating expenses	12,978	15,261	42,541	47,294
General and administrative expenses	3,937	4,310	12,464	13,840
Depreciation, amortization and accretion expense	14,063	13,993	39,620	51,425
Total operating expenses	30,978	33,564	94,625	112,559
Loss on dispositions and lease terminations, net	(1,745)	(61)	(2,173)	(6,678)
Operating income	12,349	13,652	33,881	19,508
Other income, net	168	104	352	287
Interest expense	(6,532)	(8,145)	(21,105)	(24,354)
Income (loss) before income taxes	5,985	5,611	13,128	(4,559)
Income tax (benefit) expense	(1,180)	303	(690)	(2,122)
Net income (loss)	7,165	5,308	13,818	(2,437)
Less: net loss attributable to noncontrolling interests	—	—	—	(5)
Net income (loss) attributable to limited partners	7,165	5,308	13,818	(2,432)
IDR distributions	(133)	(133)	(399)	(1,446)
Net income (loss) available to limited partners	<u>\$ 7,032</u>	<u>\$ 5,175</u>	<u>\$ 13,419</u>	<u>\$ (3,878)</u>

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

#### Consolidated Results

Operating revenues decreased \$111 million (17%), while gross profit decreased \$2.7 million (6%).

#### Operating revenues

Significant items impacting these results prior to the elimination of intercompany revenues were:

- An \$87 million (14%) decrease in our Wholesale segment revenues primarily attributable to a 12% decrease in our average wholesale motor fuel selling price per gallon driven by a decrease in crude oil prices. The average daily spot price of WTI crude oil decreased 19% to \$56.34 per barrel for the third quarter of 2019, compared to \$69.69 per barrel for the third quarter of 2018. The wholesale price of motor fuel is highly correlated to the price of crude oil. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” In addition, volume decreased 4% primarily due to the 2018 divestitures mandated by FTC orders and the termination of supply contracts (many of which were low margin).

- A \$65 million (37%) decrease in our Retail segment revenues primarily attributable to a 27% decrease in volume driven by the 2018 divestitures of seven company operated Upper Midwest and two commission agent sites mandated by FTC orders, the conversion of commission sites included in the Retail segment to lessee dealer sites included in the Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019. In addition, our average retail motor fuel selling price per gallon decreased by 8% driven by a 19% decrease in crude oil prices. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” Merchandise and services revenues also decreased \$17 million (64%) driven by the divestitures and dealerization of company operated sites noted above.

#### Intersegment revenues

We present the results of operations of our segments on a consistent basis with how our management views the business. Therefore, our segments are presented before intersegment eliminations (which consist of motor fuel sold by our Wholesale segment to our Retail segment). As a result, in order to reconcile to our consolidated change in operating revenues, a discussion of the change in intersegment revenues is included in our consolidated MD&A discussion.

Our intersegment revenues decreased \$41 million (35%), primarily attributable to the 2018 divestitures mandated by FTC orders, the conversion of commission sites included in our Retail segment to lessee dealer sites included in the Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the asset exchange with Circle K, the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019 and the changes in wholesale prices discussed above.

#### Cost of sales

Cost of sales decreased \$108 million (17%) as a result of the decrease in wholesale motor fuel prices and volume decreases discussed above. See “Segment Results” for additional gross profit analyses.

#### Operating expenses

See “Segment Results” for operating expenses analyses.

#### General and administrative expenses

General and administrative expenses decreased \$0.4 million (9%) primarily attributable to a \$0.2 million decrease related to the dealerization of company operated Upper Midwest sites and a \$0.2 million decrease in separation benefits.

#### Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense was flat as compared to the prior year. We recorded \$1.8 million of impairment charges related to assets held for sale and certain vacant land sites during the third quarter of 2019. This increase was offset by a \$0.4 million reduction related to removing the property and equipment associated with our previous sale-leaseback transactions from our balance sheet as part of our transition adjustment in connection with the adoption of ASC 842 (see Note 1 to the financial statements for additional details). The remaining reduction is primarily driven by assets becoming fully depreciated or amortized.

#### Loss on dispositions and lease terminations, net

During the third quarter of 2019, we recorded a \$0.5 million loss on the sale of inventory to Applegreen in connection with the dealerization of the company operated Upper Midwest sites. In addition, we recorded a \$0.6 million loss to write off deferred rent income related to DMS giving notice to sever 12 sites in early 2020 from the master lease with us.

#### Interest expense

Interest expense decreased \$1.6 million (20%) primarily due to a \$1.4 million reduction relating to the adoption of ASC 842 and the resulting recharacterization of lease payments on our sale-leaseback transactions from principal and interest expense for periods prior to 2019 to rent expense starting in 2019. See Note 1 to the financial statements for additional information.

### Income tax expense

We recorded an income tax benefit of \$1.2 million and income tax expense of \$0.3 million for the three months ended September 30, 2019 and 2018, respectively. The benefit recorded in 2019 was primarily driven by less income being generated by our taxable subsidiaries. See Notes 2 and 14 to the financial statements for additional information.

## **Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

### **Consolidated Results**

Operating revenues decreased \$262 million (14%) while gross profit decreased \$8.1 million (6%).

### Operating revenues

Significant items impacting these results prior to the elimination of intercompany revenues were:

- A \$219 million (13%) decrease in our Wholesale segment revenues primarily attributable to an 8% decrease in our average wholesale motor fuel selling price per gallon driven by a decrease in crude oil prices. The average daily spot price of WTI crude oil decreased 15% to \$57.04 per barrel for the nine months ended September 30, 2019, compared to \$66.93 per barrel for the nine months ended September 30, 2018. The wholesale price of motor fuel is highly correlated to the price of crude oil. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” In addition, volume decreased 5% primarily due to the 2018 divestitures mandated by FTC orders and the termination of supply contracts (many of which were low margin).
- A \$129 million (26%) decrease in our Retail segment revenues primarily attributable to a 19% decrease in volume driven by the 2018 divestitures of seven company operated Upper Midwest and two commission agent sites mandated by FTC orders, the conversion of commission sites included in the Retail segment to lessee dealer sites included in the Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019. In addition, our average retail motor fuel selling price per gallon decreased by 6% driven by a 15% decrease in crude oil prices. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” Merchandise and services revenues also decreased \$26 million (35%) driven by the divestitures and dealerization of company operated sites noted above.

### Intersegment revenues

We present the results of operations of our segments on a consistent basis with how our management views the business. Therefore, our segments are presented before intersegment eliminations (which consist of motor fuel sold by our Wholesale segment to our Retail segment). As a result, in order to reconcile to our consolidated change in operating revenues, a discussion of the change in intersegment revenues is included in our consolidated MD&A discussion.

Our intersegment revenues decreased \$86 million (26%), primarily attributable to the 2018 divestitures mandated by FTC orders, the conversion of commission sites included in our Retail segment to lessee dealer sites included in the Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the asset exchange with Circle K, the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019 and the decrease in wholesale prices discussed above.

### Cost of sales

Cost of sales decreased \$253 million (14%) as a result of the decrease in wholesale motor fuel prices and volume decreases discussed above. See “Segment Results” for additional gross profit analyses.

### Operating expenses

See “Segment Results” for operating expenses analyses.

### General and administrative expenses

General and administrative expenses decreased \$1.4 million (10%) primarily attributable to a \$0.8 million decrease in acquisition-related costs and a \$0.5 million decrease in legal fees.

### Depreciation, amortization and accretion expense

Depreciation, amortization and accretion expense decreased \$11.8 million (23%) primarily due to an \$8.9 million impairment charge recorded in 2018 related to the two Jet-Pep sites and the nine Upper Midwest sites required to be divested per FTC order as well as a \$1.2 million reduction related to removing the property and equipment associated with our previous sale-leaseback transactions from our balance sheet as part of our transition adjustment in connection with the adoption of ASC 842 (see Note 1 to the financial statements for additional details). We recorded \$1.8 million of impairment charges related to assets held for sale and certain vacant land sites during the third quarter of 2019. The remaining reduction is primarily driven by assets becoming fully depreciated or amortized.

### Loss on dispositions and lease terminations, net

During the third quarter of 2019, we recorded a \$0.5 million loss on the sale of inventory to Applegreen in connection with the dealerization of the company operated Upper Midwest sites. In addition, we recorded a \$0.6 million loss to write off deferred rent income related to DMS giving notice to sever 12 sites in early 2020 from the master lease with us.

During the second quarter of 2018, in connection with the transition of 43 sites in Florida from DMS to Applegreen, we accrued a \$3.8 million contract termination payment paid in cash to DMS during the third quarter of 2018. Additionally, we recorded a \$2.2 million charge to write off deferred rent income related to our recapture of these sites from the master lease agreement with DMS.

### Interest expense

Interest expense decreased \$3.2 million (13%) due to a \$4.1 million reduction relating to the adoption of ASC 842 and the resulting recharacterization of lease payments on our sale-leaseback transactions from principal and interest expense for periods prior to 2019 to rent expense starting in 2019. See Note 1 to the financial statements for additional information. Partially offsetting this decrease was a \$1.4 million increase in interest expense on borrowings under our credit facility due to an increase in the average interest rate from 4.6% to 5.0%.

### Income tax expense

We recorded an income tax benefit of \$0.7 million and \$2.1 million for the nine months ended September 30, 2019 and 2018, respectively. The benefit was primarily driven by less income being generated by our taxable subsidiaries. See Notes 2 and 14 to the financial statements for additional information.

### IDR distributions

IDR distributions decreased \$1.0 million as a result of the lower distribution per common unit in 2019 as compared to 2018.

### **Segment Results**

We present the results of operations of our segments consistent with how our management views the business. Therefore, our segments are presented before intersegment eliminations (which consist of motor fuel sold by our Wholesale segment to our Retail segment). These comparisons are not necessarily indicative of future results.



## Wholesale

The following table highlights the results of operations and certain operating metrics of our Wholesale segment. The narrative following these tables provides an analysis of the results of operations of that segment (thousands of dollars, except for the number of distribution sites and per gallon amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Gross profit:</b>				
Motor fuel—third party	\$ 13,392	\$ 10,304	\$ 32,805	\$ 27,426
Motor fuel—intersegment and related party	7,451	8,082	21,844	23,196
Motor fuel gross profit	20,843	18,386	54,649	50,622
Rent and other <sup>(a)</sup>	15,321	15,408	43,849	47,324
Total gross profit	36,164	33,794	98,498	97,946
Income from CST Fuel Supply equity interests <sup>(b)</sup>	3,927	3,479	11,087	11,024
Operating expenses	(8,572)	(7,251)	(24,098)	(22,597)
<b>Adjusted EBITDA<sup>(c)</sup></b>	<b>\$ 31,519</b>	<b>\$ 30,022</b>	<b>\$ 85,487</b>	<b>\$ 86,373</b>
<b>Motor fuel distribution sites (end of period):<sup>(d)</sup></b>				
Motor fuel—third party				
Independent dealers <sup>(e)</sup>	370	369	370	369
Lessee dealers <sup>(f)</sup>	662	487	662	487
Total motor fuel distribution—third party sites	1,032	856	1,032	856
Motor fuel—intersegment and related party				
DMS (related party) <sup>(g)</sup>	68	86	68	86
Circle K (related party) <sup>(h)</sup>	28	43	28	43
Commission agents (Retail segment) <sup>(i)</sup>	169	175	169	175
Company operated retail sites (Retail segment) <sup>(i)</sup>	—	63	—	63
Total motor fuel distribution—intersegment and related party sites	265	367	265	367
<b>Motor fuel distribution sites (average during the period):</b>				
Motor fuel—third party distribution	965	827	909	827
Motor fuel—intersegment and related party distribution	302	410	336	422
Total motor fuel distribution sites	1,267	1,237	1,245	1,249
<b>Volume of gallons distributed (in thousands)</b>				
Third party	188,261	168,106	514,058	487,002
Intersegment and related party	72,026	102,235	236,064	305,247
Total volume of gallons distributed	260,287	270,341	750,122	792,249
<b>Wholesale margin per gallon</b>	<b>\$ 0.080</b>	<b>\$ 0.068</b>	<b>\$ 0.073</b>	<b>\$ 0.064</b>

- (a) See Notes 1 and 16 to the financial statements for additional information regarding the impact of adopting ASC 842 effective January 1, 2019, which impacted rent and other gross profit for 2019, resulting in the results for the three and nine months ended September 30, 2019 not being comparable to our results for the three and nine months ended September 30, 2018.
- (b) Represents income from our equity interest in CST Fuel Supply.
- (c) Please see the reconciliation of our segment's Adjusted EBITDA to consolidated net income (loss) under the heading "Results of Operations—Non-GAAP Financial Measures."
- (d) In addition, as of September 30, 2019 and 2018, we distributed motor fuel to 13 sub-wholesalers who distributed to additional sites.
- (e) The increase in the independent dealer site count was primarily attributable to the Closed Asset Exchange Transactions with Circle K, which resulted in 15 Circle K sites being converted to independent dealer sites, partially offset by the termination or non-renewal of fuel supply contracts, a significant number of which were low margin.
- (f) The increase in the lessee dealer site count was primarily attributable to converting sites operated by DMS and commission agents to lessee dealers, the Closed Asset Exchange Transactions with Circle K and the dealerization of 46 company operated sites.
- (g) The decrease in the DMS site count was primarily attributable to converting DMS sites to lessee dealer sites.

- (h) The decrease in the Circle K site count was primarily attributable to the Closed Asset Exchange Transactions with Circle K, which resulted in 15 Circle K sites being converted to independent dealer sites.
- (i) The decrease in the commission site count was primarily attributable to converting commission sites in the Retail segment to lessee dealer sites in the Wholesale segment.
- (j) The decrease in the company operated site count was primarily attributable to the divestitures mandated by FTC orders, the first tranche of the asset exchange with Circle K and the dealerization of 46 company operated sites.

### **Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

The results were driven by:

#### Motor fuel gross profit

The \$2.5 million (13%) increase in motor fuel gross profit was primarily due to a \$1.3 million improvement in our fuel margin from sites in our Alabama market driven by the rebranding of these sites beginning November 1, 2018 and the concurrent change in terms under a subjobber agreement with Circle K and a \$1.3 million improvement in our DTW margins as a result of movements in crude oil prices between the two periods, partially offset by a \$0.8 million reduction in Terms Discounts in 2019 as compared to 2018 due to the decrease in motor fuel prices. The average daily spot price of WTI crude oil decreased 19% to \$56.34 per barrel for the third quarter of 2019, compared to \$69.69 per barrel for the third quarter of 2018. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” Volume declined 4% as a result of the 2018 divestitures mandated by FTC orders and the termination or non-renewal of fuel supply contracts (a significant number of which were low margin).

#### Rent and other gross profit

Rent and other gross profit decreased \$0.1 million (1%) primarily as a result of the new lease accounting guidance. Lease payments on our previous sale-leaseback transactions totaling \$1.7 million were characterized as principal and interest expense in 2018, whereas such payments were characterized as rent expense in 2019. Partially offsetting this decline was the incremental rent margin from the Closed Asset Exchange Transactions with Circle K, the impact of converting commission sites in the Retail segment to lessee dealer sites in the Wholesale segment and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

#### Operating expenses

Operating expenses increased \$1.3 million (18%) primarily as a result of higher insurance costs and a general increase in operating expenses driven by the increase in the number of controlled sites due particularly to the Closed Asset Exchange Transactions and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

### **Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

The results were driven by:

#### Motor fuel gross profit

The \$4.0 million (8%) increase in motor fuel gross profit was primarily due to a \$2.7 million improvement in our fuel margin from sites in our Alabama market driven by the rebranding of these sites beginning November 1, 2018 and the concurrent change in terms under our subjobber agreement with Circle K and a \$1.9 million improvement in our DTW margins as a result of movements in crude oil prices between the two periods, partially offset by a \$1.7 million reduction in Terms Discounts in 2019 as compared to 2018 due to the decrease in motor fuel prices. The average daily spot price of WTI crude oil decreased 15% to \$57.04 per barrel for 2019 compared to \$66.93 per barrel for 2018. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit.” Volume declined 5% as a result of the 2018 divestitures mandated by FTC orders and the termination or non-renewal of fuel supply contracts (a significant number of which were low margin).

### Rent and other gross profit

Rent and other gross profit decreased \$3.5 million (7%) primarily as a result of the new lease accounting guidance. Lease payments on our previous sale-leaseback transactions totaling \$5.0 million were characterized as principal and interest expense in 2018, whereas such payments were characterized as rent expense in 2019. Partially offsetting this decline was the incremental rent margin from the Closed Asset Exchange Transactions with Circle K, the impact of converting commission sites in the Retail segment to lessee dealer sites in the Wholesale segment and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

### Operating expenses

Operating expenses increased \$1.5 million (7%) primarily as a result of higher insurance costs and a general increase in operating expenses driven by the increase in the number of controlled sites due particularly to the Closed Asset Exchange Transactions and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

### **Retail**

The following table highlights the results of operations and certain operating metrics of our Retail segment. The narrative following these tables provides an analysis of the results of operations of that segment (thousands of dollars, except for the number of retail sites, gallons sold per day and per gallon amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Gross profit:</b>				
Motor fuel	\$ 1,247	\$ 2,062	\$ 4,683	\$ 6,759
Merchandise and services	2,095	6,467	11,676	18,643
Rent and other <sup>(a)</sup>	1,587	1,546	4,514	4,607
Total gross profit	4,929	10,075	20,873	30,009
Operating expenses	(4,406)	(8,010)	(18,443)	(24,697)
<b>Adjusted EBITDA<sup>(b)</sup></b>	<b>\$ 523</b>	<b>\$ 2,065</b>	<b>\$ 2,430</b>	<b>\$ 5,312</b>
<b>Retail sites (end of period):</b>				
Commission agents <sup>(c)</sup>	169	175	169	175
Company operated retail sites <sup>(d)</sup>	—	63	—	63
Total system sites at the end of the period	169	238	169	238
<b>Total system operating statistics:</b>				
Average retail fuel sites during the period	196	244	219	247
Motor fuel sales (gallons per site per day)	2,173	2,389	2,154	2,362
Motor fuel gross profit per gallon, net of credit card fees and commissions	\$ 0.032	\$ 0.038	\$ 0.036	\$ 0.042
<b>Commission agents statistics:</b>				
Average retail fuel sites during the period	169	175	170	177
Motor fuel gross profit per gallon, net of credit card fees and commissions	\$ 0.015	\$ 0.015	\$ 0.015	\$ 0.015
<b>Company operated retail site statistics:</b>				
Average retail fuel sites during the period	27	69	48	70
Motor fuel gross profit per gallon, net of credit card fees	\$ 0.129	\$ 0.086	\$ 0.101	\$ 0.099
Merchandise and services gross profit percentage, net of credit card fees	21.5%	23.9%	23.6%	24.6%

(a) See Notes 1 and 16 to the financial statements for additional information regarding the impact of adopting ASC 842 effective January 1, 2019, which impacted rent and other gross profit for 2019, resulting in the results for the three and nine months ended September 30, 2019 not being comparable to our results for the three and nine months ended September 30, 2018.

- (b) Please see the reconciliation of our segment's Adjusted EBITDA to consolidated net income under the heading "Results of Operations—Non-GAAP Financial Measures" below.
- (c) The decrease in the commission site count was primarily driven by the conversion of commission sites in the Retail segment to lessee dealer sites in the Wholesale segment.
- (d) The decrease in the company operated retail site count was primarily driven by the divestitures mandated by FTC orders, the first tranche of the asset exchange with Circle K and the dealerization of 46 company operated sites.

### **Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

Gross profit decreased \$5.1 million (51%) while operating expenses decreased \$3.6 million (45%).

These results were impacted by:

#### Gross profit

- Our motor fuel gross profit decreased \$0.8 million (40%) attributable to a 27% decrease in volume driven by the 2018 divestitures of seven company operated Upper Midwest and two commission agent sites mandated by FTC orders, the conversion of commission sites in our Retail segment to lessee dealer sites in our Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the first tranche of the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019. As a result, the lower retail fuel margins in our commission agent business comprised a larger percentage of our overall retail fuel margins in 2019 as compared to 2018. Partially offsetting these decreases was that we realized a higher margin per gallon at our company operated sites in 2019 as compared to 2018, driven by the movement in crude oil prices throughout the two periods. See "Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit."
- Our merchandise and services gross profit decreased \$4.4 million (68%) as a result of the September 2018 divestitures of seven company operated Upper Midwest sites mandated by FTC orders, the May 2019 first tranche of the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.
- The change in rent and other gross profit for the three months ended September 30, 2019 compared to 2018 was insignificant. Lease payments on our previous sale-leaseback transactions totaling \$0.1 million were characterized as principal and interest expense in 2018, whereas such payments were characterized as rent expense in 2019. The decrease in our rent and other gross profit as a result of converting commission sites in the Retail segment to lessee dealer sites in the Wholesale segment was more than offset by the incremental rent margin generated by our Alabama sites as a result of dispenser upgrades and rebranding of the sites.

#### Operating expenses

Operating expenses decreased \$3.6 million (45%) due primarily to the 2018 divestitures of seven company operated sites in the Upper Midwest and two commission sites mandated by FTC orders, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the first tranche of the asset exchange with Circle K, the conversion of commission sites in our Retail segment to lessee dealer sites in our Wholesale segment and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

### **Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

Gross profit decreased \$9.1 million (30%) while operating expenses decreased \$6.3 million (25%).

These results were impacted by:

#### Gross profit

- Our motor fuel gross profit decreased \$2.1 million (31%) attributable to a 19% decrease in volume driven by the 2018 divestitures of seven company operated Upper Midwest and two commission agent sites mandated by FTC orders, the conversion of commission sites in our Retail segment to lessee dealer sites in our Wholesale segment, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the first tranche of the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019. As a result, the lower retail fuel margins in our commission agent business comprised a larger percentage of our overall retail fuel margins in 2019 as compared to 2018.

- Our merchandise and services gross profit decreased \$7.0 million (37%) as a result of the September 2018 divestitures of seven company operated Upper Midwest sites mandated by FTC orders, the May 2019 first tranche of the asset exchange with Circle K and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.
- Rent and other gross profit decreased \$0.1 million primarily as a result of the new lease accounting guidance. Lease payments on our previous sale-leaseback transactions totaling \$0.4 million were characterized as principal and interest expense in 2018, whereas such payments were characterized as rent expense in 2019. The decrease in our rent and other gross profit as a result of converting commission sites in the Retail segment to lessee dealer sites in the Wholesale segment was more than offset by the incremental rent margin generated by our Alabama sites as a result of dispenser upgrades and rebranding of the sites.

### Operating expenses

Operating expenses decreased \$6.3 million (25%) due primarily to the 2018 divestitures of seven company operated sites in the Upper Midwest and two commission sites mandated by FTC orders, the divestiture of 17 company operated Upper Midwest sites in May 2019 in connection with the first tranche of the asset exchange with Circle K, the conversion of commission sites in our Retail segment to lessee dealer sites in our Wholesale segment and the dealerization of 46 company operated Upper Midwest sites in the third quarter of 2019.

### **Non-GAAP Financial Measures**

We use non-GAAP financial measures EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio. EBITDA represents net income available to us before deducting interest expense, income taxes and depreciation, amortization and accretion (which includes certain impairment charges). Adjusted EBITDA represents EBITDA as further adjusted to exclude equity funded expenses related to incentive compensation and the Amended Omnibus Agreement, gains or losses on dispositions and lease terminations, net, certain discrete acquisition related costs, such as legal and other professional fees and separation benefit costs associated with recently acquired companies, and certain other discrete non-cash items arising from purchase accounting. Distributable Cash Flow represents Adjusted EBITDA less cash interest expense, sustaining capital expenditures and current income tax expense. Distribution Coverage Ratio is computed by dividing Distributable Cash Flow by the weighted-average diluted common units and then dividing that result by the distributions paid per limited partner unit.

EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio are used as supplemental financial measures by management and by external users of our financial statements, such as investors and lenders. EBITDA and Adjusted EBITDA are used to assess our financial performance without regard to financing methods, capital structure or income taxes and the ability to incur and service debt and to fund capital expenditures. In addition, Adjusted EBITDA is used to assess the operating performance of our business on a consistent basis by excluding the impact of items which do not result directly from the wholesale distribution of motor fuel, the leasing of real property, or the day to day operations of our retail site activities. EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio are also used to assess the ability to generate cash sufficient to make distributions to our unitholders.

We believe the presentation of EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio provides useful information to investors in assessing the financial condition and results of operations. EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio should not be considered alternatives to net income or any other measure of financial performance or liquidity presented in accordance with U.S. GAAP. EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio have important limitations as analytical tools because they exclude some but not all items that affect net income. Additionally, because EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage Ratio may be defined differently by other companies in our industry, our definitions may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following table presents reconciliations of EBITDA, Adjusted EBITDA, and Distributable Cash Flow to net income, the most directly comparable U.S. GAAP financial measure, for each of the periods indicated (in thousands, except for per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Net income (loss) available to limited partners<sup>(a)</sup></b>	\$ 7,032	\$ 5,175	\$ 13,419	\$ (3,878)
Interest expense <sup>(a)</sup>	6,532	8,145	21,105	24,354
Income tax (benefit) expense	(1,180)	303	(690)	(2,122)
Depreciation, amortization and accretion expense	14,063	13,993	39,620	51,425
<b>EBITDA<sup>(a)</sup></b>	<b>26,447</b>	<b>27,616</b>	<b>73,454</b>	<b>69,779</b>
Equity funded expenses related to incentive compensation and the Amended Omnibus Agreement <sup>(b)</sup>	221	167	547	3,640
Loss on dispositions and lease terminations, net <sup>(c)</sup>	1,745	61	2,173	6,678
Acquisition-related costs <sup>(d)</sup>	538	735	1,943	2,709
<b>Adjusted EBITDA<sup>(a)</sup></b>	<b>28,951</b>	<b>28,579</b>	<b>78,117</b>	<b>82,806</b>
Cash interest expense <sup>(a)</sup>	(6,301)	(7,839)	(20,329)	(23,127)
Sustaining capital expenditures <sup>(e)</sup>	(466)	(646)	(1,229)	(2,073)
Current income tax benefit (expense) <sup>(f)</sup>	3,561	(118)	4,789	(1,004)
<b>Distributable Cash Flow<sup>(a)</sup></b>	<b>\$ 25,745</b>	<b>\$ 19,976</b>	<b>\$ 61,348</b>	<b>\$ 56,602</b>
Weighted-average diluted common units	34,464	34,439	34,448	34,312
Distributions paid per limited partner unit <sup>(g)</sup>	\$ 0.5250	\$ 0.5250	\$ 1.5750	\$ 1.6775
<b>Distribution Coverage Ratio<sup>(a)(h)</sup></b>	<b>1.42x</b>	<b>1.10x</b>	<b>1.13x</b>	<b>0.98x</b>

- (a) As further discussed in Note 1 to the financial statements, we adopted ASC 842 effective January 1, 2019, and as a result, our results for the three and nine months ended September 30, 2019 are not directly comparable to the results for the three and nine months ended September 30, 2018. Most significantly, payments on our previous failed sale-leaseback obligations were characterized as principal and interest expense in periods prior to 2019. Starting in 2019, these payments are characterized as rent expense. These payments for the Wholesale and Retail segments amounted to approximately \$1.7 million and \$0.1 million for the three months ended September 30, 2018 and \$5.0 million and \$0.4 million for the nine months ended September 30, 2018, respectively. Of the total payments, \$1.4 million and \$4.1 million was classified as interest expense for the three and nine months ended September 30, 2018, respectively.
- (b) As approved by the independent conflicts committee of the Board, the Partnership and Circle K mutually agreed to settle certain amounts due under the terms of the Amended Omnibus Agreement in limited partner units of the Partnership.
- (c) In June 2018, we executed master fuel supply and master lease agreements with Applegreen, to whom we transitioned 43 sites in Florida from DMS in the third quarter of 2018. During the second quarter of 2018, in connection with this transition, we accrued a \$3.8 million contract termination payment paid in cash to DMS during the third quarter of 2018. Additionally, we recorded a \$2.2 million charge to write off deferred rent income related to our recapture of these sites from the master lease agreement with DMS.
- (d) Relates to certain discrete acquisition related costs, such as legal and other professional fees, separation benefit costs and certain purchase accounting adjustments associated with recently acquired businesses.
- (e) Under the Partnership Agreement, sustaining capital expenditures are capital expenditures made to maintain our long-term operating income or operating capacity. Examples of sustaining capital expenditures are those made to maintain existing contract volumes, including payments to renew existing distribution contracts, or to maintain our sites in conditions suitable to lease, such as parking lot or roof replacement/renovation, or to replace equipment required to operate the existing business.
- (f) Consistent with prior divestitures, the current income tax benefit for the three and nine months ended September 30, 2019 excludes income tax incurred on the sale of sites in connection with the Closed Asset Exchange Transactions (recorded as a charge against equity). Both periods include the tax benefit of 100% bonus depreciation on the eligible assets acquired in the Closed Asset Exchange Transactions as well as the dispenser upgrades and rebranding costs at our Alabama sites.
- (g) On October 24, 2019, the Board approved a quarterly distribution of \$0.5250 per unit attributable to the third quarter of 2019. The distribution is payable on November 12, 2019 to all unitholders of record on November 5, 2019.
- (h) The distribution coverage ratio is computed by dividing Distributable Cash Flow by the weighted-average diluted common units and then dividing that result by the distributions paid per limited partner unit.

The table below shows approximate adjustments to our Net income available to limited partners, EBITDA, Adjusted EBITDA, Distributable Cash Flow and Distribution Coverage for the three and nine months ended September 30, 2019 as if ASC 842 had not been applied (in thousands, except for per unit amounts).

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
<b>Net income available to limited partners</b>	\$ 7,032	\$ 452	\$ 7,484	\$ 13,419	\$ 1,341	\$ 14,760
Interest expense	6,532	1,355	7,887	21,105	4,080	25,185
Income tax benefit	(1,180)	—	(1,180)	(690)	—	(690)
Depreciation, amortization and accretion expense	14,063	—	14,063	39,620	—	39,620
<b>EBITDA</b>	<b>26,447</b>	<b>1,807</b>	<b>28,254</b>	<b>73,454</b>	<b>5,421</b>	<b>78,875</b>
Equity funded expenses related to incentive compensation and the Amended Omnibus Agreement	221	—	221	547	—	547
Loss on dispositions and lease terminations, net	1,745	—	1,745	2,173	—	2,173
Acquisition-related costs	538	—	538	1,943	—	1,943
<b>Adjusted EBITDA</b>	<b>28,951</b>	<b>1,807</b>	<b>30,758</b>	<b>78,117</b>	<b>5,421</b>	<b>83,538</b>
Cash interest expense	(6,301)	(1,355)	(7,656)	(20,329)	(4,080)	(24,409)
Sustaining capital expenditures	(466)	—	(466)	(1,229)	—	(1,229)
Current income tax benefit	3,561	—	3,561	4,789	—	4,789
<b>Distributable Cash Flow</b>	<b>\$ 25,745</b>	<b>\$ 452</b>	<b>\$ 26,197</b>	<b>\$ 61,348</b>	<b>\$ 1,341</b>	<b>\$ 62,689</b>
Weighted-average diluted common units	34,464	34,464	34,464	34,448	34,448	34,448
Distributions paid per limited partner unit	\$ 0.5250	\$ 0.5250	\$ 0.5250	\$ 1.5750	\$ 1.5750	\$ 1.5750
<b>Distribution Coverage Ratio</b>	<b>1.42x</b>	<b>0.02x</b>	<b>1.45x</b>	<b>1.13x</b>	<b>0.02x</b>	<b>1.16x</b>

The following table reconciles our segment Adjusted EBITDA to Consolidated Adjusted EBITDA presented in the table above (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Adjusted EBITDA - Wholesale segment	\$ 31,519	\$ 30,022	\$ 85,487	\$ 86,373
Adjusted EBITDA - Retail segment	523	2,065	2,430	5,312
Adjusted EBITDA - Total segment	\$ 32,042	\$ 32,087	\$ 87,917	\$ 91,685
<b>Reconciling items:</b>				
Elimination of intersegment profit in ending inventory balance	52	(71)	221	(234)
General and administrative expenses	(3,937)	(4,310)	(12,464)	(13,840)
Other income, net	168	104	352	287
Equity funded expenses related to incentive compensation and the Amended Omnibus Agreement	221	167	547	3,640
Acquisition-related costs	538	735	1,943	2,709
Net loss attributable to noncontrolling interests	—	—	—	5
IDR distributions	(133)	(133)	(399)	(1,446)
Consolidated Adjusted EBITDA	<u>\$ 28,951</u>	<u>\$ 28,579</u>	<u>\$ 78,117</u>	<u>\$ 82,806</u>

**General**

We incorporate by reference into this “Liquidity and Capital Resources” section our disclosures made in Part I, Item 1 of this report included in Note 8 of the notes to the financial statements under the caption “*New Credit Agreement.*”

**Liquidity**

Our principal liquidity requirements are to finance our operations, fund acquisitions, service our debt and pay distributions to our unitholders and IDR distributions. We expect our ongoing sources of liquidity to include cash generated by our operations and borrowings under the New Credit Agreement and, if available to us on acceptable terms, issuances of equity and debt securities. We regularly evaluate alternate sources of capital, including sale-leaseback financing of real property with third parties, to support our liquidity requirements.

Our ability to meet our debt service obligations and other capital requirements, including capital expenditures, acquisitions, and partnership distributions, will depend on our future operating performance, which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond our control. As a normal part of our business, depending on market conditions, we will, from time to time, consider opportunities to repay, redeem, repurchase or refinance our indebtedness. Changes in our operating plans, lower than anticipated sales, increased expenses, acquisitions or other events may cause us to seek additional debt or equity financing in future periods.

We believe that we will have sufficient cash flow from operations, borrowing capacity under the New Credit Agreement and access to capital markets and alternate sources of funding to meet our financial commitments and covenants, debt service obligations, contingencies, anticipated capital expenditures and partnership distributions. However, we are subject to business and operational risks that could adversely affect our cash flow. A material decrease in our cash flows would likely produce an adverse effect on our borrowing capacity as well as our ability to issue additional equity and/or debt securities and/or maintain or increase distributions to unitholders. See Note 8 to the financial statements for a discussion of the New Credit Agreement we entered into on April 1, 2019.

**Cash Flows**

The following table summarizes cash flow activity (in thousands):

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Net cash provided by operating activities	\$ 69,502	\$ 57,270
Net cash used in investing activities	(13,447)	(4,941)
Net cash used in financing activities	(53,861)	(52,435)

Operating Activities

Net cash provided by operating activities increased \$12.2 million for the nine months ended September 30, 2019 compared to the same period in 2018, primarily attributable to the dealerization of 46 company operated Upper Midwest sites and related sale of inventory, partially offset by settling \$3.3 million of omnibus charges in common units in 2018, whereas all omnibus charges were settled in cash in 2019.

As is typical in our industry, our current liabilities exceed our current assets as a result of the longer settlement of real estate and motor fuel taxes as compared to the shorter settlement of receivables for fuel, rent and merchandise.

Investing Activities

We incurred capital expenditures of \$18.4 million and \$10.2 million for the nine months ended September 30, 2019 and 2018, respectively. The increase was largely driven by the dispenser upgrades and rebranding of sites in our Alabama market as well as capital expenditures to rebuild certain sites in Florida impacted by Hurricane Michael. Additionally, in 2019, we received \$3.1 million in proceeds related to the first and second tranches of the asset exchange with Circle K as a result of the inventory divested at the 17 company operated sites and the security deposits from dealers transferred by Circle K to us. We received \$5.0 million of proceeds on sales, largely driven by the FTC-mandated divestiture of 11 properties in the third quarter of 2018.



## Financing Activities

We paid \$54.7 million in distributions and made net borrowings on our credit facility of \$6.0 million for the nine months ended September 30, 2019. We paid \$59.0 million in distributions and made net borrowings on our credit facility of \$10.5 million for the nine months ended September 30, 2018.

## **Distributions**

Distribution activity for 2019 was as follows:

<u>Quarter Ended</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Cash Distribution (per unit)</u>	<u>Cash Distribution (in thousands)</u>
December 31, 2018	February 11, 2019	February 19, 2019	\$ 0.5250	\$ 18,099
March 31, 2019	May 6, 2019	May 13, 2019	0.5250	18,099
June 30, 2019	July 30, 2019	August 6, 2019	0.5250	18,115
September 30, 2019	November 5, 2019	November 12, 2019	0.5250	18,115

The amount of any distribution is subject to the discretion of the Board, which may modify or revoke our cash distribution policy at any time. Our Partnership Agreement does not require us to pay any distributions. As such, there can be no assurance we will continue to pay distributions in the future.

## **IDRs**

We distributed \$0.4 million and \$1.4 million to Circle K with respect to the IDRs for the nine months ended September 30, 2019 and 2018, respectively.

## **Debt**

As of September 30, 2019, our consolidated debt and finance lease obligations consisted of the following (in thousands):

Revolving credit facility	\$ 504,000
Finance lease obligations	23,219
Total debt and finance lease obligations	527,219
Current portion	2,427
Noncurrent portion	524,792
Deferred financing costs, net	4,020
Noncurrent portion, net of deferred financing costs	\$ 520,772

Our borrowings under the revolving credit facility had a weighted-average interest rate of 4.31% as of September 30, 2019 (LIBOR plus an applicable margin, which was 2.25% as of September 30, 2019). Letters of credit outstanding at September 30, 2019 totaled \$5.4 million.

See Note 8 to the financial statements for information on the New Credit Agreement we entered into on April 1, 2019. The amount of availability under the New Credit Agreement at November 4, 2019, after taking into consideration debt covenant restrictions, was \$123.5 million.

## **Capital Expenditures**

We make investments to expand, upgrade and enhance existing assets. We categorize our capital requirements as either sustaining capital expenditures, growth capital expenditures or acquisition capital expenditures. Sustaining capital expenditures are those capital expenditures required to maintain our long-term operating income or operating capacity. Acquisition and growth capital expenditures are those capital expenditures that we expect will increase our operating income or operating capacity over the long term. We have the ability to fund our capital expenditures by additional borrowings under our New Credit Agreement or, if available to us on acceptable terms, issuing additional equity, debt securities or other options, such as the sale of assets. Our ability to access the capital markets may have an impact on our ability to fund acquisitions. We may not be able to complete any offering of securities or other options on terms acceptable to us, if at all.

The following table summarizes our capital expenditures for the nine months ended September 30, 2019 and 2018 (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Sustaining capital	\$ 1,229	\$ 2,073
Growth	17,169	8,629
<b>Total capital expenditures and acquisitions</b>	<b>\$ 18,398</b>	<b>\$ 10,702</b>

As noted previously, the increase in capital expenditures was largely driven by dispenser upgrades and rebranding of sites in our Alabama market as well as capital expenditures to rebuild certain sites in Florida impacted by Hurricane Michael.

#### **Other Matters Impacting Liquidity and Capital Resources**

##### ***Concentration of Customers***

For the nine months ended September 30, 2019, we distributed approximately 8% of our total wholesale distribution volumes to DMS and DMS accounted for approximately 7% of our rental income. For the nine months ended September 30, 2018, we distributed 7% of our total wholesale distribution volume to Circle K retail sites that are not supplied by CST Fuel Supply and received 17% of our rental income from Circle K. For more information regarding transactions with DMS and Circle K, see Note 10 of the financial statements.

##### **Outlook**

As noted previously, the prices paid to our motor fuel suppliers for wholesale motor fuel (which affects our costs of sales) are highly correlated to the price of crude oil. The crude oil commodity markets are highly volatile, and the market prices of crude oil, and, correspondingly, the market prices of wholesale motor fuel, experience significant and rapid fluctuations, which affect our motor fuel gross profit. See “Significant Factors Affecting our Profitability—The Significance of Crude Oil and Wholesale Motor Fuel Prices on Our Revenues, Cost of Sales and Gross Profit” for additional information.

Our results for 2019 are anticipated to be impacted by the following:

- Transactions effected pursuant to the Asset Exchange Agreement entered into with Circle K are anticipated to increase motor fuel volume and motor fuel gross profit.
- We anticipate that we will enter into new contracts to supply approximately 400 of our stores at terms that will improve the motor fuel gross profit at these sites.
- Improved fuel pricing under the November 2018 amendment to our fuel distribution agreements with Circle K to supply the sites acquired in our Jet-Pep Assets acquisition is also anticipated to positively impact motor fuel gross profit. We completed the dispenser upgrades and rebranding of substantially all of these sites to a major fuel supplier in the third quarter of 2019 and anticipate a positive impact on volume as well.
- We dealerized our remaining company operated sites in the third quarter of 2019, which will result in the reduction of retail segment fuel margin, merchandise and services margin and operating expenses and an increase in rental margin in our wholesale segment.
- New lease accounting guidance adopted January 1, 2019 has resulted in the recharacterization of lease payments under our previous sale-leaseback transactions. Such payments have been characterized as principal and interest expense under lease accounting guidance effective for 2018 and prior but is characterized as rent expense as a component of gross profit under the new lease accounting guidance effective for 2019 and forward. As a result, gross profit particularly from the Wholesale segment, operating income, net income, Adjusted EBITDA and Distributable Cash Flow for periods subsequent to the January 1, 2019 adoption date are not directly comparable to such measures reported for periods prior to the January 1, 2019 adoption date. This change in accounting did not have any impact on the debt covenant calculations under our New Credit Agreement. See Notes 1 and 16 to the financial statements for additional information.

We will continue to evaluate acquisitions on an opportunistic basis. Additionally, we will pursue acquisition targets that fit into our strategy. Whether we will be able to execute acquisitions will depend on market conditions, availability of suitable acquisition targets at attractive terms, acquisition related compliance with customary regulatory requirements, and our ability to finance such acquisitions on favorable terms and in compliance with our debt covenant restrictions.

Similar to the transaction described in “Recent Developments—Asset Exchange Transactions with Circle K,” we intend, when favorable market conditions exist and subject to required approvals, including approval by the Board’s independent conflicts committee, to purchase certain assets from Circle K on mutually agreeable terms, which could include a portion of the independent dealer and lessee dealer wholesale business of Circle K and certain non-core retail convenience sites of Circle K with the intent to convert them to lessee dealer sites.

#### **New Accounting Policies**

See Note 1 of the financial statements, particularly as it relates to the adoption of ASC 842 on our accounting for leases.

#### **Critical Accounting Policies Involving Critical Accounting Estimates**

There have been no material changes to the critical accounting policies described in our Form 10-K.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk

We purchase gasoline and diesel fuel from several suppliers at costs that are subject to market volatility. These purchases are generally made pursuant to contracts or at market prices established with the supplier. We do not currently engage in hedging activities for these purchases due to our pricing structure that allows us to generally pass on price changes to our customers and related parties.

#### Interest Rate Risk

At September 30, 2019, we had \$504.0 million outstanding on our revolving credit facility. Our outstanding borrowings bear interest at LIBOR plus an applicable margin, which was 2.25% at September 30, 2019. Our borrowings had a weighted-average interest rate at September 30, 2019 of 4.31%. A one percentage point change in our average rate would impact annual interest expense by approximately \$5.0 million. See Note 8 to the financial statements for a discussion of the New Credit Agreement we entered into on April 1, 2019.

#### Commodity Price Risk

We have not historically hedged or managed our price risk with respect to our commodity inventories (gasoline and diesel fuel), as the time period between the purchases of our motor fuel inventory and the sales to our customers is very short.

From the time of the November 2017 Jet-Pep Assets acquisition through October 31, 2018, we purchased motor fuel for our Jet-Pep Assets from Circle K at Circle K's cost plus terminal and administration fees of \$0.015 per gallon. Circle K's cost to supply these sites included price fluctuations associated with index-based motor fuel pricing for pipeline delivery and the generation and sale of RINs. Effective November 1, 2018, we amended our contract with Circle K such that our cost is based on a rack-based price, which reduces our exposure to price fluctuations inherent in the previous pricing methodology. We completed the upgrades of dispensers and the rebranding of substantially all these sites to a major fuel supplier in the third quarter of 2019 and anticipate a positive impact on volume and fuel margin.

Regarding our supplier relationships, a majority of our total gallons purchased are subject to discounts for prompt payment and other rebates and incentives, which are recorded within cost of sales. Prompt payment discounts are based on a percentage of the purchase price of motor fuel. As such, the dollar value of these discounts increases and decreases corresponding with motor fuel prices. We have not historically hedged or managed our price risk with respect to these terms discounts. Based on our current volumes, we estimate a \$10 per barrel change in the price of crude oil would impact our annual wholesale motor fuel gross profit by approximately \$2 million related to these payment discounts.

#### Foreign Currency Risk

Our operations are located in the U.S., and therefore we are not subject to foreign currency risk.

### ITEM 4. CONTROLS AND PROCEDURES

#### *(a) Evaluation of Disclosure Controls and Procedures*

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, and based on their evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of September 30, 2019.

#### *(b) Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting (as that term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We hereby incorporate by reference into this Item our disclosures made in Part I, Item 1 of this quarterly report included in Note 11 of the consolidated financial statements.

### ITEM 1A. RISK FACTORS

There were no material changes in risk factors for the company in the period covered by this report. See the risk factors disclosed in the section entitled "Risk Factors" in our Form 10-K.

### ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
10.1 +	<a href="#"><u>Second Amended and Restated Omnibus Agreement effective as of April 29, 2019, by and among CrossAmerica Partners LP, CrossAmerica GP LLC, Dunne Manning Inc., CST Services, LLC, Circle K Stores Inc. and Dunne Manning Stores, LLC, filed Exhibit 10.1 to the Form 8-K filed with the SEC on October 30, 2019</u></a>
31.1 *	<a href="#"><u>Certification of Principal Executive Officer of CrossAmerica GP LLC as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
31.2 *	<a href="#"><u>Certification of Principal Financial Officer of CrossAmerica GP LLC as required by Rule 13a-14(a) of the Securities Exchange Act of 1934</u></a>
32.1 *†	<a href="#"><u>Certification of Principal Executive Officer of CrossAmerica GP LLC pursuant to 18 U.S.C. §1350</u></a>
32.2 *†	<a href="#"><u>Certification of Principal Financial Officer of CrossAmerica GP LLC pursuant to 18 U.S.C. §1350</u></a>
101.INS *	XBRL Instance Document
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document

+ Non-material schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Partnership hereby undertakes to furnish supplemental copies of any of the omitted schedules upon request by the SEC.

\* Filed herewith

† Not considered to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) 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.

**CROSSAMERICA PARTNERS LP**

By: CROSSAMERICA GP LLC, its General Partner

By: /s/ Evan W. Smith

Evan W. Smith

Vice President—Finance and Chief Financial Officer

*(Duly Authorized Officer and Principal Financial and Accounting Officer)*

Date: November 7, 2019

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Gerardo Valencia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CrossAmerica Partners LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Gerardo Valencia

\_\_\_\_\_  
Gerardo Valencia

President and Chief Executive Officer

CrossAmerica GP LLC

(as General Partner of CrossAmerica Partners LP)

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Evan W. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CrossAmerica Partners LP;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Evan W. Smith

\_\_\_\_\_  
Evan W. Smith  
Vice President Finance and Chief Financial Officer  
CrossAmerica GP LLC  
(as General Partner of CrossAmerica Partners LP)



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of CrossAmerica Partners LP (the "Partnership") for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerardo Valencia, President and Chief Executive Officer of CrossAmerica GP LLC, the General Partner of the Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 7, 2019

/s/ Gerardo Valencia

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Gerardo Valencia

President and Chief Executive Officer

CrossAmerica GP LLC

*(as General Partner of CrossAmerica Partners LP)*

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1964, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of CrossAmerica Partners LP (the "Partnership") for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Evan W. Smith, Vice President Finance and Chief Financial Officer of CrossAmerica GP LLC, the General Partner of the Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 7, 2019

/s/ Evan W. Smith

\_\_\_\_\_  
Evan W. Smith  
Vice President Finance and Chief Financial Officer  
CrossAmerica GP LLC  
(as General Partner of CrossAmerica Partners LP)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1964, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.