

Core-Mark Holding Company, Inc.

Form 10-Q

November 10, 2008

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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, 2008

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

For the transition period from _____ to _____.

Commission File Number: 000-51515

CORE-MARK HOLDING COMPANY, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

incorporation or organization)

395 Oyster Point Boulevard, Suite 415

South San Francisco, CA
(Address of principal executive offices)

20-1489747
(IRS Employer

Identification No.)

94080
(Zip Code)

(650) 589-9445
(Registrant's telephone number, including area code)

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 requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Accelerated filer

Smaller reporting company

Yes No

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes No

As of September 30, 2008, 10,737,663 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions, except share data)

(Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 13.9	\$ 21.3
Restricted cash	12.3	11.5
Accounts receivable, net of allowance for doubtful accounts of \$8.9 and \$9.3, respectively	162.3	135.7
Other receivables, net	34.0	32.1
Inventories, net (Note 2)	241.3	216.4
Deposits and prepayments	38.6	36.9
Deferred income taxes	8.5	8.4
Total current assets	510.9	462.3
Property and equipment, net	76.2	69.3
Deferred income taxes	7.4	7.2
Goodwill	3.6	2.8
Other non-current assets, net	37.1	35.5
Total assets	\$ 635.2	\$ 577.1
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 78.2	\$ 54.3
Book overdrafts	14.3	21.1
Cigarette and tobacco taxes payable	99.9	94.2
Accrued liabilities	59.4	56.7
Total current liabilities	251.8	226.3
Long-term debt (Note 4)	58.3	29.7
Other long-term liabilities	12.4	13.7
Claims liabilities	32.0	31.2
Pension liabilities	9.5	9.7
Total liabilities	364.0	310.6
Stockholders equity:		
Common stock; \$0.01 par value (50,000,000 shares authorized; 10,737,663 and 10,445,886 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively)	0.1	0.1

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Additional paid-in capital	208.2	202.6
Treasury stock at cost, 396,716 shares of common stock (Note 10)	(11.0)	
Retained earnings	74.9	64.4
Accumulated other comprehensive loss	(1.0)	(0.6)
Total stockholders' equity	271.2	266.5
Total liabilities and stockholders' equity	\$ 635.2	\$ 577.1

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 1,672.7	\$ 1,477.5	\$ 4,552.7	\$ 4,187.6
Cost of goods sold	1,578.8	1,392.3	4,286.5	3,930.3
Gross profit	93.9	85.2	266.2	257.3
Warehousing and distribution expenses	54.3	45.6	151.2	128.6
Selling, general and administrative expenses	30.5	34.6	95.5	95.3
Amortization of intangible assets	0.5	0.4	1.5	1.3
Total operating expenses	85.3	80.6	248.2	225.2
Income from operations	8.6	4.6	18.0	32.1
Interest expense	0.7	0.5	1.6	2.0
Interest income	(0.2)	(0.2)	(0.9)	(0.7)
Foreign currency transaction losses (gains), net	1.5	(0.3)	2.6	(0.9)
Income before income taxes	6.6	4.6	14.7	31.7
Provision for income taxes (Note 5)	1.3	1.3	4.2	12.7
Net income	\$ 5.3	\$ 3.3	\$ 10.5	\$ 19.0
Basic income per common share (Note 6)	\$ 0.51	\$ 0.32	\$ 1.00	\$ 1.84
Diluted income per common share (Note 6)	\$ 0.49	\$ 0.30	\$ 0.95	\$ 1.69
Basic weighted average shares (Note 6)	10.4	10.4	10.5	10.4
Diluted weighted average shares (Note 6)	10.9	11.3	11.0	11.2

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 10.5	\$ 19.0
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	10.8	10.0
Amortization of debt issuance costs	0.4	0.3
Amortization of stock-based compensation expense	2.8	4.1
Bad debt expense, net	1.1	5.5
Depreciation and amortization	12.9	11.0
Foreign currency transaction losses (gains), net	2.6	(0.9)
Changes in operating assets and liabilities:		
Accounts receivable	(16.4)	(4.2)
Other receivables	(2.6)	4.0
Inventories	(28.5)	(25.5)
Deposits, prepayments and other non-current assets	(5.9)	(22.8)
Accounts payable	24.4	13.2
Cigarette and tobacco taxes payable	7.8	19.3
Pension, claims and other accrued liabilities	3.2	1.1
Income taxes payable	0.1	(5.3)
Net cash provided by operating activities	23.2	28.8
Cash flows from investing activities:		
Restricted cash	(1.6)	(0.6)
Acquisition of business, net of cash acquired	(26.4)	
Additions to property and equipment, net	(14.0)	(13.3)
Proceeds from sale of fixed assets	0.1	0.1
Capitalization of software	(0.7)	
Net cash used in investing activities	(42.6)	(13.8)
Cash flows from financing activities:		
Borrowings (repayments) under revolving credit facility, net	27.8	(24.3)
Repurchases of common stock shares (treasury stock)	(11.0)	
Proceeds from exercise of common stock options	2.5	2.0
Excess tax deductions associated with stock-based compensation	0.6	1.1
(Decrease) Increase in book overdrafts	(6.8)	2.9
Net cash provided by (used in) financing activities	13.1	(18.3)
Effects of changes in foreign exchange rates	(1.1)	(1.8)
Decrease in cash and cash equivalents	(7.4)	(5.1)
Cash and cash equivalents, beginning of period	21.3	19.9

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Cash and cash equivalents, end of period	\$ 13.9	\$ 14.8
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Supplemental disclosures:

Cash paid during the period for:

Income taxes, includes interest paid, net of refunds	\$ 5.8	\$ 27.0
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Interest	\$ 1.1	\$ 2.5
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See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Company Information

Business

Core-Mark Holding Company, Inc. and subsidiaries (referred to herein as we, us, our, or Core-Mark) is one of the leading wholesale distributors to the convenience store industry in North America, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 26 distribution centers (including two distribution facilities we operate as a third party logistics provider) in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 25,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of stores, including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Core-Mark for the three and nine months ended September 30, 2008 and 2007 have been prepared on the same basis as our audited consolidated financial statements and include all adjustments necessary for the fair presentation of our consolidated results of operations, financial position and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future period.

The significant accounting policies and certain financial information that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, but which are not required for interim reporting purposes, have been omitted. The unaudited consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2007, which are included in our 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 14, 2008.

2. Inventories

Net income reflects the application of the last-in, first-out (LIFO) method of valuing inventories in the United States based upon estimated annual producer price indices. During periods of rising prices, the LIFO method of costing inventories generally results in higher costs being charged against income (LIFO) expense, while lower costs are retained in inventories. We recorded LIFO expense of \$6.0 million for the three months ended September 30, 2008 and \$4.6 million for the same period in 2007, and \$10.7 million for the nine months ended September 30, 2008 and \$9.3 million for the same period in 2007.

3. Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2008 and 2007 was as follows (in