

Core-Mark Holding Company, Inc.

Form 10-Q

November 08, 2010

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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, 2010

**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)**

**Delaware
(State or other jurisdiction of
incorporation or organization)**

**20-1489747
(IRS Employer
Identification No.)**

**395 Oyster Point Boulevard, Suite 415
South San Francisco, CA
(Address of principal executive offices)**

**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). 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 definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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 Exchange Act). Yes No

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As of October 29, 2010, 10,882,436 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
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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, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 44.8	\$ 17.7
Restricted cash	12.4	12.4
Accounts receivable, net of allowance for doubtful accounts of \$8.4 and \$9.1, respectively	196.6	161.1
Other receivables, net	38.7	39.6
Inventories, net (Note 2)	233.1	275.5
Deposits and prepayments	71.8	42.2
Deferred income taxes	3.3	3.6
Total current assets	600.7	552.1
Property and equipment, net	85.2	83.8
Deferred income taxes	1.2	5.3
Goodwill	4.6	3.7
Other non-current assets, net	36.5	33.0
Total assets	\$ 728.2	\$ 677.9
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 90.0	\$ 63.2
Book overdrafts	15.4	19.4
Cigarette and tobacco taxes payable	143.6	132.3
Accrued liabilities	69.6	59.6
Income taxes payable	0.3	
Deferred income taxes	0.6	0.6
Total current liabilities	319.5	275.1
Long-term debt, net (Note 4)	0.7	20.0
Other long-term liabilities	4.5	4.3
Claims liabilities, net of current portion	33.5	32.6
Pension liabilities	15.1	15.7
Total liabilities	373.3	347.7
Stockholders equity:		

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Common stock; \$0.01 par value (50,000,000 shares authorized, 11,358,593 and 11,001,632 shares issued; 10,863,231 and 10,506,270 shares outstanding at September 30, 2010 and December 31, 2009, respectively)	0.1	0.1
Additional paid-in capital	223.8	216.2
Treasury stock at cost (495,362 shares of common stock at September 30, 2010 and December 31, 2009)	(13.2)	(13.2)
Retained earnings	146.4	129.6
Accumulated other comprehensive loss	(2.2)	(2.5)
Total stockholders' equity	354.9	330.2
Total liabilities and stockholders' equity	\$ 728.2	\$ 677.9

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net sales	\$ 1,993.6	\$ 1,776.1	\$ 5,410.0	\$ 4,879.7
Cost of goods sold	1,887.5	1,674.2	5,119.0	4,572.2
Gross profit	106.1	101.9	291.0	307.5
Warehousing and distribution expenses	55.8	51.1	157.0	146.3
Selling, general and administrative expenses	36.2	34.2	103.8	103.3
Amortization of intangible assets	0.5	0.5	1.5	1.6
Total operating expenses	92.5	85.8	262.3	251.2
Income from operations	13.6	16.1	28.7	56.3
Interest expense	(0.8)	(0.4)	(1.9)	(1.3)
Interest income	0.2		0.3	0.2
Foreign currency transaction gains (losses), net	0.4	0.4	(0.2)	2.0
Income before income taxes	13.4	16.1	26.9	57.2
Provision for income taxes (Note 5)	(4.7)	(4.8)	(10.1)	(18.4)
Net income	\$ 8.7	\$ 11.3	\$ 16.8	\$ 38.8
Basic income per common share (Note 6)	\$ 0.81	\$ 1.08	\$ 1.56	\$ 3.71
Diluted income per common share (Note 6)	\$ 0.78	\$ 1.02	\$ 1.47	\$ 3.59
Basic weighted-average shares (Note 6)	10.8	10.5	10.8	10.5
Diluted weighted-average shares (Note 6)	11.3	11.0	11.4	10.8

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 16.8	\$ 38.8
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	8.2	5.3
Amortization of debt issuance costs	0.4	0.4
Amortization of stock-based compensation	3.7	3.8
Bad debt expense, net	0.8	1.4
Depreciation and amortization	14.4	13.6
Foreign currency transaction losses (gains), net	0.2	(2.0)
Deferred income taxes	4.4	4.9
Changes in operating assets and liabilities:		
Accounts receivable	(14.9)	(17.8)
Other receivables	0.9	(6.7)
Inventories	44.8	16.6
Deposits, prepayments and other non-current assets	(31.1)	(6.1)
Accounts payable	26.6	5.2
Cigarette and tobacco taxes payable	10.6	(3.3)
Pension, claims and other accrued liabilities	8.2	1.8
Income taxes payable	0.3	0.1
Net cash provided by operating activities	94.3	56.0
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(35.9)	
Restricted cash	0.2	(1.5)
Additions to property and equipment, net	(9.3)	(13.5)
Capitalization of software	(0.9)	(0.3)
Net cash used in investing activities	(45.9)	(15.3)
Cash flows from financing activities:		
Repayments under revolving credit facility, net	(19.2)	(30.0)
Payments of financing costs	(1.8)	
Repurchases of common stock (treasury stock)		(2.2)
Proceeds from exercise of common stock options and warrants	4.0	1.0
Tax withholdings related to net share settlements of restricted stock units	(1.1)	(0.3)
Excess tax deductions associated with stock-based compensation	1.0	0.2
Decrease in book overdrafts	(4.0)	(4.0)
Net cash used in financing activities	(21.1)	(35.3)
Effects of changes in foreign exchange rates	(0.2)	0.2
Increase in cash and cash equivalents	27.1	5.6
Cash and cash equivalents, beginning of period	17.7	15.7

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Cash and cash equivalents, end of period	\$	44.8	\$	21.3
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes, net of refunds	\$	10.4	\$	11.5
Interest		1.1		0.8
Non-cash investing activities:				
Contingent consideration related to acquisition of business	\$	1.0	\$	
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, the Company or Core-Mark) is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to approximately 26,000 customer locations in the U.S. and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise and health and beauty care products. We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2010, the condensed consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009 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 condensed consolidated balance sheet as of December 31, 2009 has been derived from our audited financial statements, which are included in our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 12, 2010.

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 condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2009.

2. Inventories

Net income reflects the application of the last-in, first-out (LIFO) method of valuing inventories in the U.S. based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out (FIFO) basis as LIFO is not a permitted inventory valuation method in Canada. Approximately 86% and 81% of our FIFO inventory was valued on a LIFO basis at September 30, 2010 and 2009, respectively. During periods of rising prices, the LIFO method of costing inventories generally results in higher costs being charged against income, while lower costs are retained in inventories. If the FIFO method had been used for valuing inventories in the U.S., inventories would have been approximately \$50.8 million higher at September 30, 2010, compared to \$41.7 million higher at September 30, 2009. We recorded LIFO expense of \$2.9 million and \$0.2 million for the three months ended September 30, 2010 and 2009, respectively, and \$7.8 million and \$5.3 million for the nine months ended September 30, 2010 and 2009, respectively. In addition, inventory as of September 30, 2010 increased \$1.1 million as a result of an out of period adjustment related to the recognition of deferred vendor income. The adjustment was not material to any prior period.

3. Comprehensive Income

Comprehensive income for the three and nine months ended September 30, 2010 and 2009 was as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net income	\$ 8.7	\$ 11.3	\$ 16.8	\$ 38.8
Minimum pension liability adjustment			(0.2)	

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Foreign currency translation adjustment	0.7	1.4	0.5	1.4
Total comprehensive income	\$ 9.4	\$ 12.7	\$ 17.1	\$ 40.2

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Total long-term debt as presented in the condensed consolidated balance sheets consists of the following (in millions):

	September 30, 2010	December 31, 2009
Amounts borrowed (Credit Facility)	\$	\$ 19.2
Obligations under capital leases	0.7	0.8
Total long-term debt, net	\$ 0.7	\$ 20.0

We have a five-year revolving credit facility (Credit Facility) with a capacity of \$200 million and an expiration date of February 2014. Under our Credit Facility, we can borrow at prime rate or at LIBOR plus a margin ranging from 275 to 350 basis points, depending on achievement of certain operating results as defined in the Credit Facility agreement. All obligations under the Credit Facility are secured by first priority liens upon substantially all of our present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR- or CDOR-based loans prepaid prior to the end of an interest period).

Outstanding letters of credit and amounts available to borrow under the Credit Facility were as follows (in millions):

	September 30, 2010	December 31, 2009
Outstanding letters of credit	\$ 27.2	\$ 26.1
Amounts available to borrow	\$ 162.7	\$ 196.9

In February 2010, the total amount of the Credit Facility was reduced by \$50 million, at our request. As a result, the maximum amount available to borrow after that date became \$200 million.

The Credit Facility contains restrictive covenants, including among others, limitations on dividends and other restricted payments, other indebtedness, liens, investments and acquisitions and certain asset sales. As of September 30, 2010, we were in compliance with all of the covenants under the Credit Facility.

Our weighted-average interest rate was calculated based on our daily cost of borrowing which was computed on a blend of prime and LIBOR rates. We did not borrow monies under the Credit Facility during the three months ended September 30, 2010, compared to average borrowings of \$2.7 million with an average interest rate of 2.7% for the same period in 2009. Average borrowings for the nine months ended September 30, 2010 were \$2.2 million with an average interest rate of 2.5%, compared to average borrowings of \$10.4 million and an average interest rate of 1.9% for the same period in 2009.

5. Income Taxes

Our effective tax rate was 35.1% for the three months ended September 30, 2010 compared to 29.8% for the same period in 2009. Included in the provision for income taxes for the three months ended September 30, 2010 was a \$0.6 million net benefit compared to a \$1.4 million net benefit for the same period in 2009. The net benefits related primarily to the expiration of the statute of limitations for uncertain tax positions and changes to prior year estimates based upon finalization of tax returns.

Our effective tax rate was 37.5% for the nine months ended September 30, 2010 compared to 32.2% for the same period in 2009. Included in the provision for income taxes for the nine months ended September 30, 2010 was a \$0.6 million benefit including \$0.1 million of interest, compared to a net benefit of \$4.1 million including \$1.2 million of interest for the same period in 2009. The net benefits related primarily to the expiration of the statute of limitations for uncertain tax positions and changes to prior year estimates based upon finalization of tax returns.

At September 30, 2010, the total gross amount of unrecognized tax benefits, which was included in other long-term liabilities, related to federal, state and foreign taxes, was approximately \$1.2 million, all of which would impact our effective tax rate, if recognized. The expiration of the statute of limitations for certain tax positions in future years could impact the total gross amount of unrecognized tax benefits by \$0.3 million through September 30, 2011.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2007 to 2009 tax years remain subject to examination by federal and state tax authorities. The 2005 and 2006 tax years are still open for certain state tax authorities. The 2002 to 2009 tax years remain subject to examination by the tax authorities in certain foreign jurisdictions.

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The following table sets forth the computation of basic and diluted net income per share (in millions, except per share amounts):

	Three Months Ended September 30,					
	2010			2009		
	Net Income	Weighted- Average Shares Outstanding	Net Income per Common Share	Net Income	Weighted- Average Shares Outstanding	Net Income per Common Share
Basic EPS	\$ 8.7	10.8	\$ 0.81	\$ 11.3	10.5	\$ 1.08
Effect of dilutive common share equivalents:						
Unvested restricted stock units						(0.01)
Stock options		0.2	(0.01)		0.2	(0.02)
Warrants		0.3	(0.02)		0.3	(0.03)
Diluted EPS	\$ 8.7	11.3	\$ 0.78	\$ 11.3	11.0	\$ 1.02

	Nine Months Ended September 30,					
	2010			2009		
	Net Income	Weighted- Average Shares Outstanding	Net Income per Common Share	Net Income	Weighted- Average Shares Outstanding	Net Income per Common Share
Basic EPS	\$ 16.8	10.8	\$ 1.56	\$ 38.8	10.5	\$ 3.71
Effect of dilutive common share equivalents:						
Unvested restricted stock units		0.1	(0.01)			(0.01)
Stock options		0.2	(0.03)		0.2	(0.06)
Warrants		0.3	(0.05)		0.1	(0.05)
Diluted EPS	\$ 16.8	11.4	\$ 1.47	\$ 38.8	10.8	\$ 3.59

Note: Basic and diluted earnings per share are calculated based on unrounded actual amounts.

Certain options and warrants to purchase common stock were outstanding but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. There were 104,520 anti-dilutive stock options for both the three and nine months ended September 30, 2010, compared to 113,162 and 260,164 anti-dilutive stock options for the three and nine months ended September 30, 2009, respectively. There were no anti-dilutive warrants for the three and nine months ended both September 30, 2010 and September 30, 2009.

In 2004, we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the Class 6(B) creditors of Fleming (our former parent company) pursuant to

its plan of reorganization. We refer to the warrants we issued to the Class 6(B) creditors as the Class 6(B) warrants. We received no cash consideration at the time we issued the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of \$20.93 per share. The shares of common stock and the Class 6(B) warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes, which we refer to as the Tranche B warrants. The Tranche B warrants have an exercise price of \$15.50 per share. Both the Class 6(B) and Tranche B warrants may be exercised at the election of the holder at any time prior to August 23, 2011, at which time any outstanding warrants will be net issued.

The number of Class 6(B) warrants outstanding was 807,195 as of September 30, 2010 and 967,764 as of September 30, 2009. The number of Tranche B warrants outstanding was 126,716 as of September 30, 2010 and 2009. The Class 6(B) warrants and the Tranche B warrants have been classified as permanent equity. We use the treasury stock method to determine the shares of common stock due to conversion of outstanding warrants as of September 30, 2010.

7. Stock-Based Compensation Plans

Total stock-based compensation cost recognized in the accompanying condensed consolidated statements of operations was \$1.1 million and \$1.4 million for the three months ended September 30, 2010 and 2009, respectively, and \$3.7 million and \$3.8 million for the nine months ended September 30, 2010 and 2009, respectively. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was \$5.2 million at September 30, 2010. This balance is expected to be recognized over a weighted-average period of 1.8 years.

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The following table summarizes the activity for all stock options (Options), restricted stock units (RSUs) and performance shares under all of our Long-Term Incentive Plans (LTIP) for the nine months ended September 30, 2010:

Plans	Security	December 31, 2009		Activity during 2010				September 30, 2010					
		Outstanding Number	Price	Granted Number	Price	Exercised Number	Price	Canceled/Reclass Number	Price	Outstanding Number	Price	Exercisable Number	Price
2004 LTIP	RSUs	11,929	\$ 0.01			(10,708)	\$ 0.01			1,221	\$ 0.01	1,221	\$ 0.01
	Options	480,267	17.81			(125,557)	15.56	(500)	36.03	354,210	18.58	352,823	18.57
2004 Directors Plan	Options	30,000	15.50							30,000	15.50	30,000	15.50
2005 LTIP	RSUs	22,111	0.01			(6,129)							