

Core-Mark Holding Company, Inc.  
Form 10-Q  
November 09, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(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, 2007

**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

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**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

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(Registrant's telephone number, including area code)

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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 requirement for the past 90 days. Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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, 2007, 10,435,435 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, 2007**

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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,	December 31,
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14.8	\$ 19.9
Restricted cash	11.5	9.3
Accounts receivable, net of allowance for doubtful accounts of \$9.2 and \$4.0, respectively (Note 3)	149.7	149.4
Other receivables, net (Note 4)	33.3	35.7
Inventories, net (Note 2)	238.3	219.4
Deposits and prepayments	38.3	17.0
Deferred Income Taxes (Note 7)	5.8	
Total current assets	491.7	450.7
Property and equipment, net	62.3	55.0
Goodwill	2.8	2.9
Other non-current assets, net	51.4	47.0
Total assets	\$ 608.2	\$ 555.6
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 65.2	\$ 51.6
Book overdrafts	18.4	15.5
Cigarette and tobacco taxes payable	90.1	67.2
Accrued liabilities	59.9	56.0
Income taxes payable (Note 7)		6.9
Deferred income taxes (Note 7)		14.4
Total current liabilities	233.6	211.6
Long-term debt, net (Note 6)	53.7	78.0
Other tax liabilities (Note 7)	13.7	3.6
Claims liabilities, net of current portion	38.5	37.5
Pension liabilities	7.7	9.2
Total liabilities	347.2	339.9

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<b>Stockholders' equity:</b>		
Common stock; \$0.01 par value (50,000,000 shares authorized; 10,435,435 and 10,208,292 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively)	0.1	0.1
Additional paid-in capital	201.2	175.5
Retained earnings	59.3	40.2
Accumulated other comprehensive income (loss)	0.4	(0.1)
 Total stockholders' equity	 261.0	 215.7
 Total liabilities and stockholders' equity	 \$ 608.2	 \$ 555.6

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)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales	\$ 1,477.5	\$ 1,482.0	\$ 4,187.6	\$ 4,006.5
Cost of goods sold	1,392.3	1,403.0	3,930.3	3,789.2
<b>Gross profit</b>	<b>85.2</b>	<b>79.0</b>	<b>257.3</b>	<b>217.3</b>
Warehousing and distribution expenses	45.6	42.3	128.6	111.8
Selling, general and administrative expenses	34.6	28.1	95.3	79.8
Amortization of intangible assets	0.4	0.4	1.3	1.1
<b>Total operating expenses</b>	<b>80.6</b>	<b>70.8</b>	<b>225.2</b>	<b>192.7</b>
Income from operations	4.6	8.2	32.1	24.6
Interest expense	0.5	1.7	2.0	3.7
Interest income	(0.2)	(0.4)	(0.7)	(0.9)
Foreign currency transaction gains, net	(0.3)		(0.9)	(0.4)
Income before income taxes	4.6	6.9	31.7	22.2
Provision for income taxes (Note 7)	1.3	2.5	12.7	9.2
Net income	\$ 3.3	\$ 4.4	\$ 19.0	\$ 13.0
Basic income per common share (Note 8)	\$ 0.32	\$ 0.43	\$ 1.84	\$ 1.30
Diluted income per common share (Note 8)	\$ 0.30	\$ 0.40	\$ 1.69	\$ 1.19
Basic weighted average shares (Note 8)	10.4	10.1	10.4	10.0
Diluted weighted average shares (Note 8)	11.3	10.9	11.2	10.9

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)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 19.0	\$ 13.0
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
LIFO and inventory provisions	10.0	4.5
Amortization of stock-based compensation expense	4.1	3.3
Bad debt expense, net	5.5	(0.4)
Depreciation and amortization	11.0	9.2
Amortization of debt issuance costs	0.3	0.3
Foreign currency transaction gains, net	(0.9)	(0.4)
Deferred income taxes		0.2
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(4.2)	(2.9)
Other receivables	4.0	(1.9)
Inventories	(25.5)	17.5
Deposits, prepayments and other non-current assets	(22.8)	(6.4)
Accounts payable	13.2	34.3
Cigarette and tobacco taxes payable	19.3	(22.6)
Income taxes payable	(5.3)	(0.8)
Pension, claims and other accrued liabilities	1.1	(0.5)
<b>Net cash provided by operating activities</b>	<b>28.8</b>	<b>46.4</b>
<b>Cash flows from investing activities:</b>		
Restricted cash	(0.6)	1.7
Acquisition of business, net of cash acquired		(55.8)
Additions to property and equipment, net	(13.3)	(8.2)
Proceeds from sale of fixed assets	0.1	0.3
<b>Net cash used in investing activities</b>	<b>(13.8)</b>	<b>(62.0)</b>
<b>Cash flows from financing activities:</b>		
(Repayments) borrowings under revolving credit facility, net	(24.3)	9.2
Cash proceeds from exercise of common stock options	2.0	2.5
Excess tax deductions associated with stock-based compensation	1.1	1.7
Increase (decrease) in book overdrafts	2.9	(6.7)
<b>Net cash (used in) provided by financing activities</b>	<b>(18.3)</b>	<b>6.7</b>
<b>Effects of changes in foreign exchange rates</b>	<b>(1.8)</b>	<b>(0.3)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(5.1)</b>	<b>(9.2)</b>
<b>Cash and cash equivalents, beginning period</b>	<b>19.9</b>	<b>30.0</b>

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Cash and cash equivalents, end of period	\$ 14.8	\$ 20.8
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes, net of refunds	\$ 27.0	\$ 7.6
Interest	\$ 2.5	\$ 3.7

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 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 24 distribution centers in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 21,000 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, 2007 and 2006 have been prepared on the same basis as our audited consolidated financial statements and include all adjustments (consisting of normal recurring adjustments, except as disclosed in Note 3 and 7) 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, 2006 which are included in our 2006 Annual Report on Form 10-K.

**Reclassifications**

Amortization of debt issuance costs for the three and nine months ended September 30, 2006 of \$0.1 million and \$0.3 million, respectively, have been reclassified from debt issuance costs to interest expense in the statement of operations to conform to current period presentation.

**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. We recorded LIFO expense of \$4.6 million for the three months ended September 30, 2007 and \$0.8 million for the same period in 2006, and \$9.3 million for the nine months ended September 30, 2007 and \$3.7 million for the same period in 2006. The increase in LIFO expense in 2007 results from higher annual producer price index estimates primarily for cigarettes, grocery, and confectionery products.

**3. Allowance for Doubtful Accounts Receivable**

During the third quarter of 2007, two of our customers experienced deteriorating financial conditions leading one of the customers to seek protection under Court Receivership in September of 2007. We believe this customer will file for bankruptcy under Chapter 11 in the near future. Based on management's evaluation of the

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customers' ability to make future payments, including the legal options available, we increased the allowance for doubtful accounts in the third quarter by \$5.2 million to \$9.2 million as of September 30, 2007 to provide for the collection risks with respect to these accounts receivable. We continually assess our collection risks and make appropriate adjustments, as deemed necessary, to the allowance for doubtful accounts to ensure that reserves for accounts receivable are adequate. The increase in the allowance for doubtful accounts was recognized in our selling, general and administrative expenses which is included in our operating expenses.

**4. Other Receivables, net**

In April 2007, we entered into a settlement agreement with the State of Washington Department of Revenue related to a technical interpretation of the State of Washington's Other Tobacco Tax Law which specifies a refund of Other Tobacco Product (OTP) tax of approximately \$13.3 million, which represents 25% of the State of Washington OTP tax we paid for the periods of December 1991 through December 1996 and May 1998 through June 2005. This refund, which was received in July 2007, was recorded in the second quarter of 2007 as a reduction to cost of goods sold and an increase to other receivables.

**5. Comprehensive Income**