Core-Mark Holding Company, Inc.
Form 10-Q
August 06, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2010

o **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	**20-1489747**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
395 Oyster Point Boulevard, Suite 415 South San Francisco, CA	**94080**
(Address of principal executive offices)	**(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 þ No o

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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 31, 2010, 10,792,971 shares of the registrant s common stock, $0.01 par value per share, were outstanding.

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2010
TABLE OF CONTENTS

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)

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 14.9	$ 17.7
Restricted cash	12.4	12.4
Accounts receivable, net of allowance for doubtful accounts of $7.5 and $9.1, respectively	189.1	161.1
Other receivables, net	39.1	39.6
Inventories, net (Note 2)	245.4	275.5
Deposits and prepayments	46.9	42.2
Deferred income taxes	3.6	3.6
Total current assets	551.4	552.1
Property and equipment, net	81.9	83.8
Deferred income taxes	5.3	5.3
Goodwill	3.7	3.7
Other non-current assets, net	34.4	33.0
Total assets	$ 676.7	$ 677.9
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 84.6	$ 63.2
Book overdrafts	6.5	19.4
Cigarette and tobacco taxes payable	129.5	132.3
Accrued liabilities	58.2	59.6
Deferred income taxes	0.6	0.6
Total current liabilities	279.4	275.1
Long-term debt, net (Note 4)	0.7	20.0
Other long-term liabilities	4.2	4.3
Claims liabilities, net of current portion	33.3	32.6
Pension liabilities	15.8	15.7
Total liabilities	333.4	347.7
Stockholders equity:		
	0.1	0.1

Common stock; $0.01 par value (50,000,000 shares authorized, 11,266,064 and 11,001,632 shares issued; 10,770,702 and 10,506,270 shares outstanding at June 30, 2010 and December 31, 2009, respectively)				
Additional paid-in capital		221.6		216.2
Treasury stock at cost (495,362 shares of common stock at June 30, 2010 and December 31, 2009)		(13.2)		(13.2)
Retained earnings		137.7		129.6
Accumulated other comprehensive loss		(2.9)		(2.5)
Total stockholders equity		343.3		330.2
Total liabilities and stockholders equity	$	676.7	$	677.9

See accompanying notes to condensed consolidated financial statements.

3

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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net sales	$ 1,834.3	$ 1,711.8	$ 3,416.4	$ 3,103.6
Cost of goods sold	1,737.2	1,624.3	3,231.5	2,898.0
Gross profit	97.1	87.5	184.9	205.6
Warehousing and distribution expenses	52.1	50.2	101.2	95.2
Selling, general and administrative expenses	32.2	32.1	67.6	69.1
Amortization of intangible assets	0.5	0.5	1.0	1.1
Total operating expenses	84.8	82.8	169.8	165.4
Income from operations	12.3	4.7	15.1	40.2
Interest expense	(0.5)	(0.4)	(1.1)	(0.9)
Interest income	0.1	0.1	0.1	0.2
Foreign currency transaction (losses) gains, net	(0.8)	2.4	(0.6)	1.6
Income before income taxes	11.1	6.8	13.5	41.1
Provision for income taxes (Note 5)	(4.4)	(2.6)	(5.4)	(13.6)
Net income	$ 6.7	$ 4.2	$ 8.1	$ 27.5
Basic income per common share (Note 6)	$ 0.62	$ 0.40	$ 0.75	$ 2.62
Diluted income per common share (Note 6)	$ 0.59	$ 0.39	$ 0.71	$ 2.58
Basic weighted-average shares (Note 6)	10.8	10.5	10.7	10.5
Diluted weighted-average shares (Note 6)	11.3	10.8	11.3	10.6

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)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net income	$ 8.1	$ 27.5
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	4.6	5.1
Amortization of debt issuance costs	0.3	0.3
Amortization of stock-based compensation	2.6	2.5
Bad debt expense, net	0.5	1.1
Depreciation and amortization	9.5	9.1
Foreign currency transaction losses (gains), net	0.6	(1.6)
Changes in operating assets and liabilities:		
Accounts receivable	(28.8)	(27.9)
Other receivables	0.5	(3.0)
Inventories	24.9	(14.5)
Deposits, prepayments and other non-current assets	(6.0)	(12.0)
Accounts payable	21.6	12.6
Cigarette and tobacco taxes payable	(2.2)	8.1
Pension, claims and other accrued liabilities	(0.9)	7.7
Net cash provided by operating activities	35.3	15.0
Cash flows from investing activities:		
Restricted cash	(0.2)	(2.1)
Additions to property and equipment, net	(5.5)	(8.3)
Capitalization of software	(0.9)	(0.3)
Net cash used in investing activities	(6.6)	(10.7)
Cash flows from financing activities:		
Repayments under revolving credit facility, net	(19.2)	(4.9)
Payments of financing costs	(1.8)	
Repurchases of common stock (treasury stock)		(2.2)
Proceeds from exercise of common stock options and warrants	2.9	0.6
Tax withholdings related to net share settlements of restricted stock units	(1.0)	
Excess tax deductions associated with stock-based compensation	0.8	0.1
(Decrease) increase in book overdrafts	(12.9)	0.3
Net cash used in financing activities	(31.2)	(6.1)

Effects of changes in foreign exchange rates		(0.3)		0.2
Decrease in cash and cash equivalents		(2.8)		(1.6)
Cash and cash equivalents, beginning of period		17.7		15.7
Cash and cash equivalents, end of period	$	14.9	$	14.1
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes, net of refunds	$	11.5	$	12.2
Interest		0.6		0.6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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-Ma 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 25,000 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 June 30, 2010, the condensed consolidated statements of operations for the three and six months ended June 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the six months ended June 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 84% and 87% of our FIFO inventory was valued on a LIFO basis at June 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 $47.9 million higher at June 30, 2010, compared to $41.4 million higher at June 30, 2009. We recorded LIFO expense of $3.6 million and $2.1 million for the three months ended June 30, 2010 and 2009, respectively, and $4.9 million and $5.1 million for the six months ended June 30, 2010 and 2009, respectively.

3. Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net income	$ 6.7	$ 4.2	$ 8.1	$ 27.5
Minimum pension liability adjustment			(0.2)	
Foreign currency translation adjustment	(0.8)		(0.2)	
Total comprehensive income	$ 5.9	$ 4.2	$ 7.7	$ 27.5

4. Long-term Debt

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

	June 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. The basis points added to LIBOR are a range of 275 to 350 basis points, tied to achieving certain operating results as defined in the Credit Facility. 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):

	June 30, 2010	December 31, 2009
Outstanding letters of credit	$ 29.6	$ 26.1
Amounts available to borrow	$ 159.2	$ 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 June 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 June 30, 2010, compared to average borrowings of $5.3 million with an average interest rate of 1.7% for the same period in 2009. Average borrowings for the six months ended June 30, 2010 were $3.4 million with an average interest rate of 2.5%, compared to average borrowings of $14.4 million and an average interest rate of 1.9% for the same period in 2009.

5. Income Taxes

Our effective tax rate was 39.6% for the three months ended June 30, 2010 compared to 38.2% for the same period in 2009. The lower effective tax rate for the three months ended June 30, 2009 was due primarily to a higher utilization of our foreign tax benefit compared with the same period this year. The higher utilization last year resulted primarily from a greater percentage of earnings being recognized during the first half of the year, mainly driven by the recognition of significant inventory holding gains associated with SCHIP.

Our effective tax rate was 40.0% for the six months ended June 30, 2010 compared to 33.1% for the same period in 2009. The effective tax rate for the six months ended June 30, 2009 was favorably impacted by a $1.8 million benefit and related interest recovery of $1.0 million which were included in the provision for income taxes and related to the expiration of the statute of limitations for uncertain tax positions. We did not recognize any such benefit in the six months ended June 30, 2010.

At June 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 $1.5 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 $0.4 million through June 30, 2011.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2006 to 2009 tax years remain subject to examination by federal and state tax authorities. The 2005 tax year is 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.

Table of Contents

6. Earnings Per Share

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

	Three Months Ended June 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	$ 6.7	10.8	$ 0.62	$ 4.2	10.5	$ 0.40
Effect of dilutive common share equivalents:						
Stock options		0.2	(0.01)		0.2	(0.01)
Warrants		0.3	(0.02)		0.1	
Diluted EPS	$ 6.7	11.3	$ 0.59	$ 4.2	10.8	$ 0.39

	Six Months Ended June 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	$ 8.1	10.7	$ 0.75	$ 27.5	10.5	$ 2.62
Effect of dilutive common share equivalents:						
Unvested restricted stock units		0.1				
Stock options		0.2	(0.01)		0.1	(0.03)
Warrants		0.3	(0.03)			(0.01)
Diluted EPS	$ 8.1	11.3	$ 0.71	$ 27.5	10.6	$ 2.58

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 six months ended June 30, 2010, compared to 262,486 anti-dilutive stock options for the three and six months ended June 30, 2009. There were no anti-dilutive warrants for the three and six months ended June 30,

2010. There were no anti-dilutive warrants for the three months ended June 30, 2009 and 968,628 anti-dilutive warrants (Class 6(B)) for the six months ended June 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 and 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 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.

The number of Class 6(B) warrants outstanding was 880,698 as of June 30, 2010 and 968,628 as of June 30, 2009. The number of Tranche B warrants outstanding was 126,716 as of June 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 June 30, 2010.

7. Stock-Based Compensation Plans

Total stock-based compensation cost recognized in the accompanying condensed consolidated statements of operations was $1.2 million and $1.3 million for the three months ended June 30, 2010 and 2009, respectively, and $2.6 million and $2.5 million for the six months ended June 30, 2010 and 2009, respectively. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was $6.4 million at June 30, 2010. This balance is expected to be recognized over a weighted-average period of 2.0 years.

Table of Contents

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 six months ended June 30, 2010:

		December 31, 2009		Activity during 2010						June 30, 2010			
		Outstanding		Granted		Exercised		Canceled/Reclass		Outstanding		Exercisable	
Plans	**Securities**	**Number**	**Price**	**Number**	**Price**	**Number**	**Price**	**Number**	**Price**	**Number**	**Price**	**Number**	**Price**
2004 LTIP	RSUs	11,929	$ 0.01		$	(10,333)	$ 0.01		$	1,596	$ 0.01	1,596	$ 0.01
	Options	480,267	17.81			(80,273)	15.60	(500)	36.03	399,494	18.23	397,570	18.22
2004 Directors Plan	Options	30,000	15.50							30,000	15.50	30,000	15.50
2005 LTIP	RSUs	22,111	0.01			(5,709)	0.01			16,402	0.01	15,938	0.01
2005 Directors Plan	Options	15,000	27.03										