

Core-Mark Holding Company, Inc.
Form 10-Q
November 13, 2006
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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, 2006

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)

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)

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 October 31, 2006, 10,165,407 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This quarterly report on Form 10-Q and other materials we file with the Securities and Exchange Commission (the SEC) contain disclosures which are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, anticipate, plan or continue. These forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated. These factors include, but are not limited to: economic conditions affecting the cigarette and consumable goods industry; the adverse effect of legislation and other matters affecting the cigarette industry; financial risks associated with purchasing cigarettes and other tobacco products from certain product manufacturers; increases in excise and other taxes on cigarettes and other tobacco products; increased competition in the distribution industry; disintermediation; our reliance on income from rebates, allowances and other incentive programs; our dependence on the convenience store industry; our dependence on certain customers; the risk that we may not be able to retain and attract customers; our inability to borrow additional capital; failure of our suppliers to provide products; the negative affects of product liability claims; the loss of key personnel, our inability to attract and retain new qualified personnel or the failure to renew collective bargaining agreements covering certain of our employees; currency exchange rate fluctuations; government regulation; the risk that we may be unable to successfully integrate the operations of businesses we acquire, and the risk that our suppliers may raise their prices or reduce the availability of their products to us, decisions by our suppliers to engage in direct distributions and the residual effects of the Fleming Company Inc. s (Fleming) bankruptcy on our customer, supplier and employee relationships, and our results of operations.

These forward-looking statements speak only as of the date of this Form 10-Q. Except as provided by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should also read, among other things, the risks and uncertainties described in the section of this Form 10-Q entitled Factors That May Affect Future Operating Results.

Table of Contents**CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES**

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	September 30,	December 31,
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 20.8	\$ 30.0
Restricted cash	9.5	10.8
Accounts receivable, net of allowance for doubtful accounts of \$6.0 and \$6.5, respectively	151.2	128.6
Other receivables, net	32.2	27.2
Inventories, net	198.8	199.7
Deposits and prepayments	25.1	18.6
Total current assets	437.6	414.9
Property and equipment, net	52.0	40.9
Deferred income taxes	1.8	2.1
Goodwill	3.3	
Other non-current assets, net	52.2	52.5
Total assets	\$ 546.9	\$ 510.4
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 81.0	\$ 46.3
Book overdrafts	13.5	20.2
Cigarette and tobacco taxes payable	42.9	64.0
Accrued liabilities	61.2	59.3
Income taxes payable	5.1	6.0
Deferred income taxes	13.3	13.3
Total current liabilities	217.0	209.1
Long-term debt, net	68.8	59.6
Other tax liabilities	4.5	3.9
Claims liabilities, net of current portion	40.4	41.0
Pension liabilities	10.8	12.2
Total liabilities	341.5	325.8
Commitments and Contingencies (Note 12)		
Stockholders equity:		
Common stock; \$0.01 par value (50,000,000 shares authorized; 10,151,183 and 9,809,929 shares issued and outstanding at September 30, 2006 and December 31, 2005 respectively)	0.1	0.1
Additional paid-in capital	173.5	166.1
Retained earnings	32.6	19.6
Accumulated other comprehensive loss	(0.8)	(1.2)

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Total stockholders' equity	205.4	184.6
Total liabilities and stockholders' equity	\$ 546.9	\$ 510.4

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, 2006	2005
Net sales	\$ 1,482.0	\$ 1,333.3
Cost of goods sold	1,403.0	1,262.4
Gross profit	79.0	70.9
Warehousing and distribution expenses	42.3	37.1
Selling, general and administrative expenses	28.1	25.2
Amortization of intangible assets	0.4	0.4
Total operating expenses	70.8	62.7
Income from operations	8.2	8.2
Interest expense, net	1.2	3.3
Loss on early extinguishment of debt		2.6
Amortization of debt issuance costs	0.1	0.4
Income before income taxes	6.9	1.9
Provision for income taxes	2.5	1.0
Net income	\$ 4.4	\$ 0.9
Basic income per common share	\$ 0.43	\$ 0.09
Diluted income per common share	\$ 0.40	\$ 0.08
Basic weighted average shares	10.1	9.8
Diluted weighted average shares	10.9	10.5

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)

	Nine Months Ended	
	September 30,	
	2006	2005
Net sales	\$ 4,006.5	\$ 3,681.2
Cost of goods sold	3,789.2	3,474.9
Gross profit	217.3	206.3
Warehousing and distribution expenses	111.8	102.5
Selling, general and administrative expenses	79.8	78.4
Amortization of intangible assets	1.1	0.9
Total operating expenses	192.7	181.8
Income from operations	24.6	24.5
Interest expense, net	2.5	9.5
Loss on early extinguishment of debt		2.6
Foreign currency transaction (gains) losses, net	(0.4)	0.6
Amortization of debt issuance costs	0.3	0.9
Income before income taxes	22.2	10.9
Provision for income taxes	9.2	5.0
Net income	\$ 13.0	\$ 5.9
Basic income per common share	\$ 1.30	\$ 0.61
Diluted income per common share	\$ 1.19	\$ 0.57
Basic weighted average shares	10.0	9.8
Diluted weighted average shares	10.9	10.4

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,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 13.0	\$ 5.9
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	4.5	5.0
Amortization of stock-based compensation expense	3.3	3.0
Bad debt reserves, net	(0.4)	0.6
Depreciation and amortization	9.5	11.7
Loss on early extinguishment of debt		2.3
Foreign currency transaction (gains) losses, net	(0.4)	0.6
Deferred income taxes	0.2	(3.5)
Changes in operating assets and liabilities:		
Accounts receivable	(2.9)	(9.3)
Other receivables	(1.9)	11.1
Inventories	17.5	26.3
Deposits, prepayments and other non-current assets	(6.4)	(5.4)
Accounts payable	34.3	3.1
Cigarette and tobacco taxes payable	(22.6)	11.1
Pension, claims and other accrued liabilities and income taxes payable	(1.3)	(10.7)
Net cash provided by operating activities	46.4	51.8
Cash flows from investing activities:		
Restricted cash	1.7	(0.1)
Acquisition of business, net of cash acquired	(55.8)	
Additions to property and equipment, net	(8.2)	(4.2)
Proceeds from sale of fixed assets	0.3	
Net cash used in investing activities	(62.0)	(4.3)
Cash flows from financing activities:		
Payments made under 2004 revolving credit facility, net		(9.3)
Borrowings under 2005 revolving credit facility, net	9.2	
Principal payments on long-term debt		(35.5)
Cash proceeds from exercise of common stock options and warrants	2.5	
Excess tax deductions associated with stock-based compensation	1.7	
Increase (decrease) in book overdrafts	(6.7)	0.8
Net cash provided by (used in) financing activities	6.7	(44.0)
Effects of changes in foreign exchange rates	(0.3)	0.7
Increase (decrease) in cash and cash equivalents	(9.2)	4.2
Cash and cash equivalents, beginning period	30.0	26.2

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Cash and cash equivalents, end of period	\$ 20.8	\$ 30.4
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Supplemental disclosures:

Cash paid during the period for:

Income taxes	\$ 7.6	\$ 20.7
Interest	\$ 2.9	\$ 9.4

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 Company Information