

Core-Mark Holding Company, Inc.

Form 10-Q/A

May 19, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(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, 2005

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)

20-1489747
(IRS Employer
Identification No.)

395 Oyster Point Boulevard, Suite 415
(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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.

Large accelerated filer an accelerated filer or a non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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, 2005, 9,808,542 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

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FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

EXPLANATORY NOTE

On March 23, 2006 the Audit Committee of the Board of Directors of the Company and management concluded that our audited consolidated financial statements as of December 31, 2004 and for the period from August 23, 2004 to December 31, 2004 and our unaudited condensed consolidated financial statements as of and for the three and nine month periods ended September 30, 2005, each included (or included in part) in our quarterly report on Form 10-Q for the third quarter of 2005 initially filed with the Securities and Exchange Commission on November 30, 2005 should no longer be relied upon because of errors in those financial statements relating to the accounting for foreign currency translation adjustments related to intercompany balances. Accordingly, this Amendment No. 1 to our quarterly report on Form 10-Q for the third quarter of 2005 is being filed to reflect the restatement of the Company's financial statements for such periods and the period from August 23, 2004 to September 30, 2004 to correct such error and to correct inventory valuation errors and other errors in estimation. This Amendment No. 1 is also being filed to reflect the identification of additional material weaknesses in internal controls over financial reporting following the initial filing of the Form 10-Q.

In addition to the changes discussed above, the Company has (i) revised excise tax figures included in footnote (a) to the Company's unaudited consolidated statement of operations to increase the amounts presented for all periods from previously reported amounts due to the use of a revised calculation based on actual invoices rather than estimated amounts (this revision represents only a change in the presentation of the disclosure and does not represent a change in results of operations), (ii) conformed the presentation of accounts payable and book overdrafts (and related statement of cash flows line items) to the balance sheet classifications (and related statement of cash flow line items) reported in our Form 10-K for 2005 filed on April 14, 2006 and (iii) conformed the presentation of statement of cash flows line items for borrowings and repayments under revolving lines of credit to such line items reported in our Form 10-K for 2005 filed on April 14, 2006.

Part I Item 1 Financial Statements, Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, Part I Item 4 Controls and Procedures and Part II Item 6 Exhibits are revised in this filing to reflect the above changes. Except as discussed above, the financial statements and other disclosure in this Form 10-Q do not reflect any events that have occurred after the Form 10-Q was initially filed on November 30, 2005.

For further information concerning the restatement and the specific adjustments made see *Part I Item 2 Management Discussion and Analysis of Financial Condition and Results of Operations Restatements of Financial Information* and *Note 2 to the Unaudited Consolidated Interim Financial Statements*.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This quarterly report on Form 10-Q and other materials we will file with the Securities and Exchange Commission (the SEC) contain, or will 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;

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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

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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; and the residual effects of the 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 registration statement entitled Factors That May Affect Future Operating Results.

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CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	September 30, 2005	December 31, 2004
	Restated	Restated
Assets		
Current assets:		
Cash and cash equivalents	\$ 30.4	\$ 26.2
Restricted cash	12.2	12.1
Accounts receivable, net of allowance for doubtful accounts of \$6.7 and \$7.5, respectively	143.3	133.9
Other receivables, net	23.2	34.1
Inventories, net	155.4	186.4
Deposits and prepayments	36.0	36.9
	<u>400.5</u>	<u>429.6</u>
Total current assets	400.5	429.6
Property and equipment, net	38.7	41.3
Deferred income taxes	3.3	0.7
Other non-current assets, net	34.8	32.6
	<u>477.3</u>	<u>504.2</u>
Total assets	\$ 477.3	\$ 504.2
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable ⁽¹⁾	\$ 44.2	\$ 40.6
Book overdrafts ⁽¹⁾	21.5	20.7
Cigarette and tobacco taxes payable	61.5	49.0
Accrued liabilities	2	60.3
Income taxes payable	3.5	15.6
Deferred income taxes	13.7	14.4
	<u>204.6</u>	<u>200.6</u>
Total current liabilities	204.6	200.6
Long-term debt, net	35.6	77.5
Other tax liabilities	1.8	1.8
Claims liabilities, net of current portion	48.1	46.3
Pension liabilities	11.4	11.4
	<u>301.5</u>	<u>337.6</u>
Total liabilities	301.5	337.6
Stockholders equity:		
Common stock; \$0.01 par value (50,000,000 shares authorized, 9,808,542 shares issued and outstanding at September 30, 2005)	0.1	0.1
Additional paid-in capital	165.1	162.1
Retained earnings	11.2	5.3

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Accumulated other comprehensive income	(0.6)	(0.9)
Total stockholders' equity	175.8	166.6
Total liabilities and stockholders' equity	\$ 477.3	\$ 504.2

(1) These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation - Reclassifications*.

The accompanying notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Successor Company		Predecessor Company
	Three months ended September 30, 2005	Period from August 23 through September 30, 2004	Period from July 1 through August 22, 2004
	Restated	Restated	
Net sales ^(a)	\$ 1,333.3	\$ 487.5	\$ 636.8
Cost of goods sold ^{(a) (b)}	1,262.4	459.1	601.2
Gross profit	70.9	28.4	35.6
Warehousing and distribution expenses	37.1	13.1	19.6
Selling, general and administrative expenses	25.2	10.4	11.9
Amortization of intangible assets	0.4	0.1	
Total operating expenses	62.7	23.6	31.5
Income from operations	8.2	4.8	4.1
Interest expense, net	3.3	1.5	0.6
Loss on early extinguishment of debt	2.6		
Foreign currency transaction (gains) losses, net		(0.7)	
Reorganization items, net		0.6	(71.7)
Amortization of debt issuance costs	0.4	0.2	
Income before income taxes	1.9	3.2	75.2
Provision for income taxes	1.0	1.2	25.9
Net income	\$ 0.9	\$ 2.0	\$ 49.3
Basic income per common share	\$ 0.09	\$ 0.20	\$ 5.03
Diluted income per common share	\$ 0.08	\$ 0.20	\$ 5.03
Basic weighted average shares	9.8	9.8	9.8
Diluted weighted average shares	10.5	9.8	9.8

(a) State and provincial cigarette and tobacco excise taxes paid by the Company are included in both sales and cost of goods sold and totaled \$328.7, \$114.4 and \$158.7 for the three months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from July 1 through August 22, 2004, respectively. These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 Basis of Presentation and Principles of Consolidation Reclassifications.

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- (b) Cost of goods sold excludes depreciation and amortization expense attributable to distribution assets of \$2.0, \$0.9, and \$0.9, that have been included in warehousing and distribution expenses for the three months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from July 1 through August 22, 2004, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Successor Company		Predecessor Company
	Nine months ended September 30,	Period from August 23 through September 30,	Period from January 1 through August 22,
	2005	2004	2004
	Restated	Restated	
Net sales ^(a)	\$ 3,681.2	\$ 487.5	\$ 2,673.1
Cost of goods sold ^{(a) (b)}	3,474.9	459.1	2,523.3
Gross profit	206.3	28.4	149.8
Warehousing and distribution expenses	102.5	13.1	78.7
Selling, general and administrative expenses	78.4	10.4	59.3
Amortization of intangible assets	0.9	0.1	
Total operating expenses	181.8	23.6	138.0
Income from operations	24.5	4.8	11.8
Interest expense, net	9.5	1.5	4.4
Loss on early extinguishment of debt	2.6		
Foreign currency transaction (gains) losses, net	0.6	(0.7)	
Reorganization items, net		0.6	(70.0)
Amortization of debt issuance costs	0.9	0.2	
Income before income taxes	10.9	3.2	77.4
Provision for income taxes	5.0	1.2	26.7
Net income	\$ 5.9	\$ 2.0	\$ 50.7
Basic income per common share	\$ 0.61	\$ 0.20	\$ 5.17
Diluted income per common share	\$ 0.57	\$ 0.20	\$ 5.17
Basic weighted average shares	9.8	9.8	9.8
Diluted weighted average shares	10.4	9.8	9.8

(a)

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State and provincial cigarette and tobacco excise taxes paid by the Company are included in both sales and cost of goods sold and totaled \$891.4, \$114.4 and \$643.5 for the nine months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from January 1 through August 22, 2004, respectively. These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 Basis of Presentation and Principles of Consolidation Reclassifications.

- (b) Cost of goods sold excludes depreciation and amortization expense attributable to distribution assets of \$5.8, \$0.9, and \$3.6, that have been included in warehousing and distribution expenses for the nine months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from January 1 through August 22, 2004, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

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(In millions, except per share data)

(Unaudited)

	<u>Successor Company</u>		<u>Predecessor Company</u>
	Nine months ended	Period from August 23	Period from January 1
	September 30,	through September 30,	through August 22,
	<u>2005</u>	<u>2004</u>	<u>2004</u>
	<u>Restated</u>	<u>Restated</u>	
Cash flows from operating activities:			
Net income	\$ 5.9	\$ 2.0	\$ 50.7
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
LIFO and inventory reserves	5.0	0.5	2.7
Fresh-start accounting adjustments, net			(81.3)
Amortization of stock-based compensation expense	3.0	0.2	
Allowance for doubtful accounts	0.6	0.4	5.7
Depreciation and amortization	11.7	1.4	7.0
Loss on early extinguishment of debt	2.3		
Foreign currency transaction (gains) losses, net	0.6	(0.7)	
Deferred income taxes	(3.5)	(0.3)	21.7
Changes in operating assets and liabilities:			
Restricted cash	(0.1)	6.4	(6.7)
Accounts receivable	(9.3)	1.4	(6.4)
Other receivables	11.1	19.0	9.7
Inventories	26.3	2.2	47.8
Deposits, prepayments and other non-current assets	(5.4)	4.2	(22.8)
Accounts payable	3.1	1.4	11.2
Cigarette and tobacco taxes payable	11.1	(5.9)	(1.1)
Liabilities subject to compromise			(55.6)
Pension, claims and other accrued liabilities and income taxes payable	(10.7)	4.2	(7.4)
Net cash provided by (used in) operating activities	51.7	36.4	(24.8)
Cash flows from investing activities:			
Additions to property and equipment, net	(4.2)	(0.2)	(6.4)
Net cash used in investing activities	(4.2)	(0.2)	(6.4)
Cash flows from financing activities:			
Proceeds from emergence financing			120.5
Net cash distributed to Trusts upon emergence			(139.6)
Net capital distributions from Fleming			55.0
Borrowing under revolving line of credit ⁽¹⁾	18.7		

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Repayments under revolving line of credit ⁽¹⁾	(28.0)	(36.6)	
Principal payments on long-term debt	(35.5)		
Changes in debt issuance costs			(3.8)
Increase (decrease) in book overdrafts	0.8	(1.8)	3.0
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(44.0)	(38.4)	35.1
	<u> </u>	<u> </u>	<u> </u>
Effects of changes in foreign exchange rates	0.7	0.7	(0.5)
	<u> </u>	<u> </u>	<u> </u>
Increase (decrease) in cash and cash equivalents	4.2	(1.5)	3.4
Cash and cash equivalents, beginning period	26.2	34.5	31.1
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 30.4	\$ 33.0	\$ 34.5
	<u> </u>	<u> </u>	<u> </u>
Supplemental disclosures:			
Cash paid during the period for:			
Income Taxes	\$ 20.7	\$ 0.3	\$
Interest	\$ 9.4	\$ 0.4	\$
Payments made in conjunction with Chapter 11 reorganization:			
Professional fees	\$	\$ 0.1	\$ 1.6
Pre-petition claim payments	\$	\$	\$ 54.9
Non-cash transactions	\$	\$	\$ 1.6

(1) These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation Reclassifications*.

The accompanying notes are an integral part of these consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary Company Information

Business

Core-Mark Holding Company, Inc. and subsidiaries (collectively the Company 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. The Company operates 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 20,000 customer locations. The Company's products include cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise, and health and beauty care products. Core-Mark services a variety of store formats including traditional convenience stores, grocery stores, drug stores, mass merchandise stores, liquor stores and other stores that carry convenience products.

Chapter 11 Filing by Fleming Companies, Inc. and Emergence of Core-Mark Holding Company, Inc.

Core-Mark operated as a privately-held company until June 2002 when it was acquired by Fleming Companies, Inc. (Fleming). On April 1, 2003, Fleming and its subsidiaries (collectively, the Debtors) filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the state of Delaware. On July 27, 2004, the bankruptcy court confirmed Fleming's Plan of Reorganization, as amended and revised (the Plan). The Plan provided for the reorganization of the Debtors with Core-Mark surviving as a separate company.

Upon emergence from the Fleming bankruptcy on August 23, 2004 (the Effective Date), Core-Mark reflected the terms of the Plan in its consolidated financial statements applying the provisions of the American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* (SOP 90-7) with respect to financial reporting upon emergence from bankruptcy. The effect of the application of these provisions is described in Note 3 to the consolidated financial statements of the Company's Form 10 registration statement, as amended. For detailed information on the Fleming bankruptcy proceedings and Core-Mark's emergence as a separate company, please review the information contained in the Company's Form 10.

Pursuant to the Plan, the Company emerged from the Fleming bankruptcy as Core-Mark Holding Company, Inc. and was incorporated effective in August, 2004. The authorized capital stock of the Company consists of 50 million shares of common stock, with a par value of \$0.01 per share. The Company issued an aggregate of 9.8 million shares of common stock to Fleming in exchange for the stock of Core-Mark International, Inc. and its subsidiaries. Pursuant to the Plan, Fleming is to distribute this common stock to its creditors as instructed by the Post Confirmation Trust (PCT) in settlement of pre-petition claims. As of September 30, 2005, Fleming had distributed 5.4 million shares of the common stock to its Class 6(A) creditors and the remaining 4.4 million shares of common stock were subject to future distribution to Fleming's creditors as claims are resolved. In October 2005, the PCT authorized a further distribution of 2.0 million shares of common stock to the creditors. Further to the Plan, warrants to purchase an aggregate of 990,616 shares of the common stock were issued to Fleming and distributed by Fleming to its Class 6(B) creditors in March 2005, referred to as the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of

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\$20.925 per share, a 35% premium to the fair value of a share of common stock as determined pursuant to the Plan, are immediately exercisable, and expire in 2011. As of September 30, 2005, all of the Class 6(B) warrants allocated to the Class 6(B) creditors under the Plan had been distributed.

The Company entered into a Note and Warrant Purchase Agreement on August 23, 2004, referred to as the Tranche B Note Agreement, incurred an aggregate of \$60 million in obligations thereunder in the form of notes

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and letters of credit issued for the Company's account, and issued warrants to the Tranche B noteholders to purchase an aggregate of 247,654 shares of common stock. The notes, letters of credit and warrants issued under the Tranche B Note Agreement are referred to as the Tranche B Notes, the Tranche B Letters of Credit and the Tranche B Warrants, respectively. The Tranche B Warrants have an exercise price of \$15.50 per share, the fair value of common stock as determined pursuant to the Plan, are immediately exercisable, and expire in 2011. (*See Note 13 Subsequent Events.*)

Fresh-Start Accounting

In accordance with SOP 90-7, the Company adopted fresh-start accounting as of August 23, 2004, as the Company's emergence from the Fleming Chapter 11 bankruptcy proceedings resulted in a new reporting basis. Under fresh-start accounting rules, a new reporting entity was deemed to be created and the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values, based on independent valuations where applicable.

The effective date of the new entity was considered to be the start of business on August 23, 2004 for financial reporting purposes. The fiscal periods prior to and including August 22, 2004 pertain to what is designated the Predecessor Company, while the fiscal periods subsequent to August 22, 2004 pertain to what is designated the Successor Company. Where a financial statement item applies to both the Successor and Predecessor Companies, the entity is referred to collectively as the Company. After giving effect to the reorganization and fresh-start accounting required by SOP 90-7, *the financial statements of the Successor Company are not comparable to those of the Predecessor Company.*

2. Restatements of Financial Statements

On March 23, 2006 the Audit Committee of the Board of Directors of the Company and management concluded that the audited consolidated financial statements as of December 31, 2004 and for the period from August 23, 2004 to December 31, 2004 and the unaudited condensed consolidated financial statements as of and for the three and nine month periods ended September 30, 2005, each included (or included in part) in the quarterly report on Form 10-Q for the third quarter of 2005, filed with the Securities and Exchange Commission on November 30, 2005 should no longer be relied upon because of errors in those financial statements relating to the accounting for foreign currency translation adjustments related to intercompany balances. Specifically, management determined that foreign currency translation adjustments related to intercompany balances of the Company's Canadian branch were incorrectly recorded as a component of comprehensive income directly to stockholders' equity. These intercompany balances were incorrectly thought to be of a permanent nature. Because such intercompany balances post-emergence were not permanent in nature and were fluctuating throughout the period, the foreign exchange gains or losses should have been recorded as a gain (or loss) within the income statement. Accordingly, the Company is restating its financial statements for such periods and the period from August 23, 2004 to September 30, 2004 in this Amendment No. 1 to the Form 10-Q to correct the above error and to correct the additional errors discussed below.

In connection with this restatement, the Company also corrected an approximately \$0.4 million inventory overvaluation error (and a corresponding understatement of cost of goods sold) in the financial statements for the nine months ended September 30, 2005. Additionally, the restatement reflects adjustments for the nine months ended September 30, 2005 to correct estimation errors and to correct errors in certain

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balance sheet classifications as of September 30, 2005. The correction of the estimation errors resulted in an approximately \$0.1 million increase in cost of goods sold and an approximately \$0.2 million increase in selling, general and administrative expenses for the nine months ended September 30, 2005. In addition, diluted earnings per share for the three months ended September 30, 2005 decreased from \$0.09 to \$0.08 as a result of a change in the

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

method of calculating diluted earnings per share. Previously, the Company calculated diluted earning per share by dividing net income expressed in millions by fully diluted shares. As restated, diluted earnings per share are calculated by dividing net income expressed in dollars by fully diluted shares.

The correction of the error relating to the accounting of foreign currency translation adjustments had the effect of increasing (decreasing) income before income taxes, net income and earnings per diluted share by \$0.7 million, \$0.4 million and \$0.04, respectively, for the period August 23 through September 30, 2004 and by \$(0.6) million, \$(0.3) million and \$(0.03), respectively, for the nine months ended September 30, 2005.

The aggregate effect of correcting the accounting errors described above was as follows:

For the period from August 23, 2004 through September 30, 2004, income before income taxes increased by \$0.7 million, net income increased by \$0.4 million and diluted earnings per share increased \$0.04. For the nine months ending September 30, 2005, income before income taxes decreased \$1.3 million, net income decreased \$0.8 million and diluted earnings per share decreased \$0.07. There was no impact to income from continuing operations or net income for the three months ended September 30, 2005, however, diluted earnings per share decreased by \$0.01 from \$0.09 to \$0.08 as a result of the change in the method of calculating diluted earnings per share.

Unless otherwise noted, all financial information set forth herein reflects the restatement of the Company's financial statements for the first three quarters of fiscal year 2005 and for the period from August 23 through December 31, 2004. Although the financial statements for the third quarter of 2005 are being restated, the restatement impacts only the nine month period ended September 30, 2005 included in such financial statements and, other than the adjustment resulting from the change in the method of calculating diluted earnings per share, no adjustment is being made to the three month period ended September 30, 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effects of these adjustments on previously reported financial statements are summarized in the tables below:

CONSOLIDATED BALANCE SHEET CHANGES

(In millions except share data)

	September 30, 2005		
	(Unaudited)		
	As filed in Form 10-Q on November 30, 2005	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 30.4	\$	\$ 30.4
Restricted cash	12.2		12.2
Accounts receivable, net of allowance for doubtful accounts of \$6.7	141.5	1.8	143.3
Other receivables, net	22.3	0.9	23.2
Inventories, net	155.4		155.4
Deposits and prepayments	38.4	(2.4)	36.0
Total current assets	400.2	0.3	400.5
Property and equipment, net	38.7		38.7
Deferred income taxes	3.3		3.3
Other non-current assets, net	33.1	1.7	34.8
Total assets	\$ 475.3	\$ 2.0	\$ 477.3
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable ⁽¹⁾	\$ 42.2	\$ 2.0	\$ 44.2
Book overdrafts ⁽¹⁾	21.5		21.5
Cigarette and tobacco taxes payable	61.5		61.5
Accrued liabilities	60.2		60.2
Income taxes payable	2.8	0.7	3.5
Deferred income taxes	13.7		13.7
Total current liabilities	201.9	2.7	204.6
Long-term debt, net	35.6		35.6
Other tax liabilities	1.8		1.8
Claims liabilities, net of current portion	48.1		48.1
Pension liabilities	11.4		11.4

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Total liabilities	298.8	2.7	301.5
Commitments and contingencies (Note 11)			
Stockholders' equity:			
Common stock; \$0.01 par value (50,000,000 shares authorized, 9,808,542 shares issued and outstanding at September 30, 2005)	0.1		0.1
Additional paid-in capital	165.1		165.1
Retained earnings	10.1	1.1	11.2
Accumulated other comprehensive income	1.2	(1.8)	(0.6)
Total stockholders' equity	176.5	(0.7)	175.8
Total liabilities and stockholders' equity	\$ 475.3	\$ 2.0	\$ 477.3

(1) These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation - Reclassifications*.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED BALANCE SHEET CHANGES

(In millions except share data)

	December 31, 2004		
	As Filed in Form 10/A on October 21, 2005	Adjustment	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 26.2	\$	\$ 26.2
Restricted cash	12.1		12.1
Accounts receivable, net of allowance for doubtful accounts of \$7.7	131.7	2.2	133.9
Other receivables, net	34.8	(0.7)	34.1
Inventories, net	186.3	0.1	186.4
Deposits and prepayments	38.7	(1.8)	36.9
	<u>429.8</u>	<u>(0.2)</u>	<u>429.6</u>
Total current assets	429.8	(0.2)	429.6
Property and equipment, net	41.3		41.3
Deferred income taxes	0.7		0.7
Other non-current assets, net	31.8	0.8	32.6
	<u>31.8</u>	<u>0.8</u>	<u>32.6</u>
Total assets	<u>\$ 503.6</u>	<u>\$ 0.6</u>	<u>\$ 504.2</u>
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable ⁽¹⁾	\$ 40.5	\$ 0.1	\$ 40.6
Book overdrafts ⁽¹⁾	20.7		20.7
Cigarette and tobacco taxes payable	49.0		49.0
Accrued liabilities	60.5	(0.2)	60.3
Income taxes payable	14.4	1.2	15.6
Deferred income taxes	14.4		14.4
	<u>199.5</u>	<u>1.1</u>	<u>200.6</u>
Total current liabilities	199.5	1.1	200.6
Long-term debt, net	77.5		77.5
Other tax liabilities	1.8		1.8
Claims liabilities, net of current portion	46.3		46.3
Pension liabilities	11.4		11.4
	<u>336.5</u>	<u>1.1</u>	<u>337.6</u>
Total liabilities	<u>336.5</u>	<u>1.1</u>	<u>337.6</u>

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Commitments and contingencies

Stockholders' equity:

Common stock; \$0.01 par value (50,000,000 shares authorized, 9,815,375 shares issued and outstanding at December 31, 2004)	0.1		0.1
Additional paid-in capital	162.1		162.1
Retained earnings	3.4	1.9	5.3
Accumulated other comprehensive income	1.5	(2.4)	(0.9)
	<u>167.1</u>	<u>(0.5)</u>	<u>166.6</u>
Total stockholders' equity			
	<u>\$ 503.6</u>	<u>\$ 0.6</u>	<u>\$ 504.2</u>

(1) These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation - Reclassifications*.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF OPERATIONS CHANGES

(In millions, except per share data)

	Nine months ended September 30, 2005		
	(Unaudited)		
	As Filed in Form 10-Q on November 30, 2005	Adjustments	As Restated
Net sales ^(a)	\$ 3,681.2	\$	\$ 3,681.2
Cost of goods sold ^{(a) (b)}	3,474.4	0.5	3,474.9
Gross profit	206.8	(0.5)	206.3
Warehousing and distribution expenses	102.5		102.5
Selling, general and administrative expenses	78.2	0.2	78.4
Amortization of intangible assets	0.9		0.9
Total operating expenses	181.6	0.2	181.8
Income from operations	25.2	(0.7)	24.5
Interest expense, net	9.5		9.5
Loss on early extinguishment of debt	2.6		2.6
Foreign currency transaction (gains) losses, net		0.6	0.6
Amortization of debt issuance costs	0.9		0.9
Income (loss) from operations before income taxes	12.2	(1.3)	10.9
Provision for income taxes	5.5	(0.5)	5.0
Net income (loss)	\$ 6.7	\$ (0.8)	\$ 5.9
Basic income (loss) per common shares			
Net income (loss)	\$ 0.68	\$ (0.07)	\$ 0.61
Diluted income (loss) per common share:			
Net income (loss)	\$ 0.64	\$ (0.07)	\$ 0.57
Basic weighted average shares	9.8	9.8	9.8
Diluted weighted average shares	10.4	10.4	10.4

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- (a) State and provincial cigarette and tobacco excise taxes paid by the Company are included in both sales and cost of goods sold and totaled \$891.4 for the nine months ended September 30, 2005. This balance has been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. *See Note 3 Basis of Presentation and Principles of Consolidation Reclassifications.*

- (b) Cost of goods sold excludes depreciation and amortization expense attributable to distribution assets of \$5.8 that has been included in warehousing and distribution expenses for the nine months ended September 30, 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS CHANGES

(In millions, except share data)

	Period from August 23 through September 30, 2004		
	As Filed in Form 10-Q		
	on		
	November 30, 2005	Adjustments	As Restated
Net sales ^(a)	\$ 487.5	\$	\$ 487.5
Cost of goods sold ^{(a)(b)}	459.1		459.1
Gross profit	28.4		28.4
Warehousing and distribution expenses	13.1		13.1
Selling, general and administrative expenses	10.4		10.4
Amortization of intangible assets	0.1		0.1
Total operating expenses	23.6		23.6
Income from operations	4.8		4.8
Interest expense, net	1.5		1.5
Reorganization items, net	0.6		0.6
Foreign currency transaction (gains) losses		(0.7)	(0.7)
Amortization of debt issuance costs	0.2		0.2
Income from operations before income taxes	2.5	0.7	3.2
Provision for income taxes	0.9	0.3	1.2
Net income	\$ 1.6	\$ 0.4	\$ 2.0
Basic income per common share:			
Continuing operations	\$ 0.16	\$ 0.04	\$ 0.20
Discontinued operations			
Net income	\$ 0.16	\$ 0.04	\$ 0.20
Diluted income per common share:			
Continuing operations	\$ 0.16	\$ 0.04	\$ 0.20
Discontinued operations			

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Net income	\$ 0.16	\$ 0.04	\$ 0.20
Basic weighted average shares	9.8	9.8	9.8
Diluted weighted average shares	9.8	9.8	9.8

- (a) State and provincial cigarette and tobacco excise taxes paid by the Company are included in both sales and cost of goods sold and totaled \$114.4 for the period August 23 through September 30, 2004. This balance has been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation - Reclassifications*.
- (b) Cost of goods sold excludes depreciation and amortization expense attributable to distribution assets of \$0.9 that has been included in warehousing and distribution expenses for the period August 23 through September 30, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOW CHANGES

(in millions)

	Nine months ended September 30, 2005		
	(Unaudited)		
	As filed in Form 10-Q on November 30, 2005	Adjustments	As Restated
Cash flows from operating activities:			
Net income	\$ 6.7	\$ (0.8)	\$ 5.9
Adjustments to reconcile net income to net cash provided by operating activities:			
LIFO and inventory reserves	5.0		5.0
Amortization of stock-based compensation expense	3.0		3.0
Allowance for doubtful accounts	0.6		0.6
Depreciation and amortization	11.7		11.7
Loss on early extinguishment of debt	2.3		2.3
Foreign currency transaction (gains) losses, net		0.6	0.6
Deferred income taxes	(3.5)		(3.5)
Changes in operating assets and liabilities, net of acquisitions:			
Restricted cash	(0.1)		(0.1)
Accounts receivable	(9.7)	0.4	(9.3)
Other receivables	12.7	(1.6)	11.1
Inventories	26.2	0.1	26.3
Deposits, prepayments and other non-current assets	(5.1)	(0.3)	(5.4)
Accounts payable	1.2	1.9	3.1
Cigarette and tobacco taxes payable	11.1		11.1
Pension, claims and other accrued liabilities and income taxes payable	(10.4)	(0.3)	(10.7)
Net cash provided by operating activities	51.7		51.7
Cash flows from investing activities:			
Additions to property and equipment, net	(4.2)		(4.2)
Net cash used in investing activities	(4.2)		(4.2)
Cash flows from financing activities:			
Borrowings under revolving line of credit ⁽¹⁾	18.7		18.7
Repayments under revolving line of credit ⁽¹⁾	(28.0)		(28.0)
Principal payments on long-term debt	(35.5)		(35.5)
Increase in book overdrafts	0.8		0.8

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Net cash used in financing activities	(44.0)		(44.0)
Effects of changes in foreign exchange rates	0.7		0.7
Increase in cash and cash equivalents	4.2		4.2
Cash and cash equivalents, beginning period	26.2		26.2
Cash and cash equivalents, end of period	\$ 30.4		\$ 30.4
Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	\$ 20.7	\$	\$ 20.7
Interest	\$ 9.4	\$	\$ 9.4

(1) These balances have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. See Note 3 *Basis of Presentation and Principles of Consolidation Reclassifications*.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOW CHANGES

(in millions)

	Period from August 23 through September 30, 2004		
	(Unaudited)		
	As filed in Form 10Q		
	on November 30, 2005	Adjustments	As Restated
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Net income	\$ 1.6	\$ 0.4	\$ 2.0
Adjustments to reconcile net income to net cash provided by operating activities:			
LIFO and inventory reserves	0.5		0.5
Amortization of stock-based compensation expense	0.2		0.2
Allowance for doubtful accounts	0.4		0.4
Depreciation and amortization	1.4		1.4
Foreign currency transaction (gains) losses, net		(0.7)	(0.7)
Deferred income taxes	(0.3)		(0.3)
Changes in operating assets and liabilities, net of acquisitions:			
Restricted cash	6.4		6.4
Accounts receivable	1.4		1.4
Other receivables	19.0		19.0
Inventories	2.2		2.2
Deposits, prepayments and other non-current assets	4.2		4.2
Accounts payable	1.4		1.4
Cigarette and tobacco taxes payable	(5.9)		(5.9)
Pension, claims and other accrued liabilities and income taxes payable	3.9	0.3	4.2
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	36.4		36.4
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities:			
Additions to property and equipment, net	(0.2)		(0.2)
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(0.2)		(0.2)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Repayments under revolving line of credit ⁽¹⁾	(36.6)		(36.6)
Decrease in book overdrafts	(1.8)		(1.8)
	<u> </u>	<u> </u>	<u> </u>
Net cash used in financing activities	(38.4)		(38.4)
	<u> </u>	<u> </u>	<u> </u>
Effects of changes in foreign exchange rates	0.7		0.7
	<u> </u>	<u> </u>	<u> </u>

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Decrease in cash and cash equivalents	(1.5)		(1.5)
Cash and cash equivalents, beginning period	34.5		34.5
Cash and cash equivalents, end of period	\$ 33.0		\$ 33.0
Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	\$ 0.3	\$	\$ 0.3
Interest	\$ 0.4	\$	\$ 0.4
Payments made in conjunction with Chapter 11 reorganization:			
Professional fees	\$ 0.1	\$	\$ 0.1

- (1) These balances (repayments and borrowings under revolving line of credit, presented here net) have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on April 14, 2006. *See Note 3 Basis of Presentation and Principles of Consolidation Reclassifications.*

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Basis of Presentation and Principles of Consolidation

The interim financial information as of September 30, 2005 and for the three and nine months ended September 30, 2005 is unaudited. The interim financial information as of September 30, 2004 and for the three months including the period from July 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004 is unaudited. The interim financial information for the nine months ended September 30, 2004 includes the audited period from January 1, 2004 through August 22, 2004 and the unaudited period from August 23, 2004 through September 30, 2004.

In the opinion of the Company's management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting of only normally recurring adjustments) necessary for the fair presentation of its 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 the Company's audited financial statements for the period from January 1, 2004 through August 22, 2004, and for the period from August 23, 2004 through December 31, 2004, which are included in the Company's Form 10, as amended on May 19, 2006 to reflect the restatement of such financial statements.

Use of Estimates

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's management considers the allowance for doubtful accounts, the allowance related to other receivables, inventory reserves, fresh-start valuations, recoverability of goodwill and other long-lived assets, carve-out expense allocations, trust guarantees, the realizability of deferred income taxes, pension benefits and self-insurance reserves, and the fair value of the Company's common stock and stock volatility to be those estimates which involve a higher degree of judgment and complexity. Actual results could differ from those estimates.

Reclassifications

Certain financial statement reclassifications have been made to the prior period presentation in order to conform them to the current period presentation. Such reclassifications had no impact on consolidated net income or total stockholders' equity as previously reported. Certain balances noted below have been reclassified in this Form 10-Q/A to conform to the balance sheet presentation in the Form 10-K filed on

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April 14, 2006

Consolidated Balance Sheets

As initially reported in the Form 10-Q filed on November 30, 2005 accounts payable of \$63.7 million included book overdrafts of \$21.5 million at September 30, 2005. As initially reported in the Form 10, as amended, filed on October 21, 2005 accounts payable of \$61.2 million included book overdrafts of \$20.7 million at December 31, 2004.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Excise Taxes

The Company has revised excise tax figures to increase the amounts presented for all periods from previously reported amounts due to the use of a revised calculation based on actual invoices rather than estimated amounts. This revision represents only a change in the presentation of the disclosure and does not represent a change in results of operations. The previously reported amounts are below:

As initially reported in the Form 10-Q filed on November 30, 2005, state and provincial cigarette and tobacco excise taxes paid by the Company which are included in both sales and cost of goods sold and totaled \$321.6 million, \$110.3 million and \$151.9 million for the three months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from July 1 through August 22, 2004, respectively.

State and provincial cigarette and tobacco excise taxes paid by the Company totaled \$868.9 million, \$110.3 million and \$616.5 million for the nine months ended September 30, 2005 and for the periods from August 23 through September 30, 2004 and from January 1 through August 22, 2004, respectively.

Consolidated Statements of Cash Flows

As initially reported in the Form 10-Q filed on November 30, 2005 borrowings and repayments under revolving line of credit were reported gross at \$3,026.3 million and \$3,035.6 million, respectively, versus the current net presentation for the nine months ended September 30, 2005. As initially reported in the Form 10-Q borrowings and repayments under revolving line of credit were reported gross at \$351.6 million and \$388.2 million, respectively, versus the current net presentation for the period from August 23, 2004 through September 30, 2005. As initially reported in the Form 10, as amended, filed on October 21, 2005 borrowings and repayments under revolving line of credit were reported gross at \$1,220.1 million and \$1,261.5 million, respectively.

Additionally, in connection with the preparation of the financial statements as of and for the period ended September 30, 2005, the Company determined it had included deferred stock-based compensation on unvested stock awards and the corresponding capital contribution arising therefrom within the components of stockholders' equity for periods prior to September 30, 2005. Although the effect of this presentation has no effect on total stockholders' equity or net income for any period, the Company has revised this presentation at December 31, 2004 to conform to the September 30, 2005 presentation. This revision in classification had the effect of reducing additional paid-in capital by \$6.8 million and decreasing the deferred stock-based compensation amount that reduces stockholders' equity at December 31, 2004 by an equal and offsetting amount.

New Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board's (the FASB) Emerging Issues Task Force reached a consensus on Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements* (EITF 05-6). This guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. This guidance is effective for interim reporting periods beginning after June 29, 2005, and is applicable only to leasehold improvements that are purchased or acquired in reporting periods beginning after the effective date. The Company does not expect the adoption of EITF 05-6 to have a material impact on its financial statements.

In March 2005, the FASB issued Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which is an interpretation of Statement of Financial Accounting Standards

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(SFAS) No. 143, Accounting for Asset Retirement Obligations. FIN 47 clarifies terminology within SFAS No. 143 and requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is evaluating the impact of FIN 47.

4. Inventories

Inventories consist of finished goods and include tobacco products, food and other products, and related consumable products held for re-sale and are valued at the lower of cost or market. In the United States, cost is determined primarily on a last-in, first-out (LIFO) basis using producer price indices as determined by the Department of Labor. Under the LIFO method, current costs of goods sold are matched against current sales. Inventories in Canada are valued on a first-in, first-out (FIFO) basis as LIFO is not a permitted inventory valuation method in Canada.

Inventories consist of the following (unaudited) (in millions):

	September 30, 2005	December 31, 2004
Inventories at FIFO, net of reserves	\$ 162.2	\$ 188.2
Less: LIFO reserve	(6.8)	(1.8)
Inventories, net	\$ 155.4	\$ 186.4

During periods of rising prices, the LIFO method of costing inventories generally results in higher current costs being charged against income while lower costs are retained in inventories. Conversely, during periods of decreasing prices, the LIFO method of costing inventories generally results in lower current costs being charged against income and higher stated inventories.

The following table identifies the increase in cost of goods sold resulting from the change in the LIFO reserve (unaudited) (in millions):

Successor Company		Predecessor Company
For the Three months ended September 30, 2005	For the period from	For the period from
	August 23, 2004	July 1, 2004

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	<u>through September 30, 2004</u>	<u>through August 22, 2004</u>
\$ 1.8	\$ 0.5	\$ 0.6
Successor Company		Predecessor Company
	For the period from August 23, 2004	For the period from January 1, 2004
<u>For the Nine months ended September 30, 2005</u>	<u>through September 30, 2004</u>	<u>through August 22, 2004</u>
\$ 5.0	\$ 0.5	\$ 2.7

The Company provides inventory valuation adjustments for spoiled, aged and unrecoverable inventory based on amounts on hand and historical shrinkage experience. This reserve was \$1.2 million as of September 30, 2005 and December 31, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Comprehensive Income

Comprehensive income consists of net income, minimum pension liability adjustment and foreign currency translation adjustments. The components of comprehensive income for the three months ended September 30, 2005 and for the periods from July 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004, respectively, are as follows (unaudited) (in millions):

	<u>Successor Company</u>		<u>Predecessor Company</u>
	<u>For the Three months ended September 30, 2005</u>	<u>For the period from August 23, 2004 through September 30, 2004</u>	<u>For the period from July 1, 2004 through August 22, 2004</u>
		<u>Restated</u>	
Components of comprehensive income:			
Net income	\$ 0.9	\$ 2.0	\$ 49.3
Minimum pension liability adjustment, net of tax			(0.6)
Foreign currency translation adjustment			(2.2)
Fresh-start adjustment			(0.1)
Total comprehensive income	\$ 0.9	\$ 2.0	\$ 46.4

The components of comprehensive income for the nine months ended September 30, 2005 and for the periods from January 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004, respectively, are as follows (unaudited) (in millions):

	<u>Successor Company</u>		<u>Predecessor Company</u>
	<u>For the Nine months ended September 30, 2005</u>	<u>For the period from August 23, 2004</u>	<u>For the period from January 1, 2004</u>

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		through September 30, 2004	through August 22, 2004
	Restated	Restated	
Components of comprehensive income:			
Net income	\$ 5.9	\$ 2.0	\$ 50.7
Minimum pension liability adjustment, net of tax			(1.1)
Foreign currency translation adjustment	0.1		(0.5)
Fresh-start adjustment			(0.1)
	—	—	—
Total comprehensive income	\$ 6.0	\$ 2.0	\$ 49.0

6. Long-term Debt

Revolving Credit Facility

During the nine months ended September 30, 2005, the maximum amount of borrowing and letters of credit outstanding under the revolving credit facility were \$52.7 million and \$38.7 million, respectively. For the three and nine months ended September 30, 2005 we paid total unused facility fees of \$0.2 million and \$0.9 million,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively. As of September 30, 2005, the total borrowings outstanding under the revolving credit facility were \$35.6 million and letters of credit outstanding were \$28.7 million. The weighted average interest rates for the three and nine months ended September 30, 2005 for the revolving credit facility were 6.2% and 5.6%, respectively. As of September 30, 2005, the Company was in compliance with all of its covenants and had a net available borrowing capacity of approximately \$107.1 million.

Tranche B Note Agreement

The Company entered into the Tranche B Note Agreement on August 23, 2004. The \$60 million in obligations under the Tranche B Note Agreement initially consisted of \$35.5 million in Tranche B Notes and \$24.5 million in letter of credit obligations under Tranche B Letters of Credit. During the first nine months of 2005, we prepaid the entire \$35.5 million in principal amount of the Tranche B Notes. In connection with the prepayment, the Company recorded a loss on early extinguishment of debt of \$2.3 million. In connection with \$5.5 million of these prepayments, the Company paid a 6% prepayment premium of \$0.3 million, which was recorded as a loss on the early extinguishment of debt. As of September 30, 2005, letters of credit in the amount of \$24.5 million were issued and outstanding under the Tranche B Note Agreement.

The Company's long-term debt and outstanding letters of credit were as follows (unaudited) (in millions):

	September 30, 2005	December 31, 2004
	_____	_____
Revolving credit facility	\$ 35.6	\$ 45.0
Tranche B notes payable		35.5
	_____	_____
Subtotal	35.6	80.5
Less: Debt discount		(3.0)
	_____	_____
Subtotal	35.6	77.5
Less: Current portion of long-term debt		
	_____	_____
Total long-term debt, net of current portion	\$ 35.6	\$ 77.5
	_____	_____
Letters of credit outstanding	\$ 53.2	\$ 61.2
	_____	_____

On October 13, 2005, the Company entered into a new five-year \$250 million revolving credit agreement which we refer to as the 2005 Credit Facility, that refinanced and replaced the prior revolving credit facility and Tranche B Note Agreement and repaid all debt and replaced or cash collateralized all letters of credit outstanding under the prior agreements and terminated those agreements (*see Note 13 Subsequent Events*.)

7. Income Taxes

The Company is subject to United States federal, state, local and foreign income taxes and accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

In assessing the potential realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. At each balance sheet date, a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

valuation allowance has been established against the deferred tax assets based on management's assessment whether it is more likely than not that these deferred tax assets would not be realized.

As of September 30, 2005, after taking into account a valuation allowance of \$1.1 million, the Company had a net deferred tax liability of \$10.4 million, of which an amount of \$13.7 million is shown as a current deferred tax liability and \$3.3 million as a non-current deferred tax asset in the consolidated balance sheet. The effective income tax rates for the three and nine months ended September 30, 2005 are 54.8% and 45.1% and are based on the federal statutory income tax rate, adjusted by the effect of state income taxes, net of federal benefit, changes in valuation allowances, effect of foreign operation and other permanent items.

8. Earnings Per Share

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

	Successor Company		Predecessor Company
	For the period ended		
	For the three months ended September 30, 2005	August 23, 2004 through September 30, 2004	For the period from ended July 1, 2004 through August 22, 2004
	Restated	Restated	Restated
Net income	\$ 0.9	\$ 2.0	\$ 49.3
Basic weighted-average shares outstanding	9.8	9.8	9.8
Dilutive common equivalent shares:			
Unvested restricted stock	0.1		
Stock options	0.2		
Class 6 (b) warrants	0.3		
Tranche B warrants	0.1		
Diluted weighted-average shares outstanding	10.5	9.8	9.8

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Basic net income per share	\$ 0.09	\$ 0.20	\$ 5.03
Diluted net income per share	\$ 0.08	\$ 0.20	\$ 5.03

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Successor Company	Predecessor Company
	For the nine months ended	For the period ended August 23, 2004 through September 30, 2004
	September 30, 2005	August 22, 2004
	Restated	Restated
Net income	\$ 5.9	\$ 2.0
Basic weighted-average shares outstanding	9.8	9.8
Dilutive common equivalent shares:		
Unvested restricted stock	0.1	
Stock options	0.2	
Class 6 (b) warrants	0.2	
Tranche B warrants	0.1	
Diluted weighted-average shares outstanding	10.4	9.8
Basic net income per share	\$ 0.61	\$ 0.20
Diluted net income per share	\$ 0.57	\$ 0.20

9. Stock-Based Compensation Plans

The Company accounts for its stock-based compensation plans using the fair value method as prescribed by SFAS No. 123, *Accounting for Stock based Compensation*, whereby stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Total compensation cost recognized on the consolidated interim statement of operations for stock-based compensation awards for the three and nine months ended September 30, 2005 were \$1.0 million and \$3.0 million, respectively. For the period from August 23, 2004 through September 30, 2004 such costs were \$0.3 million. There were no such costs for the period from January 1, 2004 through August 22, 2004. The Company granted a total of 15,000 non-qualified options to non-employee directors during the nine months ended September 30, 2005.

In February 2005, the Company adopted the 2005 Long Term Incentive Plan (2005 LTIP). Under the 2005 LTIP, the number of shares of common stock issuable is limited to a number of shares having a market value of \$5.5 million, based on the average closing price of our

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common stock over the eleventh through twentieth trading days following the date that the common stock becomes listed for quotation on the NASDAQ National Market. Each share of restricted stock vests as follows: one third vests on the first anniversary of the vesting commencement date and the remainder vest in equal monthly installments over the two year period following the first anniversary of the vesting commencement date. In February 2005, the Compensation Committee and the Board of Directors approved the grant of restricted stock units having a value of approximately \$5.0 million. The Board of Directors determined that the balance of approximately \$0.5 million available for grants under the 2005 Plan should be reserved for possible future issuance.

The Company adopted the 2005 Directors Equity Incentive Plan (2005 Directors Plan) to be effective in August 2005. The 2005 Directors Plan permits granting of non-qualified stock options to non-employee directors. The terms of the 2005 Directors Plan are substantially similar to the 2004 Directors Plan other than:

there are 15,000 shares available for issuance;

any one participant may not receive more than 50% of the total number of shares authorized under the 2005 Directors Plan in any calendar year;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the options to purchase shares of common stock granted on August 12, 2005, under the 2005 Directors Plan have an exercise price of \$27.03, the fair value of a share of our common stock as determined by the Board of Directors as provided in this plan on the basis of the average trading price of our common stock based on the Pink Sheets trading price over the twenty trading days ending two trading days prior to the date of grant.

the options vest over three years, of which one third will vest on August 12, 2006, and the remaining options will vest in equal quarterly installments over the two year period commencing on August 12, 2006, for each consecutive quarter that the grantee remains a director.

The following table summarizes information about stock options activity and stock options outstanding for the 2004 Long-Term Incentive Plan and 2004 Directors Equity Incentive Plan as of and for the nine months ended September 30, 2005 (unaudited):

	Number of Option Shares	Weighted Average Exercise Price
Outstanding at December 31, 2004	1,090,422	\$ 15.50
Options granted		
Options exercised		
Options canceled	(6,321)	15.50
Outstanding at September 30, 2005	1,084,101	15.50

Options Outstanding				Options Exercisable	
Exercise Prices	Number Option Shares	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number of Option Shares	Weighted- Average Exercise Price
\$15.50	1,084,101	5.9 years	\$15.50	399,009	\$15.50

The following table summarizes information about stock options activity and stock options outstanding for the 2005 Directors Plan as of and for the nine months ended September 30, 2005 (unaudited):

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	<u>Number of Option Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2004		\$
Options granted	15,000	27.03
Options exercised		
Options canceled		
Outstanding at September 30, 2005	<u>15,000</u>	<u>\$ 27.03</u>

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Exercise Prices</u>	<u>Number Option Shares</u>	<u>Weighted- Average Remaining Contractual Life</u>	<u>Weighted- Average Exercise Price</u>	<u>Number of Option Shares</u>	<u>Weighted- Average Exercise Price</u>
<u>\$27.03</u>	<u>15,000</u>	<u>6.9 years</u>	<u>\$ 27.03</u>		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Employee Benefit Plans

The Company sponsors a qualified defined benefit pension plan and a post-retirement benefit plan for employees hired before September 1986. There have been no new entrants to the pension or non-pension post retirement benefit plans after those benefit plans were frozen on September 30, 1989. Pursuant to the Plan, on the Effective Date, the Company was assigned the obligation for the three former Fleming defined-benefit pension plans. The Predecessor Company's frozen pension benefit plans and post-retirement benefit plan and the three former Fleming pension plans are collectively referred to as the Pension Plans. Pension costs and other post-retirement benefit costs charged to operations are estimated on the basis of annual valuations with the assistance of an independent actuary. Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group.

The following tables provide the components of the net periodic pension and other post-retirement benefit costs for the three months ended September 30, 2005 and the periods from July 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004 (unaudited) (in millions):

PENSION BENEFITS	Successor Company		Predecessor Company	
	For the three months ended	For the period from		
		August 23, 2004		For the period from
		September 30, 2005	September 30, 2004	July 1, 2004 through
			August 22, 2004	
Service cost	\$	\$	\$	
Interest cost	0.5	0.2	0.2	
Expected return on plan assets	(0.5)	(0.2)	(0.2)	
Amortization of:				
Prior service cost				
Net actuarial loss				
Net periodic benefit cost	\$	\$	\$	
OTHER POST-RETIREMENT BENEFITS	Successor Company		Predecessor Company	
	For the three months ended	For the period from		
		August 23, 2004		
		through		
	September 30,	July 1, 2004 through		
	2005			

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	—	<u>September 30, 2004</u>	<u>August 22, 2004</u>
Service cost	\$	\$	\$
Interest cost	0.1		0.1
Expected return on plan assets			
Amortization of:			
Prior service cost			
Net actuarial loss			
Net periodic benefit cost	<u>\$ 0.1</u>	<u>\$</u>	<u>\$ 0.1</u>

The Company contributed \$0.9 million and \$0.0 million, respectively, to its pension and other post-retirement benefit plans during the three months ended September 30, 2005 compared to \$0.3 million and \$0.0 million, respectively, for the periods from July 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004.

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The Company contributed \$1.5 million and \$0.1 million, respectively, to its pension and other post-retirement benefit plans during the nine months ended September 30, 2005 compared to \$0.3 million and \$0.1 million, respectively, for the combined period from January 1, 2004 through August 22, 2004 and from August 23, 2004 through September 30, 2004. Additionally, the Company contributed approximately \$1.5 million in employer matching funds to its defined contribution plan for the nine months ended September 30, 2005.

During the fourth quarter of 2005, the Company expects to contribute approximately \$0.2 million to its pension benefit plan. The Company does not expect to make a contribution to its post-retirement benefit plan or to its defined contribution plan during this period.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Commitments

Trust Guarantees

Pursuant to the Plan, the Company guarantees the payment of all PCT administrative claims in excess of \$56 million. In addition, if the assets of the Reclamation Creditors Trust (RCT) are inadequate to satisfy all of the allowed TLV claims in the RCT, the Company must pay such claims in full plus any accrued interest. The Company also guarantees all eligible but unpaid non-TLV claims in the RCT up to a maximum of \$15 million. The Plan limits the combined RCT guarantee amounts of the TLV and non-TLV claims to no more than \$137 million. FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires that an entity issuing a guarantee must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. Based on the estimates provided by the Trusts and the Company's analysis the assets of the Trusts are sufficient to satisfy the claims against it; therefore, the Company believes that the fair value of its guarantee liability as of August 23, 2004 was not significant. In accordance with SFAS 5 *Accounting for Contingencies*, the Company deemed remote the likelihood that a liability existed as of September 30, 2005 to satisfy the trust claims. However, if the assets of the Trust prove insufficient to pay the claims in the future, the Company could be required to satisfy the guarantees.

12. Segment and Geographic Information

Core-Mark is one of the largest wholesale distributors to the convenience retail industry in North America, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. The Company distributes consumable goods including cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products to customers in the United States and Canada. The Company services a variety of store formats, including traditional convenience stores, mass merchandise stores, grocery stores, drug stores, liquor stores, gift shops, specialty stores and other stores that carry convenience products.

The Company has identified two reportable segments, United States and Canada, based on the differing economic characteristics of each. For management reporting purposes, the Company evaluates business segment performance before income taxes, and other items that do not reflect the underlying business performance. Inter-segment revenues are not significant and no single customer accounted for 10% or more of the Company's total revenues.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information about the Company's operations by business segment and geographic areas is as follows (unaudited) (in millions):

	<u>Successor Company</u>		<u>Predecessor Company</u>
	<u>For the three months ended</u>	<u>For the period from August 23, 2004 through</u>	<u>For the period from</u>
	<u>September 30, 2005</u>	<u>September 30, 2004</u>	<u>July 1, 2004 through</u>
		<u>Restated</u>	<u>August 22, 2004</u>
Net sales:			
United States	\$ 1,055.1	\$ 379.0	\$ 493.6
Canada	272.2	106.0	140.9
Corporate adjustments and eliminations	6.0	2.5	2.3
Total	\$ 1,333.3	\$ 487.5	\$ 636.8
Income (loss) before income taxes:			
United States	\$ 2.4	\$ 0.6	\$ 0.3
Canada	1.8	0.6	(0.2)
Corporate adjustments and eliminations	(2.3)	2.6	75.1
Total	\$ 1.9	\$ 3.2	\$ 75.2
Interest expense:			
United States	\$ 6.4	\$ 3.0	\$ 4.3
Canada	(0.5)		0.1
Corporate adjustments and eliminations	(2.6)	(1.5)	(3.8)
Total	\$ 3.3	\$ 1.5	\$ 0.6
Depreciation and amortization:			
United States	\$ 4.1	\$ 0.9	\$ 0.8
Canada	0.1	0.1	
Corporate adjustments and eliminations	0.3	0.4	0.6
Total	\$ 4.5	\$ 1.4	\$ 1.4



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

	<u>Successor Company</u>		<u>Predecessor Company</u>
	For the nine months ended	For the period from August 23, 2004 through	For the period from January 1, 2004 through
	September 30, 2005	September 30, 2004	August 22, 2004
	<u>Restated</u>	<u>Restated</u>	
Net sales:			
United States	\$ 2,907.8	\$ 379.0	\$ 2,079.2
Canada	755.8	106.0	583.7
Corporate adjustments and eliminations	17.6	2.5	10.2
Total	\$ 3,681.2	\$ 487.5	\$ 2,673.1
Income (loss) before income taxes:			
United States	\$ 13.6	\$	\$ (5.2)
Canada	5.9	0.6	(1.6)
Corporate adjustments and eliminations	(8.6)	2.6	84.2
Total	\$ 10.9	\$ 3.2	\$ 77.4
Interest expense:			
United States	\$ 18.6	\$ 3.0	\$ 17.5
Canada	(1.2)		0.5
Corporate adjustments and eliminations	(7.9)	(1.5)	(13.6)
Total	\$ 9.5	\$ 1.5	\$ 4.4
Depreciation and amortization:			
United States	\$ 9.3	\$ 0.9	\$ 5.7
Canada	0.7	0.1	0.4
Corporate adjustments and eliminations	1.7	0.4	0.9
Total	\$ 11.7	\$ 1.4	\$ 7.0

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Identifiable assets by geographic area (unaudited) (in millions):

	September 30,	December 31,
	2005	2004
	<u>Restated</u>	<u>Restated</u>
Identifiable assets:		
United States	\$ 406.9	\$ 421.8
Canada	70.4	82.4
	<u> </u>	<u> </u>
Total	\$ 477.3	\$ 504.2
	<u> </u>	<u> </u>

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Subsequent Events

October 2005 Debt Refinancing

On October 13, 2005, the Company entered into a new \$250 million five-year revolving credit facility, which we refer to as the 2005 Credit Facility, with a group of lenders led by J.P. Morgan Chase. The 2005 Credit Facility refinanced and replaced the prior revolving credit facility and the Tranche B Note Agreement, and in conjunction with establishing the 2005 Credit Facility the Company prepaid all \$32.3 million in outstanding revolving loans under the prior revolving credit facility and Tranche B Note Agreement, cash collateralized or transferred to the 2005 Credit Facility all \$53.3 million in letters of credit issued under the prior revolving credit facility and the Tranche B Note Agreement, and terminated the prior revolving credit facility and the Tranche B Note Agreement.

The Company paid a total of approximately \$2.3 million in financing costs in connection with the 2005 Credit Facility, which will be deferred and amortized over the life of the facility.

As required under the Tranche B Note Agreement, the Company paid a 6% pre-payment fee of \$1.5 million in October, 2005 for the termination of the Tranche B Note Agreement which will be expensed in the Company's fourth quarter 2005 results of operations. Additionally, unamortized debt issuance costs related to the prior revolving credit facility will be expensed in the Company's fourth quarter 2005 results of operations.

The 2005 Credit Facility provides for up to \$250 million in revolving loans, of which \$160 million is available as letters of credit and up to C\$110 million is available in Canadian dollars. Borrowing under the 2005 Credit Facility is subject to a formula based on eligible accounts receivable, eligible inventory, certain equipment and certain unrestricted cash balances, less certain reserves (the 2005 Credit Facility Borrowing Base), which limits the amount of revolving loans and letters of credit available. The administrative agent under the 2005 Credit Facility also has the right, under certain circumstances, to establish additional reserves against the commitment under the 2005 Credit Facility.

At the Company's option, interest rates on the U.S. revolving loans and letters of credit under the 2005 Credit Facility are based on LIBOR plus an applicable margin, or on an alternate base rate equal to the higher of the prime rate or the federal funds rate plus 0.50%. There is no additional margin on alternate base rate advances. Loans made in Canadian Dollars bear interest at either a rate based on the Canadian deposit offered rate (CDOR), which is equal to the rate quoted on the publicly available CDOR screen plus 0.10%, plus an applicable margin or at a Canadian base rate equal to the greater of the Canadian prime rate or the CDOR rate plus 1%. The applicable margin on LIBOR-based loans and CDOR-based loans may range from 1.00% to 1.75% depending on our adjusted EBITDA as defined in the 2005 Credit Facility, and is initially set at 1.50%. Interest is payable monthly, or if we elect LIBOR or CDOR, at the expiration of each LIBOR or CDOR period, which is one, two, three or six months, as the Company may elect under the 2005 Credit Facility (except that if the Company elects a LIBOR or CDOR period of six months, interest is payable at the end of the third and sixth months). The Company is subject to an unused facility fee that may range from 0.25% to 0.30% of the unused portion of the 2005 Credit Facility depending on the Company's adjusted EBITDA as defined in the 2005 Credit Facility, and is initially set at 0.25%.

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The Credit Agreement for the 2005 Credit Facility (the 2005 Credit Agreement) contains restrictive covenants, including among others limitations on dividends and other restricted payments, other indebtedness, liens, investments and acquisitions, and certain asset sales. If the Company's availability under the 2005 Credit Facility falls below \$35 million, we will be obligated to maintain a fixed charge coverage ratio, calculated as provided in the 2005 Credit Agreement and based on adjusted EBITDA as defined in the 2005 Credit Agreement, of not less than 1.1 to 1.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All obligations under the 2005 Credit Facility are collateralized by a first priority interest in, and liens upon, substantially all of the Company's present and future assets. The terms of the 2005 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).

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our business, consolidated results of operations and financial condition. Following an introduction and overview is an executive summary providing significant highlights of the operations and business initiatives. The information in this Management's Discussion and Analysis contains certain forward-looking statements, which reflect our current view with respect to future events and financial performance. Any such forward looking statements are subject to risks and uncertainties that could cause our actual results of operations to differ materially from historical results or current expectations. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Factors That May Affect Future Operating Results." We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document. This discussion and analysis should be read in conjunction with Core-Mark's consolidated financial statements and related notes thereto, included in our Form 10, as amended.

Overview

Core-Mark is a broad-line, full service wholesale distributor of packaged consumer products to the convenience retail industry in the United States and Canada, with revenues generated from the sale of cigarettes, tobacco products, candy, food, health and beauty aids and other general merchandise. Our principal customers include traditional convenience stores, grocery stores, drug stores, mass merchandisers and liquor stores.

Core-Mark's origin dates back to 1888, when Glaser Bros., a family owned and operated candy and tobacco distribution business, was founded in San Francisco. Our headquarters are located in South San Francisco, California, and we operate distribution centers throughout the United States and Canada. We have operations in the Western United States consisting of 15 distribution centers located in California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington; the Eastern and Midwestern United States consisting of three distribution centers located in Georgia, Kentucky and Minnesota; and Canada consisting of four distribution centers located in Alberta, British Columbia and Manitoba. Two of our 24 distribution centers, Artic Cascade and Allied Merchandising Industry, are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to our other Western distribution centers. By using Artic Cascade, located in Sacramento, California, to obtain products at lower cost from frozen product vendors, we are able to offer a broader selection of quality products to retailers at more competitive prices. Allied Merchandising Industry, located in Corona, California, purchases the majority of our non-food products, other than cigarettes, enabling us to reduce our overall general merchandise and health and beauty care product inventory.

We derive our net sales primarily from sales to convenience store customers. We deliver products to our customers using delivery vehicles dispatched from our distribution centers. Our gross profit is generated by applying a markup to the cost of the product at the time of the sale and from cost reductions generated from our vendors in the form of credit term discounts and other vendor programs. Our operating expenses are comprised primarily of: sales personnel costs; warehouse personnel costs related to receiving, stocking, and selecting product for delivery; delivery costs such as delivery personnel, truck leases and fuel; costs relating to the rental and maintenance of our facilities, and other general and administrative costs.

Background

Core-Mark operated as a privately-held company until June 2002 when it was acquired by Fleming. On April 1, 2003 Fleming filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The debtor-in-possession entities comprising Core-Mark were included in the Chapter 11 proceedings as Core-Mark had guaranteed Fleming's debt. The Plan of reorganization (the Plan), which became effective on August 23, 2004, provided for the reorganization of the debtors around Core-Mark. Fleming's other assets and liabilities were transferred to two special-purpose trusts, and are being liquidated. Under certain conditions, Core-Mark may be required to fulfill certain guarantees related to the trusts (*see*

Note 11 Commitments).

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On August 20, 2004 Core-Mark Holding Company, Inc. was incorporated and on August 23, 2004, Core-Mark emerged from the Fleming bankruptcy. The terms of the Plan and the application of the fresh-start accounting provisions of SOP 90-7 are reflected in our consolidated financial statements as of and for the three and nine months ended September 30, 2004. For detailed information on the Fleming bankruptcy proceedings and Core-Mark's emergence as a separate company, please review the information contained in the Company's Form 10, as amended.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of our Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of our consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. The critical accounting policies used in the preparation of the consolidated financial statements are those that are important both to the presentation of financial condition and results of operations and require significant judgments with regards to estimates used. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable and allowance for doubtful accounts, inventories, fresh-start valuations, intangible assets, trust guarantees, vendor allowances, income taxes, and self-insurance obligations. We base our estimates on historical experience and on various assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions and other considerations used to estimate amounts reflected in our financial statements are appropriate; however, actual results could differ from these estimates.

The following is a summary of our most critical policies and estimates.

Inventories. Our U.S. inventories are valued at the lower of cost or market. Cost of goods sold is determined on a last-in, first-out (LIFO) basis using producer price indices as published by the U.S. Department of Labor. The producer price indices are applied to inventory which is grouped by merchandise having similar characteristics. Under LIFO, current costs of goods sold are matched against current sales. Historically, increases in the cost of products such as cigarettes and tobacco resulted from cost increases by the manufacturers and increases in federal and state excise taxes. 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. To the extent inventories or prices decline significantly at the end of any period where there have been increasing prices in previous periods, under LIFO some older and potentially lower priced inventory is considered as having been sold, resulting in a lower cost of goods sold compared to current prices, and increased current gross profit (LIFO income).

We provide inventory valuation adjustments for spoiled, aged and unrecoverable inventory based on amounts on hand and historical experience.

Vendor Rebates and Allowances. Periodic payments from vendors in various forms, volume or other purchase discounts are reflected in the carrying value of the related inventory when earned and as cost of goods sold as the related merchandise is sold. Up-front consideration received from vendors linked to purchase or other commitments is initially deferred and amortized ratably to cost of goods sold or as the performance of the activities specified by the vendor to earn the fee is completed. Cooperative advertising rebates, slotting allowances, racking, and other promotional reimbursements from suppliers are recorded as reductions to cost of goods sold in the period the related promotional or merchandising programs were provided. Some of the vendor allowances, rebates and merchandising promotions require that we make assumptions and judgments regarding, for example, the likelihood of achieving market share levels or attaining specified levels of purchases. Vendor rebates and allowances are at the discretion of our vendors and can fluctuate due to changes in vendor strategies and market requirements.

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Income Taxes. Income taxes are accounted for under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when management does not consider it more likely than not that some portion or all of the deferred tax assets will be realized.

Claim Liabilities and Insurance Recoverables. We maintain reserves related to health and welfare, workers compensation and auto liability programs that are principally self-insured. The reserves include an estimate of expected settlements on pending claims and a provision for claims incurred but not reported. These estimates are based on management's assessment of potential liability which considered independent actuarial analyses or other acceptable methods using available information with respect to pending claims, historical experience and current cost trends. Claims activity, and resultant requirements, will fluctuate based on incurrence of claims and related health care costs required to satisfy these claims.

Pension Liabilities. We maintain a frozen pension plan and post-retirement benefit plan for certain employees and former employees of Core-Mark International, Inc. Pursuant to the Plan, we maintain three pension plans for approximately 1,500 former-Fleming employees. The Pension costs and other post-retirement benefit costs charged to operations are determined based on management's assessment, which considered annual valuations by an independent actuary. Included in the actuarial calculation are an assumed return on plan assets based on a weighted-average expected rate of return developed using historical returns for each major class of pension plan assets, and an assumed discount rate which approximates the rate at which benefits could be effectively settled as of the measurement date. To select an appropriate discount rate, we review current yields on various investments adjusted to reflect the duration of the plan benefit payments. To select an appropriate long-term rate of return on plan assets, management reviews the historical returns and makes adjustments based on expectations of future rates of returns consistent with the duration of the plans. Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group.

Restatement

On March 23, 2006 the Audit Committee of the Board of Directors of the Company and management concluded that the audited consolidated financial statements as of December 31, 2004 and for the period from August 23, 2004 to December 31, 2004 and the unaudited condensed consolidated financial statements as of and for the three and nine month periods ended September 30, 2005, each included (or included in part) in the quarterly report on Form 10-Q for the third quarter of 2005, each filed with the Securities and Exchange Commission on November 30, 2005, should no longer be relied upon because of errors in those financial statements relating to the accounting for foreign currency translation adjustments related to intercompany balances. Specifically, management determined that foreign currency translation adjustments related to intercompany balances of our Canadian branch were incorrectly recorded as a component of comprehensive income directly to stockholders equity. These intercompany balances were incorrectly thought to be of a permanent nature. Because such intercompany balances post-emergence were not permanent in nature and were fluctuating throughout the period, the foreign exchange gains or losses should have been recorded as a gain (or loss) within the income statement. Accordingly, we are restating our financial statements for such periods and the period from August 23, 2004 to September 30, 2004 in this Amendment No. 1 to the Form 10-Q to correct the above error and to correct the additional errors discussed below.

In connection with this restatement, we also corrected an approximately \$0.4 million overvaluation error (and a corresponding understatement of cost of goods sold) in the financial statements for the nine months ended

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September 30, 2005. Additionally, the restatement reflects adjustments for the nine months ended September 30, 2005 to correct estimation errors and to correct errors in certain balance sheet classifications as of September 30, 2005. The correction of the estimation errors resulted in an approximately \$0.1 million increase in cost of goods sold and an approximately \$0.2 million increase in selling, general and administrative expenses for the nine months ended September 30, 2005. In addition, diluted earnings per share for the three months ended September 30, 2005 decreased from \$0.09 to \$0.08 as a result of a change in the method of calculating diluted earnings per share. Previously, we calculated diluted earnings per share by dividing net income expressed in millions by fully diluted shares. As restated, diluted earnings per share are calculated by dividing net income expressed in dollars by fully diluted shares.

The correction of the error relating to the accounting of foreign currency translation adjustments had the effect of increasing (decreasing) income before income taxes, net income and earnings per diluted share by \$0.7 million, \$0.4 million and \$0.04, respectively, for the period August 23 through September 30, 2004 and by \$(0.6) million, \$(0.3) million and \$(0.03), respectively, for the nine months ended September 30, 2005.

The aggregate effect of correcting the accounting errors described above was as follows:

For the period from August 23, 2004 through September 30, 2004, income before income taxes increased by \$0.7 million, net income increased by \$0.4 million and diluted earnings per share increased \$0.04. For the nine months ending September 30, 2005, income before income taxes decreased \$1.3 million, net income decreased \$0.8 million and diluted earnings per share decreased \$0.07. There was no impact to income from continuing operations or net income for the three months ended September 30, 2005, however, diluted earnings per share decreased by \$0.01 from \$0.09 to \$0.08 as a result of the change in the method of calculating diluted earnings per share.