Core-Mark Holding Company, Inc.
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(MARK ONE)

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

For the quarterly period ended June 30, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 000-51515

CORE-MARK HOLDING COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

(650) 589-9445
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of July 31, 2014, 23,080,193 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2014
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$15.9	$11.0
Restricted cash	11.3	12.1
Accounts receivable, net of allowance for doubtful accounts of $9.7 and $9.4 as of June 30, 2014 and December 31, 2013, respectively	268.8	235.4
Other receivables, net	55.3	59.0
Inventories, net (Note 3)	306.1	389.2
Deposits and prepayments	75.2	53.0
Deferred income taxes	2.6	5.4
Total current assets	735.2	765.1
Property and equipment, net	121.5	114.9
Goodwill	22.9	22.9
Other intangible assets, net	20.1	20.8
Other non-current assets, net	30.3	33.1
Total assets	$930.0	$956.8
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$134.7	$109.3
Book overdrafts	24.7	22.9
Cigarette and tobacco taxes payable	160.8	182.5
Accrued liabilities	90.3	88.1
Deferred income taxes	0.3	3.1
Total current liabilities	410.8	405.9
Long-term debt (Note 4)	18.0	57.6
Deferred income taxes	13.6	13.4
Other long-term liabilities	12.5	12.5
Claims liabilities, net	27.3	28.2
Pension liabilities	3.5	5.2
Total liabilities	485.7	522.8
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, $0.01 par value (50,000,000 shares authorized, 25,734,920 and 25,614,030 shares issued; 23,060,478 and 23,036,622 shares outstanding at June 30, 2014 and December 31, 2013, respectively)	0.3	0.1
Additional paid-in capital	258.5	254.7
Treasury stock at cost (2,674,442 and 2,577,408 shares of common stock at June 30, 2014 and December 31, 2013, respectively)	(47.6)	(44.6)
Retained earnings	238.8	229.5

Accumulated other comprehensive loss	(5.7)	(5.7)
Total stockholders' equity	444.3	434.0
Total liabilities and stockholders' equity	$930.0	$956.8

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	$2,623.2	$2,509.9	$4,924.1	$4,655.6
Cost of goods sold	2,479.9	2,372.9	4,656.4	4,402.6
Gross profit	143.3	137.0	267.7	253.0
Warehousing and distribution expenses	78.1	72.8	153.4	140.5
Selling, general and administrative expenses	44.0	42.9	87.9	85.4
Amortization of intangible assets	0.7	0.7	1.3	1.4
Total operating expenses	122.8	116.4	242.6	227.3
Income from operations	20.5	20.6	25.1	25.7
Interest expense	(0.6)	(0.8)	(1.3)	(1.5)
Interest income	0.2	0.1	0.3	0.2
Foreign currency transaction loss, net	(0.2)	(0.1)	(0.2)	(0.5)
Income before income taxes	19.9	19.8	23.9	23.9
Provision for income taxes (Note 6)	(7.9)	(8.1)	(9.5)	(9.6)
Net income	$12.0	$11.7	$14.4	$14.3
Basic net income per common share (Note 8)	$0.52	$0.51	$0.63	$0.62
Diluted net income per common share (Note 8)	$0.52	$0.51	$0.62	$0.62
Basic weighted-average shares (Note 8)	23.1	23.0	23.1	23.0
Diluted weighted-average shares (Note 8)	23.2	23.2	23.2	23.2
Dividends declared and paid per common share (Note 10)	$0.11	$0.10	$0.22	$0.10

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$12.0	$11.7	$14.4	$14.3
Other comprehensive income / (loss), net of tax:				
Defined benefit plans adjustments	0.1	0.1	0.1	0.2
Foreign currency translation adjustment gain / (loss)	1.2	(0.8)	(0.1)	(1.3)
Other comprehensive income / (loss), net of tax	1.3	(0.7)	—	(1.1)
Comprehensive income	$13.3	$11.0	$14.4	$13.2

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$14.4	$14.3
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	6.9	6.6
Amortization of debt issuance costs	0.2	0.2
Stock-based compensation expense	2.8	2.7
Bad debt expense, net	0.7	0.4
Depreciation and amortization	15.1	13.4
Foreign currency transaction loss, net	0.2	0.5
Deferred income taxes	0.1	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(34.2)	(51.6)
Other receivables, net	3.7	(2.0)
Inventories, net	75.8	42.4
Deposits, prepayments and other non-current assets	(23.2)	(31.2)
Accounts payable	25.3	42.9
Cigarette and tobacco taxes payable	(21.4)	(8.2)
Pension, claims, accrued and other long-term liabilities	0.6	5.4
Net cash provided by operating activities	67.0	35.8
Cash flows from investing activities:		
Change in restricted cash	0.8	(0.7)
Additions to property and equipment, net	(14.8)	(6.7)
Capitalization of software costs	(1.1)	—
Net cash used in investing activities	(15.1)	(7.4)
Cash flows from financing activities:		
Repayments under revolving credit facility, net	(41.3)	(26.3)
Dividends paid	(5.1)	(2.2)
Payments on capital leases	(0.8)	(0.5)
Payments of financing costs	—	(0.3)
Repurchases of common stock	(3.0)	(3.8)
Proceeds from exercise of common stock options	1.0	2.0
Tax withholdings related to net share settlements of restricted stock units	(0.9)	(2.1)
Excess tax deductions associated with stock-based compensation	1.2	1.4
Increase in book overdrafts	1.8	4.4
Net cash used in financing activities	(47.1)	(27.4)
Effects of changes in foreign exchange rates	0.1	—
Change in cash and cash equivalents	4.9	1.0
Cash and cash equivalents, beginning of period	11.0	19.1
Cash and cash equivalents, end of period	$15.9	$20.1
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes paid, net	$12.8	$11.8

Interest paid	0.5	0.8
Non-cash capital lease obligations incurred	$3.5	$1.1
Unpaid property and equipment purchases included in accrued liabilities	$1.2	$0.1

See accompanying notes to condensed consolidated financial statements.

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CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Company Information

Business

Core-Mark Holding Company, Inc. and subsidiaries (referred to herein as "we," "us," "our," "the Company" or "Core-Mark") i one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to over 31,000 customer locations in the United States ("U.S.") and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, bread, beverages, general merchandise and health and beauty care products. We operate a network of 28 distribution centers in the U.S. and Canada (excluding two distribution facilities we operate as a third party logistics provider). Twenty-four of the Company's distribution centers are located in the U.S. and four are located in Canada.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated balance sheet as of June 30, 2014, the unaudited condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2014 and 2013, and the unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2014 and 2013 have been prepared on the same basis as the Company's audited consolidated financial statements and include all adjustments necessary for the fair presentation of its consolidated results of operations, financial position, comprehensive income 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 periods. The condensed consolidated balance sheet as of December 31, 2013 has been derived from the Company's audited financial statements, which are included in its 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 3, 2014.

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 U.S. ("GAAP"), but which are not required for interim reporting purposes, have been omitted. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

On May 21, 2014, the Board of Directors declared a two-for-one stock split of the Company's outstanding common stock to be effected through a stock dividend. The additional shares were distributed on June 26, 2014 to shareholders of record at the close of business on June 9, 2014. All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures reflect this two-for-one stock split.

Concentration of Credit Risks

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash investments, accounts receivable and other receivables. The Company places its cash and cash equivalents in short-term instruments with high quality financial institutions and limits the amount of credit exposure in any one financial instrument.

The Company periodically evaluates the collectability of amounts due from vendors for promotional and other incentives with reserves maintained for potential credit losses after consideration given to rights of offset against vendor payments.

A credit review is completed for new customers and ongoing credit evaluations are performed periodically of existing customers, with reserves maintained for potential credit losses. Credit limits given to customers are based on a risk assessment of their ability to pay and other factors. Accounts receivable are typically not collateralized, but the Company may require prepayments or other guarantees whenever deemed necessary.

Alimentation Couche-Tard, Inc. ("Couche-Tard"), the Company's largest customer, accounted for approximately 14.6% of the Company's total net sales for the three and six months ended June 30, 2014, and approximately 13.0% of the Company's total net sales for each of the same periods in 2013. No single customer accounted for 10% or more of the

Company's accounts receivables as of June 30, 2014 or December 31, 2013.

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Recent Accounting Pronouncements

On July 18, 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. This accounting standard update was adopted by the Company in the first quarter of 2014 and applied prospectively. There was no impact to our consolidated financial statements due to the adoption of this guidance.

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This standard is effective for the Company beginning in 2017 and allows for either full retrospective adoption or modified retrospective adoption with cumulative effect recognized at the date of initial adoption. Early adoption of this standard is not allowed. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its financial statements.

In June 2014, the FASB issued Accounting Standards Update 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period: Topic 718 (ASU 2014-12). The standard states that a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. This standard is effective for the Company beginning in 2016 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-12 on its financial statements.

3. Inventories

Inventories consist of the following (in millions):

	June 30, 2014	December 31, 2013
Inventories at FIFO, net of reserves	$412.2	$488.2
Less: LIFO reserve	(106.1)	(99.0)
Total inventories at LIFO, net of reserves	$306.1	$389.2

Cost of goods sold reflects the application of the last-in, first-out (“LIFO”) method of valuing inventories in the U.S. based upon estimated annual producer price indices. Inventories in Canada are valued on a first-in, first-out (“FIFO”) basis, as LIFO is not a permitted inventory valuation method in Canada. 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 Company recorded LIFO expense of $4.3 million and $3.7 million for the three months ended June 30, 2014 and 2013, respectively, and $7.1 million and $6.6 million for the six months ended June 30, 2014 and 2013, respectively.

4. Long-Term Debt

Total long-term debt consists of the following (in millions):

	June 30, 2014	December 31, 2013
Amounts borrowed (Credit Facility)	$5.0	$46.3
Obligations under capital leases	13.0	11.3
Total long-term debt	$18.0	$57.6

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The Company has a revolving credit facility (“Credit Facility”) with a capacity of $200 million, which can be increased up to an additional $100 million, subject to certain provisions. All obligations under the Credit Facility are secured by first priority liens on substantially all of the Company’s present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR based loans prepaid prior to the end of an interest period). The margin added to the LIBOR or CDOR rate is currently a range of 125 to 175 basis points. In addition, the Credit Facility provides for stock repurchases of up to an aggregate of $50 million, not to exceed $15 million in any year, with a $75 million ceiling for dividends allowable over the term of the Credit Facility, which expires in May 2018.

The Credit Facility contains restrictive covenants, including, among others: limitations on dividends and other restricted payments, other indebtedness, liens, investments and acquisitions and certain asset sales. As of June 30, 2014, the Company was in compliance with all of the covenants under the Credit Facility.

Amounts borrowed, outstanding letters of credit and amounts available to borrow, net of certain reserves required under the Credit Facility, were as follows (in millions):

	June 30, 2014	December 31, 2013
Amounts borrowed	$5.0	$46.3
Outstanding letters of credit	$18.9	$21.8
Amounts available to borrow (1)	$165.4	$122.7

(1) Excluding $100 million expansion feature.

Average borrowings during the three and six months ended June 30, 2014 were $6.9 million and $10.2 million, respectively, with amounts borrowed, at any one time outstanding, ranging from zero to $46.3 million. For the three and six months ended June 30, 2013, average borrowings were $41.4 million and $37.9 million, respectively, with amounts borrowed, at any one time outstanding, ranging from zero to $112.0 million.

The weighted-average interest rate on the revolving credit facility for the three and six months ended June 30, 2014 was 1.7% and 1.6%, respectively, compared to 1.9% and 2.0% for the same periods in 2013. The weighted-average interest rate is calculated based on the daily cost of borrowing, reflecting a blend of prime and LIBOR rates. The Company paid fees for unused facility and letter of credit participation, which are included in interest expense, of $0.2 million and $0.4 million during the three and six months ended June 30, 2014, respectively, and $0.2 million and $0.5 million during the three and six months ended June 30, 2013, respectively. The Company recorded charges related to amortization of debt issuance costs, which are included in interest expense, of $0.1 million and $0.2 million during the three and six months ended June 30, 2014 and 2013, respectively. Unamortized debt issuance costs were $1.3 million as of June 30, 2014 and $1.4 million as of December 31, 2013.

5. Contingencies

Litigation

The Company and its insurers are plaintiffs in a lawsuit against Sonitrol Corporation. The case arose from the December 21, 2002 arson fire at the Denver warehouse, in which Sonitrol failed to detect and respond to a four-hour burglary and subsequent arson. In 2010, a jury found in favor of the Company and its insurers. Sonitrol appealed the judgment to the Colorado Appellate Court and on July 19, 2012, the Appellate Court upheld the trial court's ruling on two of the three issues being appealed but set aside the judgment and remanded the case back to the District Court for trial on the sole issue of damages. On April 29, 2013, the Colorado Supreme Court denied Sonitrol’s appeal and the case was returned to the District Court to resolve the sole issue of damages. On April 11, 2014, the damages trial concluded with a jury award of $2.75 million in favor of the Company and its insurers, finding that Sonitrol was liable for damages related only to the burglary and not the subsequent arson. The Company and its insurers are planning to appeal the jury’s findings. The Company is unable to predict when this litigation will be resolved and its ultimate outcome. Any monetary recovery from this lawsuit will be recognized only if and when it is finally paid to the Company.

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The Company is subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of its business. The Company records a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. In the opinion of management, the outcome of pending litigation is not expected to have a material adverse effect on our results of operations or financial condition.

6. Income Taxes

The Company's effective tax rate was 39.5% and 39.6% for the three and six months ended June 30, 2014, respectively, compared to 40.9% and 40.2% for the same periods in 2013.

The total gross amount of unrecognized tax benefits related to federal, state and foreign taxes was approximately $0.6 million at June 30, 2014 and December 31, 2013, all of which would impact the Company's effective tax rate, if recognized. The expiration of the statute of limitations for certain tax positions in future years and expected settlement of certain tax audit issues could impact the total gross amount of unrecognized tax benefits by $0.2 million through June 30, 2015.

The Company files U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2010 to 2013 tax years remain subject to examination by federal and state tax authorities with the 2009 tax year still open for certain state tax authorities. The 2006 to 2013 tax years remain subject to examination by the tax authorities in Canada.

7. Employee Benefit Plans

The Company sponsors a qualified defined-benefit pension plan and a post-retirement benefit plan (collectively, “the Pension Plans”). The plans were frozen as of September 30, 1986, and since then there have been no new entrants to the Pension Plans.

The following table provides the components of the net periodic income of the qualified defined-benefit pension plan for the three and six months ended June 30, 2014 and 2013 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
PENSION BENEFITS				
Interest cost	$0.4	$0.4	$0.8	$0.8
Expected return on plan assets	(0.6)	(0.6)	(1.2)	(1.2)
Amortization of net actuarial loss	0.1	0.2	0.2	0.3
Net periodic benefit income	$(0.1)	$—	$(0.2)	$(0.1)

The net period benefit costs incurred related to the post-retirement benefit plan was $0.1 million for both the three and six months ended June 30, 2014 and 2013.

The Company contributed $0.9 million and $1.6 million to the Pension Plans during the three and six months ended June 30, 2014, respectively, and $0.8 million and $1.3 million, respectively, for the same periods in 2013. During 2014, the Company expects to contribute between $2.2 million and $3.3 million to the defined-benefit pension plan and $0.3 million to post-retirement benefit plan.

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8. Earnings Per Share

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

	Three Months Ended June 30,					
	2014			2013		
	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share
Basic EPS	$12.0	23.1	$0.52	$11.7	23.0	$0.51
Effect of dilutive common share equivalents:						
Restricted stock units		—	—		—	—
Stock options		0.1	—		0.2	—
Diluted EPS	$12.0	23.2	$0.52	$11.7	23.2	$0.51

	Six Months Ended June 30,					
	2014			2013		
	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted-Average Shares Outstanding	Net Income Per Common Share
Basic EPS	$14.4	23.1	$0.63	$14.3	23.0	$0.62
Effect of dilutive common share equivalents:						
Restricted stock units		0.1	(0.01)		—	—
Stock options		—	—		0.2	—
Diluted EPS	$14.4	23.2	$0.62	$14.3	23.2	$0.62

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

Stock options to purchase common stock are not included in the computation of diluted earnings per share if their effect would be anti-dilutive. There were no anti-dilutive stock options outstanding for the three and six months ended June 30, 2014 and 2013.

9. Stock-Based Compensation Plans

Grant Activities

During the six months ended June 30, 2014 and 2013, the Company granted 95,572 and 174,536 restricted stock units to employees and non-employee directors from the 2010 Long-Term Incentive Plan at a weighted-average grant date fair value of $37.10 and $24.69, respectively. There were no restricted stock units granted during the three months ended June 30, 2014 and 2013.

In February 2014, the Company granted 138,800 performance-based shares to certain of its employees at a weighted-average grant date fair value of $36.79. The performance shares of 138,800 represent the maximum that can be earned. The number of performance shares that employees ultimately earn will be based on the Company’s achievement of certain specified performance targets in 2014. In February 2013, we granted 181,000 performance-based shares to employees at a weighted-average grant date fair value of $24.56, of which none were ultimately earned and the shares were canceled in 2013.

Stock-Based Compensation Cost

Total stock-based compensation cost recognized in the condensed consolidated statements of operations as a component of selling, general and administrative expenses was $1.5 million and $1.4 million for the three months ended June 30, 2014 and 2013, respectively. During the six months ended June 30, 2014 and 2013, the Company recognized stock-based compensation cost of

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$2.8 million and $2.7 million, respectively. Total unrecognized compensation cost related to unvested share-based compensation arrangements was $8.2 million at June 30, 2014, which is expected to be recognized over a weighted-average period of 2.0 years. Total unrecognized compensation cost may be adjusted for any unearned performance shares or forfeited shares.

10. Stockholders' Equity

Dividends

On May 21, 2014, the Board of Directors declared a two-for-one stock split of the Company’s outstanding common stock to be effected through a stock dividend. The additional shares were distributed on June 26, 2014 to shareholders of record at the close of business on June 9, 2014. All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures reflect this two-for-one stock split.

The Board of Directors approved the following cash dividends in 2014 (in millions, except per share data):

Declaration Date	Dividends Per Share	Record Date	Cash Payment Amount	Payment Date
February 7, 2014	$0.11	February 28, 2014	$2.5	March 24, 2014
May 2, 2014	$0.11	May 23, 2014	$2.5	June 16, 2014
July 31, 2014	$0.11	August 22, 2014	N/A [1]	September 15, 2014

(1) Amount will be determined based on common stock outstanding as of record date.

Repurchase of Common Stock

In May 2013, the Company's Board of Directors authorized a $30.0 million increase to its stock repurchase plan. At the time of increase, the Company had $2.3 million remaining under its stock repurchase plan that was then in place. The share repurchase program may be discontinued or amended at any time. The program has no expiration date and expires when the amount authorized has been expended or the Board withdraws its authorization. As of June 30, 2014, the Company had $25.7 million available for future share repurchases under the program.

The following table summarizes the Company's stock repurchase activities for the three and six months ended June 30, 2014 and 2013 (in millions, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Number of shares repurchased	600	11,004	83,200	155,218
Average price per share	$36.28	$28.74	$36.18	$24.78
Total repurchase costs	$—	$0.3	$3.0	$3.8

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11. Segment and Geographic Information

As of June 30, 2014, the Company operated 28 distribution centers in the U.S. and Canada (excluding two distribution facilities it operates as a third party logistics provider), which support its wholesale distribution business. Twenty-four of the Company's distribution centers are located in the U.S. and four are located in Canada.

The Company's distribution centers (operating divisions), which produce almost all of its revenues, have similar historical economic characteristics and have been aggregated into one reporting segment. Couche-Tard accounted for 14.6% and 13.0% of the Company's net sales in the three and six months ended June 30, 2014 and 2013, respectively.

Information about the Company's business operations based on the two geographic areas is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales:				
United States	$2,294.3	$2,218.7	$4,333.4	$4,124.3
Canada	319.9	281.3	575.9	513.5
Corporate [1]	9.0	9.9	14.8	17.8
Total	$2,623.2	$2,509.9	$4,924.1	$4,655.6
Income (loss) before income taxes:				
United States	$19.8	$18.2	$23.0	$21.9
Canada	0.7	0.2	0.4	(0.1)
Corporate [2]	(0.6)	1.4	0.5	2.1
Total	$19.9	$19.8	$23.9	$23.9
Interest expense:				
United States	$7.8	$7.5	$15.3	$14.4
Canada	0.1	0.1	0.4	0.4
Corporate	(7.3)	(6.8)	(14.4)	(13.3)
Total	$0.6	$0.8	$1.3	$1.5
Depreciation and amortization:				
United States	$6.2	$4.9	$11.7	$9.8
Canada	0.7	0.7	1.4	1.4
Corporate	1.0	1.2	2.0	2.2
Total	$7.9	$6.8	$15.1	$13.4

(1) Consists primarily of external sales made by the Company's consolidating warehouse, management service fee revenue, an allowance for sales returns and certain other sales adjustments..

(2) Consists primarily of net expenses and other income that is not allocated to the U.S. or Canada, intercompany eliminations for interest and allocations of overhead, and LIFO expense.

Identifiable assets by geographic area are as follows (in millions):

	June 30, 2014	December 31, 2013
Identifiable assets:		
United States	$829.7	$844.8
Canada	100.3	112.0
Total	$930.0	$956.8

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The net sales mix for the Company's primary product categories is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Product Category	Net Sales	Net Sales	Net Sales	Net Sales
Cigarettes	$1,770.8	$1,702.9	$3,319.1	$3,166.3
Food	373.0	343.9	696.3	629.9
Candy (1)	137.2	136.3	265.3	256.5
Other tobacco products	211.0	202.0	398.9	375.6
Health, beauty & general (1)	88.2	84.6	171.2	160.3
Beverages	42.6	39.4	72.9	66.2
Equipment/other	0.4	0.8	0.4	0.8
Total food/non-food products	852.4	807.0	1,605.0	1,489.3
Total net sales	$2,623.2	$2,509.9	$4,924.1	$4,655.6

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(1) In 2014, certain products were moved from the Candy category to the Health, beauty & general category to align them with the industry classifications used by the National Association of Convenience Stores. The 2013 presentation has been realigned to reflect these changes. Without the changes, net sales for Candy and Health, beauty & general products would have been $139.3 million and $81.6 million for the three months ended June 30, 2013, respectively. Net sales for Candy and Health, beauty & general products would have been $263.2 million and $153.6 million for the six months ended June 30, 2013, respectively.

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

The following discussion and analysis should be read together with the condensed consolidated financial statements, including the related notes, and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. See “Forward-Looking Statements” at the end of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to over 31,000 customer locations in the U.S. and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, other tobacco products ("OTP"), candy, snacks, fast food, groceries, fresh products, dairy, bread, beverages, general merchandise and health and beauty care products. We operate a network of 28 distribution centers in the U.S. and Canada (excluding two distribution facilities we operate as a third party logistics provider). Our core business objective is to help our customers increase their sales and profitability.

Second Quarter Overview

In the second quarter of 2014, we remained focused on growing market share and increasing our food/non-food revenues and gross profit by leveraging our “Fresh” product offering, driving our Vendor Consolidation Initiative (“VCI”), and providing customer category management expertise in order to make our independent retailers more relevant and profitable. We experienced sales growth and market share gains, resulting primarily from the addition of two major customers in 2013 and the execution of our core strategies. Further, we added 860 net new customer locations since the second quarter of 2013, and we continue to expand within other retail channels.

Net sales in the second quarter of 2014 increased 4.5% or $113.3 million, to $2,623.2 million compared to $2,509.9 million for the same period in 2013. Excluding the effects of foreign currency fluctuations, net sales increased approximately 5.3%, driven primarily by market share gains and an increase in food/non-food sales to existing customers. Net sales in our Food category, which increased 8.5% in the second quarter, was the primary driver of the increase in food/non-food sales.

Gross profit in the second quarter of 2014 increased $6.3 million, or 4.6%, to $143.3 million from $137.0 million during the same period in 2013. The increase in gross profit corresponded to our increase in sales, offset by lower cigarette inventory holding gains. Remaining gross profit margin(1) increased five basis points to 5.50% in the second quarter of 2014 compared to 5.45% for the same period in 2013. The increase in remaining gross profit margin was driven primarily by a shift in sales mix towards higher margin food/non-food items, which increased overall remaining gross profit margin by 20 basis points, offset by the addition of two new major customers in 2013, which reduced margins by nine basis points. In addition, increases in cigarette manufacturers' prices compressed remaining gross profit margin by approximately six basis points in 2014.

Operating expenses as a percentage of net sales were 4.7% for the second quarter of 2014 compared to 4.6% for the same period in 2013. We continue to see upward pressure on operating expenses as a percentage of sales due to a shift in sales to food/non-food categories. This is due, in part, to the lower selling price point for these categories, compared to cigarettes. In addition, increases in the amount of cubic feet of product handled coupled with a tightening of the driver pool in certain markets, contributed to higher operating costs.

Net income was $12.0 million for the second quarter of 2014 compared to $11.7 million for the same period in 2013. The increase in gross profit of 4.6%, driven primarily by higher food/non-food sales and margins and cigarette inventory holding gains, was offset by a 5.5% increase in operating expenses. Adjusted EBITDA(2) increased $1.7 million, or 5.2%, to $34.2 million for the second quarter from $32.5 million for the second quarter of 2013.

(1) Remaining gross profit and remaining gross profit margin are non-GAAP financial measures, which we provide to segregate the effects of cigarette inventory holding gains, LIFO expense and other items that significantly affect the comparability of gross profit and related margins (see the calculation of remaining gross profit and remaining gross profit margin in “Comparison of Sales and Gross Profit by Product Category” below).

(2) Adjusted EBITDA is a non-GAAP financial measure and should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP (see the calculation of adjusted EBITDA in “Liquidity and Capital Resources” below).

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Business and Supply Expansion

We continue to benefit from the expansion of our business and the execution of our core strategies focused primarily on enhancing our fresh product offering, leveraging VCI and providing category management expertise to our customers. Our strategies take costs and inefficiencies out of the supply chain, bringing our customers an avenue to offer high quality fresh foods and optimize their consumer product offering. We believe each of these, when adopted, will increase the retailers' profits.

Some of our more recent expansion activities include:

- In July 2014, we announced our plan to open a new distribution center in Glenwillow, Ohio which will support customer growth in this region. We expect to service approximately 1,000 new stores and redirect 1,000 existing stores from other Core-Mark distribution centers by the end of the first quarter in 2015. This transfer is expected to result in transportation cost savings as the Company reduces mileage to service customers in the region.
- In June 2014, we signed a three year agreement with Rite Aid Corporation which expands our relationship and allows us to distribute frozen, refrigerated and fresh food to their stores. We are currently providing service to 860 Rite Aid stores nationwide.
- In March 2013, we signed a five year agreement with Imperial Oil to service approximately 500 Esso branded stores located in Ontario and the Western Provinces of Canada. We successfully rolled out service to all the Esso stores in October 2013.
- On May 7, 2013, we signed a three year distribution agreement with Turkey Hill, a subsidiary of the Kroger Co. (“Kroger”) and the largest of Kroger's convenience divisions, to service all their convenience stores, which are located across Pennsylvania, Ohio and Indiana. With the addition of the Turkey Hill stores, we serviced approximately 700 Kroger convenience locations as of June 30, 2014.

We continue to add breadth to our proprietary “Fresh and Local™” program by expanding our fresh item solutions. During 2014, we realized sales and margin growth in our “Fresh” categories resulting from improving our customers’ product assortment, in-store marketing efforts and spoils management. As of June 30, 2014, there were approximately 9,000 participating stores in our “Fresh and Local™” program and sales for our fresh categories grew over 23% in the second quarter of 2014 compared with the same period in 2013.

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Results of Operations

Comparison of the Three Months Ended June 30, 2014 and 2013 (in millions) [(1)]:

		Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Increase (Decrease)	Amounts	% of Net sales	% of Net sales, less excise taxes	Amounts	% of Net sales	% of Net sales, less excise taxes
Net sales	$113.3	$2,623.2	100.0 %	— %	$2,509.9	100.0 %	— %
Net sales — Cigarettes	67.9	1,770.8	67.5	61.9	1,702.9	67.8	62.2
Net sales — Food/non-food	45.4	852.4	32.5	38.1	807.0	32.2	37.8
Net sales, less excise taxes [(2)]	97.0	2,083.3	79.4	100.0	1,986.3	79.1	100.0
Gross profit [(3)]	6.3	143.3	5.5	6.9	137.0	5.5	6.9
Warehousing and distribution expenses	5.3	78.1	3.0	3.7	72.8	2.9	3.7
Selling, general and administrative expenses	1.1	44.0	1.7	2.1	42.9	1.7	2.2
Amortization of intangible assets	—	0.7	—	—	0.7	—	—
Income from operations	(0.1)	20.5	0.8	1.0	20.6	0.8	1.0
Interest expense	(0.2)	(0.6)	—	—	(0.8)	—	—
Interest income	0.1	0.2	—	—	0.1	—	—
Foreign currency transaction losses, net	0.1	(0.2)	—	—	(0.1)	—	—
Income before taxes	0.1	19.9	0.8	1.0	19.8	0.8	1.0
Net income	0.3	12.0	0.5	0.6	11.7	0.5	0.6
Adjusted EBITDA [(4)]	1.7	34.2	1.3	1.6	32.5	1.3	1.6

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

(2) Net sales, less excise taxes is a non-GAAP financial measure, which we provide to separate the increase in sales due to product sales growth and increases in state, local and provincial excise taxes, which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the taxes on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result in higher net sales, our overall gross profit percentage may be reduced; however, we do not expect increases in excise taxes to negatively impact gross profit per carton (see "Comparison of Sales and Gross Profit by Product Category").

(3) Gross profit may not be comparable to those of other entities because warehousing and distribution expenses are not included as a component of our cost of goods sold.

(4) Adjusted EBITDA is a non-GAAP financial measure and should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP (see calculation of adjusted EBITDA in “Liquidity and Capital Resources”).

Net Sales. Net sales increased by $113.3 million, or 4.5% to $2,623.2 million in the second quarter of 2014, from $2,509.9 million for the same period in 2013. Excluding the effects of foreign currency fluctuations, net sales increased approximately 5.3%, driven primarily by market share gains and incremental food/non-food sales to existing customers driven primarily by the success of our core strategies.

Net Sales of Cigarettes. Net sales of cigarettes in the second quarter of 2014 increased by $67.9 million, or 4.0%, to $1,770.8 million from $1,702.9 million for the same period in 2013. The increase in net cigarette sales was driven primarily by the addition of two new major customers during 2013 and a 3.5% increase in the average price per carton, offset partially by a decrease of 2.7% in carton sales for the remainder of the business. Excluding the two major customers, cigarette cartons decreased by 2.9% and 0.4% in the U.S. and Canada, respectively. Total net cigarette sales as a percentage of total net sales were 67.5% in the second quarter of 2014 compared to 67.8% for the same period last year.

We believe long-term cigarette consumption will be negatively impacted by rising prices, legislative actions, diminishing social acceptance and sales through illicit markets. We expect cigarette manufacturers will raise prices as carton sales decline in order to maintain or enhance their overall profitability, thus mitigating the effects of the decline to the distributor. In addition, industry data indicates that convenience retailers are more than offsetting cigarette volume profit declines through higher sales of food/non-food products. We expect this trend to continue as the convenience industry adjusts to consumer demands.

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Net Sales of Food/Non-food Products. Net sales of food/non-food products in the second quarter of 2014 increased $45.4 million, or 5.6%, to $852.4 million from $807.0 million for the same quarter in 2013. The following table provides net sales by product category for our food/non-food products (in millions)[1]:

	Three Months Ended June 30,			
	2014	2013	Increase / (Decrease)	
Product Category	Net Sales	Net Sales	Amounts	Percentage
Food	$373.0	$343.9	$29.1	8.5 %
Candy [2]	137.2	136.3	0.9	0.7 %
Other tobacco products	211.0	202.0	9.0	4.5 %
Health, beauty & general [2]	88.2	84.6	3.6	4.3 %
Beverages	42.6	39.4	3.2	8.1 %
Equipment/other	0.4	0.8	(0.4)	(50.0)%
Total Food/Non-food Products	$852.4	$807.0	$45.4	5.6 %

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

(2) In 2014, certain products were moved from the Candy category to the Health, beauty & general category to align them with the industry classifications used by the National Association of Convenience Stores. The 2013 presentation has been realigned to reflect these changes. Without the changes, net sales of Health, beauty & general products and net sales of Candy would have been $81.6 million and $139.3 million, respectively.

The increase in food/non-food sales for the second quarter of 2014 was driven primarily by net incremental sales from existing customers and market share gains. The success of our core strategies continued to be the primary driver to the improvement in net sales, primarily benefiting the food category, to existing customers for the second quarter of 2014 compared to the same period last year. In addition, we continue to see higher sales of smokeless tobacco products in our OTP category and e-cigarettes included in our health, beauty & general category. Although the growth rate for e-cigarettes is moderating consistent with industry trends, we believe the overall trend toward increased use of smokeless tobacco products will continue and will help offset the impact of expected continued declines in cigarette consumption. This shift could potentially result in improved profitability over time due to the profit margins associated with smokeless tobacco products, which are generally higher than the profit margins we earn on cigarette carton sales. Total net sales of food/non-food products as a percentage of total net sales increased to 32.5% for the second quarter of 2014 compared to 32.2% for the same period in 2013.

Gross Profit. Gross profit represents the amount of profit after deducting cost of goods sold from net sales during the period. Vendor incentives, inventory holding gains and changes in LIFO reserves are components of cost of goods sold and therefore part of our gross profit. Gross profit for the second quarter of 2014 increased $6.3 million, or 4.6% to $143.3 million from $137.0 million for the same period in 2013 due primarily to increases in sales and margins in our food/non-food category. Gross profit margin was 5.46% of total net sales for both of the three months ended June 30, 2014 and 2013.

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The following table provides the components comprising the change in gross profit as a percentage of net sales for the three months ended June 30, 2014 and 2013 (in millions) [(1)]:

		Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Increase (Decrease)	Amounts	% of Net sales	% of Net sales, less excise taxes	Amounts	% of Net sales	% of Net sales, less excise taxes
Net sales	$ 113.3	$ 2,623.2	100.0 %	— %	$ 2,509.9	100.0 %	— %
Net sales, less excise taxes [(2)]	97.0	2,083.3	79.4	100.0	1,986.3	79.1	100.0
Components of gross profit:							
Cigarette inventory holding gains [(3)]	$ (0.6)	$ 3.3	0.12 %	0.16 %	$ 3.9	0.16 %	0.20 %
LIFO expense	0.6	(4.3)	(0.16)	(0.21)	(3.7)	(0.15)	(0.19)
Remaining gross profit [(4)]	7.5	144.3	5.50	6.93	136.8	5.45	6.89
Gross profit	$ 6.3	$ 143.3	5.46 %	6.88 %	$ 137.0	5.46 %	6.90 %

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

(2) Net sales, less excise taxes is a non-GAAP financial measure, which we provide to separate the increase in sales due to product sales growth and increases in state, local and provincial excise taxes, which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the tax on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result in higher net sales, our overall gross profit percentage may be reduced; however we do not expect increases in excise taxes to negatively impact gross profit per carton (see "Comparison of Sales and Gross Profit by Product Category").

(3) The amount of cigarette inventory holding gains attributable to the U.S. and Canada were $3.1 million and $0.2 million, respectively, for the three months ended June 30, 2014, compared to $3.8 million and $0.1 million, for the same period in 2013.

(4) Remaining gross profit is a non-GAAP financial measure, which we provide to segregate the effects of LIFO expense, cigarette inventory holding gains and other items that significantly affect the comparability of gross profit.

Remaining gross profit increased $7.5 million, or 5.5%, to $144.3 million for the second quarter of 2014, from $136.8 million for the same period in 2013. Remaining gross profit margin increased five basis points to 5.50% in the second quarter of 2014 compared to 5.45% for the same period in 2013. The increase in remaining gross profit was driven primarily by a shift in sales mix towards higher margin food/non-food items and an increase in the percentage of rebates and incentives earned, which increased overall remaining gross profit margin by 20 basis points, offset by the addition of two new major customers in 2013, which reduced margins by nine basis points. In addition, increases in cigarette manufacturers' prices compressed remaining gross profit margin by approximately six basis points in 2014.
Cigarette remaining gross profit per carton increased by 1.7% in the second quarter of 2014 compared to the same period in 2013 due primarily to higher discounts and incentives earned as a result of increases in manufacturer prices and changes in our cigarette sales mix, offset by the compressing impact of the two major customers gained during 2013.
Food/non-food remaining gross profit increased $7.0 million, or 7.2%, for the second quarter of 2014 compared to the same period in 2013. Food/non-food remaining gross profit margin increased 18 basis points to 12.19% in 2014 compared with 12.01% for the same period in 2013. Excluding the two new major customers, food/non-food remaining gross profit margin increased by 31 basis points driven by sales growth in our food category and a shift toward higher margin items due primarily to the continued success of our marketing strategies.

To the extent we capture large chain business, our gross profit margins may be negatively impacted. However, large chain customers generally require less working capital, allowing us, in most cases, to offer lower prices to achieve a favorable return on our investment. Our focus is to strike a balance between large chain business, which generally has lower gross profit margins, and independently-owned convenience stores, which comprise over 65% of the overall convenience store market and generally have higher gross profit margins. In addition, although price inflation did not materially impact our results from operations on a comparable basis in the second quarter of 2014, our gross profit can be positively or negatively impacted on a comparable basis depending on the relative level of price inflation or deflation period over period.

For the second quarter of 2014, our remaining gross profit for food/non-food products was approximately 72.0% of our total remaining gross profit compared to 70.8% for the same period in