

Core-Mark Holding Company, Inc.

Form 10-Q

November 10, 2008

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(MARK ONE)

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

For the quarterly period ended September 30, 2008

**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)

Edgar Filing: Core-Mark Holding Company, Inc. - Form 10-Q

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**395 Oyster Point Boulevard, Suite 415**

**South San Francisco, CA**  
(Address of principal executive offices)

**20-1489747**  
(IRS Employer

Identification No.)

**94080**  
(Zip Code)

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

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

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

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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

Accelerated filer

Smaller reporting company

Yes  No

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes  No

As of September 30, 2008, 10,737,663 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

**Table of Contents**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>3</b>
ITEM 1. <u>Financial statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
ITEM 4. <u>Controls and Procedures</u>	27
<b><u>PART II. OTHER INFORMATION</u></b>	<b>28</b>
ITEM 1. <u>Legal Proceedings</u>	28
ITEM 1A. <u>Risk Factors</u>	28
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
ITEM 6. <u>Exhibits</u>	30
<b><u>SIGNATURES</u></b>	<b>31</b>

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions, except share data)

(Unaudited)

	September 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 13.9	\$ 21.3
Restricted cash	12.3	11.5
Accounts receivable, net of allowance for doubtful accounts of \$8.9 and \$9.3, respectively	162.3	135.7
Other receivables, net	34.0	32.1
Inventories, net (Note 2)	241.3	216.4
Deposits and prepayments	38.6	36.9
Deferred income taxes	8.5	8.4
Total current assets	510.9	462.3
Property and equipment, net	76.2	69.3
Deferred income taxes	7.4	7.2
Goodwill	3.6	2.8
Other non-current assets, net	37.1	35.5
Total assets	\$ 635.2	\$ 577.1
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 78.2	\$ 54.3
Book overdrafts	14.3	21.1
Cigarette and tobacco taxes payable	99.9	94.2
Accrued liabilities	59.4	56.7
Total current liabilities	251.8	226.3
Long-term debt (Note 4)	58.3	29.7
Other long-term liabilities	12.4	13.7
Claims liabilities	32.0	31.2
Pension liabilities	9.5	9.7
Total liabilities	364.0	310.6
Stockholders equity:		
Common stock; \$0.01 par value (50,000,000 shares authorized; 10,737,663 and 10,445,886 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively)	0.1	0.1

Edgar Filing: Core-Mark Holding Company, Inc. - Form 10-Q

Additional paid-in capital	208.2	202.6
Treasury stock at cost, 396,716 shares of common stock (Note 10)	(11.0)	
Retained earnings	74.9	64.4
Accumulated other comprehensive loss	(1.0)	(0.6)
Total stockholders' equity	271.2	266.5
Total liabilities and stockholders' equity	\$ 635.2	\$ 577.1

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share data)

(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 1,672.7	\$ 1,477.5	\$ 4,552.7	\$ 4,187.6
Cost of goods sold	1,578.8	1,392.3	4,286.5	3,930.3
<b>Gross profit</b>	<b>93.9</b>	<b>85.2</b>	<b>266.2</b>	<b>257.3</b>
Warehousing and distribution expenses	54.3	45.6	151.2	128.6
Selling, general and administrative expenses	30.5	34.6	95.5	95.3
Amortization of intangible assets	0.5	0.4	1.5	1.3
<b>Total operating expenses</b>	<b>85.3</b>	<b>80.6</b>	<b>248.2</b>	<b>225.2</b>
Income from operations	8.6	4.6	18.0	32.1
Interest expense	0.7	0.5	1.6	2.0
Interest income	(0.2)	(0.2)	(0.9)	(0.7)
Foreign currency transaction losses (gains), net	1.5	(0.3)	2.6	(0.9)
Income before income taxes	6.6	4.6	14.7	31.7
Provision for income taxes (Note 5)	1.3	1.3	4.2	12.7
Net income	\$ 5.3	\$ 3.3	\$ 10.5	\$ 19.0
Basic income per common share (Note 6)	\$ 0.51	\$ 0.32	\$ 1.00	\$ 1.84
Diluted income per common share (Note 6)	\$ 0.49	\$ 0.30	\$ 0.95	\$ 1.69
Basic weighted average shares (Note 6)	10.4	10.4	10.5	10.4
Diluted weighted average shares (Note 6)	10.9	11.3	11.0	11.2

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 10.5	\$ 19.0
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
LIFO and inventory provisions	10.8	10.0
Amortization of debt issuance costs	0.4	0.3
Amortization of stock-based compensation expense	2.8	4.1
Bad debt expense, net	1.1	5.5
Depreciation and amortization	12.9	11.0
Foreign currency transaction losses (gains), net	2.6	(0.9)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(16.4)	(4.2)
Other receivables	(2.6)	4.0
Inventories	(28.5)	(25.5)
Deposits, prepayments and other non-current assets	(5.9)	(22.8)
Accounts payable	24.4	13.2
Cigarette and tobacco taxes payable	7.8	19.3
Pension, claims and other accrued liabilities	3.2	1.1
Income taxes payable	0.1	(5.3)
<b>Net cash provided by operating activities</b>	<b>23.2</b>	<b>28.8</b>
<b>Cash flows from investing activities:</b>		
Restricted cash	(1.6)	(0.6)
Acquisition of business, net of cash acquired	(26.4)	
Additions to property and equipment, net	(14.0)	(13.3)
Proceeds from sale of fixed assets	0.1	0.1
Capitalization of software	(0.7)	
<b>Net cash used in investing activities</b>	<b>(42.6)</b>	<b>(13.8)</b>
<b>Cash flows from financing activities:</b>		
Borrowings (repayments) under revolving credit facility, net	27.8	(24.3)
Repurchases of common stock shares (treasury stock)	(11.0)	
Proceeds from exercise of common stock options	2.5	2.0
Excess tax deductions associated with stock-based compensation	0.6	1.1
(Decrease) Increase in book overdrafts	(6.8)	2.9
<b>Net cash provided by (used in) financing activities</b>	<b>13.1</b>	<b>(18.3)</b>
Effects of changes in foreign exchange rates	(1.1)	(1.8)
<b>Decrease in cash and cash equivalents</b>	<b>(7.4)</b>	<b>(5.1)</b>
Cash and cash equivalents, beginning of period	21.3	19.9

Edgar Filing: Core-Mark Holding Company, Inc. - Form 10-Q

Cash and cash equivalents, end of period	\$ 13.9	\$ 14.8
--	---------	---------

Supplemental disclosures:

Cash paid during the period for:

Income taxes, includes interest paid, net of refunds	\$ 5.8	\$ 27.0
Interest	\$ 1.1	\$ 2.5

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. Summary of Company Information****Business**

Core-Mark Holding Company, Inc. and subsidiaries (referred to herein as we, us, our, or Core-Mark ) is one of the leading wholesale distributors to the convenience store industry in North America, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 26 distribution centers (including two distribution facilities we operate as a third party logistics provider) in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 25,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of stores, including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

**Basis of Presentation and Principles of Consolidation**

The accompanying unaudited condensed consolidated financial statements of Core-Mark for the three and nine months ended September 30, 2008 and 2007 have been prepared on the same basis as our audited consolidated financial statements and include all adjustments necessary for the fair presentation of our consolidated results of operations, financial position and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future period.

The significant accounting policies and certain financial information that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, but which are not required for interim reporting purposes, have been omitted. The unaudited consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2007, which are included in our 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 14, 2008.

**2. Inventories**

Net income reflects the application of the last-in, first-out (LIFO) method of valuing inventories in the United States based upon estimated annual producer price indices. 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. We recorded LIFO expense of \$6.0 million for the three months ended September 30, 2008 and \$4.6 million for the same period in 2007, and \$10.7 million for the nine months ended September 30, 2008 and \$9.3 million for the same period in 2007.

**3. Comprehensive Income**

Comprehensive income for the three and nine months ended September 30, 2008 and 2007 was as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 5.3	\$ 3.3	\$ 10.5	\$ 19.0
Foreign currency translation adjustment	(0.2)	0.4	(0.4)	0.5
<b>Total comprehensive income</b>	<b>\$ 5.1</b>	<b>\$ 3.7</b>	<b>\$ 10.1</b>	<b>\$ 19.5</b>



**Table of Contents****4. Long-term Debt**

Total Long-term Debt as presented in the consolidated balance sheets consists of the following (in millions):

	September 30, 2008	December 31, 2007
Amounts borrowed (Credit Facility)	\$ 57.5	\$ 29.7
Notes payable (Capitalized lease equipment)	0.8	
<b>Total Long-term Debt</b>	<b>\$ 58.3</b>	<b>\$ 29.7</b>

**Credit Facility**

In October 2005, we entered into a \$250 million five-year revolving credit facility ( *Credit Facility* ). All obligations under the Credit Facility are secured by first priority liens upon substantially all of our present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR-based loans prepaid prior to the end of an interest period).

On March 12, 2008, we entered into a Second Amendment to our Credit Facility (the *Second Amendment* ). This Amendment established our basket for permitted acquisitions made after the date of the Second Amendment at \$100 million and increased our basket for permitted stock repurchases to \$30 million.

Net available borrowings, amounts borrowed and outstanding letters of credit under the Credit Facility were as follows (in millions):

	September 30, 2008	December 31, 2007
Net available borrowings	\$ 159.7	\$ 160.0
Amounts borrowed	\$ 57.5	\$ 29.7
Outstanding letters of credit	\$ 24.6	\$ 28.5

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. We are in compliance with all of the covenants under the facility.

Our weighted-average interest rate was calculated based on our daily cost of borrowing which was computed on a blend of prime and LIBOR rates. The weighted-average interest rate on our revolving credit facility for the three months ended September 30, 2008 was 3.9% and 6.9% for the same period in 2007, and for the nine months ended September 30, 2008 was 4.1% and 6.8% for the same period in 2007.

We paid total unused facility fees of \$0.1 million for the three months ended September 30, 2008 and also for the same period in 2007, and \$0.4 million for the nine months ended September 30, 2008 and also for the same period in 2007.

**5. Income Taxes**

In June 2006, the Financial Accounting Standards Board (FASB) issued **Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*** which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) **No. 109, *Accounting for Income Taxes***. We adopted FIN 48 on January 1, 2007 which resulted in an increase in our stockholders' equity of \$18.6 million for the year ended December 31, 2007.



**Table of Contents**

During the quarter ended September 30, 2008, we reduced the total amount of unrecognized tax benefits by \$0.8 million due to the expiration of the statute of limitations relating to certain tax positions. At September 30, 2008, the total amount of unrecognized tax benefits under FIN 48 which was included in other tax liabilities, related to federal, state and foreign taxes, was approximately \$8.6 million. The total amount of net unrecognized tax benefits that would impact the effective tax rate, if recognized, would be \$7.1 million as of September 30, 2008. The unrecognized tax benefits of \$8.6 million as of September 30, 2008 could be impacted further by the expiration of the statute of limitations for certain tax positions in future years. We estimate the impact could be up to \$3.2 million through September 30, 2009.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2005 to 2007 tax years remain subject to examination by federal and state tax authorities. The 2003 and 2004 tax years are still open for certain state tax authorities. The 2000 to 2007 tax years remain subject to examination by the respective tax authority for the foreign jurisdictions. In 2007, the Canada Revenue Agency initiated an examination of our Canadian tax returns for 2003 and 2004. The examination has not been completed and no adjustments have been proposed as of September 30, 2008.

Our effective tax rate was 19.7% for the three months ended September 30, 2008 compared to 28.3% for the same period in 2007. Included in the provision for income taxes for the three months ended September 30, 2008 was a \$1.3 million benefit related primarily to the expiration of the statute of limitations for uncertain tax positions and revision of prior year's estimates.

Our effective tax rate was 28.6% for the nine months ended September 30, 2008 compared to 40.1% for the same period in 2007. Included in the provision for income taxes for the nine months ended September 30, 2008 was a \$1.8 million benefit related primarily to the expiration of the statute of limitations for uncertain tax positions, a revision of prior year's estimates, and \$0.1 million of after tax interest expense related to unrecognized tax benefits recorded under FIN 48.

Included in the provision for income taxes for the nine months ended September 30, 2007 was \$1.2 million of after tax interest related to the underpayment of income taxes in 2004 and 2005, and to unrecognized tax benefits under FIN 48. The underpayment of income taxes in 2004 and 2005 was due primarily to the misapplication of a tax position we adopted upon emergence from bankruptcy in 2004. The provision for income taxes for the nine months ended September 30, 2007 also includes a \$1.8 million benefit, inclusive of \$0.4 million of after tax interest, related primarily to corrections of our tax liability reserves.

**6. Earnings Per Share**

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

	Three Months Ended September 30,					
	2008 Net Income	2008 Weighted Average Shares Outstanding	2008 Net Income Per Common Share	2007 Net Income	2007 Weighted Average Shares Outstanding	2007 Net Income Per Common Share
Basic EPS	\$ 5.3	10.4	\$ 0.50	\$ 3.3	10.4	\$ 0.32
Effect of dilutive common share equivalents:						
Unvested restricted stock units					0.2	
Stock options		0.2	(0.01)		0.3	(0.01)
Warrants		0.3	(0.01)		0.4	(0.01)
Diluted EPS	\$ 5.3	10.9	\$ 0.48	\$ 3.3	11.3	\$ 0.30

**Table of Contents**

	Nine Months Ended September 30,					
	2008		2007		2007	
	Net Income	Weighted Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted Average Shares Outstanding	Net Income Per Common Share
Basic EPS	\$ 10.5	10.5	\$ 0.99	\$ 19.0	10.4	\$ 1.84
Effect of dilutive common share equivalents:						
Unvested restricted stock units					0.1	(0.02)
Stock options		0.2	(0.02)		0.3	(0.05)
Warrants		0.3	(0.03)		0.4	(0.08)
Diluted EPS	\$ 10.5	11.0	\$ 0.94	\$ 19.0	11.2	\$ 1.69

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

Certain options to purchase common stock were outstanding but were not included in the computation of diluted earnings per share because the effect would be anti-dilutive. There were 116,518 anti-dilutive stock options for the three and nine months ended September 30, 2008 compared to 121,475 anti-dilutive stock options for the three and nine months ended September 30, 2007.

In May 2004, we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the Class 6(B) creditors of Fleming Inc. (our former parent company) pursuant to its plan of reorganization. We refer to the warrants we issued to the Class 6(B) creditors as the Class 6(B) warrants. We received no cash consideration for the issuance of common stock and the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of \$20.93 per share and may be exercised at the election of the holder at any time prior to August 23, 2011. The shares of common stock and the Class 6(B) warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes, which we refer to as Tranche B warrants. The Tranche B warrants have an exercise price of \$15.50 per share.

The number of Class 6(B) warrants outstanding was 968,628 as of September 30, 2008 and 968,628 for the same period in 2007. The number of Tranche B warrants outstanding was 126,716 as of September 30, 2008 and 126,716 for the same period in 2007. The Class 6(B) warrants and the Tranche B warrants have been classified as permanent equity under **EITF 00-19, Accounting for Derivative Financial Information Indexed to, and Potentially Settled in, a Company's Own Stock**. We used the treasury stock method, as prescribed by **SFAS No. 128, Earnings Per Share**, to determine the shares of common stock due to conversion of outstanding warrants as of September 30, 2008.

## 7. Stock-Based Compensation Plans

Total stock-based compensation cost recognized in the accompanying condensed consolidated statements of operations was \$0.9 million for the three months ended September 30, 2008 as compared to \$1.7 million for the same period in 2007, and \$2.8 million for the nine months ended September 30, 2008 as compared to \$4.1 million for the same period in 2007. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was \$7.3 million at September 30, 2008. This balance is expected to be recognized over a weighted average period of 1.4 years.

**Table of Contents**

The following table presents the assumptions used in the Black-Scholes option pricing model to value the stock options granted during the nine months ended September 30, 2008 and 2007. Restricted stock units and performance shares were valued at the fair market value of our stock at the date of grant.

	Nine Months Ended September 30,	
	2008	2007
Expected life (years)	4	4
Risk-free interest rate	2.55%	4.50%
Volatility	35%	30%
Dividend yield		
Weighted-average fair value of grants:		
Stock options	\$ 8.45	\$ 11.40
Restricted stock units	\$ 25.80	\$ 35.58
Performance shares	\$ 25.80	\$ 36.96

The following table summarizes the activity for all stock options, restricted stock units, and performance shares under all of our Long-Term Incentive Plans (LTIP) for the nine months ended September 30, 2008:

Plans	Securities	December 31, 2007		Granted		2008		Canceled/Reclass		September 30, 2008		Exercisable	
		Number	Price	Number	Price	Number	Price	Number	Price	Number	Price	Number	Price
2004 LTIP	RSU	74,627	\$0.01		\$	(31,269)	\$0.01		\$	43,358	\$0.01	35,855	\$0.01
2004 LTIP	Options	753,546	16.99	3,869	25.81	(162,124)	15.50	(2,000)	36.03	593,291	17.39	562,956	16.45
2004 Directors Plan	Options	30,000	15.50							30,000	15.50	30,000	15.50
2005 LTIP	RSU	90,976	0.01	2,372	0.01	(53,457)	0.01	(51)	0.01	39,840	0.01	29,885	0.01
2005 Directors Plan	Options	15,000	27.03							15,000	27.03	15,000	27.03
	RSU	59,871	0.01	125,585	0.01	(23,987)	0.01	(7,204)	0.01	154,265	0.01	6,907	0.01
2007 LTIP	Options	66,838	36.96	144,016	25.81			(10,161)	29.05	200,693	29.36	33,275	36.48
	Perf. Shares	19,979	0.01	85,235	0.01	(20,938)	0.01	(7,684)	0.01	76,592	0.01	2,212	0.01

Note: Price is weighted-average price per share.

**8. Employee Benefit Plans*****Pension and Post-Retirement Defined Benefit Plans***

We sponsor 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 a plan of reorganization (May 2004) described in Exhibit 2.1 (see Part II, Item 6, Exhibit Index of this Form 10-Q), we were assigned the obligations for three former Fleming defined-benefit pension plans. All of these pension benefit plans and post-retirement benefit plans are collectively referred to as the Pension Plans.

In December of 2007, the three former Fleming defined benefit pension plans ( Pension Plans ) were merged into the Core-Mark defined benefit pension plan. The merger was conducted to reduce internal administration of the plans, including multiple regulatory filings, better management of the assets and funds as a single plan, and reduce the fees paid to outside vendors. 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.

**Table of Contents**

The following table provides the components of the net periodic pension and other post-retirement benefit costs for the three and nine months ended September 30, 2008 and 2007 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>PENSION BENEFITS</b>				
Interest cost	\$ 0.5	\$ 0.5	\$ 1.6	\$ 1.5
Expected return on plan assets	(0.5)	(0.6)	(1.7)	(1.8)
Net periodic benefit income	\$	\$ (0.1)	\$ (0.1)	\$ (0.3)
<b>OTHER POST-RETIREMENT BENEFITS</b>				
Interest cost	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3
Net periodic benefit cost	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3

We contributed \$0.2 million to these plans during the three and nine months ended September 30, 2008. We contributed \$1.3 million and \$1.4 million to our pension and other post-retirement benefit plans during the three and nine months ended September 30, 2007, respectively.

During the fourth quarter of 2008, we expect to make a contribution of \$0.2 million to our pension and post-retirement benefit plans.

**9. Segment and Geographic Information**

As of September 30, 2008, we operate 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) which support our wholesale distribution business. Out of the 24 distribution centers, 20 are located in the United States and four in Canada. These distribution centers (operating divisions) produced almost all of our revenues and have been aggregated into two geographic reporting segments, United States and Canada, based on the different economic characteristics and regulatory environments of both countries (**SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information**). Corporate adjustments and eliminations include corporate fees for service revenue, reclassifying adjustments, corporate allocations, and elimination of inter-company interest charges. Accounting policies for measuring segment assets and earnings before income taxes are substantially consistent with those described in **Note 2, Summary of Significant Accounting Policies**, of our Annual Report on Form 10-K, for the year ended December 31, 2007. Inter-segment revenues are not significant and no single customer accounted for 10% or more of our total revenues for the three and nine months ended September 30, 2008.



**Table of Contents**

Information about our business operations based on the two geographic reporting segments follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Net sales:</b>				
United States	\$ 1,399.6	\$ 1,263.6	\$ 3,801.6	\$ 3,609.1
Canada	266.4	212.4	732.5	562.7
Corporate adjustments and eliminations	6.7	1.5	18.6	15.8
<b>Total</b>	<b>\$ 1,672.7</b>	<b>\$ 1,477.5</b>	<b>\$ 4,552.7</b>	<b>\$ 4,187.6</b>
<b>Income before income taxes:</b>				
United States	\$ 8.6	\$ 9.0	\$ 18.1	\$ 21.1
Canada	(1.8)	0.3	(4.3)	1.1
Corporate adjustments and eliminations	(0.2)	(4.7)	0.9	9.5
<b>Total</b>	<b>\$ 6.6</b>	<b>\$ 4.6</b>	<b>\$ 14.7</b>	<b>\$ 31.7</b>
<b>Interest expense:</b>				
United States	\$ 5.5	\$ 5.5	\$ 14.8	\$ 15.9
Canada	0.2		0.6	
Corporate adjustments and eliminations	(5.0)	(5.0)	(13.8)	(13.9)
<b>Total</b>	<b>\$ 0.7</b>	<b>\$ 0.5</b>	<b>\$ 1.6</b>	<b>\$ 2.0</b>
<b>Interest income:</b>				
United States	\$ (0.1)	\$	\$ (0.1)	\$ (0.1)
Canada	0.1		(0.1)	(0.1)
Corporate adjustments and eliminations	(0.2)	(0.2)	(0.7)	(0.5)
<b>Total</b>	<b>\$ (0.2)</b>	<b>\$ (0.2)</b>	<b>\$ (0.9)</b>	<b>\$ (0.7)</b>
<b>Depreciation and amortization:</b>				
United States	\$ 3.2	\$ 2.9	\$ 9.2	\$ 9.0
Canada	0.5	0.3	1.5	0.7
Corporate adjustments and eliminations	0.8	0.3	2.2	1.3
<b>Total</b>	<b>\$ 4.5</b>	<b>\$ 3.5</b>	<b>\$ 12.9</b>	<b>\$ 11.0</b>

Identifiable assets by geographic reporting segments (in millions):

	September 30, 2008	December 31, 2007
<b>Identifiable assets:</b>		
United States	\$ 549.9	\$ 489.4
Canada	85.3	87.7
<b>Total</b>	<b>\$ 635.2</b>	<b>\$ 577.1</b>



**Table of Contents**

The net sales mix for our primary product categories is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cigarettes	\$ 1,144.9	\$ 1,021.1	\$ 3,096.3	\$ 2,906.5
Food	194.4	157.4	530.7	443.7
Candy	106.6	91.3	306.3	264.9
Other Tobacco Products	110.4	91.6	302.6	262.4
Health, Beauty & General	56.4	51.6	164.4	152.3
Non-Alcoholic Beverages	59.8	63.2	148.4	153.8
Equipment / Other	0.2	1.3	4.0	4.0
Total Food/Non-Food Products	\$ 527.8	\$ 456.4	\$ 1,456.4	\$ 1,281.1
Total Net Sales	\$ 1,672.7	\$ 1,477.5	\$ 4,552.7	\$ 4,187.6

**10. Repurchase of Common Stock**

On March 12, 2008, our Board of Directors authorized a share repurchase program of up to \$30 million designed to repurchase shares of our common stock in the open market or in privately negotiated transactions subject to market conditions. The number of shares to be purchased and the timing of the purchases will be based on market conditions, our cash and liquidity requirements, relevant securities laws and other factors. The share repurchase program may be discontinued or amended at any time. We plan to fund the majority of the share repurchases from available cash. Our Credit Facility was amended on March 12, 2008 to increase our basket for permitted stock repurchases to \$30 million to allow us to execute the share repurchase program.

We had repurchased 396,716 shares of common stock under the share repurchase program as of September 30, 2008 at a total cost of \$11.0 million (See Part II, Item 2 of this Form 10-Q for tabular information on the repurchases).

**11. Asset Acquisition of Auburn Merchandise Distributors, Inc.**

On June 23, 2008, we acquired substantially all of the assets of Auburn Merchandise Distributors, Inc., ( AMD or Auburn ) located in Whitinsville, Massachusetts, a wholly-owned subsidiary of Warren Equities, Inc., for approximately \$28.7 million, including transaction costs. The assets purchased include primarily accounts receivable, inventory, fixed assets and other intangibles, with no significant liabilities. Auburn operates out of a 130,000 sq. ft. facility and conducts business primarily in the Northeastern region of the United States. The purchase price exceeded the estimated fair value of net assets acquired by approximately \$0.8 million, which has been recorded as goodwill. AMD will conduct operations as the New England Division of Core-Mark. Results of operations of AMD have been included in Core-Mark's consolidated statements of operations since the date of acquisition to September 30, 2008. We have determined that had the acquisition been completed as of the beginning of the period the impact would not have been significant.

---

**Table of Contents**

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

*You should read the following discussion 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 leading wholesale distributors to the convenience store industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 26 distribution centers (including two distribution facilities we operate as a third party logistics provider) in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 25,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of stores, including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

**Third Quarter Overview**

Net sales for the third quarter of 2008 increased 13.2% to \$1.67 billion driven by a 15.6% increase in our food/non-food sales and a 12.1% increase in our cigarette sales. Sales in both categories benefitted from the addition of our Toronto and New England divisions, new customers and increases in excise taxes. The increase in our food/non-food sales was driven primarily by increases in the food, candy and other tobacco products categories. Cigarette sales increased in absolute dollars compared with the third quarter last year as a result of both price and excise tax increases and a 5.7% increase in overall cigarette carton sales. Excluding the recently acquired New England division, carton sales in the United States experienced a modest decline of 0.7% for the quarter. This result was an improvement compared with the 4.3% decline in the United States in the second quarter of 2008. Excluding our new Toronto division, Canada cigarette carton sales increased approximately 12.4% in the third quarter of this year driven by market share gains and sales from additional product lines. The year-over-year decrease in carton sales in the United States appears to be driven primarily by a decline in overall consumer demand which we believe is influenced by, among other factors, manufacturer price and state tax increases and legislative actions to regulate where a consumer can smoke. We expect these factors to continue to adversely impact our cigarette carton sales, primarily in the U.S., for the remainder of 2008.

We continue to monitor current macroeconomic conditions including consumer confidence and spending levels. We believe declines in consumer spending had a minor impact on our sales for the third quarter of 2008. However, if consumer spending declines further and/or the current decline persists for a prolonged period of time, our sales and associated gross profit may be materially impacted in future quarters.

Gross profit for the third quarter of 2008 increased 10.2% to \$93.9 million compared with \$85.2 million for the same period last year. Gross profit increased \$12.2 million, or 13.9%, compared with the third quarter of 2007 excluding cigarette holding gains and changes in LIFO reserves. This increase in gross profit was driven by a 12.0% increase in the food/non-food categories and incremental gross profit from the Toronto and New England divisions added this year.

Operating expenses increased 5.8% to \$85.3 million for the third quarter of 2008 compared with \$80.6 million for the same period last year. Included in operating expenses in the third quarter of 2007 was a charge of \$5.2 million related to an increase in our bad debt reserve related to two customers. Excluding this charge, operating expenses increased \$9.9 million, or 13.1%, for the third quarter of 2008. This increase was due

## **Table of Contents**

primarily to increases in sales volume, the addition of our Toronto and New England divisions, an increase in employee healthcare costs and higher net fuel costs. Inflation in fuel costs continued to impact our organization broadly although the impact was significantly lower in the third quarter compared with the second quarter this year due primarily to lower average fuel costs and increases in fuel surcharges passed on to our customers. Higher fuel costs may materially impact our financial results depending on the extent and timing of fuel price increases.

Income from operations was \$8.6 million for the third quarter of 2008 compared with \$4.6 million for the same period in 2007. Excluding cigarette holding gains and changes in LIFO reserves from both periods, and the \$5.2 million bad debt charge from last year, income from operations increased approximately 19% to \$14.4 million for the third quarter of 2008 as compared with \$12.1 million for the same period last year. For the first nine months of 2008, operating income increased 2.1% to \$27.1 million excluding cigarette holding gains and changes in LIFO reserves in both years, the State of Washington OTP tax refund, and the bad debt charge last year.

## **Business Developments**

### ***Asset Acquisition of Auburn Merchandise Distributors, Inc.***

On June 23, 2008, we acquired substantially all of the assets of Auburn Merchandise Distributors, Inc., ( AMD or Auburn ) located in Whitinsville, Massachusetts, a wholly-owned subsidiary of Warren Equities, Inc., for approximately \$28.7 million, including transaction costs. The assets purchased include primarily accounts receivable, inventory and fixed assets. AMD operates out of a 130,000 sq. ft. facility and conducts business primarily in the Northeastern region of the United States. We believe this asset acquisition will expand our presence and infrastructure in the Northeastern region of the United States. The purchase price of approximately \$28.7 million, including transaction costs, exceeded the estimated fair value of net assets acquired by approximately \$0.8 million, which has been recorded as goodwill. AMD will conduct operations as the New England Division of Core-Mark. Results of operations of AMD have been included in Core-Mark's consolidated statements of operations since the date of acquisition to September 30, 2008.

### ***Share Repurchase Program***

On March 12, 2008 our Board of Directors authorized a share repurchase program of up to \$30 million designed to repurchase shares of our common stock in the open market or in privately negotiated transactions subject to market conditions. The number of shares to be repurchased and the timing of the purchases will be based on market conditions, our cash and liquidity requirements, relevant securities laws and other factors. The share repurchase program may be discontinued or amended at any time. We plan to fund the majority of the share repurchases from available cash. Our Credit Facility was amended to allow us to execute the share repurchase program. We had repurchased 396,716 shares of common stock under the share repurchase program as of September 30, 2008 at a total cost of \$11.0 million.

### ***Expansion to Eastern Canada***

In January 2008, we opened a new distribution facility near Toronto, Ontario. This new facility expanded our existing market geography in Canada. We signed a long-term supply agreement with Couche-Tard, a Canadian retailer that operates over 600 stores in the province of Ontario. The total cost of the facility was approximately \$9.5 million, including \$1.5 million of start-up costs of which approximately \$0.9 million was expensed during the first nine months of 2008.

Table of Contents

## Results of Operations

*Comparison of the three months ended September 30, 2008 and 2007*

	2008 Increase (Decrease) (in millions)	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
		Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes
Net sales	\$ 195.2	\$ 1,672.7	100.0%		\$ 1,477.5	100.0%	
Net sales Cigarettes	123.8	1,144.9	68.5	60.7	1,021.1	69.1	61.8
Net sales Food/Non-food	71.4	527.8	31.5	39.3	456.4	30.9	38.2
Net sales, less excise taxes (1)	142.1	1,257.8	75.2	100.0	1,115.7	75.5	100.0
Gross profit	8.7	93.9	5.6	7.5	85.2	5.8	7.6
Warehousing and distribution expenses (2)	8.7	54.3	3.3	4.3	45.6	3.1	4.1
Selling, general and administrative expenses	(4.1)	30.5	1.8	2.4	34.6	2.3	3.1
Income from operations	4.0	8.6	0.5	0.7	4.6	0.3	0.4
Interest expense	0.2	0.7		0.1	0.5		
Interest income	0.0	(0.2)			(0.2)		
Foreign currency transaction losses (gains), net	1.8	1.5	0.1	0.1	(0.3)		
Income before income taxes	2.0	6.6	0.4	0.5	4.6	0.3	0.4
Net income	2.0	5.3	0.3	0.4	3.3	0.2	0.3

- (1) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes (*See Comparison of Sales and Gross Profit by Product Line*). Increases in cigarette-related taxes and/or fees, excise taxes, drive prices higher on the cigarette products we sell which result in higher net sales without increasing gross profit dollars. Increases in excise taxes result in a decline in overall gross profit percentage since net sales increase and gross profit dollars remain the same.
- (2) Gross margins may not be comparable to those of other entities because warehouse and distribution expenses are not included as a component of our cost of goods sold.

**Consolidated Net Sales.** Net sales increased by \$195.2 million, or 13.2%, to \$1,672.7 million for the three months ended September 30, 2008 from \$1,477.5 million for the same period in 2007. Excluding our new distribution facility in Toronto and the recently acquired New England division, net sales increased \$89.4 million, or 6.1%, driven by net sales increases from existing and new customers. The increase in total net sales included excise taxes of \$53.1 million.

**Net Sales of Cigarettes.** Net sales of cigarettes for the three months ended September 30, 2008 increased by \$123.8 million, or 12.1%, to \$1,144.9 million from \$1,021.1 million for the same period in 2007. The increase in net cigarette sales for the third quarter of 2008 was driven by a 6.1% increase in the average sales price per carton due primarily to manufacturer price increases, state excise tax increases and sales from our new distribution facilities in Toronto and New England which also contributed to a 5.7% increase in overall carton sales compared with the same period in 2007. Carton sales in the United States declined 0.7% for the quarter, excluding the New England division, and declined approximately 3.5% on a same store sales basis primarily due to lower consumer demand overall. Carton sales in Canada increased 24.9%, or 12.4%, excluding sales from our new Toronto division. The increase in carton sales in Canada was attributable primarily to market share gains and sales of additional product lines. Total net cigarette sales as a percentage of total net sales was 68.5% for the three months ended September 30, 2008 compared to 69.1% for the same period in 2007.

**Table of Contents**

**Net Sales of Food/Non-Food Products.** Net sales of food and non-food products for the three months ended September 30, 2008 increased \$71.4 million, or 15.6%, to \$527.8 million from \$456.4 million for the same period in 2007. The increase in our food/non-food sales was due primarily to increases in our food, candy and other tobacco products categories, driven by our sales and marketing initiatives, and the addition of our new Toronto and New England divisions. Total net sales of food and non-food products as a percentage of total net sales were 31.5% for the three months ended September 30, 2008 compared to 30.9% for the same period in 2007.

**Gross Profit.** Gross profit represents the portion of sales remaining after deducting the cost of goods sold during the period. Vendor incentives, cigarette holding profits and changes in LIFO reserves are classified as elements of cost of goods sold. Gross profit for the three months ended September 30, 2008 increased by \$8.7 million, or 10.2%, to \$93.9 million from \$85.2 million for the same period in 2007.

The following table provides the components comprising the change in gross profit for the three months ended September 30, 2008 and 2007:

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes
Net sales	\$ 1,672.7	100.0%		\$ 1,477.5	100.0%	
Net sales, less excise taxes (1)	1,257.8	75.2	100.0%	1,115.7	75.5	100.0%
<b>Components of Gross Profit:</b>						
LIFO expense	(6.0)	(0.36)	(0.48)	(4.6)	(0.31)	(0.41)
Cigarette inventory holding profits	0.2	0.01	0.02	2.3	0.16	0.21
Remaining gross profit	99.7	5.96	7.93	87.5	5.92	7.84
<b>Gross profit</b>	<b>\$ 93.9</b>	<b>5.61%</b>	<b>7.47%</b>	<b>\$ 85.2</b>	<b>5.77%</b>	<b>7.64%</b>

- (1) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes (*See Comparison of Sales and Gross Profit by Product Line*). Increases in cigarette-related taxes and/or fees, excise taxes, drive prices higher on the cigarette products we sell which result in higher net sales generally without increasing gross profit dollars. Increases in excise taxes result in a decline in overall gross profit percentage since net sales increase and gross profit dollars remain the same.

As a percentage of net sales, our overall remaining gross profit improved slightly to 5.96% for the three months ended September 30, 2008 compared to 5.92% for the same period last year. Our remaining gross profit percentage for cigarettes declined approximately 11 basis points for the three months ended September 30, 2008 to 2.55% compared with 2.66% for the same period in 2007. Remaining gross profit related to our food/non-food category increased approximately 11 basis points for the three months ended September 30, 2008 to 13.35% compared with 13.24% for the same period in 2007. Excluding our new divisions, remaining gross profit for food/non-food category increased 33 basis points to 13.57% for the third quarter of 2008 compared with the same period last year. The increase in remaining gross profit percentage was due primarily to a higher percentage of sales from higher margin food/non-food products combined with an increase in inventory holding gains related to candy, somewhat offset by an increase in inventory shrinkage and the addition of national chain store customers.

For the three months ended September 30, 2008, approximately 69.5% of gross profit was derived from food/non-food products compared to 69.0% for the same period in 2007.

**Operating Expenses.** Our operating expenses include costs related to warehousing, distribution, and selling, general and administrative activities. For the three months ended September 30, 2008, operating expenses increased \$4.7 million, or 5.8%, to \$85.3 million from \$80.6 million for the same period in 2007. Included in

**Table of Contents**

operating expenses in the third quarter of 2007 was a charge of \$5.2 million related to an increase in our bad debt reserve related to two customers. Excluding this charge, operating expenses increased \$9.9 million or 13.1% for the third quarter of 2008. This increase was due primarily to increases in sales volume, the addition of our Toronto and New England divisions which represented approximately 58.1% of the increase in operating expenses, higher employee benefit costs which represented 11.5% of the increase driven primarily by an increase in healthcare costs, and higher fuel costs, net of surcharges, which accounted for approximately 8.8% of the increase. As a percentage of net sales, operating expenses were 5.1% for both the three months ended September 30, 2008 and the same period in 2007, excluding the bad debt charge, due primarily to the items discussed above.

**Warehousing and Distribution Expenses.** Warehousing and distribution expenses increased by \$8.7 million, or 19.1%, to \$54.3 million for the three months ended September 30, 2008 from \$45.6 million for the same period in 2007. The increase in warehousing and distribution expenses was due primarily to increases in sales volume, the addition of our Toronto and New England divisions which represented approximately 44.7% of the increase, sales growth and related operational inefficiencies at two of our divisions which accounted for approximately 19.5% of the increase, and higher fuel costs, net of surcharges, which represented approximately 10.0% of the increase. As a percentage of net sales, warehousing and distribution expenses were 3.3% for the three months ended September 30, 2008 compared to 3.1% for the same period in 2007 due to the items discussed above.

**Selling, General and Administrative ( SG&A ) Expenses.** SG&A expenses decreased \$4.1 million, or 11.9%, to \$30.5 million for the three months ended September 30, 2008 from \$34.6 million for the same period in 2007. Excluding the bad debt charge of \$5.2 million in the third quarter of last year, SG&A expenses increased by \$1.1 million, or 3.7%, for the third quarter this year. The increase is due primarily to higher employee benefit costs driven by an increase in healthcare costs and the addition of the Toronto and New England divisions. As a percentage of sales, SG&A expenses were 1.8% for the three months ended September 30, 2008 compared to 2.3%, or 2.0% excluding the bad debt charge, for the same period in 2007 due primarily to the items discussed above.

**Interest Expense.** Interest expense includes both debt interest and amortization of fees related to borrowings. For the three months ended September 30, 2008, interest expense increased \$0.2 million, to \$0.7 million from \$0.5 million for the same period in 2007. The increase in interest expense was due primarily to higher average borrowings during the third quarter of 2008 compared with the third quarter of 2007. Average borrowings for the three months ended September 30, 2008 were \$27.1 million compared to \$15.9 million for the same period in 2007. During the third quarter of 2008, the weighted average interest rate on borrowings from our revolving credit facility was 3.9% compared to 6.9% for the same period in 2007. The decline in interest rates is the result of general decreases in rates charged to us on both prime and LIBOR borrowings.

**Interest Income.** For both the three months ended September 30, 2008 and 2007 interest income was \$0.2 million. Our interest income is derived primarily from earnings on cash balances kept in trust, checking accounts and overnight deposits.

**Foreign Currency Transaction Gains and Losses, net.** We incurred foreign currency transaction losses of \$1.5 million for the three months ended September 30, 2008, and recognized foreign currency transaction gains of \$0.3 million for the same period in 2007. The fluctuation in foreign currency was due to inter-company activity related to our Canadian operations and to changes in Canadian foreign exchange rates. For the three months ended September 30, 2008 the average Canadian/United States exchange rate was \$1.0416 as compared to \$1.0446 for the same period in 2007.

**Income Taxes.** Our effective tax rate was 19.7% for the three months ended September 30, 2008 compared to 28.3% for the same period in 2007. Included in the provision for income taxes for the three months ended September 30, 2008 was a \$1.3 million benefit related primarily to the expiration of the statute of limitations for uncertain tax positions and revision of prior year's estimates.



**Table of Contents****Comparison of the nine months ended September 30, 2008 and 2007**

	2008				Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	<i>Increase (Decrease) (in millions)</i>	<i>Amounts (in millions)</i>	<i>% of Net sales</i>	<i>% of Net sales, less excise taxes</i>	<i>Amounts (in millions)</i>	<i>% of Net sales</i>	<i>% of Net sales, less excise taxes</i>	
Net sales	\$ 365.1	\$ 4,552.7	100.0%		\$ 4,187.6	100.0%		
Net sales Cigarettes	189.8	3,096.3	68.0	60.5	2,906.5	69.4	62.3	
Net sales Food/Non-food	175.3	1,456.4	32.0	39.5	1,281.1	30.6	37.7	
Net sales, less excise taxes (1)	269.3	3,446.4	75.7	100.0	3,177.1	75.9	100.0	
Gross profit	8.9	266.2	5.9	7.7	257.3	6.1	8.1	
Warehousing and distribution expenses (2)	22.6	151.2	3.3	4.4	128.6	3.1	4.0	
Selling, general and administrative expenses	0.2	95.5	2.1	2.8	95.3	2.3	3.0	
Income from operations	(14.1)	18.0	0.4	0.5	32.1	0.8	1.0	
Interest expense	(0.4)	1.6		0.1	2.0		0.1	
Interest income	0.2	(0.9)			(0.7)			
Foreign currency transaction losses (gains), net	3.5	2.6	0.1	0.1	(0.9)			
Income before income taxes	(17.0)	14.7	0.3	0.4	31.7	0.8	1.0	
Net income	(8.5)	10.5	0.2	0.3	19.0	0.5	0.6	

- (1) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes (*See Comparison of Sales and Gross Profit by Product Line*). Increases in cigarette-related taxes and/or fees, excise taxes, drive prices higher on the cigarette products we sell which result in higher net sales without increasing gross profit dollars. Increases in excise taxes result in a decline in overall gross profit percentage since net sales increase and gross profit dollars remain the same.
- (2) Gross margins may not be comparable to those of other entities because warehouse and distribution expenses are not included as a component of our cost of goods sold.

**Consolidated Net Sales.** Net sales increased by \$365.1 million, or 8.7%, to \$4,552.7 million for the nine months ended September 30, 2008 from \$4,187.6 million for the same period in 2007. The increase was due primarily to net sales increases from existing and new customers, and sales from our new distribution facility in Toronto and recently acquired New England division. The increase included excise taxes of \$95.8 million. Additionally, net sales, inclusive of excise taxes, benefitted from a \$57.0 million favorable foreign exchange rate translation.

**Net Sales of Cigarettes.** Net sales of cigarettes for the nine months ended September 30, 2008 increased by \$189.8 million, or 6.5%, to \$3,096.3 million from \$2,906.5 million for the same period in 2007. The increase in net cigarette sales for the first nine months of 2008 was driven by a 5.6% increase in the average sales price per carton due primarily to manufacturer price increases, state excise tax increases and sales from our new distribution facilities in Toronto and New England which also contributed to an approximate 1.0% increase in overall carton sales compared with the same period last year. Carton sales declined approximately 2.4% in the United States, excluding sales from our New England division, due primarily to overall lower consumer demand. Carton sales in Canada increased 19.4%, or 8.6%, excluding sales from our new Toronto division. The increase in carton sales in Canada was attributable primarily to market share gains and sales of additional product lines. Total net cigarette sales as a percentage of total net sales was 68.0% for the nine months ended September 30, 2008 compared to 69.4% for the same period in 2007.

**Table of Contents**

**Net Sales of Food/Non-Food Products.** Net sales of food and non-food products for the nine months ended September 30, 2008 increased \$175.3 million, or 13.7%, to \$1,456.4 million from \$1,281.1 million for the same period in 2007. The increase in our food/non-food sales was due primarily to increases in our food, candy and other tobacco products categories driven by our sales and marketing initiatives, and the addition of our new Toronto and New England divisions. Total net sales of food and non-food products as a percentage of total net sales were 32.0% for the nine months ended September 30, 2008 compared to 30.6% for the same period in 2007.

**Gross Profit.** Gross profit represents the portion of sales remaining after deducting the cost of goods sold during the period. Vendor incentives, cigarette holding profits and changes in LIFO reserves are classified as elements of cost of goods sold. Gross profit for the nine months ended September 30, 2008 increased by \$8.9 million, or 3.5%, to \$266.2 million from \$257.3 million for the same period in 2007. During the first nine months of 2007, we benefitted from a \$13.3 million State of Washington OTP tax refund.

The following table provides the components comprising the change in gross profit for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes
Net sales	\$ 4,552.7	100.0%		\$ 4,187.6	100.0%	
Net sales, less excise taxes (1)	3,446.4	75.7	100.0%	3,177.1	75.9	100.0%
<b>Components of Gross Profit:</b>						
State of Washington OTP tax refund				13.3	0.32	0.42
LIFO expense	(10.7)	(0.24)	(0.31)	(9.3)	(0.22)	(0.29)
Cigarette inventory holding profits	1.5	0.03	0.04	6.7	0.16	0.21
Remaining gross profit	275.4	6.06	7.99	246.6	5.89	7.76
<b>Gross profit</b>	<b>\$ 266.2</b>	<b>5.85%</b>	<b>7.72%</b>	<b>\$ 257.3</b>	<b>6.15%</b>	<b>8.10%</b>

- (1) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes (*See Comparison of Sales and Gross Profit by Product Line*). Increases in cigarette-related taxes and/or fees, excise taxes, drive prices higher on the cigarette products we sell which result in higher net sales generally without increasing gross profit dollars. Increases in excise taxes result in a decline in overall gross profit percentage since net sales increase and gross profit dollars remain the same.

As a percentage of net sales, our remaining gross profit improved 17 basis points to 6.06% for the nine months ended September 30, 2008 compared to 5.89% for the same period last year. Our remaining gross profit percentage for cigarettes declined 7 basis points for the nine months ended September 30, 2008 to 2.58% compared with 2.65% for the same period in 2007. Remaining gross profit related to our food/non-food category increased 19 basis points for the nine months ended September 30, 2008 to 13.43% compared with 13.24% for the same period in 2007, after excluding the impact of the State of Washington OTP tax refund recorded in 2007. The increase in remaining gross profit percentage was due primarily to a higher percentage of sales from higher margin food/non-food products combined with an increase in inventory holding gains related to candy somewhat offset by an increase in inventory shrinkage and the addition of national chain store customers.

For the nine months ended September 30, 2008, approximately 70.3% of gross profit was derived from food/non-food products compared to 68.1% for the same period in 2007, excluding the impact of the State of Washington OTP tax refund benefit of \$13.3 million.

---

**Table of Contents**

**Operating Expenses.** Our operating expenses include costs related to warehousing, distribution, and selling, general and administrative activities. For the nine months ended September 30, 2008, operating expenses increased \$23.0 million, or 10.2%, to \$248.2 million from \$225.2 million for the same period in 2007. Included in operating expenses in the first nine months of 2007 was a charge of \$5.2 million related to an increase in our bad debt reserve related to two customers. Excluding this charge, operating expenses increased \$28.2 million, or 12.8%, for the period. This increase in operating expenses was due primarily to increases in sales volume, the addition of our Toronto and New England divisions which represented approximately 41.0% of the increase in operating expenses, sales growth and related operational inefficiencies at two of our divisions which represented 18.4% of the increase, higher employee benefit costs which represented 12.5% of the increase primarily driven by an increase in healthcare costs, and higher fuel costs, net of surcharges, which accounted for 10.3% of the increase. As a percentage of net sales, operating expenses were 5.5% for the nine months ended September 30, 2008 compared to 5.4% for the same period in 2007 due primarily to the items discussed above.

**Warehousing and Distribution Expenses.** Warehousing and distribution expenses increased by \$22.6 million, or 17.6%, to \$151.2 million for the nine months ended September 30, 2008 from \$128.6 million for the same period in 2007. The increase in warehousing and distribution expenses was due primarily to increases in sales volume, the addition of our Toronto and New England divisions which represented 36.7% of the increase, sales growth and related operational inefficiencies at two of our divisions which accounted for 19.8% of the increase, higher fuel costs, net of surcharges, which represented 12.8% of the increase, and an increase in facility and truck rent expense due primarily to investment in additional capacity in certain locations to support our growth in key markets. As a percentage of net sales, warehousing and distribution expenses were 3.3% for the nine months ended September 30, 2008 compared to 3.1% for the same period in 2007 due primarily to the items discussed above.

**Selling, General and Administrative ( SG&A ) Expenses.** SG&A expenses increased \$0.2 million, or 0.2%, to \$95.5 million for the nine months ended September 30, 2008 from \$95.3 million for the same period in 2007. Excluding the bad debt charge of \$5.2 million in the first nine months of last year, SG&A expenses increased by \$5.4 million or 6.0% for the period. The increase is due primarily to higher employee benefit costs driven by an increase in healthcare costs and the addition of the Toronto and New England divisions. As a percentage of net sales, SG&A expenses were 2.1% for the nine months ended September 30, 2008 compared to 2.3%, or 2.2% excluding the bad debt charge, for the same period in 2007 due primarily to the items discussed above.

**Interest Expense.** Interest expense includes both debt interest and amortization of fees related to borrowings. For the nine months ended September 30, 2008, interest expense decreased by \$0.4 million, or 20%, to \$1.6 million from \$2.0 million for the same period in 2007. The decrease in interest expense was due to lower average borrowings and interest rates during the first nine months of 2008 compared with the same period in 2007. Average borrowings for the nine months ended September 30, 2008 were \$15.2 million compared to \$21.0 million for the same period in 2007. During the first nine months of 2008, the weighted average interest rate on borrowings from our revolving credit facility was 4.1% compared to 6.8% in the same period of 2007. The decline in interest rates is the result of general decreases in rates charged to us on both prime and LIBOR borrowings.

**Interest Income.** For the nine months ended September 30, 2008 interest income was \$0.9 million compared to \$0.7 million for the same period in 2007. Our interest income is derived primarily from earnings on cash balances kept in trust, checking accounts and overnight deposits.

**Foreign Currency Transaction Gains and Losses, net.** We incurred foreign currency transaction losses of \$2.6 million for the nine months ended September 30, 2008, and recognized foreign currency transaction gains of \$0.9 million for the same period in 2007. The fluctuation in foreign currency was due to inter-company activity related to our Canadian operations and to changes in Canadian foreign exchange rates which appreciated over the period against the US dollar. For the nine months ended September 30, 2008 the average Canadian/United States exchange rate was \$1.0186 as compared to \$1.1044 for the same period in 2007.

**Table of Contents**

**Income Taxes.** Our effective tax rate was 28.6% for the nine months ended September 30, 2008 compared to 40.1% for the same period in 2007. Included in the provision for income taxes for the nine months ended September 30, 2008 was a \$1.8 million benefit related primarily to the expiration of the statute of limitations for uncertain tax positions and a revision of prior year's estimates, and \$0.1 million of after tax interest expense related to unrecognized tax benefits recorded under FIN 48.

**Comparison of Sales and Gross Profit by Product Line.** The following table summarizes our cigarette and other product sales and gross profit for the three and nine months ended September 30, 2008 and 2007 as a percentage of our net sales and gross profit (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Cigarettes</b>				
Net sales	\$ 1,144.9	\$ 1,021.1	\$ 3,096.3	\$ 2,906.5
Excise Taxes in sales	\$ 381.0	\$ 331.7	\$ 1,012.1	\$ 927.5
Net sales, less excise taxes (2)	\$ 763.9	\$ 689.4	\$ 2,084.2	\$ 1,979.0
Gross Profit (1)	\$ 28.6	\$ 26.4	\$ 79.0	\$ 77.9
Gross Profit %	2.5%	2.6%	2.6%	2.7%
Gross Profit % less excise taxes	3.7%	3.8%	3.8%	3.9%
<b>Food/Non-food Products</b>				
Net sales	\$ 527.8	\$ 456.4	\$ 1,456.4	\$ 1,281.1
Excise Taxes in Sales	\$ 33.9	\$ 30.1	\$ 94.2	\$ 83.0
Net sales, less excise taxes (2)	\$ 493.9	\$ 426.3	\$ 1,362.2	\$ 1,198.1
Gross Profit (1)	\$ 65.3	\$ 58.8	\$ 187.2	\$ 179.4
Gross Profit %	12.4%	12.9%	12.9%	14.0%
Gross Profit % less excise taxes	13.2%	13.8%	13.7%	15.0%
<b>Totals</b>				
Total Net Sales	\$ 1,672.7	\$ 1,477.5	\$ 4,552.7	\$ 4,187.6
Total Excise Taxes in Sales	\$ 414.9	\$ 361.8	\$ 1,106.3	\$ 1,010.5
Total Net Sales, less excise taxes (2)	\$ 1,257.8	\$ 1,115.7	\$ 3,446.4	\$ 3,177.1
Gross Profit (1)	\$ 93.9	\$ 85.2	\$ 266.2	\$ 257.3
Gross Profit %	5.6%	5.8%	5.9%	6.1%
Gross Profit % less excise taxes	7.5%	7.6%	7.7%	8.1%

- (1) Includes (i) cigarette holding profits related to manufacturer price increases and increases in excise taxes and (ii) LIFO effects. Cigarette holding profits for the three months ended September 30, 2008 were \$0.2 million compared to \$2.3 million for the same period in 2007, and \$1.5 million for the nine months ended September 30, 2008 compared to \$6.7 million for the same period in 2007. The gross profit for the nine months ended September 30, 2007 included an increase of \$13.3 million for the State of Washington OTP tax refund recorded as a reduction of cost of goods sold in 2007.
- (2) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes.

**Liquidity and Capital Resources**

Our cash and cash equivalents as of September 30, 2008 were \$13.9 million compared to \$14.8 million as of September 30, 2007. Our restricted cash as of September 30, 2008 was \$12.3 million as compared to \$11.5 million as of September 30, 2007. Restricted cash primarily represents funds that have been set aside in trust as required by one of the Canadian provincial taxing authorities to secure amounts payable for cigarette and tobacco excise taxes.

## **Table of Contents**

Our liquidity requirements arise primarily from the funding of our working capital, capital expenditures and debt service requirements of our credit facilities. We have historically funded our liquidity requirements through our current operations and external borrowings. For the nine months ended September 30, 2008, our cash flows from operating activities provided \$23.4 million and we had \$159.7 million of borrowing capacity available in our revolving credit facility as of September 30, 2008.

During the current downturn in global financial markets some companies have experienced difficulties drawing on lines of credit, issuing debt and raising capital generally, which have had a material adverse impact on their liquidity. Based on our anticipated cash needs, availability under our revolving credit facility and the scheduled maturity of our debt, we expect that our current liquidity, notwithstanding these adverse market conditions, will be sufficient to meet all of our anticipated needs during the next twelve months.

### ***Cash flows from operating activities***

Net cash provided by operating activities decreased by \$5.6 million to \$23.2 million for the nine months ended September 30, 2008 compared with \$28.8 million for the same period in 2007. The decrease in net cash flows provided by operations was due primarily to lower net income, the net impact of our two new divisions, and a decrease in vendor prepayments due to timing. The decrease related to the change in cash provided by cigarette and tobacco taxes payable was due to the re-establishment of credit terms for certain tax jurisdictions during 2007.

### ***Cash flows from investing activities***

Net cash used in investing activities increased by \$28.8 million to \$42.6 million for the nine months ended September 30, 2008 compared with \$13.8 million for the same period in 2007. This increase was due primarily to the acquisition of AMD. We paid approximately \$28.0 million which consisted primarily of purchased accounts receivable, inventory and fixed assets, offset by approximately \$1.6 million of cash received in the acquisition. Capital expenditures increased by \$0.7 million to \$14.0 million in the first nine months of 2008 due primarily to our investment in the new Toronto distribution center and expenditures for refrigerated delivery and warehouse equipment.

We estimate that fiscal 2008 capital expenditures will approximate \$20 million.

### ***Cash flows from financing activities***

Net cash provided by financing activities increased by \$31.4 million to \$13.1 million for the nine months ended September 30, 2008 compared with net cash used of \$18.3 million for the same period in 2007. We had borrowings on our revolving line of credit of \$27.8 million during the nine months ended September 30, 2008, due primarily to borrowings in connection with the AMD acquisition and the purchase of additional cigarette inventories in the third quarter of 2008 to take advantage of potential price increases. Additionally, included in financing activities was approximately \$11.0 million of cash payments to repurchase our common stock pursuant to our shares repurchase program authorized on March 12, 2008.

### **Our Credit Facility**

In October 2005, we entered into a \$250 million five-year revolving credit facility ( Credit Facility ). All obligations under the Credit Facility are secured by first priority liens upon substantially all of our present and future assets. The terms of the Credit Facility permit prepayment without penalty at any time (subject to customary breakage costs with respect to LIBOR or CDOR-based loans prepaid prior to the end of an interest period).

**Table of Contents**

On March 12, 2008, we entered into a Second Amendment to our Credit Facility (the *Second Amendment* ). This Amendment established our basket for permitted acquisitions made after the date of the Second Amendment at \$100 million and increased our basket for permitted stock repurchases to \$30 million.

Net available borrowings, amounts borrowed and outstanding letters of credit under the Credit Facility were as follows (in millions):

	September 30, 2008	December 31, 2007
Net available borrowings	\$ 159.7	\$ 160.0
Amounts borrowed	\$ 57.5	\$ 29.7
Outstanding letters of credit	\$ 24.6	\$ 28.5

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. We are in compliance with all of the covenants under the facility.

Our weighted-average interest rate was calculated based on our daily cost of borrowing which was computed on a blend of prime and LIBOR rates. The weighted-average interest rate on our revolving credit facility for the three months ended September 30, 2008 was 3.9% and 6.9% for the same period in 2007, and for the nine months ended September 30, 2008 was 4.1% and 6.8% for the same period in 2007.

We paid total unused facility fees of \$0.1 million for the three months ended September 30, 2008 and also for the same period in 2007, and \$0.4 million for the nine months ended September 30, 2008 and also for the same period in 2007.

**Off-Balance Sheet Arrangements**

There have been no material changes to the information provided in our Annual Report on Form 10-K for the year ended December 31, 2007 regarding off-balance sheet arrangements.

***Critical Accounting Policies and Estimates***

There have been no changes in this quarter to our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission ( *SEC* ) on March 14, 2008.

***Forward-Looking Trend and Other Information******Cigarette Industry Trends******Cigarette Consumption***

Aggregate cigarette consumption has declined in the United States since 1980 and in Canada since 1996. Prior to 2007 our cigarette sales had benefitted from a shift in sales to the convenience store segment, and as a result of this shift, convenience store cigarette sales had not declined in proportion to the decline in overall consumption. However, our cigarette carton sales have declined in 2007 and in the first nine months of 2008. We believe this trend is driven principally by an increasing decline in overall consumption due to factors such as increasingly more legislative controls which regulate where the consumer may or may not smoke and the acceleration in the frequency and amount of manufacturer and excise tax increases which reduces demand. The shift in cigarette carton sales from other channels to the convenience store segment may no longer be adequate to compensate for consumption declines.

## **Table of Contents**

### *Excise Taxes*

Cigarette and tobacco products are subject to substantial excise taxes in the United States and Canada. Significant increases in cigarette-related taxes and/or fees have been levied by the taxing authorities in the past and are likely to continue to be levied in the future. We increase cigarette prices as excise tax increases are assessed on cigarette products which we sell. As a result, increases in excise taxes do not decrease overall gross profit dollars, but will result in a decline in overall gross profit percentage since net sales will increase and gross profit dollars will remain the same.

### *Cigarette Inventory Holding Profits*

Distributors such as Core-Mark, from time to time, may earn higher gross profits on cigarette inventory and excise tax stamp quantities on hand either at the time cigarette manufacturers increase their prices or when states, localities or provinces increase their excise taxes and allow us to recognize cigarette inventory holding profits. These profits are recorded as an offset to cost of goods sold as the inventory is sold. Over the past several years we have earned significant cigarette inventory holding profits. For example, for the nine months ended September 30, 2008 our cigarette inventory holding profits were \$1.5 million, or 0.6%, of our gross profit as compared to \$6.7 million, or 2.6%, of our gross profit for the same period in 2007. It is difficult to predict whether cigarette inventory holding profits will occur in the future since they are dependent on the actions of cigarette manufacturers and taxing authorities.

### *Food and Non-Food Product Trends*

We focus our marketing efforts primarily on growing our food/non-food product sales. These product sales typically earn higher profit margins than cigarette sales and our goal is to continue to increase food/non-food product sales in the future to offset the potential decline in cigarette revenues and gross profits.

### *General Economic Trends*

#### *Uncertain Economic Conditions*

Recent market turmoil and uncertain economic conditions, including increases in food and fuel prices, changes in the credit and housing markets leading to the current financial and credit crisis, and actual and potential job losses among many sectors of the economy, significant declines in the stock market resulting in large losses to consumer retirement and investment accounts, and uncertainty regarding future federal tax and economic policies have resulted in reduced consumer confidence and curtailed retail spending. As a result, we expect that convenience store operators may experience a reduction in same store sales in subsequent quarters, which will adversely affect demand for our products and will result in reduced sales unless offset by other factors (such as an increase in the number or size of our customers' stores or increases in our market share). These economic and market conditions, combined with continuing difficulties in the credit markets and the resulting pressures on liquidity may also place a number of our convenience store customers under financial stress, which would increase our credit risk and potential bad debt exposure. If the economic conditions in our key markets deteriorate or do not show improvement, we may experience material adverse impacts to our business and operating results.

#### *Increases in Fuel Prices*

Increases in the price of fuel affect our business both indirectly and directly. Indirectly, they contribute to reduced consumer confidence and curtailed retail spending. Directly, they increase our transportation and delivery costs. Although to date we have succeeded in passing through a substantial portion of these increased costs in the form of fuel surcharges, we have not been able to do so in all cases, and there is no assurance that we will be able to continue to do so in the future. Where we have imposed a surcharge, our recoveries typically lag our increased costs by some period of time. Accordingly, we have been adversely affected by increased fuel prices and expect this effect to continue so long as prices continue to increase.

**Table of Contents**

**FORWARD LOOKING STATEMENTS**

Except for historical information, the statements made in this Quarterly Report on Form 10-Q are forward-looking statements made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on certain assumptions or estimates, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain.

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results and performance could differ materially from those set forth in the forward-looking statements. Forward-looking statements in some cases can be identified by the use of words such as may, will, should, potential, intend, expect, seek, anticipate, estimate, believe, could, predict, continue, plan, propose or other similar words or expressions. 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 discussed in such forward looking statements.

Factors that might cause or contribute to such differences include, but are not limited to, our dependence on the convenience store industry for our revenues; uncertain and recent economic conditions; competition; price increases; our dependence on relatively few suppliers; the low-margin nature of cigarette and consumable goods distribution; certain distribution centers dependence on a few relatively large customers; competition in the labor market and collective bargaining agreements; product liability claims and manufacturer recalls of products; fuel price increases; our dependence on our senior management and key personnel; integration of acquired businesses; currency exchange rate fluctuations; our ability to borrow additional capital; governmental regulations and changes thereto; earthquake and natural disaster damage; failure or disruptions to our information systems; a general decline in cigarette sales volume; competition from sales of deep-discount brands and illicit and other low priced sales of cigarettes. Refer to Part II, Item 1A, Risk Factors of this Form 10-Q and to our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 14, 2008. 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.



**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risk disclosures set forth in Item 7A of our Annual Report on Form 10-K, for the year ended December 31, 2007, as filed with SEC on March 14, 2008 did not change materially during the nine months ended September 30, 2008.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We conducted, under the supervision and with the participation of our management, including the chief executive officer and chief financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on our evaluation, the chief executive officer and chief financial officer concluded that, as of September 30, 2008, our disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes to our Legal Proceedings as discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 14, 2008.

**ITEM 1A. RISK FACTORS**

Except for the risk factors discussed below, there have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 14, 2008.

**We have added the following Risk Factor to those listed in our Form 10-K for the year ended December 31, 2007.**

**Impact of Current Economic Conditions**

Recent market turmoil and uncertain economic conditions, including increases in food and fuel prices, changes in the credit and housing markets leading to the current financial and credit crisis, actual and potential job losses among many sectors of the economy, significant declines in the stock market resulting in large losses to consumer retirement and investment accounts, and uncertainty regarding future federal tax and economic policies have resulted in reduced consumer confidence and curtailed retail spending. If these economic conditions persist or deteriorate further, we expect that convenience store operators will experience a reduction in same store sales in subsequent quarters, which will adversely affect demand for our products and will result in reduced sales and pressures on margins. Unless offset by other factors (such as an increase in the number or size of our customers' stores or increases in our market share), this may have a material adverse effect on our business and operating results. These economic and market conditions, combined with continuing difficulties in the credit markets and the resulting pressures on liquidity may also place a number of our convenience store customers under financial stress, which would increase our credit risk and potential bad debt exposure.

**We have updated the following Risk Factor included in our Form 10-K for the year ended December 31, 2007.**

**We may not be able to borrow the additional capital to provide us with sufficient liquidity and capital resources necessary to meet our future financial obligations.**

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our \$250 million credit facility. During the current economic downturn, some companies have experienced difficulties in drawing on lines of credit, issuing debt and raising capital generally, which has had a material adverse effect on their liquidity. Based on our anticipated cash needs, availability under our revolving credit facility and the scheduled maturity of our debt, we believe that notwithstanding these adverse market conditions our sources of liquidity are adequate to meet our working capital, capital spending and other cash needs for at least the next 12 months. However, we cannot assure you that these sources will continue to provide us with sufficient liquidity and capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs. We may require additional equity or debt financing to meet our working capital requirements or to fund our capital expenditures. We may not be able to obtain financing on terms satisfactory to us, or at all.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES and USE OF PROCEEDS**

The following table provides the repurchases of common stock shares during the nine months ended September 30, 2008:

**Issuer Purchases of Equity Securities**

Calendar Month/Period in which purchases were made:	Total Number of Shares Repurchased	Average Cost per Share (1)	Total Cost of Purchased Shares (in millions)	Maximum Repurchases Allowed (in millions)(2)
<b>Mar 12, 2008 approval of share repurchase</b>		\$	\$	\$ 30.0
Mar 20, 2008 to Mar 31, 2008	97,854	29.15	2.9	27.1
May 1, 2008 to May 31, 2008	51,282	27.84	1.4	25.7
Jun 1, 2008 to Jun 30, 2008	118,949	27.17	3.2	22.5
Jul 1, 2008 to Jul 31, 2008	61,860	25.97	1.6	20.9
Aug 1, 2008 to Aug 31, 2008	29,648	28.56	0.9	20.0
Sept 1, 2008 to Sept 30, 2008	37,123	27.17	1.0	19.0
<b>Total Repurchases</b>	<b>396,716</b>	<b>\$ 27.66</b>	<b>\$ 11.0</b>	<b>\$ 19.0</b>

(1) Includes related transaction fees

(2) In March 2008, our Board of Directors authorized the repurchase of up to \$30 million of our common stock. The timing and amount of the purchases will be based on market conditions, our cash and liquidity requirements, relevant securities laws and other factors. 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. See Note 10 to Condensed Consolidated Financial Statements included in this Form 10-Q.

**Table of Contents**

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Third Amended and Revised Joint Plan of Reorganization of Fleming Companies, Inc. and its Subsidiaries Under Chapter 11 of the Bankruptcy Code, dated May 25, 2004. (incorporated by reference to Exhibit 2.1 of the registrant's Registration Statement on Form 10 filed on September 6, 2005).
3.1	Certificate of Incorporation of Core-Mark Holding Company, Inc. (incorporated by reference to Exhibit 3.1 of the registrant's Registration Statement on Form 10 filed on September 6, 2005).
3.2	Second Amended and Restated Bylaws of Core-Mark Holding Company, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Current Report filed on Form 8-K on August 18, 2008).
10.17	Core-Mark Holding Company, Inc. 2007 Long-Term Incentive Plan (incorporated by reference to Annex A of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 23, 2007).
10.18	Statement of Policy Regarding 2007 Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 of the Company's Current Report filed on Form 8-K on May 9, 2007).
10.19	Management Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report filed on Form 8-K on July 6, 2007).
10.20	Management Option Award Agreement (incorporated by reference to Exhibit 10.3 of the Company's Current Report filed on Form 8-K on July 6, 2007).
10.21	Management Performance Share Award Agreement (incorporated by reference to Exhibit 10.4 of the Company's Current Report filed on Form 8-K on July 6, 2007).
10.22	Second Amendment to Credit Agreement dated March 12, 2008 (incorporated by reference to Exhibit 10.1 of the Company's Current Report filed on Form 8-K on March 18, 2008).
10.23	Press Release on Asset Acquisition of Auburn Merchandise Distributors, Inc. (incorporated by reference to Exhibit 99.1 of the Company's Current Report filed on Form 8-K on May 9, 2008).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CORE-MARK HOLDING COMPANY, INC.

Date: November 10, 2008

By: /s/ J. MICHAEL WALSH  
Name: J. Michael Walsh  
Title: President and Chief Executive Officer

CORE-MARK HOLDING COMPANY, INC.

Date: November 10, 2008

By: /s/ STACY LORETZ-CONGDON  
Name: Stacy Loretz-Congdon  
Title: Chief Financial Officer