Core-Mark Holding Company, Inc.
Form 10-12G/A
May 19, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 3 to FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or (g) of The Securities Exchange Act of 1934

CORE-MARK HOLDING COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-1489747**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
395 Oyster Point Boulevard, Suite 415 **South San Francisco, California 94080**	**(650) 589-9445**
(Address of Principal Executive Offices, including Zip Code)	**(Registrant s Telephone Number, Including Area Code)**

Securities to be Registered Pursuant to Section 12(b) of the Act:

Title of each class to be so registered	**Name of each exchange on which each class is to be registered:**
None	None

Securities to be Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of class)

Common Stock Warrants

(Title of class)

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EXPLANATORY NOTE

On March 23, 2006 the Audit Committee of the Board of Directors of the Company and management concluded that our audited consolidated financial statements as of December 31, 2004 and for the period from August 23, 2004 to December 31, 2004 and our unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2005, each included in our registration statement on Form 10 initially filed with the Securities and Exchange Commission on September 6, 2005 (and thereafter amended in Amendment No. 1 on October 21, 2005 and Amendment No. 2 on November 7, 2005) should no longer be relied upon because of errors in those financial statements relating to the accounting for foreign currency translation adjustments related to intercompany balances. Accordingly, this Amendment No. 3 to our registration statement on Form 10 is being filed to reflect the restatement of the Company s financial statements for such periods to correct such error and to correct inventory valuation errors and other errors in estimation. This Amendment No. 3 is also being filed to reflect the identification of eleven material weaknesses in internal controls over financial reporting following the initial filing of the Form 10.

In addition to the changes discussed above, the Company has (i) revised excise tax figures included in footnote (a) to the Company s unaudited consolidated statement of operations to increase the amounts presented for all periods from previously reported amounts due to the use of a revised calculation based on actual invoices rather than estimated amounts (this revision represents only a change in the presentation of the disclosure and does not represent a change in results of operations), (ii) conformed the presentation of accounts payable and book overdrafts (and related statement of cash flows line items) to the balance sheet classifications (and related statement of cash flows line items) reported in our Form 10-K for 2005 filed on April 14, 2006, (iii) conformed the presentation of statement of cash flows line items for borrowings and repayments under revolving lines of credit to such line items reported in our Form 10-K for 2005 filed on April 14, 2006 and (iv) corrected a typographical error to basic and diluted earnings per share for the three months ended March 31, 2004 from $0.7 per share to $0.07 per share disclosed in *Item 13 Financial Statements and Supplementary Data.*

Item 1 Business, Item 2 Financial Information (including *Management s Discussion and Analysis of Financial Condition and Results of Operations*), *Item 13 Financial Statements* and *Item 15 Financial Statements* are revised in this filing to reflect the above changes. Except as discussed above, the financial statements and other disclosure in this Form 10/A do not reflect any events that have occurred after Amendment No. 2 to the Form 10 was filed on November 7, 2005. Items 1, 2, 13 and 15 as amended by this Amendment No. 3 are set forth below.

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

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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ITEM 1. BUSINESS

SUMMARY

This summary highlights certain aspects of the information contained elsewhere in this registration statement. This summary does not contain all the relevant information and you should read this entire registration statement including the Risk Factors section beginning on page 5. Unless the context indicates otherwise, all references in this registration statement to Core-Mark, the Company, we, us, or our refer to Core-Mark Holding Company, Inc. and its direct and indirect subsidiaries.

Core-Mark

Core-Mark is one of the largest wholesale distributors to the convenience retail 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 24 distribution centers in the United States and Canada. We distribute approximately 38,000 stock-keeping units, or SKUs, of packaged consumable goods including cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products to customers in approximately 20,000 store locations in 37 states and five Canadian provinces. We also provide an array of information and data services that enable our customers to efficiently manage retail product sales and marketing functions. We service a variety of store formats, including traditional convenience stores, mass merchandise stores, grocery stores, drug stores, liquor stores, gift shops, specialty stores and other stores that carry convenience products. Our traditional convenience store customers include many of the major national and super-regional convenience store operators as well as thousands of multi- and single-store customers. Some of our largest customers include Alimentation Couche-Tard (the parent company of Circle K stores and Mac s stores), Arco am/pm franchisees, ConocoPhillips, Esso Convenience, Kroger (convenience), Maverik Country Stores, Petro-Canada, RaceTrac, Shoppers Drug Mart and Valero.

We provide sales and marketing services to attempt to maximize our customers sales and profits. We sell and distribute products to convenience stores and other retailers that are mass produced by manufacturers. Manufacturers rely on our ability to effectively and efficiently distribute their products because they do not have the distribution capability to effectively sell and deliver their products to thousands of customers in discrete retail locations. We distribute products that are manufactured by thousands of manufacturers and, by leveraging our purchasing power with these manufacturers, we are able to distribute these products in an efficient manner to our customers. Our customers benefit from our distribution network because they gain access to products they would otherwise not be able to access due to their small order sizes and diverse locations. Without our services, retailers would be unable to carry as wide a breadth of inventory due to a lack of information available to them regarding product and merchandising programs.

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

For the year ended December 31, 2004, we had $4.2 billion of revenues, including revenues recognized prior to the effective date of our reorganization in August 2004 (See Company Background for additional discussion about the reorganization). For the six months ended June 30, 2005 we had revenues of $2.3 billion.

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Our Strategy and Competitive Strengths

Our objective is to be the premier distributor to the retail convenience industry in North America. Our ability to successfully compete in our marketplace is founded upon:

- The integration of marketing, logistics and information systems while maintaining a culture with a strong customer service focus.
- The continuity, experience and proven ability of our management team.
- The dedication, commitment and hard work of the approximately 3,650 employees who comprise the Core-Mark family.
- Successfully balancing a centralized strategy with a decentralized execution.
- Leveraging economies of scale in operational efficiencies, purchasing power and lower overhead expenses.

Our three primary strategies to sustain our growth and gain customers are:

Grow our Customers Sales Profitably. Our success has been and will continue to be attributed to helping our customers grow their business in a profitable manner. We accomplish this mission primarily through investing in the development and execution of strategic marketing programs which seek to align current consumer demands with the latest in new products, promotion and marketing concepts. Our marketing professionals are constantly working to create and/or discover goods and services which will strengthen our customers offerings to the public. By providing product evaluations, recommendations, and other similar services, we enhance our customer s opportunity for increased profitability.

Make it Easy for our Customers to do Business with Us. Through a carefully crafted framework of customer service personnel, field sales personnel, merchandising representatives, account managers, account directors and executive representatives, we ensure that our customers requirements large and small are addressed in a timely and professional manner. Our people are complemented with customer service tools and web based tools designed to make doing business with Core-Mark easy and cost effective. We operate a centralized proprietary information system that provides our customers with reliable and consistent access to our services across all regions. We also offer a broad range of customized services including comprehensive product category management consultation and coordination. Our business has been built on our unique commitment to flexibility and customization in addressing the needs of each of our customers.

Do the Fundamentals Well. We have created and invested in systems, procedures, standards and a culture that ensures our customers consistently receive industry leading order fulfillment rates, on-time deliveries, pricing accuracy and integrity. Our proprietary logistics system coupled with our experience in integrating hardware and software enables us to deliver high volumes of product efficiently and accurately. We believe that the decentralized management of our distribution centers, together with our high standards of service, should enable us to outperform our competition in customer satisfaction.

Company Background

Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco. In August 1996, we completed a recapitalization resulting in Jupiter Partners, L.P. and senior management owning 75% and 25% of the Company equity, respectively. In June 2002, Fleming Companies, Inc., or Fleming, acquired Core-Mark International, Inc., our operating subsidiary. On April 1, 2003, Fleming filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The debtor-in-possession entities comprising Core-Mark were included in the Chapter 11 proceedings. Fleming s plan of reorganization, or the Plan, which became effective on August 23, 2004, provided for the reorganization of certain of Fleming s convenience operations and subsidiaries around Core-Mark International. Fleming s other assets and liabilities were transferred to two special-purpose trusts and are being liquidated.

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On August 23, 2004, pursuant to the Plan, we undertook the following actions:

(1) We issued an aggregate of 9.8 million shares of our common stock to Fleming in exchange for the stock of Core-Mark International, Inc. and its subsidiaries. As of June 30, 2005, Fleming had distributed 5,122,947 shares of our common stock to its Class 6(A) creditors and the remaining 4,677,053 shares of common stock were subject to future distribution to Fleming s creditors as claims are resolved. Further to the Plan, warrants to purchase an aggregate of 990,616 shares of our common stock were issued to Fleming and distributed by Fleming to its Class 6(B) creditors in March 2005. We refer to these warrants as the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of $20.925 per share, a 35% premium to the fair value of a share of our common stock as determined pursuant to the Plan, are immediately exercisable, and expire in 2011. As of June 30, 2005, all of the Class 6(B) warrants allocated to the Class 6(B) creditors under the Plan had been distributed.

(2) We entered into a $250 million Credit Agreement, which we refer to as the Prior Revolving Credit Facility. As of August 23, 2004 and June 30, 2005, an aggregate of $118.7 and $86.9 million in obligations thereunder were outstanding under the Prior Revolving Credit Facility consisting of $86.4 million and $59.2 million in funded debt and $32.6 million $27.7 million in letters of credit.

(3) We entered into a Note and Warrant Purchase Agreement on August 20, 2004, which we refer to as the Tranche B Note Agreement, incurred an aggregate of $60 million in obligations thereunder in the form of notes and letters of credit issued for our account, and issued warrants to the Tranche B noteholders to purchase an aggregate of 247,654 shares of our common stock. We refer to the notes, letters of credit and warrants issued under the Tranche B Note Agreement as the Tranche B Notes, the Tranche B Letters of Credit and the Tranche B Warrants, respectively. The Tranche B Warrants have an exercise price of $15.50 per share, the fair value of our common stock as determined pursuant to the Plan, are immediately exercisable, and expire in 2011. The $60 million in obligations initially consisted of $35.5 million in Tranche B Notes and $24.5 million in letter of credit obligations under Tranche B Letters of Credit. During the first six months of 2005, we prepaid $15 million in principal amount of the Tranche B Notes. As of June 30, 2005, $20.5 million of Tranche B Notes remained outstanding.

(4) We adopted our 2004 Long Term Incentive Plan, or the 2004 Plan. An aggregate of 1,314,444 shares of our common stock are reserved for issuance to the Company s employees under the 2004 Plan. As of September 21, 2005, 189,738 shares of restricted stock or restricted stock units and options to purchase an aggregate of 1,054,101 shares of our common stock are outstanding under the 2004 Plan. The exercise price of these options and the fair value of the restricted stock awards is $15.50 per share, the fair value of the common stock as determined pursuant to the Plan. An aggregate of 70,605 shares of our common stock are available for future grants under the 2004 Plan.

(5) Non-employee members of our board of directors also received options to purchase an aggregate of 30,000 shares of our common stock under our 2004 Directors Equity Incentive Plan. The options granted under our 2004 Plan and the 2004 Directors Equity Incentive Plan have an exercise price of $15.50 per share, the fair value of our common stock as determined pursuant to the Plan.

(6) We guaranteed certain obligations of two trusts set up pursuant to the Plan for the benefit of Fleming s former creditors.

(7) We assumed the remaining workers compensation, general liabilities, auto liabilities and pension liabilities of the Fleming grocery divisions totaling approximately $33 million.

In February 2005, our board of directors adopted our 2005 Long Term Incentive Plan, or the 2005 Plan, and authorized the grant of restricted stock units under the 2005 Plan to be allocated by our Chief Executive Officer among our employees in proportion to grants made under the 2004 Plan. The number of shares of our common stock issuable under the 2005 Plan is limited to a number of shares having a market value of $5.5 million, based on the average closing price of our common stock over the eleventh through twentieth trading days following the date that our common stock becomes quoted on the NASDAQ National Market. In February 2005, the Compensation Committee and the Board of Directors approved the grant of restricted stock units having a value of approximately $5.0 million with a vesting commencement date of February 1, 2005. It is anticipated that such grants will be made in the fourth quarter of 2005. The Board of Directors determined that the balance of approximately $0.5 million available for grants under the 2005 Plan should be reserved for possible future issuance.

In August 2005, two new independent members of our board of directors received options to purchase an aggregate of 15,000 shares of our common stock under our 2005 Directors Equity Incentive Plan. These options have an exercise price of $27.03 per share, the fair market value of our common stock as determined by the board of directors as provided in this plan, on the basis of the average trading price, as quoted in the Pink Sheets, of our common stock over the twenty trading days ending two trading days prior to the date of grant.

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

Corporate Information

Our corporate headquarters are located at 395 Oyster Point Boulevard, Suite 415, South San Francisco, California 94080. The telephone number of our corporate headquarters is (650) 589-9445. Our website address is http://www.core-mark.com. The information included on our website is not included as a part of, or incorporated by reference into, this registration statement.

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RISK FACTORS

You should carefully consider the following risks together with all of the other information contained in this registration statement. The risks and uncertainties described below are not the only ones we face. If any of the events or circumstances described below were to occur, our business, financial condition and results of operations could be materially adversely affected.

This registration statement contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, the risk factors set forth below (See Special Note Regarding Forward Looking Statements).

Risks Relating to Our Business

Cigarette and consumable goods distribution is a low-margin business sensitive to economic conditions.

We derive most of our revenues from the distribution of cigarettes, other tobacco products, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products. Our industry is characterized by a high volume of sales with relatively low profit margins. Our non-cigarette sales are at prices that are based on the cost of the product plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of cost deflation for these products, even though our gross profit as a percentage of the price of goods sold may remain relatively constant. Periods of product cost inflation may also have a negative impact on our profit margins and earnings with respect to sales of cigarettes. Gross profit on cigarette sales are generally fixed on a cents per carton basis. Therefore, as cigarette prices increase, gross profit generally decreases as a percent of sales. In addition, if the cost of the cigarettes that we purchase increase due to manufacturer price increases or increases in applicable excise tax rates, our inventory costs and accounts receivable could rise. To the extent that product cost increases are not passed on to our customers due to their resistance to higher prices, our profit margins and earnings could be negatively impacted.

The consumable goods distribution industry is sensitive to national and regional economic conditions. Inflation, fuel costs and other factors affecting consumer confidence generally may negatively impact our sales. Our operating results are also sensitive to, and may be adversely affected by, other factors, including difficulties with the collectability of accounts receivable, competitive price pressures, severe weather conditions and unexpected increases in fuel or other transportation-related costs. Increases in fuel prices and reduced demand for the products we distribute resulting from the devastating effect of Hurricane Katrina on the Gulf Coast of the United States could have a negative impact on our business. Due to the low-margins on the products we distribute, changes in general economic conditions could materially adversely affect our operating results.

Our sales volume is largely dependent upon the distribution of cigarette products, sales of which are declining.

The distribution of cigarette and other tobacco products is currently a significant portion of our business. For the year ended December 31, 2004, approximately 72% of our revenues came from the distribution of cigarettes. During the same period, approximately 36% of our gross profit was generated from cigarettes. Due to increases in the prices of cigarettes and other tobacco products, restrictions on advertising and promotions by cigarette manufacturers, increases in cigarette regulation and excise taxes, health concerns, increased pressure from anti-tobacco groups and other factors, the U.S. and Canadian cigarette and tobacco market has generally been declining, and is expected to continue to decline. Notwithstanding the general decline in consumption, we have benefited from a shift of cigarette and tobacco sales to convenience stores. However, this favorable trend may not continue and may reverse.

Legislation and other matters are negatively affecting the cigarette and tobacco industry.

The tobacco industry is subject to a wide range of laws and regulations regarding the advertising, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. Various state and provincial governments have adopted or are considering legislation and regulations restricting displays and advertising of tobacco products, establishing fire safety standards for cigarettes, raising the minimum age to possess or purchase tobacco products, requiring the disclosure of ingredients used in the manufacture of tobacco products, imposing restrictions on public smoking, restricting the sale of tobacco products directly to consumers or other unlicensed recipients over the Internet, and other tobacco product regulation. In addition, cigarettes are subject to substantial excise taxes in the United States and Canada. Significant increases in cigarette-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted within the United States and Canada. These tax increases are likely to continue to have an adverse impact on sales of cigarettes due to lower consumption levels or sales outside of legitimate channels.

In the United States, we purchase cigarettes primarily from manufacturers covered by the tobacco industry s Master Settlement Agreement (or MSA), which results in our facing certain financial risks including competition from lower priced sales of cigarettes produced by manufacturers who do not participate in the Master Settlement Agreement.

In June 1994, the Mississippi attorney general brought an action against various tobacco industry members. This action was brought on behalf of the state to recover state funds paid for health-care, medical and other assistance to state citizens suffering from diseases and conditions allegedly related to tobacco use. Most other states, through their attorneys general or other state agencies, sued the major U.S. cigarette manufacturers based on similar theories. The cigarette manufacturer defendants settled the first four of these cases scheduled for trial Mississippi, Florida, Texas and Minnesota by separate agreements between each state and those manufacturers in each case. These states are referred to as non-MSA states.

In November 1998, the major U.S. tobacco product manufacturers entered into the MSA with the other 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. The MSA and the other state settlement agreements: settled all health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the major U.S. cigarette manufacturers from various additional present and potential future claims relating to past conduct arising out of the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, the exposure to, or research, statements or warnings about, tobacco products; settled all monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products that have been manufactured in the ordinary course of business; imposed a stream of future payment obligations on major U.S. cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes. The payments required under the MSA result in the products sold by the participating manufacturers to be priced at higher levels than non-MSA manufacturers.

In order to limit our potential tobacco related liabilities, we do not purchase cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of the MSA do not apply to sales of cigarettes manufactured by non-MSA manufacturers.

Competition among cigarette manufacturers for cigarette sales is primarily based on brand positioning, price, product attributes, consumer loyalty, promotions, advertising and retail presence. Cigarette brands produced by the major tobacco product manufacturers generally require competitive pricing, substantial marketing support, retail programs and other financial incentives to maintain or improve a brand s market position. Increased selling prices and higher cigarette taxes have resulted in the growth of deep-discount brands. Deep-discount brands are brands manufactured by companies that are not original participants to the MSA, and accordingly, do not have cost structures burdened with MSA-related payments to the same extent as the original participating manufacturers. Historically, major tobacco product manufacturers have had a competitive advantage in the United States because significant cigarette marketing restrictions and the scale of investment required to compete made gaining consumer awareness and trial of new brands difficult. However, since the MSA was signed in November 1998, the category of deep-discount brands manufactured by smaller manufacturers or supplied by importers has grown substantially.

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As a result of purchasing premium and discount cigarettes for sale in MSA states exclusively from manufacturers that are parties to the MSA, we are adversely impacted by sales of brands from non-MSA manufacturers and deep-discount brand growth. We believe that small manufacturers, not subject to the MSA, of deep-discount brands have steadily increased their combined market share of cigarette sales. The premium and discount cigarettes subject to the MSA that we sell have been negatively impacted by widening price gaps in the prices between those brands and the deep-discount brands for the past several years. The growth in market share of the deep-discount brands since the MSA was signed in 1998 has had an adverse impact on the volume of the cigarettes that we sell. As a result, our operations may be negatively impacted as sales volumes of premium cigarettes and the other tobacco products erode.

We also face competition from illicit and other low priced sales of cigarettes.

We also face competition from the diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes in non-taxable jurisdictions, inter-state and international smuggling of cigarettes, increased imports of foreign low priced brands, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes. The competitive environment has been characterized by a continued influx of cheap products that challenge sales of higher priced and taxed cigarettes manufactured by parties to the MSA. Increased sales of counterfeit cigarettes, sales by third parties over the internet, or sales by means to avoid the collection of applicable taxes, could have an adverse effect on our results of operations.

If the tobacco industry s master settlement agreement is invalidated, or tobacco manufacturers cannot meet their obligations to indemnify us, we could be subject to substantial litigation liability.

In connection with the MSA, we are indemnified by the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from our sale of the tobacco products that they supply to us. To date, litigation challenging the validity of the MSA, including claims that the MSA violates antitrust laws, has not been successful. However, if such litigation were to be successful and the MSA is invalidated, we could be subject to substantial litigation due to our sales of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we continue to be indemnified by cigarette manufacturers that are parties to the MSA, future litigation awards against such cigarette manufacturers and us could be so large as to eliminate the ability of the manufacturers to satisfy their indemnification obligations. Our results of operations could be negatively impacted due to increased litigation costs and potential adverse rulings against us.

Cigarettes and other tobacco products are subject to substantial excise taxes and if these taxes are increased, our sales of cigarettes and other tobacco products could decline.

Cigarettes and tobacco products are subject to substantial excise taxes in the United States and Canada. Significant increases in cigarette-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted within the United States and Canada. These tax increases are expected to continue to have an adverse impact on sales of cigarettes due to lower consumption levels and a shift in sales from the premium to the non-premium or discount cigarette segments or to sales outside of legitimate channels. In addition, state and local governments may require us to prepay for excise tax stamps placed on packages of cigarettes and other tobacco products that we sell. If these excise taxes are substantially increased, it could have a negative impact on our liquidity. Accordingly, we may be required to obtain additional debt financing, which we may not be able to obtain on satisfactory terms or at all. Our inability to prepay the excise taxes may prevent or delay our purchase of cigarettes and other tobacco products, which could materially adversely affect our ability to supply our customers.

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We face competition in our distribution markets and if we are unable to compete effectively in any distribution market, we may lose market share and suffer a decline in sales.

Our distribution centers operate in highly competitive markets. We face competition from local, regional and national tobacco and consumable products distributors on the basis of service, price and variety of products offered, schedules and reliability of deliveries, and the range and quality of services provided.

Some of our competitors, including a subsidiary of Berkshire Hathaway Inc., McLane Company, Inc., the largest distributor of tobacco products in the U.S., have substantial financial resources and long standing customer relationships. In addition, heightened competition among our existing competitors or by new entrants into the distribution market could create additional competitive pressures that may reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, we may lose market share and our results of operations could suffer.

If the costs to us of the products we distribute increase, or excise stamp taxes increase, and we cannot pass these increases on to our customers, our results of operations could be adversely affected.

If we cannot pass along to our customers increases in our cost of goods sold which we experience when manufacturers or taxing authorities increase prices or taxes invoiced or reduce or eliminate discounts, rebates, allowances and other incentive programs, our profit margins could erode. Our industry is characterized by a high volume of sales with relatively low profit margins. If we cannot pass along cost increases to our customers due to resistance to higher prices, our relatively narrow profit margins and earnings could be negatively impacted.

We are dependent on the convenience store industry for our revenues, and our results of operations would suffer if there is an overall decline in the convenience store industry.

The majority of our sales are made under purchase orders and short-term contracts with convenience stores which inherently involve significant risks. These risks include the uncertainty of general economic conditions in the convenience store industry, credit exposure from our customers and termination of customer relationships without notice, consolidation of our customer base, and consumer movement toward purchasing from club stores and mass merchandisers. Any of these factors could negatively affect the convenience store industry which would negatively affect our results of operations.

Some of our distribution centers are dependent on a few relatively large customers, and our failure to maintain our relationships with these customers could substantially harm our business and prospects.

Some of our distribution centers are dependent on relationships with a single customer or a few customers, and we expect our reliance on these relationships to continue for the foreseeable future. Any termination or non-renewal of customer relationships could severely and adversely affect the revenues generated by certain of our distribution centers. For example, in connection with Fleming s bankruptcy, our customer relationships with Target and K-Mart were terminated resulting in a significant loss of revenue and the closure of four distribution centers located in the Eastern United States. Any future termination, non-renewal or reduction in services that we provide to these select customers would cause our revenues to decline and our operating results would be harmed.

If we are not able to attract new customers, our results of operations could suffer.

Increasing the growth and profitability of our distribution business is particularly dependent upon our ability to retain existing customers and capture additional distribution customers. The ability to capture additional customers through our existing network of distribution centers is especially important because it enables us to leverage our distribution centers and other fixed assets. Our ability to retain existing customers and attract new customers is dependent upon our ability to provide industry-leading customer service, offer competitive products

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at low prices, maintain high levels of productivity and efficiency in distributing products to our customers while integrating new customers into our distribution system, and offer marketing, merchandising and ancillary services that provide value to our customers. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new customers and our existing customer base could decrease, either or both of which could have an adverse impact on our results of operations.

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 2005 Credit Facility. While we believe our sources of liquidity are adequate, we cannot assure you that these sources will 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 for the foreseeable future. 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 obtaining financing on terms satisfactory to us, or at all.

We depend on relatively few suppliers for a large portion of our products, and any interruptions in the supply of the products that we distribute could adversely affect our results of operations.

We obtain the products we distribute from third party suppliers. At December 31, 2004, we had approximately 3,500 vendors, and during 2004 we purchased approximately 66% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R. J. Reynolds, representing approximately 25% and 16% of our purchases, respectively. We do not have any long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the products we distribute in the quantities we request or on favorable terms. Because we do not control the actual production of the products we distribute, we are also subject to delays caused by interruption in production based on conditions outside our control. These conditions include job actions or strikes by employees of suppliers, inclement weather, transportation interruptions, and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of the products we distribute as a result of any of the foregoing factors or otherwise, could cause us to fail to meet our obligations to our customers.

We may be subject to product liability claims which could materially adversely affect our business.

Core-Mark, as with other distributors of food and consumer products, faces the risk of exposure to product liability claims in the event that the use of products sold by us causes injury or illness. With respect to product liability claims, we believe that we have sufficient liability insurance coverage and indemnities from manufacturers. However, product liability insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying the products we distribute, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If we do not have adequate insurance or if contractual indemnification is not available or if the counterparty can not fulfill its indemnification obligation, product liability relating to defective products could materially adversely impact our results of operations.

We depend on our senior management and key personnel.

We substantially depend on the continued services and performance of our senior management and other key personnel, particularly J. Michael Walsh, our President and Chief Executive Officer. We do not maintain key person life insurance policies on these individuals or any of our other executive officers, and we do not have employment agreements with any of our executive officers. The loss of the services of any of our executive officers or key employees could harm our business.

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We operate in a competitive labor market and a portion of our employees are covered by collective bargaining agreements.

Our continued success will partly depend on our ability to attract and retain qualified personnel. We compete with other businesses in each of our markets with respect to attracting and retaining qualified employees. A shortage of qualified employees could require us to enhance our wage and benefits packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees. In addition, at June 30, 2005 approximately 6%, or approximately 230, of our employees are covered by collective bargaining agreements with labor organizations, which expire at various times over the course of the next three years.

We cannot assure you that we will be able to renew our respective collective bargaining agreements on favorable terms, that employees at other facilities will not unionize, that our labor costs will not increase, that we will be able to recover any increases in labor costs through increased prices charged to customers or that we will not suffer business interruptions as a result of strikes or other work stoppages. If we fail to attract and retain qualified employees, to control our labor costs, or to recover any increased labor costs through increased prices charged to our customers or offsets by productivity gains, our results of operations could be materially adversely affected.

Currency exchange rate fluctuations could have an adverse effect on our revenues and financial results.

We generate a significant portion of our revenues in Canadian dollars, approximately 22% in 2004. We also incur a significant portion of our expenses, in Canadian dollars. To the extent that we are unable to match revenues received in Canadian dollars with costs paid in the same currency, exchange rate fluctuations in Canadian dollars could have an adverse effect on our revenues and financial results. During times of a strengthening U.S. dollar, our reported sales and earnings from our Canadian operations will be reduced because the Canadian currency will be translated into fewer U.S. dollars.

We are subject to governmental regulation and if we are unable to comply with regulations that affect our business or if there are substantial changes in these regulations, our business could be adversely affected.

As a distributor of food products, we are subject to the regulation by the U.S. Food and Drug Administration. In addition, our employees operate tractor trailers, trucks, forklifts and various other powered material handling equipment. Our operations are also subject to regulation by the Occupational Safety and Health Administration, the Department of Transportation, Drug Enforcement Agency and other federal, state and local agencies. Each of these regulatory authorities have broad administrative powers with respect to our operations. If we fail to adequately comply with government regulations or regulations become more stringent, we could experience increased inspections, regulatory authorities could take remedial action including imposing fines or shutting down our operations or we could be subject to increased compliance costs. If any of these events were to occur, our results of operations would be adversely affected.

Earthquake and natural disaster damage could have a material adverse affect on our business.

We are headquartered in, and conduct a significant portion of our operations in, California. Our operations in California are susceptible to damage from earthquakes. In addition, two of our data centers are located in California and Oregon and may be susceptible to damage in the event of an earthquake. We believe that we maintain adequate insurance to indemnify us for losses. However, significant earthquake damage could result in losses in excess of our insurance coverage which would materially adversely affect our results of operations. We also have operations in areas that have been affected by natural disasters such as hurricanes, tornados, flooding, ice and snow storms. While we maintain insurance to indemnify us for losses due to such occurrences, our insurance may not be sufficient or payments under our policies may not be received timely enough to prevent adverse impacts on our business. Our customers could also be affected by like events, adversely impacting our sales.

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Our information technology systems may be subject to failure or disruptions, which could seriously harm our business.

Our business is highly dependent on our Distribution Center Management System, or DCMS. The convenience store industry does not have a standard information technology, or IT platform. Therefore, actively integrating our customers into our IT platform is a priority, and our DCMS platform provides our distribution centers with the flexibility to adapt to our customers IT requirements. We also rely on our DCMS, and our internal information technology staff, to maintain the information required to operate our distribution centers and provide our customers with fast, efficient and reliable deliveries. While we have taken steps to increase redundancy in our IT systems, if our DCMS fails or is subject to disruptions, we may suffer disruptions in service to our customers and our results of operations could suffer.

Risks Relating to Our Recent Reorganization

We are guarantors of certain payments pursuant to the Plan of Reorganization.

Pursuant to the Plan, two special purpose trusts, the Post Confirmation Trust, or PCT, and the Reclamation Creditor s Trust, or RCT, were established. We refer to the PCT and the RCT collectively as the Trusts. The Trusts are charged with administering certain responsibilities under the Plan, including liquidating certain assets, the pursuit and collection of litigation claims and causes of action and the reconciliation and payment of specific types of claims including trade lien vendor claims, or TLV claims, each as allocated between the PCT and the RCT pursuant to the Plan. Under the terms of the Plan, we guarantee the payment of PCT administrative claims in excess of $56 million. In addition, if the assets of the RCT are inadequate to satisfy all of the allowed TLV claims, we must pay such claims in full plus any accrued interest. We also guarantee all eligible but unpaid non-TLV claims up to a maximum of $15 million. The Plan limits the combined guarantee amounts of the RCT TLV and non-TLV claims to not greater than $137 million. To the extent that are we are required to fund amounts under the guarantees, our results of operations and our liquidity and capital resources could be materially adversely affected. In addition, we may not have sufficient cash reserves to pay the amounts required under the guarantees when they become due.

The Fleming bankruptcy has negatively affected some of our relationships with customers, suppliers and employees and our results of operations and may continue to negatively affect such relationships and our results of operations.

We estimate that the former Fleming convenience distribution centers, which included Core-Mark International and seven Fleming distribution centers, lost approximately $1.2 billion in annualized sales after Fleming s Chapter 11 filing, with approximately $360 million of such lost sales attributable to four closed distribution centers located in the Eastern United States and the balance attributable to the distribution centers now comprising Core-Mark. We cannot predict accurately or quantify the additional effects, if any, that the bankruptcy may continue to have on our operations.

Our operating flexibility is limited in significant respects by the restrictive covenants in our 2005 Credit Facility.

Our 2005 Credit Facility imposes restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability, among other things, to: incur additional indebtedness, pay dividends and make distributions, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets.

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In addition, under our 2005 Credit Facility, we are required to meet certain financial ratios and tests. Our ability to comply with these covenants may be affected by factors beyond our control. If we breach any of these covenants or restrictions, it could result in an event of default under our 2005 Credit Facility, which would permit our lenders to declare all amounts incurred thereunder to be immediately due and payable, and our lenders under our 2005 Credit Facility could terminate their commitments to make further extensions of credit under our 2005 Credit Facility.

Our reorganization valuation is based in part on estimates of future performance. If our estimates are not accurate, the market price of our common stock could be adversely affected.

Our financial statements reflect the adoption of American Institute of Certified Public Accountants Statement of Position 90-7, or SOP 90-7. In accordance with fresh-start accounting under SOP 90-7, all assets and liabilities were recorded at their respective fair values on the Effective Date of the Plan, August 23, 2004. These fair values represent our best estimates and are based on independent valuations where applicable. To calculate the fair value of our assets, or reorganization value as defined in SOP 90-7, on the effective date of the Plan, financial projections were prepared and the fair value of assets as well as our enterprise value was determined using various valuation methods based on these financial projections. The estimated enterprise value used for portions of this valuation analysis is highly dependent upon our achieving the future financial results set forth in the projections as well as the realization of certain other assumptions, which are not guaranteed. SOP 90-7 requires that the reorganization value be allocated to the assets in conformity with FASB Statement No. 141, *Business Combinations* (SFAS No. 141). Although we allocated our reorganization value among our assets in accordance with SFAS No. 141, our allocations were based on assumptions. Accordingly, these allocations are estimates only. Subsequent changes, if any, will be reflected in our operating results. The valuation, insofar as it relates to the enterprise value, necessarily assumes that we will achieve the estimates of future operating results in all material respects. If these results are not achieved, the resulting values could be materially different from our estimates, and the trading price of our common stock could be adversely affected.

Our tax treatment of the reorganization may not be accepted by the IRS, which could result in increased tax liabilities.

Deferred tax assets and liabilities as reflected at August 23, 2004 in connection with the application of fresh-start accounting are based on management s best estimate of the tax filing position that is probable of being accepted by the applicable taxing authorities. The Company intends to take an alternative position on future tax returns. Based on this alternative tax filing position, the Company has taken deductions on its current period tax return that could be challenged by the taxing authorities. Although management believes that the Company s tax filing position will more likely than not be sustained in the event of an examination by applicable taxing authorities and we would contest any proposed adjustment vigorously, the outcome of such matters can not be predicted with certainty. As such, the Company has accrued approximately $1.8 million in other tax liabilities on the accompanying December 31, 2004 consolidated balance sheet for this contingency.

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Risks Relating to An Investment in Our Common Stock

Our common stock is not currently listed on a national exchange and you may not be able to resell your common stock, or may have to sell it at a discount.

Our common stock is not currently listed on a national exchange or quoted on the NASDAQ National Market. Although we plan to apply for our common stock to be quoted on the NASDAQ National Market, a liquid market for our common stock may not develop or be maintained. If a market does not develop or is not sustained, if may be difficult for you to sell your shares of common stock at a price that is attractive to you or at all. Most of our stockholders are former creditors of Fleming that received shares of our common stock in lieu of cash to satisfy their claims against the Fleming estate. Accordingly, these stockholders may wish to sell their shares of common stock upon receipt or shortly thereafter and may not be long term investors in the company.

Approximately 4.5 million of our outstanding shares held by Fleming have yet to be distributed pursuant to the Plan and additional shares will be issued pursuant to the 2005 Long-Term Incentive Plan.

Pursuant to the Plan, we issued an aggregate of 9.8 million shares of our common stock to Fleming. As of September 21, 2005, 5,367,044 shares of our common stock and warrants to purchase 1,238,270 shares of our common stock have been distributed by Fleming pursuant to the Plan. An aggregate of 4,432,956 shares of our common stock are subject to future distribution pursuant to the Plan by Fleming. Future distributions of the remaining 4,432,956 shares of common stock pursuant to the Plan by Fleming are at the discretion of the Post Confirmation Trust (PCT) and the bankruptcy court and are not in our control. In addition, as of September 21, 2005, restricted stock units, restricted stock and options issued pursuant to our stock incentive plans relating to 1,288,839 shares of our common stock were outstanding.

In February 2005, our board of directors adopted our 2005 Long Term Incentive Plan, or the 2005 Plan, and authorized the grant of restricted stock units under the 2005 Plan to be allocated by our Chief Executive Officer among our employees in proportion to grants made under the 2004 Plan. The number of shares of our common stock issuable under the 2005 Plan is limited to a number of shares having a market value of $5.5 million, based on the average closing price of our common stock over the eleventh through twentieth trading days following the date that our common stock becomes listed for quotation on the NASDAQ National Market. In February 2005, the Compensation Committee and the Board of Directors approved the grant of restricted stock units having a value of approximately $5.0 million with a vesting commencement date of February 1, 2005. It is anticipated that such grants will be made in the fourth quarter of 2005. The Board of Directors determined that the balance of approximately $0.5 million available for grants under the 2005 Plan should be reserved for possible future issuance.

The distribution of a significant amount of shares of common stock onto the market or the sale of a substantial number of shares at any given time could result in a decline in the price of our common stock, cause dilution, or increase volatility.

We may not be able to obtain the required approval of holders of shares of our common stock for certain actions as our largest shareholder, Fleming, may not be permitted by the bankruptcy court or may choose not to vote any undistributed shares.

As of September 21, 2005, only 5,367,044 shares, or approximately 55%, of our outstanding common stock has been distributed by Fleming under the Plan. Fleming holds the balance of the 9.8 million shares of our common stock to be distributed pursuant to the Plan, and without bankruptcy court approval, Fleming may not be permitted to attend a meeting of our stockholders for purposes of establishing a quorum for a stockholders meeting or to vote its shares of our common stock. Therefore, we may not be able to effect certain corporate actions that require the approval of our stockholders. The failure to take such stockholder actions could have a material adverse affect on us and our operations.

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The market price for our common stock may be volatile, which could cause the value of your investment to decline.

Any of the following could affect the value of our common stock:

- general market and economic conditions;
- changes in earnings estimates and recommendations by financial analysts; and
- our failure to meet financial analysts performance expectations.

In addition, many of the risks described elsewhere in this Risk Factors section could materially and adversely affect the value of our common stock. The stock markets have experienced price and volume volatility that has affected many companies stock prices. Stock prices for many companies have experienced wide fluctuations that have often been unrelated to operating performance of those companies. Fluctuations such as these may affect the price of our common stock.

We will incur significant costs as a result of being a public company.

As a public company, we will incur significant accounting, legal, governance, compliance and other expenses that private companies do not incur. In addition, the Sarbanes-Oxley Act of 2002 and the rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Stock Market, have required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal, audit and financial compliance costs and to make some activities more time-consuming and costly. For example, as a result of becoming a public company, we are required to create additional board committees and adopt policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements. We also expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

We have identified eleven material weaknesses in our internal controls over financial reporting. If we fail to remedy these or any other material weaknesses in our internal controls over financial reporting that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

A material weakness is defined in standards established by the Public Company Accounting Oversight Board as a deficiency in internal control over financial reporting that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As discussed in Item 9.A. Controls and Procedures in our Annual Report for 2005 on Form 10-K, we have identified eleven material weaknesses in our internal controls over financial reporting consisting of failures to:

(i) maintain an effective control environment and a failure by management to extend the necessary rigor and commitment to disclosure controls and procedures,

(ii) maintain effective controls over the financial reporting process due to an insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the company s financial reporting requirements and the complexity of the company s operations and transactions,

(iii) maintain effective controls to ensure the adequacy of debt discount and debt issuance costs,

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(iv) maintain effective controls to ensure the appropriate classification and presentation of deferred stock-based compensation within stockholders equity,

(v) maintain effective controls to ensure the accurate preparation and review of the cash flow statement,

(vi) maintain effective controls to ensure the appropriate classification and presentation of accounts and disclosures in the consolidated financial statements,

(vii) maintain effective controls to ensure there is adequate analysis, documentation, reconciliation, and review of accounting records and supporting data,

(viii) maintain effective controls to ensure the appropriate valuation of insurance related contracts,

(ix) maintain effective controls over the recording of journal entries to account for management fee contract amendments,

(x) maintain effective controls over the accuracy of amounts subject to estimation with respect to other receivables, inventory, deposits and prepayments, other non-current assets, accrued liabilities, cost of sales and operating expenses,

(xi) maintain effective controls over the accurate preparation, recording, and review of foreign exchange translation adjustments.

In order to address these material weaknesses, on March 23, 2006 our audit committee directed management to formulate an enhancement, with the assistance of an outside consultant, to our remediation plan initially approved by the audit committee following the identification of material weaknesses in connection with finalizing our third quarter 2005 results. However, we have yet to develop such an enhanced remediation plan nor implement it. If we fail to remediate these material weaknesses or any other material weaknesses we may identify, such failure could result in material misstatements in our financial statements.

We may be unable to meet our obligation to conform to the rules adopted by the Securities and Exchange Commission under Section 404 of the Sarbanes-Oxley Act of 2002.

We are engaged in the process of assessing the effectiveness of our internal control over financial reporting in connection with the rules adopted by the Securities and Exchange Commission under Section 404 of the Sarbanes-Oxley Act of 2002. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 is required in connection with the filing of our annual Report on Form 10-K of the fiscal year ending December 31, 2006. While our management is expending significant resources in an effort to complete this important project, there can be no assurance that we will be able to achieve our objective on a timely basis. There also can be no assurance that our auditors will be able to issue an unqualified opinion on management s assessment of the effectiveness of our internal control over financial reporting.

Any failure to complete our assessment of our internal control over financial reporting, to remediate the eleven material weaknesses we have identified or any other material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure also could adversely affect the results of the periodic management evaluations of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

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BUSINESS

Company Overview

Core-Mark is one of the largest 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.

Although Core-Mark Holding Company, Inc. was incorporated in Delaware in August 2004, the business conducted by Core-Mark dates back to 1888 when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco. In June 2002, Fleming acquired Core-Mark International. At the time of the acquisition, Core-Mark International distributed products to convenience stores and other retailers in the Western United States and Canada from a network of 20 distribution centers. In addition to Fleming s other national retail and wholesale grocery operations, Fleming owned and operated seven convenience store distribution centers in the Eastern and Midwestern United States. After the acquisition of Core-Mark International by Fleming, Core-Mark International s management continued to operate Core-Mark International s distribution business and began integrating Fleming s convenience store distribution centers into Core-Mark International s operations. In connection with Fleming s bankruptcy, as described below, four of the seven Fleming convenience distribution centers were closed in 2003. The three continuing Fleming convenience distribution centers were fully integrated into Core-Mark International s operations by April 2004.

On April 1, 2003, Fleming filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The debtor-in-possession entities comprising Core-Mark International and its subsidiaries were included in the Chapter 11 proceedings as a result of Core-Mark s guarantee of Fleming s debt.

On July 27, 2004, the United States Bankruptcy Court for the District of Delaware confirmed Fleming s Plan of Reorganization (the Plan) which became effective on August 23, 2004. The Plan provided for the reorganization of the Debtors around CMI. Pursuant to the Plan, Core-Mark Holding, Core-Mark Holdings I, Inc., Core-Mark Holdings II, Inc. and Core-Mark Holdings III, Inc. were formed. Core-Mark Holdings I, Inc. and Core-Mark Holdings II, Inc. each own 50% of Core-Mark Holdings III, Inc. On August 23, 2004 the Plan was declared effective by the bankruptcy court and Core-Mark emerged from bankruptcy. Upon emergence, Fleming transferred its interest in CMI to Core-Mark Holdings III, Inc., making CMI a wholly owned subsidiary of Core-Mark Holdings III, Inc., and transferred all of the remaining assets of one of its convenience store distribution centers to a subsidiary of CMI.

A summary organizational chart depicting our current corporate structure after giving effect to the completion of the reorganization is set forth below.

We operate a network of 24 distribution centers in the United States and Canada, including two distribution centers that we operate as a third party logistics provider. One of these third party distribution centers is located in Phoenix, Arizona, which we refer to as the Arizona Distribution Center, or ADC, and is dedicated solely to supporting the logistics and management requirements of one of our major customers, Circle K. In April 2005, we began operating a second third party logistics distribution facility located in San Antonio, Texas, which we refer to as the Retail Distribution Center, or RDC, and is dedicated solely to supporting Valero.

We distribute a diverse line of national and private label convenience store products to over 20,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products. For the twelve months ended December 31, 2004, approximately 72% of our net sales came from the cigarette category and approximately 28% of our net sales came from the remaining non-cigarette categories. However, during the same twelve month period, approximately 36% of our gross profit was generated from cigarette categories while approximately 64% of our gross profit was generated from the non-cigarette categories.

We also provide sales and marketing, distribution and logistics services to our customer locations which include a variety of store formats, including traditional convenience retail stores, mass merchandise stores, grocery stores, drug stores, liquor stores, gift shops, specialty stores and other stores that carry convenience products. We distribute approximately 38,000 SKUs of packaged consumable goods to our customers, and also provide an array of information and data services that enable our customers to better manage retail product sales and marketing functions.

Our management team is led by J. Michael Walsh, our President and Chief Executive Officer, who has been with Core-Mark since April 1991. He leads a team of 14 senior managers who have largely overseen the operations of Core-Mark since 1991. Our management has expertise in all of the critical functional areas including logistics, sales and marketing, purchasing, information technology, finance and retail store support.

Industry Overview

Wholesale distributors provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from wholesale distributors broad retail coverage, inventory management and efficient processing of small orders. Wholesale distributors provide convenience retailers access to a broad product line, the ability to place small quantity orders, inventory management and access to trade credit. In addition, large full-service wholesale distributors, such as Core-Mark, offer retailers the ability to participate in manufacturer and Company sponsored marketing programs, merchandising and product category management services, as well as the use of information systems that are focused on minimizing retailers investment in inventory, while seeking to maximize their sales.

The wholesale distribution industry is highly fragmented and historically has consisted of a large number of small, privately-owned businesses and a small number of large, full-service wholesale distributors serving multiple geographic regions. Relative to smaller competitors, large distributors such as Core-Mark benefit from several competitive advantages including: increased purchasing power, the ability to service chain accounts, economies of scale in sales and operations, the ability to spread fixed corporate costs over a larger revenue base and the resources to invest in information technology and other productivity enhancing technology.

Convenience in-store merchandise includes candy, snacks, fast food, dairy products, beer, non-alcoholic packaged beverages, frozen items, general merchandise, health and beauty care products, other grocery products, cigarettes, cigars and other tobacco products. Aggregate U.S. wholesale sales of convenience store merchandise include wholesale product sales to traditional convenience stores and sales to a variety of alternative convenience retailers, which we refer to as alternative outlets. Alternative outlets include drug stores, mass merchandisers, grocery stores, liquor stores, cigarette and tobacco shops, hotel gift shops, correctional facilities, military exchanges, college bookstores, casinos, video rental stores, hardware stores, airport concessions and movie theatres, and others.

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According to the 2005 NACS State of the Industry Report, during 2004, aggregate U.S. traditional convenience retail in-store sales were approximately $132 billion. We estimate that of the products that these stores sell, 45% to 55% of the products are supplied by wholesale distributors such as Core-Mark. The convenience store retail industry gross profit for in-store sales was approximately $39 billion in 2004 which represents an increase of 9.5% over 2003. Over the ten years from 1994 through 2004, convenience in-store sales increased by a compounded annual growth rate of 6.9%. Two of the factors influencing this growth were a 9.9% compounded annual growth rate in cigarette sales and a 3.5% compounded annual growth rate in the number of stores.

The traditional convenience store sector is divided into two principal categories: (1) corporates, defined as corporate-owned and operated chains with a national or multi-region footprint, such as Circle K, Petro-Canada and Valero; and (2) independents and smaller chains, including franchisees, dealers and individually operated locations. Based on the 2005 NACS State of the Industry Report, we estimate independents and smaller chains, those comprising 50 stores or less, represent approximately 76% of traditional convenience store sales in the United States while corporates represented 24%. Conversely, Canadian convenience store sales are dominated by corporates.

We estimate that, as of December 31, 2004, there were over 400 wholesale distributors to traditional convenience store retailers in the United States, approximately 30 of which are broad-line distributors similar to Core-Mark. We believe that Core-Mark and McLane Company, Inc., a subsidiary of Berkshire Hathaway, Inc., are the two largest convenience wholesale companies, measured by annual sales, in North America. There are also companies that provide products to specific regions of the country, such as The H.T. Hackney Company in the Southeast, Eby-Brown Company in the Midwest, Mid-Atlantic and Southeast and GSC Enterprises, Inc. in Texas and surrounding states, and several hundred local distributors serving small regional chains and independent convenience stores. In Canada, there are fewer wholesale suppliers as compared to the United States.

Strategy and Competitive Strengths

Our objective is to be the premier broad line supplier to the retail convenience industry in North America. Our ability to successfully compete in our marketplace is founded upon:

- The integration of marketing, logistics and information systems while maintaining a culture with a strong customer service focus.
- The continuity, experience and proven ability of our management team.
- The dedication, commitment and hard work of the 3,650 employees who comprise the Core-Mark family.
- Successfully balancing a centralized strategy with a decentralized execution.
- Leveraging economies of scale in operational efficiencies, purchasing power and lower overhead expenses.

Our three primary strategies to sustain our growth and gain customers are:

Grow our Customers Sales Profitably. We believe that our success has been and will continue to be attributed to helping our customers grow their business in a profitable manner. We accomplish this mission primarily through investing in the development and execution of strategic marketing programs which seek to align current consumer demands with the latest in new products, promotion and marketing concepts. Our marketing professionals work to create and/or discover goods and services which will strengthen our customers offerings to the public. By providing product evaluations, recommendations, and other similar services, we enhance our customer s opportunity for increased profitability.

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Make it Easy for our Customers to do Business with Us. Through a carefully crafted framework of customer service personnel, field sales personnel, merchandising representatives, account managers, account directors and executive representatives, we assure that our customers requirements large and small are addressed in a timely and professional manner. We complement our personnel with customer service tools such as 1-800 help and support services. Customers can use the internet to access their purchasing history, search an easy-to-use product catalog, manage store pricing online, streamline item purchasing authorization and search a customized account product database. For the more technologically sophisticated customers, we provide computer assisted ordering and other ordering tools designed to make the ordering process as convenient to our customers as possible. We operate a centralized proprietary information system that provides our customers with a reliable and consistent means of accessing and using our services across all regions. We also offer a broad range of customized services including placing merchandise in the store, ordering, rotating and stocking the product on the store shelves, accommodating special delivery schedules and providing comprehensive product category management consultation and coordination. Our business has been built on our commitment to flexibility and customization to address the needs of each of our customers.

Execute on the Fundamentals. We have created and invested in systems, procedures, standards and a culture that ensures our customers consistently receive industry leading order fulfillment rates, on-time deliveries, pricing accuracy and integrity. Our proprietary logistics system coupled with our experience in the integration of hardware and software enables us to deliver high volumes at a very high level of efficiency and accuracy. We believe that the decentralized management of our distribution centers, along with our high standards of service should enable us to consistently outperform our competition in customer satisfaction.

In order to execute on these strategies, we leverage the following competitive strengths:

Diversified Product Offerings. We supply approximately 38,000 SKUs to our customers including cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise and health and beauty care products. We maintain a diverse and expansive product offering, which allows us to supply the products required by our diverse customer base. By carrying the appropriate product mix and quantities, we have achieved an order fulfillment rate of in excess of 98.5%.

Strong Merchandising Orientation. We offer merchandising initiatives and full-service programs that allow our customers to receive key categories or products through high quality management with weekly in-store merchandising services to drive their sales. We have product merchandisers that are assigned to each participating customer to consult the store on a weekly basis. These merchandisers order, rotate, price, write credits and assist our customers in driving their store sales and profits. In contrast, many of our competitors place the full burden of any merchandising services directly on the customer. Our merchandising expertise results in higher order fulfillment, quality invoicing, product supply integrity and competitive pricing for our customers and increased sales.

Balanced Distribution Network. We operate a centralized information system that provides our customers with a reliable and consistent means of accessing and using our services across our decentralized distribution center network. Our distribution centers operate on a common information system platform and user procedures that allow a multi-regional customer to conduct business in the same manner across all regions. Our decentralized distribution center network provides the flexibility to meet our customers unique product requirements and a targeted on-time delivery rate of 95%. In addition, each distribution center carries the products required by the convenience stores in the particular region in which the distribution center is located. We believe that a key to our long term success is to understand our customers business and to meet our customers unique requirements. Our decentralized distribution center network enables our distribution center management teams and merchandisers to maintain close relationships with our customers resulting in a greater understanding of their businesses and the ability to meet our customer s unique requirements.

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Systems Suite. We maintain a high level of operating efficiency by investing in information systems technology, including computerization of buying and financial control functions. The convenience store industry does not have a standard IT platform, therefore actively integrating our customers into our IT platform is a priority. Our Distribution Center Management System, or DCMS, platform provides our distribution centers with the flexibility to adapt to our customers IT requirements. Once a customer is integrated into our IT platform, the customer can utilize the decision support services that we provide through eBusiness Exchange, our internet based computer assisted ordering and decision support system. Our eBusiness Exchange enables our customers to access their purchasing history, search an easy to use product catalog, manage store retail pricing online, streamline item authorization and search a customized account product database. These functions enable our customers to leverage our information technology to make real time business decisions intelligently. We believe that our eBusiness Exchange helps to solidify our relationships with our customers and drives sales with our customers.

Customers and Marketing

We service approximately 20,000 customer locations in 37 U.S. states and five Canadian provinces. Our top fifteen customers include Alimentation Couche-Tard (the parent company of Circle K stores in the U.S. and Mac s stores in Canada), Arco am/pm franchisees, ConocoPhillips, Esso Convenience, Kroger (convenience), Maverik Country Stores, Petro-Canada, RaceTrac and Valero. For the year ended December 31, 2004, traditional convenience store customers accounted for approximately 68% of our sales. We service traditional convenience stores as well as alternative outlets selling convenience store products. Our traditional convenience store customers include many of the major national and super-regional convenience store operators as well as thousands of multi- and single-store customers. Our alternative outlet customers comprise a variety of store formats, including drug stores, mass merchandisers, grocery stores, liquor stores, cigarette and tobacco shops, hotel gift shops, correctional facilities, military exchanges, college bookstores, casinos, video rental stores, hardware stores and airport concessions. Some of our other alternative outlet customers include Hudson News, London Drugs, MGM Grand Hotel and Shoppers Drug Mart. Our top ten customers accounted for approximately 28% of our sales in 2004, while our largest customer accounted for less than 7% of our total sales in 2004.

We believe our strength is as a sales and marketing company focused on maximizing our customers sales and profits. As of June 30, 2005, approximately one third of our workforce was dedicated to sales and marketing and to directly serving our customers merchandising needs. Our sales personnel focus on growing customer profitability, selling marketing programs and obtaining new business. We also have national sales representatives with cross-divisional territorial responsibility that target large chain customers.

Our sales representatives accept and process orders, review account balances and assist with current and new product information. They are responsible for ensuring that customers have an adequate supply of product in their stores and that our customers orders are promptly and efficiently processed. Our sales representatives report to our distribution center management teams.

Our merchandisers, working in coordination with our sales representatives, assist in maximizing the amount of product on our customers shelves given the limited space available. They oversee marketing programs and identify incremental sales opportunities to be implemented. They are also trained to organize our customer s stores to maximize our customer s sales through SmartSet, our category management program. Our product specialists and category managers provide the merchandisers, along with the sales representatives, information on merchandising strategies relating to our products, promotions and programs.

We have designed and developed several merchandising programs to meet our customers needs and increase our customers sales and profits, including the following:

Arcadia Bay®. A premium branding and sales program providing packaging, equipment and Sara Lee® Arabaca coffee products.

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Boondoggles®. A proprietary fast food program serving such items as deli sandwiches, wraps, fried chicken, pizza and bakery items.

Candy Endcap. A racked sales program focused on best selling candy, gum and mints which is strategically located for impulse sales.

Cooler Door. A retailer beverage program that fills cooler space with top brand-name products and new items.

Promo Power. A monthly offering of multiple promotional items including new items and special prices.

SmartSet. A program which offers custom designed product displays including such categories as frozen food, bag candy and deli products.

SmartStock®. A sales program which designs builds and actively manages product displays by categories.

Spacevues. A software program which designs product placement to maximize use of space.

Information Technology Service

Our information technology group provides various advisory services such as information technology strategic planning, development, store automation, and evaluation, selection, integration and training support. In 2002, we launched eBusiness Exchange. eBusiness Exchange is an internet based application that provides a number of generic applications and certain customized applications that can be tailored for specific customers. eBusiness Exchange permits our customers to track the products that they have purchased from us over the prior two years. Providing our customers access to their purchasing history permits them to leverage their purchasing history in order to make real time purchasing decisions intelligently.

Sales, Products and Suppliers

The following table summarizes our cigarette and other product sales over the past five years as a percent of our net sales:

	2004[(1)(4)]	2003[(1)]	2002[(1)]	2001[(1)]	2000[(1)]
Cigarettes					
Net sales (in millions)	$ 3,048.2	$ 3,049.8	$ 3,368.4	$ 2,473.1	$ 2,174.7
Gross Profit (in millions)[(2)(3)]	$ 87.4	$ 106.7	$ 129.3	$ 82.6	$ 71.3
% of Total Sales	72%	71%	72%	72%	72%
% of Gross Profit	36%	40%	42%	39%	37%
All other products					
Net sales (in millions)	$ 1,174.2	$ 1,274.5	$ 1,293.7	$ 951.9	$ 860.7
% of Total Sales	28%	29%	28%	28%	28%
% of Gross Profit	64%	60%	58%	61%	63%
Total Net Sales (in millions)	$ 4,222.4	$ 4,324.3	$ 4,662.1	$ 3,425.0	$ 3,035.4
Gross Profit (in millions)	$ 240.7	$ 269.4	$ 308.3	$ 213.8	$ 195.1

(1)

The years 2004, 2003 and 2002 include the results of the Atlanta, Georgia, Leitchfield, Kentucky and Minneapolis, Minnesota convenience distribution centers previously operated by Fleming. The data for 2000 and 2001, during which time we did not operate these distribution centers, is not available. The information provided for the periods prior to August 23, 2004 relates to the Predecessor Company, while the information after August 23, 2004 is that of the Successor Company. We have combined the Predecessor Company and Successor Company periods in 2004 for convenience of discussion (See Selected Financial Information contained in this registration statement for further discussion). *(See Note 4 Fresh-Start Accounting to the consolidated financial statements).*

(2) Includes (i) cigarette inventory holding profits related to manufacturer price increases and increases in excise taxes and (ii) LIFO effects.

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(3) Includes private label merchandising proceeds in 2000-2003 (See Management s Discussion and Analysis of Financial Condition and Results of Operations within this registration statement for further discussion).

(4) In this Form 10/A the Company corrected an approximately $0.4 million inventory undervaluation error (and corresponding overstatement of cost of goods sold) in the financial statements for the period from August 23, 2004 through December 31, 2004. Also a correction of an estimation error resulted in a $0.1 million adjustment to cost of goods sold. *(See Note 2 Restatements of Financial Statements to the consolidated financial statements).*

Cigarette Products. We purchase cigarette products from all the major U.S. and Canadian manufacturers. With cigarettes accounting for over 72% of our net sales revenue in 2004, we control major purchases of cigarettes centrally in order to minimize routine inventory levels and to maximize cigarette purchasing opportunities. The daily replenishment of inventory and brand selection is controlled by our distribution centers.

Although U.S. cigarette consumption has declined since 1980, we have benefited from a shift in sales to the convenience store segment. According to the 2005 NACS State of the Industry Report, the convenience store portion of aggregate U.S. cigarette sales increased from approximately 38% in 1993 to 62% in 2004. Total cigarette consumption also declined in Canada as illustrated by consumption statistics available for the years 1995 through 2004.

The following table illustrates U.S. cigarette consumption since 1950 and Canadian cigarette consumption since 1995.

Year	Total U.S. Consumption(1) (in billions of cigarettes)	Total Canadian Consumption(2) (in billions of cigarettes)
1950	375.8	
1960	484.4	
1970	536.4	
1980	631.5	
1990	525.0	
1995	487.0	45.4
2000	430.0	42.8
2001	425.0	41.2
2002	415.0	36.1
2003	400.0	33.7
2004	390.0	32.3

(1) Source: USDA Economic Research Service: Tobacco Situation and Outlook Yearbook (December 2004).

(2) Source: Canadian Tobacco Manufacturers Council Report 1995 to 2004 (December 2004).

We have no long-term cigarette purchase agreements and buy substantially all of our products on an as needed basis. Cigarette manufacturers historically have offered structured incentive programs to wholesalers based on maintaining market share and executing promotional programs. These programs have been significantly decreased by several major manufacturers, including Philip Morris and R.J. Reynolds, and are subject to change by the manufacturer without notice.

In order to limit our potential tobacco related liabilities, we do not purchase cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of the MSA do not apply to sales of cigarettes manufactured by non-MSA manufacturers. In November 1998, the major United States tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. The MSA and other state settlement agreements settled all health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the major U.S. cigarette manufacturers from various additional present and potential future claims; imposed a stream of future payment obligations on major U.S. cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes. As a result of purchasing cigarettes for sale in MSA states exclusively from manufacturers that are parties to the MSA, we are adversely impacted by increases in competitive promotional spending and deep-discount brand growth. Deep-discount brands are brands manufactured by companies that are not original participants to the MSA, and accordingly, do not have cost structures burdened with MSA-related payments to the same extent as the original participating manufacturers. As a result, the premium, or full, price tier of cigarettes has been negatively impacted by widening price gaps in the prices between those brands and the deep-discount brands for the past several years.

Excise taxes on cigarettes and other tobacco products are imposed by the various states, localities and provinces and are a significant component of our cost of sales. During 2004, we paid approximately $972 million of excise taxes in the U.S. and Canada. As of January 1, 2005, state cigarette excise taxes in the U.S. jurisdictions we serve ranged from 3 cents per pack of 20 cigarettes in Kentucky to $2.00 per pack of 20 cigarettes in Michigan. In the Canadian jurisdictions we serve, provincial excise taxes ranged from C$1.665 per pack of 20 cigarettes in Ontario to C$4.20 per pack of 20 cigarettes in the Northwest Territories.

Food and Non-Food Products. The food product category includes candy, snacks, fast food, grocery and non-alcoholic beverages. The non-food product category includes general merchandise, health and beauty care products and tobacco products other than cigarettes. Food and non-food product categories account for nearly 28% of our sales but approximately 64% of our gross profit. We structure our marketing and merchandising programs around these higher margin products.

Our Suppliers. We purchase products for resale from approximately 3,500 trade suppliers and manufacturers located across the United States and Canada. In 2004, we purchased approximately 66% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R.J. Reynolds, representing approximately 25% and 16% of our purchases, respectively. We coordinate our purchasing from suppliers by negotiating, on a corporate-wide basis, special arrangements to obtain volume discounts, additional allowances and rebates, while also taking advantage of promotional and advertising allowances offered to us as a wholesale distributor. In addition, buyers in each of our distribution facilities purchase products, particularly food, directly from the manufacturers, improving product availability for individual markets and reducing our inventory investment.

We have historically operated without purchase contracts with our major vendors, instead relying on relationships based on industry trade practices. Immediately following the Fleming bankruptcy, the trade credit terms that we had been enjoying were substantially reduced or eliminated by our vendors. We have restored credit terms with nearly all of our vendors, but some of these credit terms are less favorable than those provided to us prior to Fleming s bankruptcy due in part to changes in industry credit terms.

Operations

We operate a total of 24 distribution centers. We have operations in the Western United States consisting of 15 distribution centers located in California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington; the Southeastern and Midwestern United States consisting of three distribution centers located in Georgia, Kentucky and Minnesota; and Canada consisting of four distribution centers located in Alberta, British Columbia and Manitoba. Two of our 24 distribution centers, Artic Cascade and Allied Merchandising Industry, are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to our other Western distribution centers. By using Artic Cascade, located in Sacramento, California, to obtain products at lower cost from frozen product vendors, we are able to offer a broader selection of quality products to retailers at more competitive prices. Allied Merchandising Industry purchases the majority of our non-food products, other than cigarettes, for our Western distribution centers enabling us to reduce our overall general merchandise and health and beauty care product inventory. Two of the facilities that we operate are in our role as a third party logistics provider. One distribution facility located in Phoenix, Arizona, referred to as the ADC, is dedicated solely to supporting the logistics and management requirements of one of our major customers, Circle K. In April 2005, we began operating a second third party logistics distribution facility located in San Antonio, Texas, referred to as the Valero Retail Distribution Facility, or RDC, which is dedicated solely to supporting Valero.

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Map of Operations

We purchase a variety of brand name and private label products, totaling approximately 38,000 SKUs, including approximately 2,500 SKUs of cigarette and other tobacco products, from our suppliers and manufacturers. We offer customers a variety of food and non-food products, including candy, snacks, fast food, groceries, non-alcoholic beverages, general merchandise and health and beauty care products.

A typical convenience store order is comprised of a mix of dry, frozen and chilled products. In 2004, receivers, stockers, order selectors, stampers, forklift drivers and loaders received, stored and picked nearly 300 million items (a carton of 10 packs of cigarettes is one item) or 43 million cubic feet of product, while limiting the order-item error rate to about two errors per thousand items shipped.

Distribution Center Management System. We have developed a proprietary distribution center management system, or DCMS, which integrates billing, accounts payable, inventory management and other applications specific to our business. Our DCMS permits us to predetermine the staffing needs to balance all pick lines; monitor the real-time status of all order selectors and pick lines; and track productivity performance for each order selector. We currently have three data centers and approximately 39 information technology, or IT, professionals. We use DCMS to process order entry, generate electronic customer pick lists for the warehouse, control inventory, schedule customer deliveries, generate purchase orders and customer invoices, process payment to suppliers, process cash collections on accounts receivable, and maintain our accounting records. We have redundancy among our three data centers and all information contained in our data centers is backed-up three times per day. We also contract with a third party to back up the information in our data centers. Our redundancy and information back-up procedures ensure that we will be able to continue to service our customers in the event of a disruption at one of our data centers. A primary responsibility of our IT professionals is to integrate our customers onto our IT platform.

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Each day, each distribution center receives several hundred orders, primarily through hand held computer devices known as Telxon units or Electronic Data Interchange, or EDI, technology.

Telxon Units. Telxon units are handheld order entry devices that are provided to each participating store location. Orders can be scanned or keyed in by the Core-Mark item number or Universal Product Code and then transmitted via modem to our order collection system.

Electronic Data Interchange. EDI allows the customer to electronically transmit orders and other customer requests eliminating all paperwork. Transaction types using EDI technology include purchase order, invoice, payment notification, price change notification, price and sales catalogue and functional acknowledgement. We also use EDI with many major suppliers and currently have over 200 standard EDI trading partners. EDI technology has allowed us to support and integrate computer assisted ordering with our customers and continuous product replenishment programs with our suppliers.

We also use the following automated ordering systems:

Computer Assisted Ordering (CAO). We are connected to certain customers with automated store-to-warehouse ordering capability. Optical barcode scanners enable our customers to track sales and inventory levels, and, using this data generate a recommended order. After a review by the store manager, the order is automatically transmitted to us for processing.

Continuous Replenishment Program (CRP). We are connected with several major suppliers which enables automated product replenishment purchasing. CRP has lowered inventory stored in our distribution centers and increased product fulfillment rates for our customers.

Fulfillment / Picking. Product picking (the selection of ordered products from the warehouse storage slots, known as the pick line or flow rack) affects order fulfillment rates, delivery time and labor costs. The various items needed to fulfill a customer s order are collected, batched together and loaded onto trucks to correspond with the delivery of our customers orders. Pick line product replenishment is accomplished using the following technology driven restocking techniques individualized to the requirements of the product category:

Batch Order Selection System (BOSS). We have converted most of our distribution facilities to a batch order selection system, which permits more efficient handling of full cases of products. Approximately 54% of our products are shipped in full case form. The basic concept of BOSS is that productivity and cost savings can be achieved by picking multiple orders simultaneously instead of picking one order at a time. In addition to significant labor savings, the investment in material handling equipment is reduced.

Planned Item Retrieval (PIR). PIR, a storage system, increases utilization and decreases warehouse travel time at the majority of our distribution centers. Usually coupled with a BOSS installation, PIR uses reduced width aisles to create high density storage. The system is designed for selection at all levels, floor to ceiling, enabling slower moving product to be stored in a fraction of the floor space. The slower moving items are stored in the PIR, pre-picked, and merged with faster moving product using BOSS systems and procedures.

Pick-To-Light. We have installed Pick-to-Light systems to assist with orders placed in less than full-case quantities. The order selector can pick an order by traveling down the face of a flow rack shelving unit and responding to a computer-driven system of lights and displays. The system directs the order selector s activities on the line and starts each order at the appropriate location helping to eliminate unproductive travel time and distance.

We use additional systems and programs to improve the accuracy and efficiency of receiving products and picking orders. This includes a radio frequency system for product receiving and movement that improves accuracy and efficiency through paperless, real-time inventory movement and control. Wireless hand-held computer terminal devices carried by warehouse employees provide interactive sessions to the host computer. This allows for instantaneous updates to the inventory file as the employee moves through the warehouse. When

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items are received in a warehouse, the receiving clerk enters the purchase order number and each item on the purchase order is displayed on the handheld terminal advice. When all items have been scanned and counted, the hand-held device automatically determines whether there are any discrepancies. We also employ an on-line verification system which tracks the containers (called totes) in which customer product is packed. This improves the accuracy of our inventory tracking and reduces overall labor costs.

Distribution

At June 30, 2005, we had approximately 690 transportation department personnel, including delivery drivers, shuttle drivers, routers, training supervisors and managers who focus on achieving safe, on-time deliveries. Our daily orders are picked and loaded nightly in reverse order of scheduled delivery. At June 30, 2005, our trucking system consisted of approximately 390 tractors, trucks and vans, of which nearly all were leased. Fuel consumption for the six months ended June 30, 2005 totaled approximately $4.1 million. Our trailers are typically owned by us and have refrigerated compartments that allow us to deliver frozen and chilled products alongside non-refrigerated goods.

We employ a computerized truck routing system that automatically determines a route for the truck to accommodate the delivery times requested by the customer. The system automatically determines the stop order sequence of the truck using the specific geography, mapping of the area and required customer delivery windows, while minimizing the miles driven and the required labor time.

We have invested in various security and productivity systems which enable us to track the location of our trucks on a computer screen on a real-time basis. These systems provide a number of benefits, including automatic generation of the driver logs mandated by the Department of Transportation, recording certain metrics of a truck during motion for accident investigation, tracking the driver s performance in driving the vehicle, tracking excessive idle time for fuel cost reduction and monitoring speed for safety.

Competition

We believe that there are over 400 traditional convenience wholesalers in the United States. We compete directly with a subsidiary of Berkshire Hathaway Inc., McLane Company, Inc., the largest distributor of tobacco products in the United States. We also compete with regional distributors, such as The H.T. Hackney Company in the Southeast, Eby-Brown Company in the Midwest, Mid-Atlantic and Southeast, GSC Enterprises, Inc. in Texas and surrounding states, and Wallace and Carey, Inc. in Canada, as well as hundreds of local distributors serving small regional chains and independents. In addition, we also compete with manufacturers who deliver their products directly to convenience stores, such as Coca-Cola bottlers, Frito Lay and Interstate Bakeries.

Competition within the industry is primarily based on service, price and variety of products offered, schedules and reliability of deliveries, and the range and quality of the services provided. We operate from a perspective that focuses heavily on providing competitive pricing as well as outstanding customer service as evidenced by our decentralized distribution centers, order fulfillment rates, on time deliveries and merchandising support. At least one of our major competitors operates on a logistics model that concentrates on competitive pricing, using large distribution centers and providing competitive order fulfillment rates. This logistics model, however, could result in uncertain delivery times and leaves the customer to perform all of the merchandising functions. Many of our small competitors focus on customer service from small distribution facilities and concentrate on long-standing customer relationships. We believe that our unique combination of price and service is a compelling combination that is highly attractive to customers and results in our increasing growth.

Since the tobacco industry s master settlement agreement, or MSA, was signed in November 1998, we have experienced increased wholesale competition for cigarette sales. Competition amongst cigarette wholesalers is primarily on the basis of service, price and variety. Competition among manufacturers for cigarette sales is primarily based on brand positioning, price, product attributes, consumer loyalty, promotions, advertising and

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retail presence. Cigarette brands produced by the major tobacco product manufacturers generally require competitive pricing, substantial marketing support, retail programs and other financial incentives to maintain or improve a brand s market position. Increased selling prices and higher cigarette taxes have resulted in the growth of deep-discount brands. Deep-discount brands are brands manufactured by companies that are not original participants to the MSA, and accordingly, do not have cost structures burdened with MSA-related payments to the same extent as the original participating manufacturers. Historically, major tobacco product manufacturers have had a competitive advantage in the United States because significant cigarette marketing restrictions and the scale of investment required to compete made gaining consumer awareness and trial of new brands difficult. However, since the MSA was signed in November 1998, the category of deep-discount brands manufactured by smaller manufacturers or supplied by importers has grown substantially.

As a result of purchasing cigarettes for sale in MSA states exclusively from manufacturers that are parties to the MSA, we are adversely impacted by increases in deep-discount brand growth. We believe that non-MSA manufacturers that sell deep-discount brands have steadily increased their combined market share of cigarette sales. The premium and discount cigarettes subject to the MSA that we sell have been negatively impacted by widening price gaps in the prices between those brands and the deep-discount brands for the past several years. As a result, our operations may be negatively impacted as sales of premium cigarettes and other tobacco products that we sell decline. Non-MSA cigarettes sold in MSA states also may be subject to additional legal liabilities.

We also face competition due to the diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes in non-taxable jurisdictions, inter-state and international smuggling of cigarettes, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes and increased imports of foreign low priced brands. The competitive environment has been characterized by a continued influx of cheap products, and higher prices due to higher state excise taxes and list price increases for cigarettes manufactures by parties to the MSA. As a result, the lowest priced products of manufacturers of numerous small share brands manufactured by companies that are not parties to the MSA have increased their market share, putting pressure on the profitability of the premium cigarettes that we sell.

Seasonality

Our quarterly operating results are affected by seasonality due to the nature of our customers business. Specifically, we typically generate higher revenues and gross profits during the warm weather months (May through August) than in other times throughout the year. While each period may have many elements that affect sales, the seasonal trends are illustrated by the following table:

	% of Full Year Sales by Quarter			
	March 31	**June 30**	**September 30**	**December 31**
2004	22.9	25.3	26.7	25.1
2003	25.4	26.3	25.4	22.9
2002	21.6	24.9	29.1	24.4
2001	22.0	25.7	26.4	25.9
2000	23.8	25.4	25.8	25.0
1999	22.2	24.9	26.8	26.1
1998	22.7	24.6	26.6	26.1
1998 2004 average sales	22.9	25.3	26.7	25.1
1998 2002 average sales[(1)]	22.5	25.1	26.9	25.5

(1) 2003 and 2004 were excluded as the Fleming bankruptcy had an adverse impact on sales and is not representative of our seasonal activity.

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Working Capital Practices

We sell products on credit terms to our customers that averaged, as measured by days sales outstanding, about 11 days for 2004 and about 10 days for the six months ended June 30, 2005. Credit terms may impact pricing and are competitive within our industry. An increasing number of our customers remit payment electronically which reduces the labor involved in processing payments. Canadian days sales outstanding in receivables tend to be lower as Canadian industry practice is for shorter credit terms than those in the United States.

We maintain our inventory of products based on the level of sales of the particular product and manufacturer replenishment cycles. The number of days a particular item of inventory remains in our distribution centers varies by product and is principally driven by the turnover of that product and economic order quantities. We typically order additional amounts of certain critical products to assure high order fulfillment levels. During 2004, the number of days of cost of sales in inventory averaged about 13 days and during the six months ended June 30, 2005 it averaged approximately 14 days. During the six months ended June 30, 2005, the higher levels were caused in part due to the start up of sales to three new large customers.

We obtain terms from our vendors within industry terms and consistent with our credit standing. Vendor terms vary depending on individual vendor policies and also may vary between product categories. We take advantage of the full complement of vendor offerings including early payment terms. During 2004 and for the six months ended June 30, 2005, days purchases outstanding averaged approximately 8 days, with a range of two days prepaid to 30 days credit and was significantly affected by the cigarette industry where the leading vendors provide incentives for prepayment. This average includes the impact of tobacco taxes payable.

The days outstanding averages presented in this Working Capital Practices section are calculated using month-end averages.

Employees

As of June 30, 2005, we had approximately 3,650 employees. Four of our distribution centers, Hayward, Las Vegas, Victoria and Calgary, employ people who are covered by collective bargaining agreements with local affiliates of The International Brotherhood of Teamsters (Hayward and Las Vegas), United Food and Commercial Workers (Calgary) and United Steelworkers of America (Victoria). Approximately 230 employees, or approximately 6%, of our workforce are unionized. There have been no disruptions in customer service, strikes, work stoppages or slowdowns as a result of union activities, and we believe we have satisfactory relations with our employees.

Facilities

Our headquarters are located in South San Francisco, California, and we operate distribution centers throughout the United States and Canada. We have operations in the Western United States consisting of 15 distribution centers located in California, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington; the Eastern and Midwestern United States consisting of three distribution centers located in Georgia, Kentucky and Minnesota; and Canada consisting of four distribution centers located in Alberta, British Columbia and Manitoba. Two of our 24 distribution centers, Artic Cascade and Allied Merchandising Industry, are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to our other Western distribution centers. By using Artic Cascade, located in Sacramento, California, to obtain products at lower cost from frozen product vendors, we are able to offer a broader selection of quality products to retailers at more competitive prices. Allied Merchandising Industry, located in Corona, California, purchases the majority of our non-food products, other than cigarettes, for our Western distribution centers enabling us to reduce our overall general merchandise and health and beauty care product inventory. Each facility is equipped for receiving, stocking, order selection and loading customer orders on trucks for delivery. Each

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facility provides warehouse, distribution, sales and support functions for its geographic area under the supervision of a division president and operates under a common set of performance metrics.

We also operate as a third party logistics provider at two additional distribution facilities. One distribution facility located in Phoenix, Arizona, referred to as the Arizona Distribution Center, or the ADC, is dedicated solely to supporting the logistics and management requirements of one of our major customers, Circle K. In April 2005, we began operating a second third party logistics distribution facility, located in San Antonio, Texas, referred to as the Valero Retail Distribution Center, or RDC, which is dedicated solely to supporting Valero.

Regulation

As a distributor of food products, we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated by the U.S. Food and Drug Administration, or FDA. The FDA regulates the holding requirements for foods through its current good manufacturing practice regulations, specifies the standards of identity for certain foods and prescribes the format and content of certain information required to appear on food product labels. A limited number of the over-the-counter medications that we distribute are subject to the regulations of the U.S. Drug Enforcement Administration. The products we distribute are also subject to federal, state and local regulation through such measures as the licensing of our facilities, enforcement by state and local health agencies of state and local standards for the products we distribute and regulation of the our trade practices in connection with the sale of our products. Our facilities are inspected periodically by federal, state and local authorities including the Occupational Safety and Health Administration under the U.S. Department of Labor which require us to comply with certain health and safety standards to protect our employees.

We are also subject to regulation by numerous other federal, state and local regulatory agencies, including but not limited to the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, which regulates transportation of perishable goods, and similar state and local agencies. Compliance with these laws has not had and is not anticipated to have a material effect on our results of operations.

We voluntarily participate in random quality inspections conducted by the American Institute of Baking, or AIB. The AIB publishes standards as a tool to permit operators of distribution centers to evaluate the food safety risks within their operations and determine the levels of compliance with the standards. AIB conducts an inspection which is composed of food safety and quality criteria. AIB conducts its inspections based on five categories, adequacy of the company s food safety program, pest control, operational methods and personnel practices, maintenance of food safety and cleaning practices. Within these five categories, the AIB evaluates over 100 criteria items. AIB s independent evaluation is summarized and posted on its website for our customer s review. In 2004, nearly 90% of our distribution centers received the highest rating from the AIB and the remaining distribution centers received the second highest rating.

Registered Trademarks

We have registered trademarks including the following: Arcadia Bay®, Arcadia Bay Coffee Company®, Boonaritos, Boondoggles®, Cable Car®, Core-Mark®, Core-Mark International®, EMERALD®, Feastona®, Java Street®, and SmartStock®.

Segment and Geographic Information

We operate in two reportable segments the United States and Canada. See *Note 18 Segment and Geographic Information* to our audited financial statements and *Note 10 Segment and Geographic Information* to our unaudited interim financial statements for segment and geographic information.

Available Information

Core-Mark will be a reporting registrant under the Securities Exchange Act of 1934, as amended, on the effective date of this Registration Statement. Our corporate headquarters are located at 395 Oyster Point Boulevard, Suite 415, South San Francisco, California 94080. The telephone number of our corporate headquarters is (650) 589-9445. Our website address is http://www.core-mark.com. The information included on our website is not included as a part of, or incorporated by reference into, this registration statement.

We will make available through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have filed or furnished such material to the Securities and Exchange Commission.

You may read and copy any materials we file with the SEC at the SEC s Public Reference room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by call the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and formation statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

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ITEM 2. FINANCIAL INFORMATION
SELECTED FINANCIAL INFORMATION

The information in the Selected Financial Data table below reflects the Successor Company and Predecessor Company (as defined below) results of operations and financial condition of the following entities:

Core-Mark Holding Company, Inc., or Core-Mark, is the ultimate parent holding company for all of our operations, including Core-Mark International, Inc., or CMI, Head Distributing Company, Inc., or Head Distributing, Minter Weisman Company, or Minter Weisman, and a convenience distribution center located in Leitchfield, Kentucky. References to the Eastern Distribution Centers refer to Head Distributing, Minter Weisman and the Leitchfield, Kentucky distribution center.

On April 1, 2003 Fleming Companies, Inc. (Fleming), including its subsidiaries, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. On July 27, 2004, the bankruptcy court confirmed Fleming s Plan of Reorganization, or the Plan. The Plan provided for the reorganization of the debtors around CMI and its subsidiaries, including the Eastern Distribution Centers, as indirect wholly owned subsidiaries of Core-Mark. On August 23, 2004 (Effective Date) the Plan was declared effective by the bankruptcy court and the Company emerged from the Fleming bankruptcy. In connection with the emergence from bankruptcy, Core-Mark implemented American Institute of Certified Public Accountants (AICPA) Statement of Position 90-7 (SOP 90-7) *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.* All financial information prior to August 23, 2004 is identified as relating to the Predecessor Company. All financial information after August 22, 2004 relates to the Successor Company *(See Note 3 Summary of Significant Accounting Policies and Note 4 Fresh-Start Accounting to the consolidated financial statements*).

Basis of Presentation

The following financial information for periods prior to August 23, 2004 relates to the Predecessor Company and financial information for periods after August 23, 2004 relates to the Successor Company.

The selected consolidated financial data of the Successor Company for the six months ended June 30, 2005 and for the period August 23, 2004 through December 31, 2004, and of the Predecessor Company for the periods January 1, 2004 through August 22, 2004 and for the years ended December 31, 2003 and 2002 as described below, reflect the consolidated results of operations, financial position, and cash flows of Core-Mark, CMI and the Eastern Distribution Centers. However, the consolidated financial statements reflect the results of operations of Head only following its acquisition in April of 2002. The selected consolidated financial data of the Successor Company for the unaudited six months ended June 30, 2005 and of the Predecessor Company for June 30, 2004 are derived from Core-Mark s unaudited interim consolidated financial statements included in this registration statement.

The selected consolidated financial data for the periods from August 23, 2004 through December 31, 2004, January 1, 2004 through August 22, 2004 and for the years ended December 31, 2003 and 2002 are derived from Core-Mark s audited consolidated financial statements included in this registration statement. The balance sheet data as of December 31, 2002 are derived from audited consolidated financial statements that are not included in this registration statement.

The selected consolidated financial data for the years ended December 31, 2001 and 2000 are derived from our audited consolidated financial statements not included in this registration statement and exclude the Eastern Distribution Centers, which are included in our results of operations only for periods commencing on or after January 1, 2002.

The financial information set forth below reflects the restatement of our financial statements for the period from August 23 through December 31, 2004 and as of December 31, 2004 and for the six month period ended June 30, 2005 and as of June 30, 2005, as discussed under *Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Financial Information, Note 2* to the *Audited Consolidated Financial Statements* and *Note 2* to the *Unaudited Consolidated Interim Financial Statements.*

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The following financial data should be read in conjunction with the consolidated financial statements and notes thereto, and with Item 2(b), Management s Discussion and Analysis of Financial Condition and Results of Operations.

SELECTED CONSOLIDATED FINANCIAL DATA

(Unaudited)

(in millions except per share amounts)	Successor Company Six Months Ended June 30, 2005 (Restated) (Unaudited)	Predecessor Company Six Months Ended June 30, 2004 (Unaudited)	Successor Company Period from August 23 through December 31, 2004 (Restated)	Predecessor Company Period from January 1 through August 22, 2004	Predecessor Company Year Ended December 31, 2003	2002	2001[a]	2000[a]
Statement of Operations Data:								
Net sales[a]	$ 2,347.9	$ 2,036.3	$ 1,549.3	$ 2,673.1	$ 4,324.3	$ 4,662.1	$ 3,425.0	$ 3,035.4
Gross profit[b]	135.4	114.2	90.9	149.8	269.4	308.3	213.9	195.1
Warehousing and distribution expenses	65.4	59.1	42.6	78.7	130.2	131.8	92.6	84.3
Selling, general and administrative expenses	53.2	47.4	34.9	59.3	98.3	93.2	77.9	73.5
Goodwill and other long-lived asset impairment[c]					291.4			
Income (loss) from operations	16.3	7.7	13.0	11.8	(252.2)	79.8	44.2	34.9
Interest expense, net[d]	6.2	3.8	4.8	4.4	5.4	8.2	11.1	12.9
Reorganization items, net[e]		1.7	0.8	(70.0)	7.3			
Income (loss) from continuing operations	5.0	1.4	5.3	50.7	(265.2)	39.5	17.5	11.1
Income (loss) from discontinued operations					(2.8)	0.3		
Net income (loss)	5.0	1.4	5.3	50.7	(268.0)	39.8	17.5	11.1
Per Share Data(f):								
Basic income (loss) per common share:								
Continuing operations	$ 0.52	$ 0.14	$ 0.54	$ 5.17	$ (27.06)	$ 4.03	$ 1.79	$ 1.13
Discontinued operations					$ (0.29)	$ 0.03		
Net income (loss)	$ 0.52	$ 0.14	$ 0.54	$ 5.17	$ (27.35)	$ 4.06	$ 1.79	$ 1.13
Diluted income (loss) per common share:								
Continuing operations	$ 0.50	$ 0.14	$ 0.54	$ 5.17	$ (27.06)	$ 4.03	$ 1.79	$ 1.13
Discontinued operations					$ (0.29)	$ 0.03		
Net income (loss)	$ 0.50	$ 0.14	$ 0.54	$ 5.17	$ (27.35)	$ 4.06	$ 1.79	$ 1.13
Shares used to compute net income (loss) per share:								
Basic	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Diluted	10.4	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Other Financial Data:								
Excise taxes[g]	$ 562.7	$ 484.8	$ 367.8	$ 643.5	$ 925.6	$ 825.7	$ 670.7	$ 597.5
Cigarette inventory holding profits[h]	$ 5.1	0.2	1.1	0.2	7.2	9.8	5.8	4.8
LIFO expense (income)[b]	3.2	2.1	1.8	2.7	(2.1)	(16.7)	5.6	6.3

Depreciation and amortization[i]	7.2	5.5	4.7	7.0	9.9	12.2	9.7	8.9
Stock-based compensation	2.0		0.9					
Capital expenditures	3.4	4.7	5.7	6.4	8.4	5.5	7.9	7.6

	As of June 30, 2005	**As of June 30, 2004**	**As of December 31, 2004**	**As of August 22, 2004**	**As of December 31, 2004**			
					2003	**2002**	**2001(a)**	**2000(a)**
Balance Sheet Data								
Total assets	$ 523.7	$ 498.3	$ 504.2	$ 517.2	$ 513.8	$ 773.4	$ 390.1	$ 374.9
Total debt, including current maturities[d]	77.1		77.5	118.7			163.5	186.6

(a) The data for the years and periods ended December 31, 2001 and 2000 exclude the Eastern Distribution Centers. Net sales of the Eastern Distribution Centers were $209.0 million and $364.7 million for the periods from August 23, 2004 to December 31, 2004 and from January 1, 2004 to August 22, 2004, respectively, and $766.7 million and $1,072.5 million for the years ended December 31, 2003 and 2002, respectively.

(b) During the year ended December 31, 2002, Core-Mark recognized last-in first-out (LIFO) income of $16.7 million, primarily due to a decline in inventories during the period January 1, 2002 to June 17, 2002, when CMI was acquired by Fleming. For more information on the impact of the LIFO inventory valuation method see Management s Discussion and Analysis of Financial Condition and Results of Operations.

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(c) Impairment of goodwill and other long-lived assets in 2003 was the result of the Fleming bankruptcy.

(d) Interest expense, net includes interest expense, net of interest income. At December 31, 2003 and December 31, 2002, Core-Mark was operating as a subsidiary of Fleming and did not have debt. Interest expense for the period from June 17, 2002, when Core-Mark was acquired by Fleming to August 22, 2004 was imputed as required under SAB Topic 1.B (See Note 3 Summary of Significant Accounting Policies to the consolidated financial statements).

(e) Reorganization items, net: in 2003 consists of bankruptcy related costs including bankruptcy professional fees and provisions for uncollectible balances related to disputes with vendors arising out of bankruptcy; for the period from January 1, 2004 through August 22, 2004 consists of fresh-start accounting adjustments, including a $5.8 million adjustment to reflect the fair value of assets and liabilities, a $66.1 million net gain on the discharge of pre-petition debt, and other bankruptcy related costs including professional fees of $1.6 million; and for the period from August 23 to December 31, 2004 includes primarily bankruptcy related professional fees.

(f) For the Predecessor Company, basic net income (loss) per share and diluted net income (loss) per share have been computed by dividing net income (loss) for the period by the 9,800,000 shares of Core-Mark common stock outstanding after emergence from bankruptcy.

(g) State and provincial cigarette and tobacco excise taxes paid by the Company are included in net sales and cost of goods sold. Excise taxes presented above are greater than amounts previously reported due to the use of a revised calculation based on actual invoices rather than estimated amounts.

(h) Cigarette inventory holding profits represent income related to cigarette and excise tax stamp inventories on hand at the time either cigarette manufacturers increase their prices or states increase their excise taxes. This income is recorded as an offset to cost of goods sold and recognized as the inventory is sold. This income is not predictable and is dependent on inventory levels and the timing of manufacturer price increases or state excise tax increases.

(i) Depreciation and amortization includes depreciation on property and equipment, amortization of purchased intangibles and goodwill, and other deferred charges.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of Core-Mark s business, critical accounting policies and its consolidated results of operations and financial condition. Following an introduction and overview is an executive summary providing significant highlights of the operations and business initiatives. The critical accounting policies disclose certain accounting policies that are material to Core-Mark s results of operations and financial condition for the periods presented. The discussion and analysis of Core-Mark s results of operations is presented in three comparative sections, 2004 compared with 2003, 2003 compared with 2002, and the unaudited six months ended June 30, 2005 compared with the six months ended June 30, 2004. Disclosures related to seasonality, liquidity and financial condition and contractual obligations and commitments complete management s discussion and analysis. The information in this Management s Discussion and Analysis contains certain forward-looking statements, which reflect our current view with respect to future events and financial performance. Any such forward looking statements are subject to risks and uncertainties that could cause our actual results of operations to differ materially from historical results or current expectations. (See Special Note Regarding Forward Looking Statement on page ii and Item 1 Business Risk Factors beginning on page 5.) This discussion and analysis should be read in conjunction with Core-Mark s consolidated financial statements and related notes thereto.

Overview

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 24 distribution centers in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 20,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of store formats including traditional convenience stores, grocery stores, drug stores, mass merchandise stores, liquor stores and other stores that carry convenience products.

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

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Background

Core-Mark Holding Company, Inc. was incorporated on August 20, 2004 as the ultimate parent company for Core-Mark Holdings I, Inc., Core-Mark Holdings II, Inc., Core-Mark Holdings III, Inc., Core-Mark International, Inc., and Core-Mark International s wholly owned subsidiaries pursuant to a plan of reorganization, the Plan, following a bankruptcy petition as described below.

In June 2002, Fleming Companies, Inc., or Fleming, acquired Core-Mark International. After the acquisition, Core-Mark International s management continued to operate Core-Mark International s distribution business and began integrating Fleming s convenience distribution centers into Core-Mark International s operations.

On April 1, 2003 Fleming filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The debtor-in-possession entities comprising Core-Mark were included in the Chapter 11 proceedings as Core-Mark had guaranteed Fleming s debt. The Plan, which became effective on August 23, 2004, provided for the reorganization of the debtors around Core-Mark. Fleming s other assets and liabilities were transferred to two special-purpose trusts, and its remaining direct and indirect subsidiaries have been dissolved or are in the process of being dissolved.

On August 23, 2004, Core-Mark emerged from the Fleming bankruptcy and reflected the terms of the Plan in its consolidated financial statements, applying the terms of the American Institute of Certified Public Accountants Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* with respect to financial reporting upon emergence from bankruptcy (fresh-start accounting).

Pursuant to fresh-start accounting rules, a new reporting entity, which we refer to as the Successor Company, was deemed to be created and the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values at the time of emergence from bankruptcy and are based on management s assessments which considered independent valuations where applicable. The effective date of Core-Mark s emergence from bankruptcy was August 23, 2004. All financial information prior to August 23, 2004 is identified as relating to the Predecessor Company. All financial information after August 22, 2004 relates to the Successor Company.

In applying fresh-start accounting to our August 23, 2004 consolidated financial statements, adjustments to reflect the fair value of assets and liabilities amounted to $5.8 million in reorganization items, net. The adjustment was primarily attributable to ascribing value to intangible internally developed software of $6.0 million, an adjustment to our deferred rent accrual of $3.8 million, offset by charges for the re-valuation of other balance sheet items totaling $4.0 million, including inventory and accounts receivables. The restructuring of our capital structure and resulting discharge of pre-petition debt resulted in a net gain of $66.1 million. The charge for the revaluation of our assets and liabilities and the net gain on the discharge of pre-petition debt are recorded in reorganization items, net in the consolidated statements of operations *(See Note 11 Reorganization Items, Net to the consolidated financial statements).*

Trust Guarantees. Pursuant to the Plan, two special purpose trusts were established, the Post-Confirmation Trust, or PCT, and the Reclamation Creditors Trust, or RCT, which we refer to collectively as the Trusts *(See Off-Balance Sheet Arrangements in this Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 1 Summary Company Information and Emergence from Bankruptcy to the consolidated financial statements)*. We guaranteed payment obligations of the Trusts based on certain thresholds, in the event of the Trusts inability to pay eligible settlements. FASB Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires that an entity issuing a guarantee must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. Based on the estimates provided by the Trusts and our analysis prepared in accordance with FIN 45, we believe that (i) the guaranteed claims of the PCT are substantially below the guarantee threshold, and (ii) the assets of the RCT will be sufficient to satisfy the Trade Lien Vendor (TLV) and Non-Trade Lien Vendor (non-TLV) claims against it. Therefore, no liability is believed to exist at this time with respect to these guarantees. However, if the assets of either Trust are insufficient to cover the liabilities of such Trust we could be required to satisfy the guarantees.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of our Financial Condition and Results of Operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of our consolidated financial statements requires estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. The critical accounting polices used in the preparation of the consolidated financial statements are those that are important both to the presentation of financial condition and results of operations and require significant judgments with regards to estimates used and are more fully explained in Note 2 Summary of Significant Accounting Policies to our consolidated financial statements. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable and allowance for doubtful accounts, inventories, fresh-start valuations, intangible assets, trust guarantees, vendor allowances, income taxes, and self-insurance obligations. We base our estimates on historical experience and on various assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions and other considerations used to estimate amounts reflected in our financial statements are appropriate; however, actual results could differ from these estimates.

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

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

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

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

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

Prior to emergence from bankruptcy, the Predecessor Company s financial statements were prepared on a carve-out basis. For financial reporting purposes, the provision for income taxes was computed based on a stand-alone, separate-return basis. However, Core-Mark s operating results were included in Fleming s consolidated U.S. income tax return and consolidated, combined or unitary state income tax returns and in tax returns of the Canadian operations. Deferred tax asset and liability accounts were adjusted to their realizable values in connection with fresh-start accounting. Prior to emergence the Company had a valuation allowance of $4.2 million, primarily related to limitations on net operating loss carry-forwards, which was utilized as part of the applicable fresh-start accounting tax adjustments. As of December 31, 2004, the Company had a valuation allowance of $0.7 million related to foreign tax credits, which will expire in 2014.

Deferred tax assets and liabilities as reflected at August 23, 2004 in connection with the application of fresh-start accounting are based on our best estimate of the tax filing position that is as probable of being accepted by the applicable taxing authorities. We intend to take an alternative position on future tax returns. Based on this alternative tax filing position, we have taken deductions on our current period tax return that may be challenged by the taxing authorities. Although we believe that our tax filing position will more likely than not be sustained in the event of an examination by applicable taxing authorities and we would contest any proposed adjustment vigorously, the outcome of such matters can not be predicted with certainty. As such, we have accrued approximately $1.8 million in other tax liabilities on the accompanying December 31, 2004 consolidated balance sheet for this contingency.

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

Pursuant to the Plan, on the Effective Date, we assumed approximately $29.5 million in self-insurance obligations from Fleming related to workers compensation and auto liability programs based on management s assessment of a third party actuarial valuation. These amounts were recorded in the reorganization adjustments as of August 23, 2004 and are included in accrued liabilities and claims liabilities. *(See Note 6 Other Balance Sheet Accounts Detail to the consolidated financial statements).*

Pension Liabilities. We maintain a frozen pension plan and post-retirement benefit plan for certain employees and former employees of CMI. Pursuant to the Plan, we maintain three pension plans for certain former-Fleming employees. The Pension costs and other post-retirement benefit costs charged to operations are determined based on management s assessment, which considered annual valuations by an independent actuary. Included in the actuarial calculation are an assumed return on plan assets based on a weighted-average expected rate of return developed using historical returns for each major class of pension plan assets, and an assumed discount rate which approximates the rate at which benefits could be effectively settled as of the measurement date. To select an appropriate discount rate, we review current yields on Moody s Aa rate investments. To select an appropriate long-term rate of return on plan assets, management reviews the historical returns and makes adjustments based on expectations of future rates of returns consistent with the duration of the plans.

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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. *(See Note 17 Employee Benefit Plans to the consolidated financial statements).*

Forward-Looking Trend and Other Information

Cigarette Consumption

The distribution of cigarettes currently represents a significant portion of our business. For the year ended December 31, 2004, approximately 72% of our revenues came from the distribution of cigarettes. During the same period, approximately 36% of our gross profit was generated from cigarettes.

Aggregate U.S. cigarette consumption has been in decline since 1980 and we expect this trend to continue. However, over the last decade our cigarette sales have benefited from a shift in sales to the convenience store segment. As a result of this shift, our cigarette sales have not declined in proportion to the decline in overall consumption. We anticipate that eventually the shift in cigarette carton sales to the convenience store segment will stabilize and cigarette carton sales through convenience stores will start to decline more in line with the overall decline in cigarette consumption.

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

Excise taxes on cigarettes are a significant component of our net sales and our cost of sales. For the year ended December 31, 2004, approximately 23% of our net sales and 24% of our cost of sales represented excise taxes. We anticipate that as states, localities and provinces impose increasingly higher excise taxes on cigarette sales they will become a larger component of our sales and our cost of sales. Increases in excise taxes result in higher sales prices per carton, but do not typically increase gross profit cents per carton. As a result, we anticipate that increases in excise taxes will tend to offset the effect of any decrease in carton sales on our revenues. However, increases in excise taxes generally would not increase our gross profit dollars, which would generally decline with declines in carton sales.

Cigarette Inventory Holding Profits

Over the past several years we have earned significant cigarette inventory holding profits. For example, cigarette inventory holding profits for the six months ended June 30, 2005 were $5.1 million, or 3.8% of our gross profit for the period. Cigarette inventory holding profits represent profit related to cigarette and excise tax stamp inventories on hand at the time either cigarette manufacturers increase their prices or states, localities or provinces that allow such inventory holding profits increase their excise taxes. This profit is recorded as an offset to cost of goods sold and is recognized as the inventory is sold. It is difficult to predict whether cigarette holding profits will occur in the future since they are dependent on the actions of cigarette manufacturers and taxing authorities. See *Item 2 Financial Information (a) Selected Financial Information Selected Consolidated Financial Data* where we set forth cigarette holding inventory profits for the periods presented.

Impact of Emergence From Bankruptcy in 2004 on Cash Flows From Operating Activities

In connection with our emergence from the Fleming bankruptcy on August 23, 2004, our net cash provided by Successor and Predecessor Companies combined operating activities for the year ended December 31, 2004 benefited from an increase in accounts payable of $30.0 million resulting from our successful efforts to secure more favorable trade credit terms with our vendors and a decrease in other receivables of $27.5 million related primarily to collections of vendor receivables that had been stalled during the bankruptcy proceedings. We do not expect that these one-time benefits associated with our emergence from bankruptcy will recur in future periods.

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Restatement

On March 23, 2006 the Audit Committee of the Board of Directors of the Company and management concluded that the audited consolidated financial statements as of December 31, 2004 for the period from August 23, 2004 to December 31, 2004 and our unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2005 each included in our Form 10/A filed with the Securities and Exchange Commission on November 30, 2005 should no longer be relied upon because of errors in those financial statements relating to the accounting for foreign currency translation adjustments related to intercompany balances. Specifically, management determined that foreign currency translation adjustments related to intercompany balances of our Canadian branch were incorrectly recorded as a component of comprehensive income directly to stockholders equity. These intercompany balances were incorrectly thought to be of a permanent nature. Because such intercompany balances post-emergence were not permanent in nature and were fluctuating throughout the period, the foreign exchange gains or losses should have been recorded as a gain (or loss) within the income statement. Accordingly, we are restating our financial statements as of December 31, 2004, for the period from August 23, 2004 to December 31, 2004 and as of and for the six months ended June 30, 2005 in this Amendment No. 3 to the Form 10 to correct the above error and to correct the additional errors discussed below.

In connection with this restatement, we also corrected an approximately $0.4 million inventory undervaluation error (and a corresponding overstatement of cost of goods sold) in the financial statements for the period from August 23, 2004 through December 31, 2004. Additionally, the restatement reflects adjustments for the period from August 23, 2004 through December 31, 2004 to correct estimation errors and to correct errors in certain balance sheet classifications as of December 31, 2004. The correction of the estimation errors resulted in a $0.1 million decrease in cost of goods sold and $0.2 million decrease in selling, general and administrative expenses for the period from August 23, 2004 through December 31, 2004.

For the six months ended June 30, 2005, we also corrected a related $0.4 million overvaluation error (and a corresponding understatement of cost of goods sold) in the financial statements. The restatement reflects adjustments for a $0.1 million increase in cost of goods sold and $0.2 million increase in selling, general and administrative expenses.

The correction of the error relating to the accounting of foreign currency translation adjustments had the effect of increasing income before income taxes, net income and earnings per diluted share $2.4 million, $1.5 million and $0.15, respectively for the period August 23 through December 31, 2004.

For the six months ended June 30, 2005, the correction of the error relating to the accounting of foreign currency translation adjustments had the effect of increasing income before income taxes, net income and earnings per diluted share by $(0.6) million, $(0.3) million and $(0.03), respectively.

The Consolidated Statements of Stockholders Equity was restated. The correction of the error relating to the foreign currency translation adjustment decreased accumulated other comprehensive income by $2.4 million at December 31, 2004. The aggregate effect of correcting the accounting errors described above was to decrease total comprehensive income $0.5 million for the period from August 23, 2004 through December 31, 2004.

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

For the period from August 23, 2004 through December 31, 2004, income from continuing operations before taxes increased by $3.1 million, net income after taxes increased by $1.9 million and diluted earnings per share increased $0.19. For the six months ending June 30, 2005, income from continuing operations before taxes decreased $1.3 million, net income after taxes decreased $0.8 million and diluted earnings per share decreased $0.06.

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The following table shows the impact of the restatement on our operating income and our net income in the relevant periods:

Effects of Restatement

(Unaudited)

in millions, except per share amounts	Six months ended June 30, 2005 (Unaudited)		Period from August 23 through December 31, 2004	
	As Reported	Restated	As Reported	Restated
Income from continuing operations before income taxes	$ 10.3	$ 9.0	$ 6.3	$ 9.4
Net income	5.8	5.0	3.4	5.3
Diluted income (loss) per common share	$ 0.56	$ 0.50	$ 0.35	$ 0.54

Unless otherwise noted, the financial information set forth below reflects the restatement of our financial statements for the period from August 23 through December 31, 2004 and the first six months of 2005, as discussed in *Note 2* to the *Audited Consolidated Financial Statements* and *Note 2* to the *Unaudited Consolidated Interim Financial Statements. Such financial information also reflects an increase in the amounts of excise taxes previously reported for all periods due to the use of a revised calculation based on actual invoices rather than estimated amounts.* For information concerning the restatement of results of operations for the period from August 23, 2004 through September 30, 2004 and for the fourth quarter of 2004 *see Item 13 Financial Statements and Supplementary Data (unaudited).*

Executive Summary of Results of Operations

In June 2002, CMI was acquired by Fleming. After the consummation of the acquisition, Fleming began assigning the responsibility of managing Fleming s seven convenience distribution centers, which we refer to as the Fleming Distribution Centers, to CMI s management. The process of converting these distribution centers to CMI s systems and management was under way by the end of the first quarter of 2003. On April 1, 2003, Fleming filed for Chapter 11 bankruptcy protection on behalf of itself and all of its subsidiaries, including CMI, which was a guarantor of Fleming s senior notes, senior subordinated notes and convertible senior subordinated notes.

In the months following the bankruptcy filing, all of the convenience distribution operations were adversely impacted by Fleming s use of cash flow generated from convenience operations to subsidize other corporate needs. Fleming was unable to make all of its vendor payments and product deliveries including those for the convenience operations. Additionally, as a result of the bankruptcy filing, vendor credit terms and state excise tax terms were reduced or ceased, and cash or deposit payments via wire transfers were required by significant vendors, further straining liquidity. During the early months of bankruptcy, CMI s ability to fulfill customer orders decreased significantly and ultimately caused a loss of customers, primarily those serviced out of the Fleming Eastern Distribution Centers. The significant customer losses that resulted from Fleming s inability to satisfy its vendor payment and customer delivery obligations resulted in the closing of four Fleming Distribution Centers. In mid-2003, Fleming determined that the convenience distribution operations were of value, and decided to attempt to preserve them. During mid-2003, sufficient liquidity for our operations was obtained through (i) a reduction of working capital requirements, (ii) the support of customers and vendors, (iii) private label merchandising proceeds, and (iv) insurance proceeds permitting us to keep the remaining distribution centers operating. The estimated impact of the bankruptcy to the net sales of the continuing entities that now comprise Core-Mark was approximately $800 million in lost annualized net sales with approximately $530 million of such lost sales attributable to the Eastern Distribution Centers. We measured the annualized losses by evaluating specific customer losses during the period April 1, 2003 through October 31, 2003 and annualizing the results.

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We have been successful in normalizing business operations since fall 2003, and we believe customer, vendor, and employee confidence has risen significantly since that time. On August 23, 2004, Core-Mark emerged from bankruptcy as the sole surviving entity of the Fleming group of companies. In connection with the emergence from bankruptcy we were relieved of our pre-petition obligations to the Fleming creditors and our vendors. After our common stock is fully distributed pursuant to the Plan, and assuming all outstanding warrants and options are exercised, Fleming creditors will have been issued approximately 88% of the common stock of Core-Mark, management will have been issued approximately 10% and the Tranche B lenders will have been issued approximately 2%.

Pursuant to the Plan, we entered into a three-year agreement with a group of lenders to provide a $250 million revolving credit facility. In addition, we entered into a $60 million five-year term loan consisting of notes or letters of credit. Upon emergence from bankruptcy, we had $118.7 million in long-term debt on our balance sheet. As of December 31, 2004, we had repaid approximately $41 million of this debt, and $77.5 million remained outstanding. As of June 30, 2005 we had repaid a net $0.4 million of this debt and $77.1 million remained outstanding.

On October 13, 2005 we entered into a new, five-year $250 million revolving credit facility, the 2005 Credit Facility, that refinanced and replaced the Prior Revolving Credit Facility and the term loan agreement, and repaid all debt and replaced or cash-collateralized all letters of credit outstanding under the prior agreements, and terminated those agreements. As of October 31, 2005, there was $61.1 million in revolving loans outstanding under the 2005 Credit Facility.

Since our emergence from the Fleming bankruptcy, our trade accounts payable, including book to overdrafts increased from $35.5 million to $61.3 million at December 31, 2004, reflecting resumption of pre-bankruptcy terms with nearly all vendor credit terms. At June 30, 2005 our trade accounts payable balance was $68.5 million. Due to changes in industry- wide credit terms, we do not expect to return to historical trade accounts payable levels. From a liquidity standpoint, with the 2005 Credit Facility, the resumption of trade terms, along with cash generated from operations, we believe that we have the required capital resources to meet our working capital, capital expenditure and other cash needs for at least the next 12 months (*See Liquidity and Capital Resources section below*).

Our business is highly competitive and our future success will continue to depend on our ability to deliver high volumes of product efficiently and accurately, making it easy for our customers to do business with us by providing technology, merchandising and sales and marketing services, and helping our customers grow their business in a profitable manner. Growing sales and further improving operational efficiencies in our Eastern Distribution Centers and refinancing our debt to reduce interest costs are two important objectives which will, if accomplished successfully, improve our profitability.

Results of Operations

Comparison of the Years Ended December 31, 2004 and 2003

For the purposes of the periods presented in Management s Discussion and Analysis of Financial Condition and Results of Operations, the results of the Successor Company for the period from August 23, 2004 through December 31, 2004 and the Predecessor Company for the period from January 1, 2004 through August 22, 2004 have been combined for convenience of discussion since separate discussions of the Predecessor and Successor periods would not be meaningful in terms of operating results or comparisons to other periods. We refer to the combined results collectively as Year Ended December 31, 2004 or 2004. <u>Due to fresh-start accounting applied with differing effect to the Predecessor and Successor Company periods, the combined 2004 results should not be taken as indicative of our historical results.</u>

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The following table sets forth the combined results of operations for the periods August 23, 2004 through December 31, 2004 and January 1, 2004 through August 22, 2004, and compares them to the year ended December 31, 2003. The comparative table is presented solely to complement management s discussion and analysis of our results of operations.

(in millions)	Successor and Predecessor 2004 Combined *compared to* Predecessor 2003 (Restated)	Successor and Predecessor Combined year ended December 31, 2004 (Restated)	Combined 2004 % of Net Sales (Restated)	Successor Period from August 23, through December 31, 2004 (Restated)	Predecessor Period from January 1 through August 22, 2004	Predecessor Year ended December 31, 2003	2003 % of Net Sales
Net sales	*$ (101.9)*	$ 4,222.4	100.0	$ 1,549.3	$ 2,673.1	$ 4,324.3	100.0
Net sales Cigarettes	*(1.6)*	3,048.2	72.2	1,124.3	1,923.9	3,049.8	70.5
Net sales Food/Non-food	*(100.3)*	1,174.2	27.8	425.0	749.2	1,274.5	29.5
Gross profit	*(28.7)*	240.7					