Core-Mark Holding Company, Inc.
Form 10-K
April 14, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 OR 15(d) of the Securities and Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2005

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For the transition period from to

Commission File Number:

000-51515

CORE-MARK HOLDING COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**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 Registered Pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ CHECK IF APPLICABLE

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

State the aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the closing price of the common stock as of June 30, 2005, the last day of the registrant s most recently completed second quarter: $265,996,663

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

As of March 31, 2006, the Registrant had 9,841,976 shares of its common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE (See Part III)

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains 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.

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 Annual Report on Form 10-K entitled Risk Factors.

Restatements of Previously Issued Financial Statements

On March 23, 2006 the Audit Committee of the Board of Directors of the Company (as defined below) 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, and our unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2005 included in our Form 10-Q for the third quarter of 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, the Company is restating its financial statements for such periods to correct such error, and to correct inventory valuation errors, and other errors in estimation and balance sheet classifications. Such restatements are reflected herein and we intend to also reflect these restatements in amendments to our Form 10 registration statement and our Form 10-Q for the third quarter of 2005.

For further information concerning the restatements and the specific adjustments made see *Item 7 Management Discussion and Analysis of Financial Condition and Results of Operations Restatements of Financial Information and Note 2 of the Notes to the Consolidated Financial Statements* elsewhere herein.

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ITEM 1. BUSINESS

Unless the context indicates otherwise, all references in this Annual Report on Form 10-K to Core-Mark, the Company, we, us, or our refer to Core-Mark Holding Company, Inc. and its direct and indirect subsidiaries.

Company Overview

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.

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 Companies, Inc. 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 three of Fleming s convenience distribution centers were fully integrated into Core-Mark International s operations.

Core-Mark operates 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 (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 (RDC), and is dedicated solely to supporting Valero.

We distribute a diverse line of national and private label convenience store products to over 19,000 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, 2005, 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. During the same twelve month period, approximately 35% of our gross profit was generated from cigarette categories while approximately 65% 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, 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, human resources and retail store support.

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 June 2002, Fleming Companies, Inc., or Fleming,

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acquired Core-Mark International, Inc., or CMI, our operating subsidiary. On April 1, 2003, Fleming filed for protection under Chapter 11 of the United States 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.

On August 23, 2004, pursuant to the Plan, we emerged from the Fleming bankruptcy and 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. 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 December 31, 2005, all of the Class 6(B) warrants allocated to the Class 6(B) creditors under the Plan had been distributed. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes. We entered into a registration rights agreement with the holders of the Tranche B Warrants pursuant to which we registered under the Securities Act of 1933 the shares of our common stock issuable upon exercise of the Tranche B Warrants. The Tranche B Warrants have an exercise price of $15.50 per share.

Subsequent to the initial capitalization, we established four stock-based compensation plans. *(See Note 13, Stock-Based Compensation Plans.)*

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

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

(4) Core-Mark reflected the terms of the Plan in its consolidated financial statements applying the terms of the American Institute of Certified Public Accountants (AICPA) Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* (SOP 90-7) with respect to financial reporting upon emergence from bankruptcy (*See Note 8 Reorganization Items, Net to the consolidated financial statements*).

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 Annual Report on Form 10-K.

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, 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.

According to the 2005 National Association of Convenience Stores (NACS) State of the Industry Report, during 2004, aggregate U.S. traditional convenience retail in-store sales were approximately $132 billion through approximately 138,000 stores. 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.

Customers and Marketing

We service over 19,000 customer locations in 38 U.S. states and five Canadian provinces. Our top fifteen customers as of December 31, 2005 included 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. 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, 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 31% of our sales in 2005, while our largest customer accounted for less than 6% of our total sales in 2005.

Sales, Products and Suppliers

The financial information set forth below reflects the restatement of our financial statements for the first three quarters of fiscal year 2005 and for the period from August 23 through December 31, 2004, as discussed

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under *Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Financial Information and Note 2 of the Notes to the Consolidated Financial Statements.*

For the purpose of comparing our results of operations by product category in the table below the results for fiscal year 2004 have been combined for the Successor and Predecessor Companies as discussed *under Management s Discussion and Analysis of Financial Condition and Results of Operations.*

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

	2005(1)	**2004**(1) **(Restated)**	**2003**(1)	**2002**(1)	**2001**(1)
Cigarettes					
Net sales (in millions) (4)	$ 3,505.2	$ 3,048.2	$ 3,049.8	$ 3,368.4	$ 2,473.1
Gross Profit (in millions) (2)(3)	$ 93.5	$ 87.4	$ 106.7	$ 129.3	$ 82.6
% of Total Sales	72%	72%	71%	72%	72%
% of Gross Profit	35%	36%	40%	42%	39%
All other products					
Net sales (in millions) (5)	$ 1,385.9	$ 1,174.2	$ 1,274.5	$ 1,293.7	$ 951.9
Gross Profit (in millions)	$ 177.5	$ 153.3	$ 162.7	$ 179.0	$ 131.3
% of Total Sales	28%	28%	29%	28%	28%
% of Gross Profit	65%	64%	60%	58%	61%
Total Net Sales (in millions)	$ 4,891.1	$ 4,222.4	$ 4,324.3	$ 4,662.1	$ 3,425.0
Gross Profit (in millions)	$ 271.0	$ 240.7	$ 269.4	$ 308.3	$ 213.9

(1) The years 2002 through 2005 include the results of the Atlanta, Georgia, Leitchfield, Kentucky and Minneapolis, Minnesota convenience distribution centers previously operated by Fleming. The data for 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 Annual Report on Form 10-K for further discussion).

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

(3) Includes private label merchandising proceeds in 2001-2003 (See Management s Discussion and Analysis of Financial Condition and Results of Operations within this Annual Report on Form 10-K for further discussion).

(4) Net sales cigarettes includes excises taxes of $1,097.8 million, $926.9 million, $848.3 million, $757.0 million and $618.3 million for the fiscal years 2005 through 2001, respectively.

(5) Net sales all other products includes excises taxes of $97.2 million, $84.4 million, $77.3 million, $68.7 million and $52.4 million for the fiscal years 2005 through 2001, respectively.

Cigarette Products. We purchase cigarette products from all the major U.S. and Canadian manufacturers. With cigarettes accounting for approximately $3,505.2 or 72% of our net sales revenue in 2005, 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

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cigarette consumption also declined in Canada as illustrated by consumption statistics available for the years 1995 through 2005.

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
2005	378.0	30.8

(1) Source: United States Department of Agriculture (USDA) Economic Research Service: Tobacco Situation and Outlook Yearbook (December 2004).

(2) Source: Canadian Tobacco Manufacturers Council Report 1995 to 2004 (December 2004) and 2005. Represents consumption of cigarettes sold by the three major Canadian manufacturers.

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.

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 2005, we paid approximately $1,195.0 million of excise taxes in the U.S. and Canada. As of December 31, 2005, state cigarette excise taxes in the U.S. jurisdictions we serve ranged from $0.07 per pack of 20 cigarettes in South Carolina to $2.03 per pack of 20 cigarettes in Washington. In the Canadian jurisdictions we serve, provincial excise taxes ranged from C$2.30 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 were $1,385.9 of net sales for the year ended December 31, 2005 and account for approximately 28% of our sales but approximately 65% 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 3,800 trade suppliers and manufacturers located across the United States and Canada. In 2005, we purchased approximately 51% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R.J. Reynolds, representing approximately 26% and 15% 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 primarily 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 and tobacco products, 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 Arizona Distribution Center (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 (RDC), which is dedicated solely to supporting Valero.

Map of Operations

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We purchase a variety of brand name and private label products, totaling approximately 38,000 SKUs, including approximately 2,600 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. Receivers, stockers, order selectors, stampers, forklift drivers and loaders received, stored and picked nearly 390 million and 300 million items (a carton of 10 packs of cigarettes is one item) or 54 million and 43 million cubic feet of product, during the years ended December 31, 2005 and December 31, 2004, respectively, while limiting the order-item error rate to about two errors per thousand items shipped.

Distribution

At December 31, 2005, we had approximately 650 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 December 31, 2005, our trucking system consisted of approximately 380 tractors, trucks and vans, of which nearly all were leased. Our trailers are typically owned by us and many have refrigerated compartments that allow us to deliver frozen and chilled products alongside non-refrigerated goods. Gross fuel consumption costs for the year ended December 31, 2005 totaled approximately $9.9 million, an increase of approximately $3.2 million from 2004, or 48%, due to increased fuel prices and increased sales volume. A significant portion of the fuel costs are offset by fuel surcharges of $4.6 million which are included in our customer pricing. In 2004, gross fuel costs were $6.7 million which were offset by fuel surcharges of $3.2 million.

Competition

We estimate that, as of December 31, 2005, 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 second largest and the 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. 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 (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 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.

Working Capital Practices

We sell products on credit terms to our customers that averaged, as measured by days sales outstanding, about 10 days for the year ended December 31, 2005 and about 11 days for the year ended December 31, 2004. Credit terms may impact pricing and are competitive within our industry. An increasing number of our customers remit payment electronically. 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. The number of days of cost of sales in inventory averaged about 13 days during 2004 and 2005.

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 2005, days purchases outstanding averaged approximately 9 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 December 31, 2005, we had approximately 3,430 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 220 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 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.

Of the 24 distribution centers we operate, two are operated as third party logistics providers. 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 (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 (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

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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 (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 2005, 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 16 Segment and Geographic Information* to our consolidated financial statements.

Available Information

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 calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC 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.

ITEM 1.A. RISK FACTORS

You should carefully consider the following risks together with all of the other information contained in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not currently known to us or those we currently view as immaterial may also materially adversely affect our business, financial condition or results of operations.

This Annual Report on Form 10-K 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).

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

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.

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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. 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, 2005, approximately 72% of our revenues came from the distribution of cigarettes. During the same period, approximately 35% 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. For example, in British Colombia, Canada, legislation was adopted authorizing the provincial government to seek recovery of tobacco-related health care costs from the tobacco industry and a lawsuit under such legislation is underway. Other states and provinces may adopt similar legislation and initiate similar lawsuits. 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.

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.

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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 and/or fees 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.

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 convenience wholesale distributor 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

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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.

It 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 affected.

We rely on funding from manufacturer discounts, rebates, allowances and incentives programs and cigarette excise stamping allowances and material changes in these programs could adversely affect our results of operations.

We receive payments from the manufacturers of the products we distribute for allowances, discounts, volume rebates, and other merchandising incentives in connection with various incentive programs. These payments are a substantial benefit to us and the amount and timing of these payments are affected by changes in the programs by the manufacturers, our ability to sell specified volumes of a particular product or attaining specified levels of purchases by our customers, and the duration of carrying a specified product. In addition, we receive discounts from states in connection with the purchase of excise stamps for cigarettes. If the manufacturers or states change or discontinue these programs or we are unable to maintain the volume of our sales, our results of operations could be negatively affected.

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. 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 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, 2005, we had approximately 3,800 vendors, and during 2005 we purchased approximately 51% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R. J. Reynolds, representing approximately 26% and 15% 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.

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 December 31, 2005 approximately 6%, or approximately 220, of our employees are covered by collective bargaining agreements with labor organizations, which expire at various times over the course of the next two 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 21% in 2005. 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. Prior to August 23, 2004, we did not reflect foreign currency transaction gains or losses in our results of operations because these intercompany balances were determined to be of a permanent nature. After August 23, 2004 because such intercompany balances began fluctuating and the balances were determined to be of a trading nature. GAAP requires that such foreign currency transaction gains or losses on intercompany transactions be recorded as a gain or loss within the income statement. To the extent we incur losses on such transactions our net income and earnings per share will be reduced.

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

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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.

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.

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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.

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 its tax returns. Based on this alternative tax filing position, the Company has taken deductions on its tax returns 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 $3.9 million in other tax liabilities on the accompanying December 31, 2005 consolidated balance sheet for this eventuality.

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Risks Relating to an Investment in Our Common Stock

Approximately 2.3 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 December 31, 2005, 7.5 million shares of our common stock and warrants to purchase 1.2 million shares of our common stock have been distributed by Fleming pursuant to the Plan. An aggregate of 2.3 million shares of our common stock are subject to future distribution pursuant to the Plan by Fleming. Future distributions of the remaining 2.3 million 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 December 31, 2005, restricted stock units, restricted stock and options issued pursuant to our stock incentive plans relating to 1.4 million 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. This average closing price was established in December 2005 and was determined to be $32.201. 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. Using the established share price of $32.201 the number of shares issued was 153,455. 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 December 31, 2005, only 7.5 million shares, or approximately 77%, 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.

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 below in Item 9.A. Controls and Procedures, 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,

(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.

Due to our need to engage a successor independent registered public accounting firm as a result of PricewaterhouseCoopers LLP s decision to decline to stand for re-election as our independent registered public accounting firm upon completion of the audit of our financial statements for fiscal 2005, we may be unable to file our first quarter 2006 Form 10-Q within the required filing period which may impact adversely our eligibility to remain listed on NASDAQ.

We are in the process of seeking to engage a new independent registered public accounting firm. If we are not able to engage a new independent registered public accounting firm on a timely basis to review our financial statements for the first quarter of 2006, we may need to delay the release of our earnings for the first quarter of

2006 and the filing of our Form 10-Q for such quarter. Such delays, coupled with the material weaknesses we have identified in our internal controls over financial reporting and the fact that we have not yet implemented a remediation plan to address the material weaknesses, could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock. In addition, the inability to file our Form 10-Q for the first quarter of 2005 on a timely basis could adversely impact our eligibility to remain listed on the NASDAQ stock market.

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 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.

ITEM 1.B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our headquarters are located in South San Francisco, California, and consist of approximately 22,000 square feet of leased office space. We also lease approximately 13,000 square feet for use by our information technology and tax personnel in Richmond, British Columbia. We lease approximately 2.24 million square feet and own approximately 0.12 million square feet of distribution space.

Distribution Center Facilities by City and State of Location

Albuquerque, New Mexico	Hayward, California	Salt Lake City, Utah
Atlanta, Georgia	Las Vegas, Nevada	Spokane, Washington
Bakersfield, California	Los Angeles, California	Calgary, Alberta
Corona, California(1)	Leitchfield, Kentucky	Vancouver, British Columbia
Denver, Colorado	Minneapolis, Minnesota	Victoria, British Columbia
Fort Worth, Texas	Portland, Oregon	Winnipeg, Manitoba
Grants Pass, Oregon	Sacramento, California(2)	

(1) This facility includes a distribution center and our Allied Merchandising Industry consolidating warehouse.

(2) The facility includes a distribution center and Artic Cascade, one of two of our consolidating warehouses.

We also operate distribution centers on behalf of two of our major customers, one in Phoenix, Arizona for Circle K and the one in San Antonio, Texas for Valero. Each facility is leased by the specific customer solely for their use and operated by Core-Mark.

ITEM 3. LEGAL PROCEEDINGS

Proceedings Under Chapter 11 of the Bankruptcy Code

On April 1, 2003, Fleming filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The debtor entities comprising Core-Mark were included in the Chapter 11 proceedings. The Plan, pursuant to which the debtors were reorganized around Core-Mark International and Fleming s one remaining convenience store wholesale distribution center, was confirmed on July 27, 2004 and became effective on August 23, 2004. Pursuant to the Plan, two special purpose trusts, the Post Confirmation Trust, or PCT, and the Reclamation Creditor s Trust, or RCT, were established. These 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, in the event that the amount of PCT administrative claims exceeds $56 million, we guarantee the payment of all such claims. 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 amounts of the TLV and non-TLV claims to not greater than $137 million.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prior to April 2005, our common stock was not traded. From April 2005 to December 1, 2005 our common stock traded over-the-counter and sales were reported on the Pink Sheets service provided by Pink Sheets LLC under the symbol CMRK . Since December 2, 2005 our common stock has traded on the Nasdaq National

Market under the symbol CORE . According to the records of our transfer agent, we had 1,722 stockholders of record as of February 28, 2006. The following table sets forth the range of high and low bid prices or sales prices of our common stock as reported by the Nasdaq National Market or the Pink Sheets for the periods indicated (as applicable):

	Low Price	High Price
Fiscal 2005		
4th Quarter(1)	28.00	34.00
3rd Quarter(2)	25.50	34.50
2nd Quarter(2)	24.90	37.50
1st Quarter(2)	N/A	N/A

(1) Quotes include the higher and lower of (i) the sales price for our common stock on the Nasdaq National Market, since trading commenced on December 2, 2005 or (ii) the bids for our common stock on the Pink Sheets. Pink Sheet quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

(2) Quotes represent the high and low bids for our common stock on the Pink Sheets. Pink Sheet quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions. Pink Sheet trading commenced on April 13, 2004.

We have not declared or paid any cash dividends on our common stock. The credit agreement for our 2005 Credit Facility prohibits us from paying cash dividends on our common stock. In addition, we intend to retain future earnings, if any, to finance the operation and expansion of our business. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. The payment of any future dividends will be determined by our board of directors in light of then existing conditions, including our earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors.

The following table sets forth the total number of shares of our common stock to be issued upon exercise of outstanding options and upon the vesting of restricted stock units, the weighted average exercise price of such options and price of the restricted stock units and the number of shares of our common stock available for future issuance under our 2004 Plan, 2005 Plan and Directors Plans. None of the 2004 Plan, 2005 Plan or Directors Plans were approved by our stockholders, however the 2004 Plan and 2004 Directors Plan were approved by the Bankruptcy Court in connection with Fleming s bankruptcy.

Equity Compensation Plan Information

(as of December 31, 2005)

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
2004 Long Term Incentive Plan Restricted Stock Units and Options	1,237,693(1)	$ 15.50(2)	66,822
2005 Long Term Incentive Plan Restricted Stock Units	153,455	**(3)	17,860
2004 Directors Equity Incentive Plan	30,000	$ 15.50	0
2005 Directors Equity Incentive Plan	15,000	$ 27.03	0

(1) Includes 1,049,934 options and 187,759 shares of restricted stock units.

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(2) Includes 1,049,934 options with an exercise price of $15.50 per share and excludes 187,759 shares of restricted stock units that require the payment of par value ($.01) upon delivery of the underlying shares.
(3) Restricted stock units require the payment of par value ($.01) upon delivery of the underlying shares.

Equity Incentive Plans

2004 Long-Term Incentive Plan

We adopted our 2004 Long-Term Incentive Plan, or the 2004 Plan, effective August 23, 2004, the effective date of the Plan. The 2004 Plan permits us to issue incentive awards to eligible participants selected by our Compensation Committee that are settled in our common stock, cash, or other Core-Mark securities. Available awards under the 2004 Plan include:

- stock options (including incentive stock options under Section 422 of the Internal Revenue Code of 1986);
- stock appreciation rights;
- restricted stock and restricted stock units

Awards under the 2004 Plan may be granted, in the discretion of the Compensation Committee, to any director, officer (including a non-employee officer) or employee of the Company, as well as to any other individual performing services for us or any Core-Mark subsidiary and to any individual to whom an offer of employment or offer to provide services has been extended by us or any Core-Mark subsidiary.

2005 Long-Term Incentive Plan

We adopted our 2005 Long-Term Incentive Plan, or the 2005 Plan, effective February, 2005. The 2005 Plan permits us to issue incentive awards to eligible participants selected by our Compensation Committee that are settled in our common stock, cash, or other Core-Mark securities. Available awards under the 2005 Plan include restricted stock and restricted stock units and performance awards. Awards under the 2005 Plan may be granted, in the discretion of the Compensation Committee, to any director, officer (including a non-employee officer) or employee of the Company, as well as to any other individual performing services for us or any Core-Mark subsidiary and to any individual to whom an offer of employment or offer to provide services has been extended by us or any Core-Mark subsidiary.

2004 Directors Equity Incentive Plan

We adopted our 2004 Directors Equity Incentive Plan, or the 2004 Directors Plan, effective August 23, 2004, the effective date of the 2004 Directors Plan. The 2004 Directors Plan permits us to grant non-qualified stock options to our non-employee directors. Awards under the 2004 Directors Plan may be granted, in the discretion of our board of directors, to any non-employee director of the Company or any subsidiary.

2005 Directors Equity Incentive Plan

We adopted our 2005 Directors Equity Incentive Plan, or the 2005 Directors Plan, effective August, 2005. The 2005 Directors Plan permits us to grant non-qualified stock options to our non-employee directors. The terms of the 2005 Directors Plan are substantially similar to the 2004 Directors Plan.

Sales of Unregistered Securities

Common Stock and Warrants Issued Pursuant to the Plan of Reorganization

Pursuant to Fleming s plan of reorganization, on August 23, 2004 we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the

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Class 6(B) creditors of Fleming. We refer to the warrants we issued to the Class 6(B) creditors as the Class 6(B) Warrants. We received no cash consideration for the issuance of common stock and the Class 6(B) Warrants. The Class 6(B) Warrants have an exercise price of $20.925 per share and may be exercised at the election of the holder at any time prior to August 23, 2011. The shares of common stock and the Class 6(B) Warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes. The Tranche B Warrants have an exercise price of $15.50 per share. We entered into a registration rights agreement with the holders of the Tranche B Warrants pursuant to which we registered under the Securities Act of 1933 the shares of our common stock issuable upon exercise of the Tranche B Warrants.

Summary of Equity Capitalization

		Shares Outstanding or Subject to Issuance (1)		
	Shares Authorized(1)	**August 23, 2004**	**December 31, 2004**	**December 31, 2005**
Common Stock Issued Pursuant to the Plan of Reorganization @ $0.01 par value	9,800,000	9,800,000	9,800,000	9,800,000
Held by Fleming pending distribution under the Plan:		9,800,000	9,800,000	2,309,382
Distributed:				7,490,618
		9,800,000	9,800,000	9,800,000
Management & Director Incentive Plans:				
Restricted Stock Grants under 2004 LTIP (2)		15,375	15,375	8,542
Restricted Stock Units under 2004 LTIP		175,501	175,501	187,759
sub-total	200,000	190,876	190,876	196,301
Options Granted under 2004 LTIP	1,114,444	1,060,422	1,060,422	1,049,934
Restricted Stock Units under 2005 LTIP	171,315			153,455
Options Granted under 2004 Director s Equity Incentive Plan	30,000	30,000	30,000	30,000
Options Granted under 2005 Director s Equity Incentive Plan	15,000			15,000
		1,281,298	1,281,298	1,444,690
Tranche B Warrants	247,654	247,654	247,654	247,654
Class 6(b) Warrants	990,616	990,616	990,616	990,616
Subtotal Shares Issued or subject to issuance	12,569,029			
Balance of total shares authorized	37,430,971			
Totals	50,000,000	12,319,568	12,319,568	12,482,960

(1) Shares under restricted stock units, options and warrants will be issued upon vesting, delivery or exercise.
(2) Long Term Incentive Plan (LTIP)

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ITEM 6. SELECTED FINANCIAL DATA

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.

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. 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*).

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 year ended December 31, 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 year ended December 31, 2003 as described below, reflect the consolidated results of operations, financial position, and cash flows of Core-Mark, CMI and its subsidiaries. However, the consolidated financial statements reflect the results of operations of Head Distributing only following its acquisition in April of 2002.

The selected consolidated financial data for the year end December 31, 2005, periods from August 23, 2004 through December 31, 2004, January 1, 2004 through August 22, 2004 and for the year ended December 31, 2003 are derived from Core-Mark s audited consolidated financial statements included in this Annual Report on Form 10-K. 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, as discussed *under Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Financial Information* and *Note 2 of the Notes to the Consolidated 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

	Successor Company		Predecessor Company			
				Year ended December 31,		
(in millions except per share amounts)	Year ended December 31, 2005	Period from August 23 through December 31, 2004 (Restated)	Period from January 1 through August 22, 2004	2003	2002	2001[(a)]
Statement of Operations Data:						
Net sales[(a)]	$ 4,891.1	$ 1,549.3	$ 2,673.1	$ 4,324.3	$ 4,662.1	$ 3,425.0
Gross profit[(b)]	271.0	90.9	149.8	269.4	308.3	213.9
Warehousing and distribution expenses	135.7	42.6	78.7	130.2	131.8	92.6
Selling, general and administrative expenses	90.0	34.9	59.3	98.3	93.2	77.9
Goodwill and other long-lived asset impairment[(c)]				291.4		
Income (loss) from operations	44.0	13.0	11.8	(252.2)	79.8	44.2
Interest expense, net[(d)]	10.0	4.8	4.4	5.4	8.2	11.1
Reorganization items, net[(e)]		0.8	(70.0)	7.3		
Income (loss) from continuing operations	14.3	5.3	50.7	(265.2)	39.5	17.5
Income (loss) from discontinued operations				(2.8)	0.3	
Net income (loss)	14.3	5.3	50.7	(268.0)	39.8	17.5
Per Share Data[(f)]:						