Core-Mark Holding Company, Inc.
Form 10-12G/A
October 21, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Amendment No. 1 to

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

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

CORE-MARK HOLDING COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Common Stock, par value $0.01 per share

(Title of class)

Common Stock Warrants

(Title of class)

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

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ITEM 1. BUSINESS

SUMMARY

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

Core-Mark

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

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

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

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

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Our Strategy and Competitive Strengths

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

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

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

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

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

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

Company Background

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

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

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

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

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

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

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

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

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

In February 2005, our board of directors adopted our 2005 Long Term Incentive Plan, or the 2005 Plan, and authorized the grant of restricted stock units under the 2005 Plan to be allocated by our Chief Executive Officer among our employees in proportion to grants made under the 2004 Plan. The number of shares of our common stock issuable under the 2005 Plan is limited to a number of shares having a market value of $5.5 million, based

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on the average closing price of our common stock over the eleventh through twentieth trading days following the date that our common stock becomes quoted on the NASDAQ National Market. In February 2005, the Compensation Committee and the Board of Directors approved the grant of restricted stock units having a value of approximately $5.0 million with a vesting commencement date of February 1, 2005. It is anticipated that such grants will be made in the fourth quarter of 2005. The Board of Directors determined that the balance of approximately $0.5 million available for grants under the 2005 Plan should be reserved for possible future issuance.

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

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

Corporate Information

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

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RISK FACTORS

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

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

Risks Relating to Our Business

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

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

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

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

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

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

The tobacco industry is subject to a wide range of laws and regulations regarding the advertising, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. Various state and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under our $250 million 2005 Credit Facility. While we believe our sources of liquidity are adequate, we cannot assure you that these sources will provide us with sufficient liquidity and capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs for the foreseeable future. We may require additional equity or debt financing to meet our working capital requirements or to fund our capital expenditures. We may not be able to obtaining financing on terms satisfactory to us, or at all.

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

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

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

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

We depend on our senior management and key personnel.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Recent Reorganization

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

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

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

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

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

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

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

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

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

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

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

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Risks Relating to An Investment in Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or to remedy any material weaknesses in our internal controls 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.

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 for 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.

In addition, in connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover material weaknesses in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, 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. The PCAOB defines significant deficiency as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected.

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While we have not identified any material weaknesses in our internal controls over financial reporting that would cause us to deem such internal controls ineffective, we, together with our auditors, have identified certain deficiencies. Those deficiencies relate to accounting for certain transactions and certain closing procedures affecting our financial statement reporting process, which are primarily attributable to the impact of the Fleming bankruptcy and a lack of resources with the requisite expertise to address these matters. We have retained additional accounting resources and are working to obtain the requisite training for others in the Company to remediate these deficiencies. However, we cannot provide any assurance that additional testing of our internal controls will not uncover additional deficiencies that, when aggregated with any other unremediated deficiencies, would result in a material weakness in our internal control over financial reporting.

In the event that a material weakness is identified, we will employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses that we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any 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 controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

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BUSINESS

Company Overview

Core-Mark is one of the largest wholesale distributors to the convenience store industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada.

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

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

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

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

We operate a network of 24 distribution centers in the United States and Canada, including two distribution centers that we operate as a third party logistics provider. One of these third party distribution centers is located

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

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

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

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

Industry Overview

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

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

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

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

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

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

Strategy and Competitive Strengths

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

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

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

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

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

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

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

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

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

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

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

Customers and Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

Information Technology Service

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

Sales, Products and Suppliers

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

	2004(1)	2003(1)	2002(1)	2001(1)	2000(1)
Cigarettes					
Net sales (in millions)	$ 3,048.2	$ 3,049.8	$ 3,368.4	$ 2,473.1	$ 2,174.7
Gross Profit (in millions)(2)(3)	$ 87.3	$ 106.7	$ 129.3	$ 82.6	$ 71.3
% of Total Sales	72%	71%	72%	72%	72%
% of Gross Profit	36%	40%	42%	39%	37%

All other products					
Net sales (in millions)	$ 1,174.2	$ 1,274.5	$ 1,293.7	$ 951.9	$ 860.7
% of Total Sales	28%	29%	28%	28%	28%
% of Gross Profit	64%	60%	58%	61%	63%
Total Net Sales (in millions)	$ 4,222.4	$ 4,324.3	$ 4,662.1	$ 3,425.0	$ 3,035.4
Gross Profit (in millions)	$ 240.2	$ 269.4	$ 308.3	$ 213.8	$ 195.1

(1) The years 2004, 2003 and 2002 include the results of the Atlanta, Georgia, Leitchfield, Kentucky and Minneapolis, Minnesota convenience distribution centers previously operated by Fleming. The data for 2000 and 2001, during which time we did not operate these distribution centers, is not available. The information provided for the periods prior to August 23, 2004 relates to the Predecessor Company, while the information after August 23, 2004 is that of the Successor Company. We have combined the Predecessor Company and Successor Company periods in 2004 for convenience of discussion (See Selected Financial Information contained in this registration statement for further discussion). *(See Note 3 Fresh-Start Accounting to the consolidated financial statements).*

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(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 2000-2003 (See Management s Discussion and Analysis of Financial Condition and Results of Operations within this registration statement for further discussion).

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

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

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

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

(1) Source: USDA Economic Research Service: Tobacco Situation and Outlook Yearbook (December 2004).
(2) Source: Canadian Tobacco Manufacturers Council Report 1995 to 2004 (December 2004).

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

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

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accordingly, do not have cost structures burdened with MSA-related payments to the same extent as the original participating manufacturers. As a result, the premium, or full, price tier of cigarettes has been negatively impacted by widening price gaps in the prices between those brands and the deep-discount brands for the past several years.

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

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

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

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

Operations

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

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Map of Operations

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

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

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

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

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

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

We also use the following automated ordering systems:

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

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

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

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

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

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

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

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

Distribution

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

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

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

Competition

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

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

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

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

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

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

Seasonality

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

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

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

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Working Capital Practices

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

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

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

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

Employees

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

Facilities

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

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

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

Regulation

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

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

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

Registered Trademarks

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

Segment and Geographic Information

We operate in two reportable segments the United States and Canada. See *Note 17 Segment and Geographic Information* to our audited financial statements and *Note 10 Segment and Geographic Information* to our unaudited interim financial statements for segment and geographic information.

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Available Information

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

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

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

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ITEM 2. FINANCIAL INFORMATION

SELECTED FINANCIAL INFORMATION

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

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

On April 1, 2003 Fleming Companies, Inc. (Fleming), including its subsidiaries, filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. On July 27, 2004, the bankruptcy court confirmed Fleming s Plan of Reorganization, or the Plan. The Plan provided for the reorganization of the debtors around CMI and its subsidiaries, including the Eastern Distribution Centers, as indirect wholly owned subsidiaries of Core-Mark. On August 23, 2004 (Effective Date) the Plan was declared effective by the bankruptcy court and the Company emerged from the Fleming bankruptcy. In connection with the emergence from bankruptcy, Core-Mark implemented American Institute of Certified Public Accountants (AICPA) Statement of Position 90-7 (SOP 90-7) *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.* All financial information prior to August 23, 2004 is identified as relating to the Predecessor Company. All financial information after August 22, 2004 relates to the Successor Company *(See Note 2 Summary of Significant Accounting Policies and Note 3 Fresh-Start Accounting to the consolidated financial statements*).

Basis of Presentation

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

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

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

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

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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	Successor Company	Predecessor Company				
	Six Months Ended June 30, 2005 (unaudited)	Six Months Ended June 30, 2004 (unaudited)	Period from August 23 through December 31, 2004	Period from January 1 through August 22, 2004	Year Ended December 31, 2003	2002	2001(a)	2000(a)
(in millions except per share amounts)								
Statement of Operations Data:								
Net sales(a)	$ 2,347.9	$ 2,036.3	$ 1,549.3	$ 2,673.1	$ 4,324.3	$ 4,662.1	$ 3,425.0	$ 3,035.4
Gross profit(b)	135.9	114.2	90.4	149.8	269.4	308.3	213.9	195.1
Warehousing and distribution expenses	65.4	59.1	42.6	78.7	130.2	131.8	92.6	84.3
Selling, general and administrative expenses	53.0	47.4	35.1	59.3	98.3	93.2	77.9	73.5
Goodwill and other long-lived asset impairment(c)					291.4			
Income (loss) from operations	17.0	7.7	12.3	11.8	(252.2)	79.8	44.2	34.9
Interest expense, net(d)	6.2	3.8	4.8	4.4	5.4	8.2	11.1	12.9
Reorganization items, net(e)		1.7	0.8	(70.0)	7.3			
Income (loss) from continuing operations	5.8	1.4	3.4	50.7	(265.2)	39.5	17.5	11.1
Income (loss) from discontinued operations					(2.8)	0.3		
Net income (loss)	5.8	1.4	3.4	50.7	(268.0)	39.8	17.5	11.1
Per Share Data(f):								
Basic income (loss) per common share:								
Continuing operations	$ 0.59	$ 0.14	$ 0.35	$ 5.17	$ (27.06)	$ 4.03	$ 1.79	$ 1.13
Discontinued operations					$ (0.29)	$ 0.03		
Net income (loss)	$ 0.59	$ 0.14	$ 0.35	$ 5.17	$ (27.35)	$ 4.06	$ 1.79	$ 1.13
Diluted income (loss) per common share:								
Continuing operations	$ 0.56	$ 0.14	$ 0.35	$ 5.17	$ (27.06)	$ 4.03	$ 1.79	$ 1.13
Discontinued operations					$ (0.29)	$ 0.03		
Net income (loss)	$ 0.56	$ 0.14	$ 0.35	$ 5.17	$ (27.35)	$ 4.06	$ 1.79	$ 1.13
Shares used to compute net income (loss) per share:								
Basic	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Diluted	10.4	9.8	9.8	9.8	9.8	9.8	9.8	9.8
Other Financial Data:								
Excise taxes(g)	547.3	464.6	355.0	616.5	897.0	780.7	626.5	597.5
Cigarette inventory holding profits(h)	5.1	0.2	1.1	0.2	7.2	9.8	5.8	4.8
LIFO expense (income)(b)	3.2	2.1	1.8	2.7	(2.1)	(16.7)	5.6	6.3
Depreciation and amortization(i)	7.2	5.6	4.7	7.0	9.9	12.2	9.7	8.9
Stock-based compensation	2.0		0.9					
Capital expenditures	3.4	4.7	5.7	6.4	8.4	5.5	7.9	7.6

	As of June 30, 2005	As of June 30, 2004	As of December 31, 2004	As of August 22, 2004	As of December 31, 2004 2003	2002	2001(a)	2000(a)

Balance Sheet Data								
Total assets	$ 521.4	$ 498.3	$ 503.6	$ 517.2	$ 513.8	$ 773.4	$ 390.1	$ 374.9
Total debt, including current maturities(d)	77.1		77.5	118.7			163.5	186.6

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

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

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(c) Impairment of goodwill and other long-lived assets in 2003 was the result of the Fleming bankruptcy.
(d) Interest expense, net includes interest expense, net of interest income. At December 31, 2003 and December 31, 2002, Core-Mark was operating as a subsidiary of Fleming and did not have debt. Interest expense for the period from June 17, 2002, when Core-Mark was acquired by Fleming to August 22, 2004 was imputed as required under SAB Topic 1.B (See Note 2 Summary of Significant Accounting Policies to the consolidated financial statements).
(e) Reorganization items, net: in 2003 consists of bankruptcy related costs including bankruptcy professional fees and provisions for uncollectible balances related to disputes with vendors arising out of bankruptcy; for the period from January 1, 2004 through August 22, 2004 consists of fresh-start accounting adjustments, including a $5.8 million adjustment to reflect the fair value of assets and liabilities, a $66.1 million net gain on the discharge of pre-petition debt, and other bankruptcy related costs including professional fees of $1.6 million; and for the period from August 23 to December 31, 2004 includes primarily bankruptcy related professional fees.
(f) For the Predecessor Company, basic net income (loss) per share and diluted net income (loss) per share have been computed by dividing net income (loss) for the period by the 9,800,000 shares of Core-Mark common stock outstanding after emergence from bankruptcy.
(g) State and provincial cigarette and tobacco excise taxes paid by the Company are included in net sales and cost of goods sold.
(h) Cigarette inventory holding profits represent income related to cigarette and excise tax stamp inventories on hand at the time either cigarette manufacturers increase their prices or states increase their excise taxes. This income is recorded as an offset to cost of goods sold and recognized as the inventory is sold. This income is not predictable and is dependent on inventory levels and the timing of manufacturer price increases or state excise tax increases.
(i) Depreciation and amortization includes depreciation on property and equipment, amortization of purchased intangibles and goodwill, and other deferred charges.

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

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

Overview

Core-Mark is one of the leading wholesale distributors to the convenience store industry in North America, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 24 distribution centers in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 20,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, grocery products, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of store formats including traditional convenience stores, grocery stores, drug stores, mass merchandise stores, liquor stores and other stores that carry convenience products.

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

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Background

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

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

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

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

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

In applying fresh-start accounting to our August 23, 2004 consolidated financial statements, adjustments to reflect the fair value of assets and liabilities amounted to $5.8 million in reorganization items, net. The adjustment was primarily attributable to ascribing value to intangible internally developed software of $6.0 million, an adjustment to our deferred rent accrual of $3.8 million, offset by charges for the re-valuation of other balance sheet items totaling $4.0 million, including inventory and accounts receivables. The restructuring of our capital structure and resulting discharge of pre-petition debt resulted in a net gain of $66.1 million. The charge for the revaluation of our assets and liabilities and the net gain on the discharge of pre-petition debt are recorded in reorganization items, net in the consolidated statements of operations *(See Note 10 Reorganization Items, Net to the consolidated financial statements).*

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

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to exist at this time with respect to these guarantees. However, if the assets of either Trust are insufficient to cover the liabilities of such Trust we could be required to satisfy the guarantees.

Critical Accounting Policies and Estimates

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

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

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

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

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

Income Taxes. Income taxes are accounted for under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and

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liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when management does not consider it more likely than not that some portion or all of the deferred tax assets will be realized.

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

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

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

Pursuant to the Plan, on the Effective Date, we assumed approximately $29.5 million in self-insurance obligations from Fleming related to workers compensation and auto liability programs based on management s assessment of a third party actuarial valuation. These amounts were recorded in the reorganization adjustments as of August 23, 2004 and are included in accrued liabilities and claims liabilities. *(See Note 5 Other Balance Sheet Accounts Detail to the consolidated financial statements).*

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

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Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group. *(See Note 16 Employee Benefit Plans to the consolidated financial statements).*

Forward-Looking Trend and Other Information

Cigarette Consumption

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

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

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

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

Cigarette Inventory Holding Profits

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

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

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

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Executive Summary of Results of Operations

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

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

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

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

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

Since our emergence from the Fleming bankruptcy, our trade accounts payable increased from $35.5 million to $61.2 million at December 31, 2004, reflecting resumption of pre-bankruptcy terms with nearly all vendor credit terms. At June 30, 2005 our trade accounts payable balance was $66.2 million. Due to changes in industry- wide credit terms, we do not expect to return to historical trade accounts payable levels. From a liquidity

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standpoint, with the 2005 Credit Facility, the resumption of trade terms, along with cash generated from operations, we believe that we have the required capital resources to meet our working capital, capital expenditure and other cash needs for at least the next 12 months (*See Liquidity and Capital Resources section below*).

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

Results of Operations

Comparison of the Years Ended December 31, 2004 and 2003

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

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

(in millions)	Successor and Predecessor 2004 Combined *compared to* Predecessor 2003	Successor and Predecessor Combined year ended December 31, 2004	Combined 2004 % of Net Sales	Successor Period from August 23, through December 31, 2004	Predecessor Period from January 1 through August 22, 2004	Predecessor Year ended December 31, 2003	2003 % of Net Sales
Net sales	$ *(101.9)*	$ 4,222.4	100.0	$ 1,549.3	$ 2,673.1	$ 4,324.3	100.0
Net sales Cigarettes	*(1.6)*	3,048.2	72.2	1,124.3	1,923.9	3,049.8	70.5
Net sales Food/Non-food	*(100.3)*	1,174.2	27.8	425.0	749.2	1,274.5	29.5
Gross profit	*(29.2)*	240.2	5.7	90.4	149.8	269.4	6.2
Warehousing and distribution expenses	*(8.9)*	121.3	2.9	42.6	78.7	130.2	3.0
Selling, general and administrative expenses	*(3.9)*	94.4	2.2	35.1	59.3	98.3	2.3
	(291.4)					291.4	6.7

Goodwill and other long-lived asset impairment							
Income (loss) from operations	*276.3*	24.1	0.6	12.3	11.8	(252.2)	(5.8)
Interest expense, net	*3.8*	9.2	0.2	4.8	4.4	5.4	0.1
Reorganization items, net	*(76.5)*	(69.2)	(1.6)	0.8	(70.0)	7.3	0.2
Income (loss) from discontinued operations	*2.8*					(2.8)	(0.1)
Net income (loss)	*322.1*	54.1	1.3	3.4	50.7	(268.0)	(6.2)

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Net sales. Net sales overall decreased $101.9 million, or 2.4%, in 2004 compared to 2003. The decrease was primarily due to customer losses resulting from Fleming s Chapter 11 filing. The former Fleming Eastern Distribution Centers were significantly impacted by the bankruptcy, and experienced an aggregate net sales decline of approximately $193.0 million due primarily to the loss of customers. These distribution centers had fewer stable, long-term relationships within their customer base than was the case in our other distribution centers. This decrease was significantly offset by increases in net sales in the remaining distribution centers.

Net sales from our Canadian operations increased overall by $85.2 million in 2004 compared to 2003, primarily due to an increase of $63.9 million caused by changes in foreign currency translation rates. The strengthening of the Canadian dollar compared to the U.S. dollar resulted in U.S. dollar sales increases. Excluding the impact of the Eastern Distribution Centers and foreign currency translation, overall sales increased by approximately $27 million. The inability to attract new customers during bankruptcy significantly impacted our ability to grow net sales.

Net sales of cigarettes decreased $1.6 million, or less than 1%, in 2004 compared to 2003. This was caused by a decline in cigarette sales at the former Fleming Eastern Distribution Centers of $118.5 million which was largely offset by increases in cigarette sales by our other distribution centers of $116.9 million. During 2004, cigarette carton sales volume declined by 1.7% primarily due to lost business as a result of the bankruptcy. Although cigarette carton volume declined by 1.7%, the decline in net cigarette sales of only 0.1% was due to increases in cigarette manufacturer prices and state and provincial excise taxes, which were passed on to our customers and reflected in net sales as well as the impact of foreign currency translation.

Net sales of food products and non-food products decreased $100.3 million, or 7.9%, in 2004 compared with 2003. Of this decrease, $74.5 million was attributable to the former Fleming Eastern Distribution Centers and $25.8 million was attributable to the remaining distribution centers. The decrease in food and non-food sales was due to the loss of customers and our inability to attract new customers while in bankruptcy.

Gross profit. Gross profit decreased by $29.2 million in 2004 compared with 2003. Our gross profit is primarily comprised of two components: profits earned as a result of mark-ups to our customers and profits earned by participating in vendor discount and rebate programs, and other promotional and merchandising programs. Additionally, changes in our LIFO reserves impact gross profit. Gross profit declined in 2004 as compared to 2003 due to the decline in net sales from lost customers and lost vendor discounts resulting from the Fleming bankruptcy. Additionally, a $6.6 million increase in LIFO expense, the non-recurrence in 2004 of $6.0 million in income related to private label merchandising income earned in 2003 and a $5.9 million decrease in cigarette inventory holding gains in 2004 compared to 2003 related to cigarette tax and manufacturer price increases in 2003, contributed to the decline. Core-Mark had LIFO expense of $4.5 million in 2004 compared to LIFO income of $2.1 million in 2003 which was primarily the result of inflation in the confection product category. During 2003, we recorded cigarette inventory holding profits of approximately $7.2 million as a result of cigarette tax and manufacturer price increases compared to $1.3 million in 2004. Distributors, such as Core-Mark, from time to time, may earn higher gross profits on cigarette inventory quantities on hand, which we refer to as cigarette inventory holding profits, due to increases in state and local taxes and cigarette manufacturer pricing. In addition, effective with the bankruptcy, two major cigarette manufacturers in Canada withheld their credit terms discounts, resulting in a reduction in gross profit of $3.5 million in 2004 and $4.7 million in 2003. The slight decline in the remaining gross profit as a percentage of sales in 2004 compared to 2003 was primarily due to the fact that vendor merchandising allowances and terms discounts were negatively impacted as a result of the bankruptcy.

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The following table sets forth notable components comprising the change in gross profit as a percentage of net sales year over year.

(in millions)	Successor and Predecessor Combined year ended December 31, 2004	2004 % of Net sales	Predecessor Year ended December 31, 2003	2003 % of Net sales
Net sales	**$ 4,222.4**	**100.00%**	**4,324.3**	**100.00%**
Private label merchandising proceeds			6.0	0.14
LIFO income (expense)	(4.5)	(0.11)	2.1	0.05
Cigarette inventory holding profits	1.3	0.03	7.2	0.17
Credit terms withheld	(3.5)	(0.08)	(4.7)	(0.11)
Remaining gross profit	246.9	5.85	258.8	5.98
Gross profit	**$ 240.2**	**5.69**	**$ 269.4**	**6.23**

Our operating expenses include costs related to warehousing, distribution, selling, general and administrative activities, and goodwill and other long-lived asset impairment. Overall, costs related to labor and benefits comprise more than 60% of our normal operating expense. A significant percentage of our labor costs are variable in nature and fluctuate relative to our sales volume.

Warehousing and distribution expenses. The decline in warehousing and distribution expense of $8.9 million in 2004 from 2003 was due primarily to a decline in salaries and benefits by approximately $7.3 million, in connection with the decline in sales volume and increased efficiencies in the Eastern Distribution Centers. Staff reductions were required as a result of the decline in sales volume due primarily to the bankruptcy. During the same period, we were also refining the operations in the Eastern Distribution Centers by incorporating available technology and proven methodologies.

Selling, general and administrative expenses. The decline in selling, general and administrative expenses of $3.9 million in 2004 from 2003 was due in part to a reduction in sales personnel in our Eastern Distribution Centers. This was in response to the lost business described above and contributed to a decrease in selling expenses of $1.9 million. In addition, general and other administrative expenses at our Eastern Distribution Centers were reduced in 2004 compared to 2003 by $2.5 million, primarily due to salary and benefit reductions required due to the lost business. Slight increases overall in selling, general, and administrative expenses at our other distribution centers and corporate offices explain the difference.

Goodwill and other long-lived asset impairment. In connection with the Fleming bankruptcy filing in 2003, we evaluated our goodwill and long-lived intangible assets for potential impairment. As a result we recorded an impairment charge to write-off goodwill and long-lived intangible assets in accordance with SFAS 142. This charge was $291.4 million in total and is reflected in our 2003 statement of operations. After such charge, there was no remaining goodwill or intangible long-lived assets and no charge was required in 2004.

Income (loss) from operations. Income from operations for 2004 was $24.1 million compared to a loss from operations of $252.2 million for 2003, an increase of $276.3 million, primarily attributable to the write-off of goodwill and long-lived assets during 2003. After eliminating the impact of the $291.4 million charge, the decrease to $24.1 million in 2004 from $39.2 million in 2003 is primarily attributable to lost business, which was driven by the bankruptcy and our inability to secure full vendor discounts, coupled with rising inventory costs under the LIFO method.

Interest expense, net. Interest expense increased by $3.8 million in 2004 from 2003 due primarily to an increase in the effective borrowing rates under our Prior Revolving Credit Facility and term loan and increased debt levels required upon emergence from bankruptcy. Interest expense for 2003 was estimated as part of carve-out accounting, because of our related party borrowings with our former parent, Fleming.

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Reorganization items, net. Reorganization items, net represents expenses we incurred as a result of the Chapter 11 bankruptcy and adjustments related to fresh-start accounting. In 2004, the application of fresh-start accounting resulted in a $5.8 million adjustment to reflect the fair value of assets and liabilities and a net gain of $66.1 million relating to the discharge of pre-petition debt. Additionally, in 2004, in connection with the reorganization, we incurred $2.7 million of other bankruptcy related costs, including professional fees. The charges in 2003 consisted primarily of professional fees and other cost incurred in connection with the Fleming bankruptcy. (*See Note 10 Reorganization Items, Net to the consolidated financial statements).*

Income (loss) from discontinued operations. Income (loss) from discontinued operations included the revenues and expenses associated with the discontinuation of our Adel, Georgia distribution center, which took place in January 2004. The Adel distribution center was closed due to the loss of customers as a result of the Fleming bankruptcy.

Comparison of the Years Ended December 31, 2003 and 2002

The following table sets forth our results of operations for the years ended December 31, 2003 and 2002. The table is presented solely to complement management s discussion and analysis of our results of operations.

(in millions)	Predecessor 2003 *compared to* 2002	Predecessor Year ended December 31, 2003	2003 % of Net Sales	Predecessor Year ended December 31, 2002	2002 % of Net sales
Net sales	*$ (337.8)*	$ 4,324.3	100.0	$ 4,662.1	100.0
Net sales Cigarettes	(318.6)	3,049.8	70.5	3,368.4	72.3
Net sales Food/Non-food	(19.2)	1,274.5	29.5	1,293.7	27.7
Gross profit	*(38.9)*	269.4	6.2	308.3	6.6
Warehousing and distribution expenses	*(1.6)*	130.2	3.0	131.8	2.8
Selling, general and administrative expenses	*5.1*	98.3	2.3	93.2	2.0
Goodwill and other long-lived asset impairment	*291.4*	291.4	6.7		
Income (loss) from operations	*(332.0)*	(252.2)	(5.8)	79.8	1.7
Interest expense, net	*(2.8)*	5.4	0.1	8.2	0.2
Reorganization items, net	*7.3*	7.3	0.2		
Income (loss) from discontinued operations	*(3.1)*	(2.8)	(0.1)	0.3	0.0
Net income (loss)	*(307.8)*	(268.0)	(6.2)	39.8	0.9

Net sales. The decrease in net sales in 2003 of $337.8 million, or 7.2% compared to 2002 was primarily due to customer losses in connection with the Fleming Chapter 11 bankruptcy filing and a cigarette manufacturer buy-down program described below, offset by increases in sales to existing customers, increases due to foreign currency translation impacts, and cigarette tax increases. The former Fleming Eastern Distribution Centers were most significantly affected by the bankruptcy since solid long-term relationships with the customers of these distribution centers did not exist at the time of the bankruptcy, resulting in an aggregate net sales decline of approximately $306 million. In addition, one of the major cigarette manufacturers introduced a discount program that reduced our sales price to our customers by $6.50 per carton of cigarettes, effective February 1, 2003, resulting in a decrease in sales of approximately $206 million in 2003 compared to 2002. An increase in net sales of approximately $174 million, or 3.7%, compared to 2002, is primarily the result of increased sales to our existing customers. Of this increase, overall sales from our Canadian operations were impacted positively by approximately $94.2 million in 2003 compared to 2002, due to changes in foreign currency translation rates. The strengthening of the Canadian dollar compared to the U.S. dollar resulted in U.S. dollar sales increases.

Net sales of cigarettes decreased $318.6 million, or 9.5%, in 2003 compared to 2002 due primarily to a decline in cigarette sales of $239.8 million related to the former Fleming Eastern Distribution Centers, the cigarette manufacturer buy-down program described above, negatively impacting sales by approximately $206 million, offset by cigarette manufacturer price increases and cigarette tax increases. In 2003, cigarette carton

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sales volume declined by 12.9%, primarily as a result of lost business due to the bankruptcy. Although cigarette carton sales volume declined by 12.9%, the decline in net sales of 9.5% was lower due to increases in cigarette manufacturer prices during 2003 that we passed on to our customers, increasing our sales compared to the prior year. Additionally, several states, in particular, Arizona, Nevada and Wyoming, increased cigarette taxes during 2003 and these increases are reflected in our net sales of cigarettes.

Net sales of food and non-food products declined by $19.2 million, or 1.5%, in 2003 compared to 2002 due to a decrease of $66.1 million related to the former Fleming Eastern Distribution Centers partially offset by an increase of $44.1 million at the remaining distribution centers. The increase in food and non-food sales at the remaining distribution centers was primarily due to two new customers whom we began servicing during late 2002 and early 2003 that were heavily concentrated in food and non-food categories. These customers were subsequently lost due to the Fleming bankruptcy.

Gross profit. The decline in gross profit of $38.9 million, or 12.6%, was primarily the result of lost customers and lost vendor discounts, both the result of the bankruptcy. In addition, gross profit declined due to a decrease in LIFO inventory income of $14.6 million; LIFO income was $2.1 million in 2003 compared to LIFO income of $16.7 million in 2002. This decrease was due to a significant reduction in inventories in June 2002, which was a LIFO inventory measurement date required as a result of the acquisition of CMI by Fleming *(See Note 2 Summary of Significant Accounting Policies to the consolidated financial statements)*. Upon the acquisition of Core-Mark, Fleming opted not to maintain the existing inventory levels required to sustain LIFO tax layers. Also, gross profit declined by $2.6 million in 2003 as a result of lower cigarette inventory holding profits relating to cigarette tax and manufacturer price increases. The overall decline in gross profit was offset by a $1.0 million increase in private label merchandising proceeds. In addition, effective with the Fleming bankruptcy filing, two major cigarette manufacturers in Canada withheld their credit terms discounts, resulting in a decrease in cigarette gross profit totaling approximately $4.7 million in 2003. The decline in the remaining gross profit is primarily attributable to decreases in monies earned from vendors in the form of cash discounts and other merchandising income. We believe the reduction in vendor merchandising income reflects the result of the bankruptcy and vendors withholding certain monies historically provided.

Increases in net sales of cigarettes driven by tax and manufacturer price increases do not generate significant additional gross profit dollars, thereby deflating gross profit margin percentages in this category.

The following table sets forth notable components comprising the change in gross profit as a percentage of net sales year over year.

(in millions)	Predecessor year ended December 31, 2003	2003 % of Net sales	Predecessor year ended December 31, 2002	2002 % of Net sales
Net sales	**$ 4,324.3**	**100.00%**	**$ 4,662.1**	**100.00%**
Private label merchandising proceeds	6.0	0.14	5.0	0.11
LIFO income (expense)	2.1	0.05	16.7	0.36
Cigarette inventory holding profits	7.2	0.17	9.8	0.21
Credit terms withheld	(4.7)	(0.11)		
Remaining gross profit	258.8	5.98	276.8	5.93
Gross profit	**$ 269.4**	**6.23**	**$ 308.3**	**6.61**

Warehousing and distribution expenses. Warehousing and distribution expenses for 2003 decreased $1.6 million compared to 2002. As a percentage of sales these expenses increased to 3.0% in 2003 from 2.8% in 2002. The increase as a percentage of sales in 2003 was primarily due to the inability to reduce expenses in the Eastern Distribution Centers as quickly as sales were being lost during the period immediately following Fleming s bankruptcy filing.

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Selling, general and administrative expenses. Selling, general and administrative expenses for 2003 increased $5.1 million compared to 2002. As a percentage of sales, selling and administrative expenses increased to 2.3% in 2003 from 2.0% in 2002. An increase of $4.3 million was attributable to increases in costs in our Eastern Distribution Centers. In addition, when the bankruptcy occurred and sales began to decline, we were unable to reduce these costs as quickly as sales were declining resulting in an increase in expenses as a percentage of sales year over year. In addition increases in expenses in our other distribution centers totaling $0.8 million was due primarily to increases in insurance costs.

Goodwill and other long-lived asset impairment. As a result of the Fleming bankruptcy in 2003, which was deemed an event or change in circumstances under SFAS No. 142, we recorded an impairment charge to write-off goodwill and long-lived intangible assets in accordance with SFAS No. 142 (*See Note 5 Other Balance Sheet Account Detail to the consolidated financial statements*). The charge was $291.4 million and is reflected in the 2003 statement of operations. No such charge was recorded in 2002.

Income (loss) from operations. The loss from operations for the year ended December 31, 2003 was $252.2 million compared to income from operations of $79.8 million for the year ended December 31, 2002, primarily attributable to Fleming s bankruptcy and to the other items described above.

Interest expense, net. Interest expense for the year ended December 31, 2003 and for the period from June 17, 2002 (the date CMI was acquired by Fleming) through December 31, 2002 includes imputed interest of $4.0 million and $4.3 million, respectively which were estimated as part of carve-out accounting related to interest on debt incurred by Fleming pursuant to its acquisition of CMI. The overall decrease in interest expense of $2.8 million in 2003 compared to 2002 was the result of lower average debt for 2003. Subsequent to the emergence from the Fleming bankruptcy, interest expense is based on the Company s actual borrowings. Additionally, for the period January 1, 2002 through June 17, 2002, CMI had debt with higher interest rates than the rates applicable to Fleming s debt, which was the basis of the imputed interest calculation.

Reorganization items, net. Reorganization expenses for the year ended December 31, 2003 of $7.3 million included legal, consulting and other costs attributable to the bankruptcy.

Income (loss) from discontinued operations. Income (loss) from discontinued operations included the revenues and expenses associated with the discontinuation of our Adel distribution center in January 2004.

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Comparison of the Six Months ended June 30, 2005 and 2004

This discussion is based on the unaudited results of operations for Successor and Predecessor Company periods. The financial information in this registration statement for periods ending prior to August 23, 2004, including the six months ended June 30, 2004 relates to the Predecessor Company and does not reflect the reorganization pursuant to the Plan or the effect of fresh start accounting. All financial information for periods commencing on or after August 23, 2004 included in this registration statement, including the six months ended June 30, 2005, relates to the Successor Company and includes the effect of the reorganization pursuant to the Plan and fresh start accounting. The financial information for the Successor Company is not directly comparable to the financial information for the Predecessor Company due to the Fleming bankruptcy, reorganization and the effects of fresh-start accounting which impacted the six months ended June 30, 2004 but did not impact the comparable period in 2005.

	Six months ended June 30, 2005 compared to six months ended June 30, 2004	Successor		Predecessor	
		Six months ended June 30, 2005	2005 % of Net Sales	Six months ended June 30, 2004	2004 % of Net Sales
(in millions)					
Net sales	*$ 311.6*	$ 2,347.9	100.0	$ 2,036.3	100.0
Net sales Cigarettes	*207.4*	1,673.6	71.3	1,466.2	72.0
Net sales Food/Non-food	*104.2*	674.3	28.7	570.1	28.0
Gross profit	*21.7*	135.9	5.8	114.2	5.6
Warehousing and distribution expenses	*6.3*	65.4	2.8	59.1	2.9
Selling, general and administrative expenses	*5.6*	53.0	2.3	47.4	2.3
Income from operations	*9.3*	17.0	0.7	7.7	0.4
Interest expense, net	*2.4*	6.2	0.3	3.8	0.2
Reorganization items, net	*(1.7)*			1.7	0.1
Net income	*4.4*	5.8	0.2	1.4	0.1

Net sales. Net sales overall for the six months ended June 30, 2005 increased $311.6 million, or 15.3%, compared to the six months ended June 30, 2004. The increase was primarily due to three significant new customers, which we began servicing in the first quarter of 2005. These new customers represent approximately $215.0 million of the increase in net sales. The remaining increase in net sales of $96.6 million was due to increases in net sales to existing customers, increases due to the impact of cigarette tax increases, increases in sales in our Canadian distribution centers due to foreign currency translation changes, offset by net decreases in sales attributable to other customer gains and losses. The increases in our overall Canadian operations sales due to foreign currency translation rate changes were approximately $37.6 million in the 2005 period compared to 2004.

Net sales of cigarettes for the six months ended June 30, 2005 increased $207.4 million, or 14.1% compared to the six months ended June 30, 2004. An increase of $153.0 million or 10.4% was attributable to the addition of the three new customers in 2005. In the six months ended June 30, 2005, cigarette carton sales increased by 10.2% compared to the six months ended June 30, 2004. This increase was primarily attributable to three significant new customers in 2005. The remaining increase was attributable in part to increases in state and provincial taxes that occurred since July 2004, which we passed on to our customers. Several states and provinces increased cigarette taxes during 2004 and the six months ended June 30, 2005 and these increases are reflected in our net sales of cigarettes. In addition, the change in foreign currency translation rates resulted in increases in sales in our Canadian distribution centers in 2005 compared to 2004.

Net sales of food and non-food products for the six months ended June 30, 2005 increased $104.2 million or 18.3% compared to the same period in 2004. An increase of $62.0 million, or 10.9%, is attributable to the three new customers mentioned above. The remaining increase of $42.2 million, or 7.4%, is primarily due to increases in sales to existing customers.

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Gross profit. Gross profit for the six months ended June 30, 2005 increased by $21.7 million, or 19.0%, compared to the six months ended June 30, 2004. The increase in gross profit dollars was primarily caused by an increase in sales volume and the impact of cigarette inventory holding profits related to state cigarette tax increases and manufacturer price increases. As a percent of sales, gross profit increased from 5.6% for the six months ended June 30, 2004 to 5.8% for the six months ended June 30, 2005.

Several factors impacted gross profit margins period over period. Effective with the Fleming bankruptcy filing, two major cigarette manufacturers in Canada withdrew their credit terms discounts, resulting in lost cigarette gross profit totaling approximately $2.9 million in the first six months of 2004. The credit terms discounts were restored after emergence from bankruptcy and therefore the gross profit was restored during the entire six months ended June 30, 2005. Cigarette gross profit for the six months ended June 30, 2005 included approximately $5.1 million in inventory holding profits relating to cigarette tax increases and manufacturer price increases, compared to $0.2 million for the six months ended June 30, 2004. In addition, LIFO expense increased from $2.1 million in the six months ended June 30, 2004 to $3.2 million for the six months ended June 30, 2005, primarily due to inflation.

Cigarette gross profit margins were negatively impacted in the six months ended June 30, 2005, compared to the six months ended June 30, 2004 due to the impact of state and provincial excise taxes on sales. The significant tax increases are reflected as an increase in net sales, however, aside from the aforementioned inventory holding profits, our gross profit dollars generally remained unaffected due to cigarette pricing dynamics. The decrease in the remaining gross profit as a percentage of sales was primarily due to a decrease in cigarette gross profit margins and slightly lower margins earned related to sales to the three new significant customers obtained in early 2005.

The following table sets forth notable components comprising the change in gross profit as a percentage of net sales for the six months ended June 30, 2005 compared to the six months ended June 30, 2004:

(in millions)	Successor Six months ended June 30, 2005	2005 % of Net sales	Predecessor Six months ended June 30, 2004	2004 % of Net sales
Net sales	**$ 2,347.9**	**100.00%**	**$ 2,036.3**	**100.00%**
LIFO expense	(3.2)	(0.14)	(2.1)	(0.10)
Cigarette inventory holding profits	5.1	0.22	0.2	0.01
Credit terms withheld			(2.9)	(0.14)
Remaining gross profit	134.0	5.71	119.0	5.84
Gross profit	**$ 135.9**	**5.79**	**$ 114.2**	**5.61**

Warehousing and distribution expenses. Warehousing and distribution expenses for the six months ended June 30, 2005 increased by $6.3 million compared to the six months ended June 30, 2004. As a percentage of sales these expenses decreased from 2.9% for the six months ended June 30, 2004 to 2.8% for the six months ended June 30, 2005. The decrease as a percent to sales in the six months ended June 30, 2005 is primarily due to cost improvements generated through the re-engineering of our three Eastern Distribution Centers. In addition, the successful leveraging of fixed costs in relation to net sales increases reduced expenses as a percentage of sales.

Selling, general and administrative expenses. Selling, general and administrative expenses for the six months ended June 30, 2005 increased by $5.6 million compared to the six months ended June 30, 2004. As a percentage of sales, these expenses remained constant at 2.3%, the increase in amount being primarily due to increased sales. Expense reductions of approximately $2.0 million attributable to the Eastern Distribution Centers significantly contributed to a reduction in expenses compared to the six months ended June 30, 2004. Selling, general and administrative expenses were negatively impacted by costs associated with our initiative to register our common stock under the Securities Exchange Act of 1934. Additionally, we incurred initial expenses related to compliance with the Sarbanes-Oxley Act of 2002.

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Income from operations. Income from operations for the six months ended June 30, 2005 was $17.0 million compared to $7.7 million for the six months ended June 30, 2004, primarily attributable to the items discussed in this section.

Interest expense, net. Interest expense for the six months ended June 30, 2005 increased by $2.4 million compared to the six months ended June 30, 2004. For the six months ended June 30, 2005, the effective interest rate and average net borrowings, including letter of credit borrowings, were higher than the six months ended June 30, 2004. The higher effective interest rate for the 2005 period was in part due to the higher interest rates charged under our Tranche B borrowings. Interest expense for the six months ended June 30, 2004 was imputed as required under carve-out accounting during the time that the Company had inter-company borrowings with Fleming.

Reorganization items, net. Reorganization expenses in the six months ended June 30, 2004 include legal, consulting and other costs attributable to the Fleming bankruptcy. No expenses were incurred in the six months ended June 30, 2005 because the Company emerged from the Fleming bankruptcy on August 23, 2005.

Seasonality

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

	% of Full Year Sales by Quarter			
	March 31	**June 30**	**September 30**	**December 31**
2004	22.9	25.3	26.7	25.1
2003	25.4	26.3	25.4	22.9
2002	21.6	24.9	29.1	24.4
2001	22.0	25.7	26.4	25.9
2000	23.8	25.4	25.8	25.0
1999	22.2	24.9	26.8	26.1
1998	22.7	24.6	26.6	26.1
1998 2004 average sales	22.9	25.3	26.7	25.1
1998 2004 avg. excluding 2003[(1)]	22.6	25.1	26.9	25.4

(1) 2003 was excluded as the Fleming bankruptcy had a significant impact on sales and is not representative of our seasonal activity.

Inflation

Historically, we have not experienced a significant adverse impact as a result of price increases from our suppliers as we have been able to adjust our selling prices in order to maintain our overall gross profit dollars. However, significant increases in cigarette product costs and cigarette excise taxes adversely impact our gross profit margin percentages. Inflation can also result in increases in LIFO expense, adversely impacting our gross profit margins. Increases in net sales of cigarettes driven by tax and manufacturer price increases do not generate significant recurring additional gross profit dollars, thereby deflating gross profit margin percentages in this category. While we have historically been able to maintain or slightly increase gross profit dollars related to such increases, gross profit margin percentages typically decline as a result of the impact significant price or tax increases have on net sales. The ability to continue to pass through price increases, either from manufacturers or costs incurred in the business, including labor and fuel costs, is not assured.

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Liquidity and Capital Resources

Our liquidity requirements arise primarily from the funding of our working capital, capital expenditure programs and debt service requirements with respect to our credit facilities. We have historically funded our capital requirements through our current operations and external borrowings. However during the period June 18, 2002 to August 23, 2004, when Fleming was our parent company, to the extent necessary, we funded our operations through intercompany borrowings.

Our cash as of December 31, 2004 and 2003 was $26.2 million and $31.1 million, respectively. Our restricted cash as of December 31, 2004 and 2003 was $12.1 million and $19.8 million, respectively. Restricted cash represents funds that have been set aside in trust as required by Canadian provincial taxing authorities to secure amounts payable to these authorities for cigarette and tobacco excise taxes.

As of June 30, 2005, our cash and restricted cash were $35.5 million and $13.2 million, respectively, compared with $26.2 million and $12.1 million, respectively, as of December 31, 2004.

Cash flows from operating activities

Cash flows from operating activities were $7.1 million, $53.4 million, and $90.0 million for the years ended December 31, 2004, 2003, and 2002, respectively. Cash flow from operating activities for the combined Successor and Predecessor period ended December 31, 2004 reflect payment of $55.6 million in excise tax liabilities previously classified as subject to compromise allowed pursuant to the Plan.

Year ended December 31, 2004

During 2004, net cash provided by the Successor and Predecessor Companies combined operating activities of $7.1 million consisted of an increase in cash from changes in assets and liabilities of $51.1 million and cash provided by operations of $11.6 million, offset by excise tax payments of $55.6 million described above. Cash provided by operations during 2004 was driven by $54.1 million in net income, offset primarily by adjustments related to fresh-start accounting and deferred taxes.

The increase in cash provided from changes in assets and liabilities was primarily driven by an increase in accounts payable of $30.0 million which resulted from our successful efforts to secure more favorable trade credit terms with our vendors after the Plan was approved. Of the total $30.0 million increase in accounts payable, $18.8 million occurred after emergence from bankruptcy. In addition, cash provided from changes in assets and liabilities benefited from a $27.5 million decrease in other receivables related primarily to collections of vendor receivables that were stalled during bankruptcy. These sources of cash were offset by payments of $55.6 million in excise tax liabilities previously classified as liabilities subject to compromise, a net increase of $10.0 million in deposits, prepayments and other non-current assets, which was primarily due to an increase in workers compensation deposits which we inherited from Fleming pursuant to the Plan, partially offset by a reduction in deposits required by our vendors, which was related to our emergence from bankruptcy.

Year ended December 31, 2003

During 2003, net cash provided by operating activities of $53.4 million consisted of cash provided by operations of $18.2 million and an increase in cash from changes in assets and liabilities of $35.2 million. Cash provided by operations includes the net loss of $268.0 million for 2003 which was offset by $286.2 million in non-cash charges primarily related to the impairment of goodwill and long-lived intangible assets, depreciation and amortization. Contributing to the increase in cash from changes in asset and liabilities were decreases in accounts receivable of $39.1 million and inventories of $21.6 million, and a net increase in accounts payable of $22.3 million (including a decrease in trade accounts payable of $81.0 million and cigarette and tobacco taxes payable of $18.3 million, and an increase in liabilities subject to compromise of $121.6 million). These were offset by increases in restricted cash, other receivables and deposits and prepayments. The decreases in trade

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accounts receivable and inventories were a result of the bankruptcy, as disruptions to our supply chain led to inventory shortages and ultimately a loss of sales. The decrease in inventories was partially offset by a purchase of excess cigarette inventories in connection with a Canadian manufacturer holiday and in anticipation of U.S. cigarette manufacturer price changes at year-end 2003. The net increase in accounts payable is attributable to the bankruptcy filing because pre-petition indebtedness was stayed. The increase in other receivables of $29.5 million was the result of our inability to collect vendor promotional allowances and other incentive program monies due us while in bankruptcy. The increase in deposits and prepayments was a result of several vendors requiring cash payments prior to the shipment of products. In addition, restricted cash, related to monies set aside as security to obtain tax credit terms with two provinces in Canada, was $19.8 million at December 31, 2003, while it did not exist at December 31, 2002

Year ended December 31, 2002

During 2002, net cash provided by operating activities of $90.0 million consisted of cash generated from operations of $42.4 million and cash attributable to changes in assets and liabilities of $47.6 million. Cash generated from operations includes net income of $39.8 million coupled with the benefit of non-cash charges to depreciation and amortization, partially offset by the change in our LIFO inventory allowance of $16.7 million. Contributing to the increase in cash from changes in asset and liabilities was a decrease in inventories of $31.6 million and a net increase in trade accounts payable totaling $25.6 million, partially offset by an increase in other receivables of $11.6 million. The decrease in inventories and increase in trade accounts payable from December 31, 2001 to December 31, 2002 was primarily the result of significant cigarette purchases in December 2001 in connection with our LIFO tax planning strategy. As a result of the acquisition by Fleming in June 2002, this activity did not recur in December 2002 resulting in a decline in inventories in 2002. The increase in accounts payable in 2002 was primarily the result of credit terms provided to us by U.S. cigarette manufacturers at the end of the year in connection with the aforementioned purchase in December 2002, resulting in a higher level of trade accounts payable at December 31, 2002 compared to December 31, 2001. The increase in other receivables at December 31, 2002 was the result of a significant amount due from our insurance carriers that occurred in December 2002 because of a fire at one of our distribution centers.

Six months ended June 30, 2005

For the six months June 30, 2005, net cash provided by operating activities was $15.6 million and consisted of cash generated from operations of $16.5 million, and cash used as a result of changes in assets and liabilities of $0.9 million. Cash generated from operations includes net income of $5.8 million coupled with the benefit of non-cash charges for depreciation and amortization, and the change in our LIFO inventory allowance. The slight decrease in cash from changes in assets and liabilities was primarily due an increase in accounts receivable and deposits and prepayments. The increase in accounts receivable and accounts payable was due primarily to an increase in sales and purchases generated from new business gains in 2005. The increase in deposits and prepayments was primarily due to pre-payments made on purchases of cigarettes at the end of June 2005, in anticipation of the holiday weekend sales volume. This was partially offset by an increase in accounts payable and cigarette taxes payable due to increased purchases, and a decrease in other receivables. The decrease in other receivables during the period was the result of a reduction in vendor receivables outstanding as we continue to reconcile and collect on delinquent vendor credits caused as a result of the bankruptcy.

Six months ended June 30, 2004

For the six months ended June 30, 2004, cash provided by operating activities was $6.9 million and consisted of cash generated from operations totaling $11.0 million, offset by a decrease in cash from changes in assets and liabilities of $4.1 million. Cash generated from operations includes net income of $1.4 million coupled with the benefit of non-cash charges, primarily depreciation and amortization. The primary factors contributing to the decrease in cash from changes in asset and liabilities was a decrease in cigarette and tobacco taxes payable of $10.3 million, and payments made for liabilities subject to compromise pursuant to the Plan, partially offset by

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a decrease in inventories of $41.7 million. The decrease in inventory levels of $41.7 million was due to the higher-than-normal levels of inventory at the end of 2003 when we purchased excess cigarette inventories in connection with a Canadian manufacturer holiday and in anticipation of U.S. cigarette manufacturer price changes. The additional Canadian cigarette inventory at December 31, 2003 also resulted in increased cigarette and tobacco taxes payable, which declined from December 2003 to June 2004. Payments made for liabilities subject to compromise consisted of $28.1 million related to excise tax liabilities that were allowed pursuant to the Plan.

Cash flows relating to investing activities

Years ended December 31, 2004, 2003 and 2002

For 2004, 2003 and 2002 cash used in investing activities was $12.1 million, $8.4 million and $5.5 million, respectively. The cash used was entirely attributable to capital expenditures related to property and equipment. In 2004, additional capital expenditures were incurred related to increasing operating efficiencies in our Eastern Distribution Centers as compared to normal replacement spending for delivery and warehouse equipment in 2003. In 2002, our capital expenditures were notably lower than usual due to the impact of Fleming s acquisition of CMI, which resulted in delays in capital spending while we integrated their convenience operations.

Six months ended June 30, 2005 and 2004

For the six months ended June 30, 2005 and June 30, 2004, cash flows used in investing activities were $3.4 million and $4.7 million, respectively, and was entirely attributable to capital expenditures during the period. For the six months ended June 30, 2005 capital spending related primarily to the scheduled replacement of property and warehouse equipment and for the six months ended June 30, 2004, spending related to the reengineering of the Eastern Distribution Centers. Our capital expenditure plan is to spend approximately $10 million during 2005, primarily related to facility upgrades and scheduled replacement of delivery and warehouse equipment.

Cash flows from financing activities

Year ended December 31, 2004

For 2004, net cash used by financing activities was $1.3 million. As described further under *Revolving Credit* and *Tranche B Notes and Letters of Credit* below, as a result of our reorganization, we borrowed $86.4 million under our Prior Revolving Credit Facility and $35.5 million of term debt notes were issued. Debt issuance costs of $3.8 million were paid in connection with the emergence financing. Additionally, during the period January 1, 2004 through August 22, 2004, a net of $55.0 million of distributions from our former parent were received. Pursuant to the Plan, $139.6 million was distributed to the PCT and RCT upon emergence. Net payments made on our outstanding debt obligations totaled $41.4 million for the year.

Revolving Credit Facility. On August 23, 2004, pursuant to the Plan, we entered into a three-year agreement with a group of lenders to provide a $250 million revolving credit facility, consisting of a $240 million revolving loan and a $10 million first-in last-out loan (FILO). Borrowing under the Prior Revolving Credit Facility was subject to a formula based on eligible accounts receivable and inventory (the Borrowing Base). The Borrowing Base supported both borrowings and letter of credit obligations under the Prior Revolving Credit Facility. At our option, U.S. interest rates on the revolving credit agreement and letters of credit were based on LIBOR or the higher of prime or the federal funds rate plus 0.50% plus an applicable margin (2.25% to 2.75%). Interest was payable monthly, or if we elected LIBOR, at the expiration of each LIBOR period which was 30, 60, or 90 days, as set forth in the Prior Revolving Credit Facility. The FILO LIBOR margin was 4.0%. Canadian borrowing rates were based on the higher of the Canadian prime rate or the Bank Acceptance rate plus 1.75%. We were subject to an unused facility fee of 0.50%, or $0.3 million for the period August 23, 2004 through December 31, 2004. The credit agreement for the Prior Revolving Credit Facility contained restrictive covenants, including a requirement to realize specified minimum levels of EBITDA, as defined in the credit agreement, limitations on capital spending, and a minimum aggregate Borrowing Base requirement, and placed restrictions on our ability to make payments under our Tranche B Note Agreement and Trust guarantees. The credit agreement for the Prior Revolving Credit Facility also contained cross defaults to the Tranche B Note

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Agreement which contained a requirement that we maintain specified maximum leverage ratios of debt to EBITDA, as defined in the Tranche B Note Agreement. All obligations under the Prior Revolving Credit Facility were collateralized by a first priority interest in, and liens upon, substantially all of our present and future assets. The terms of the Prior Revolving Credit Facility allowed for prepayment without penalty. We paid financing fees of approximately $3.3 million in connection with entering into the Prior Revolving Credit Facility. These debt issuance costs were deferred, were included in other non-current assets and were being amortized over the term of the agreement. At December 31, 2004 we had a net available borrowing capacity under the Prior Revolving Credit Facility of approximately $117.9 million.

During the period August 23, 2004 through December 31, 2004, the maximum amount of borrowing and letters of credit outstanding under the Prior Revolving Credit Facility were $86.4 million and $36.7 million, respectively. As of December 31, 2004, the total borrowings outstanding were $45.0 million and letters of credit outstanding were $36.7 million. At December 31, 2004, we elected the LIBOR option and the 30 and 90 day LIBOR rates were 2.40% and 2.56%, respectively. As of December 31, 2004 we were in compliance with all of our covenants under the Prior Revolving Credit Facility. The weighted average interest rate for the period August 23, 2004 through December 31, 2004 was 4.6%.

Tranche B Note Agreement. On August 23, 2004 we entered into a Tranche B Note and Warrant Purchase Agreement, as amended (Tranche B Note Agreement) with a group of lenders providing for a term credit facility in the total amount of $60 million. Under the Tranche B Note Agreement (i) we issued five-year Tranche B Notes in the principal amount of approximately $35.5 million, and (ii) Tranche B Letters of Credit were issued for our account in the amount of approximately $24.5 million. We paid financing fees of approximately $0.5 million in connection with entering into the Tranche B Note Agreement. These debt issuance costs were deferred and included in other non-current assets and were being amortized over the term of the Tranche B Note Agreement. Additionally, based on the net proceeds received, $1.8 million is recorded as a debt discount and is being amortized into interest expense over the term of the Tranche B Agreement.

The Tranche B Notes bore interest at the rate of LIBOR plus 12%. As of December 31, 2004 the 30 day LIBOR rate was 2.40%. We also paid an annual commitment fee equal to 12% of the amount of the Tranche B Letters of Credit. Interest on the Tranche B Notes and the Tranche B Letters of Credit fees was payable monthly in arrears. All interest and commitment fees, except for 3% per annum, were payable in cash. The remaining 3% of interest and commitment fees could be paid in kind or cash, at our option. From the period August 23, 2004 through June 30, 2005, we elected to pay all interest and commitments fees in cash. All obligations under the Tranche B Notes and the Letters of Credit were collateralized by a second priority interest in, and liens upon, substantially all of our present and future assets. The Tranche B Note Agreement contained restrictive financial covenants including a requirement to realize specified minimum levels of EBITDA, as defined in the Tranche B Note Agreement, a requirement that we maintain specified maximum leverage ratios of debt to EBITDA, limitations on capital spending and a minimum aggregate borrowing availability requirement. The Tranche B Notes matured on August 23, 2009. As of August 23, 2004 and December 31, 2004 we were in compliance with all of our covenants under the Tranche B Note Agreement.

The Tranche B Notes and Letters of Credit were subject to optional redemption and replacement features including call protection at 112% during the first year and 106% during the second year, except that we could redeem or replace the Tranche B Notes and the Letters of Credit without premium, up to an aggregate of $15 million during the first year, up to a cumulative aggregate of $30 million during the second year, and the total of the Tranche B Notes and Letters of Credit after two years from the initial date of the Tranche B Agreement. Our ability to redeem Tranche B Notes and replace Tranche B Letters of Credit was limited by covenants contained in our Prior Revolving Credit Facility that restricted payments based on a formula that was derived from information contained in an RCT financial summary report that is required to be filed with the Bankruptcy Court periodically. However, in absence of the RCT report, during 2005, payments were permitted up to $10.0 million provided that certain financial covenants are satisfied after giving effect to such payment. As of August 23, 2004 and December 31, 2004, a total of $35.5 million in Tranche B Notes and Letters of Credit in the amount of $24.5 million were issued and outstanding under the Tranche B Note Agreement.

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In February 2005, we redeemed $10.0 million in outstanding Tranche B Notes the maximum amount permitted per the Tranche B Note Agreement and our Prior Revolving Credit Facility. Subsequently, we received a consent from our revolving credit lenders permitting us to prepay an additional $5.0 million of the Tranche B Notes in April 2005, which we did. Additionally, in August 2005, we prepaid $15.0 million in outstanding Tranche B Notes. On September 28, 2005, we prepaid the remaining $5.5 million in funded notes outstanding under the term loan agreement. As required by that agreement, we also paid a 6% prepayment premium of $0.3 million. These payments were also permitted under our Prior Revolving Credit Facility.

In connection with the issuance of the Tranche B Notes, we issued warrants to the Tranche B lenders to purchase up to an aggregate of 247,654 shares of our common stock at an exercise price of $15.50 per share, the fair value of our common stock as determined pursuant to the Plan. The warrants are immediately exercisable and expire seven years from the date of issuance. The warrants are valued at $1.4 million and were charged to discount on debt and amortized into interest expense over the term of the notes. The value of the warrants was calculated using the Black-Scholes option pricing model with the following assumptions: a term of seven years, a risk free interest rate of 3.85%, volatility of 30%, and an expected dividend yield of zero.

The Company s long-term debt obligations and outstanding letters of credit as of August 23 and December 31, 2004 were as follows (in millions):

	December 31, 2004	August 23, 2004
Revolving credit facility	$ 45.0	$ 86.4
Tranche B notes payable	35.5	35.5
Subtotal	80.5	121.9
Less: debt discount	(3.0)	(3.2)
Subtotal	77.5	118.7
Less: current portion of long-term debt:		
Total long-term debt, net of current portion	$ 77.5	$ 118.7
Letters of credit outstanding	$ 61.2	$ 57.1

2005 Debt Refinancing

2005 Credit Facility. On October 13, 2005, we entered into a new five-year revolving credit facility with a group of lenders. The 2005 Credit Facility refinanced and replaced the Prior Revolving Credit Facility and the Tranche B Note Agreement, and in conjunction with establishing the 2005 Credit Facility we prepaid all $32.3 million in outstanding revolving loans under the Prior Revolving Credit Facility and Tranche B Note Agreement, cash collateralized or transferred to the 2005 Credit Facility all $53.3 million in letters of credit issued under the Prior Revolving Credit Facility and the Tranche B Note Agreement, and terminated the Prior Revolving Credit Facility and the Tranche B Note Agreement. As required under the Tranche B Note Agreement, we paid a 6% pre-payment fee of $1.5 million for the termination of the Tranche B Note

Agreement. The pre-payment fee will be expensed in our fourth quarter 2005 results of operations. We paid a total of approximately $2.3 million in financing costs in connection with the 2005 Credit Facility which will be deferred and amortized over the life of the facility.

Approximately $2.0 million of unamortized put option costs and warrant value related to the Tranche B Note Agreement initially recorded as debt discount will be recorded as expense in the our fourth quarter 2005 results of operations. Additionally, unamortized debt issuance costs related to the Prior Revolving Credit Facility and the Tranche B Note Agreement of approximately $2.4 million will be expensed in the our fourth quarter 2005 results of operations.

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

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

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

All obligations under the 2005 Credit Facility are secured by a first priority interest in, and liens upon, substantially all of our present and future assets. The terms of the 2005 Credit Facility permit prepayment without penalty at any time (subject to customary break costs with respect to LIBOR or CDOR based loans prepaid prior to the end of an interest period).

As of October 13, 2005, there were $61.1 million in revolving loans and $27.4 million in letters of credit outstanding under the 2005 Credit Facility, our availability under the 2005 Credit Agreement was $91.6 million, and we were in compliance with all of our covenants under the 2005 Credit Agreement.

The refinancing of our debt will provide us more favorable interest rates on our borrowings and is expected to result in a decrease in interest expense as compared to our previous credit facilities.

We believe that our ability to generate cash from operations and funds available from our new 2005 Credit Facility are adequate to fund working capital, capital spending and other cash needs for at least the next 12 months. Our ability to generate adequate cash from operations in the future, however, will depend on, among other things, our ability to successfully implement our business strategies while continuing to tightly control our expenses, and to manage the impact of changes in manufacturers pricing. We can give no assurance that we will be able to successfully implement those strategies and cost control initiatives, or successfully manage our pricing to match increases from the manufactures. In addition, changes in our operating plans, lower than anticipated sales, increased expenses, interest rate increases, acquisitions or other events may cause us to seek additional debt or equity financing in future periods. We can give no assurance that financing will be available on acceptable terms or at all. Additional equity financing could be dilutive to holders of our common stock; debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions.

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Years ended December 31, 2003 and 2002

On June 17, 2002, pursuant to our acquisition by Fleming, our outstanding debt was extinguished. From June 17, 2002 through emergence from bankruptcy, we did not have any debt on our financial statements. For the years ended December 31, 2003 and December 31, 2002 we had net distributions to Fleming totaling $28.5 million and $61.5 million, respectively, which were the result of excess cash flows from operations. Checks drawn in excess of bank balances resulted in a use of cash totaling $16.4 million in 2003, while in 2002 they resulted in a source of cash totaling $11.6 million. These changes represent the change in the amount of issued checks that have not cleared through our banking system. The outstanding checks are typically funded through borrowings on our Prior Revolving Credit Facility when they clear the bank.

Six months ended June 30, 2005 and 2004

For the six months ended June 30, 2005, net cash used by financing activities was $2.4 million compared to net cash provided of $12.6 million for the six months ending June 30, 2004. During the six months ended June 30, 2005, we redeemed $15.0 million of our Tranche B Notes and borrowed a net of $14.3 million under the Prior Revolving Credit Facility.

During the six months ended June 30, 2005, the maximum amount of borrowing and letters of credit outstanding under the Prior Revolving Credit Facility were $59.2 million and $38.7 million, respectively. As of June 30, 2005, the total borrowings outstanding under the Facility were $59.2 million and letters of credit outstanding were $27.7 million.

The weighted average interest rate for the six months ended June 30, 2005 for the Prior Revolving Credit Facility was 5.4%. As of June 30, 2005 we were in compliance with all of its covenants and had a net available borrowing capacity of approximately $88.7 million.

In February 2005, we redeemed $10.0 million in outstanding Tranche B Notes, the maximum amount permitted under the Tranche B Note Agreement. Subsequently we received a consent agreement from our lenders permitting us to pay an additional $5.0 million of the Tranche B Notes, which we did in April 2005. As a result of these payments, the principal amount of the Tranche B Notes issued and outstanding as of June 30, 2005 had been reduced to $20.5 million. Tranche B Letters of Credit outstanding as of June 30, 2005 remained at $24.5 million. The weighted average interest rate on the Tranche B Notes was 14.7% for the six months ended June 30, 2005. The Company was in compliance with all of its covenants under the Tranche B notes.

In August, 2005, we prepaid $15.0 million in outstanding funded Tranche B Notes. On September 28, 2005, we prepaid the remaining $5.5 million in funded notes outstanding under the term loan agreement. As required by that agreement, we also paid a prepayment premium of $0.3 million. These payments were permitted under our Prior Revolving Credit Facility.

The following table summarizes our funded debt obligations and outstanding letters of credit under the Tranche B Note Agreement as of June 30, 2005 and December 31, 2004 (in millions):

	June 30, 2005	December 31, 2004
Revolving credit facility	$ 59.2	$ 45.0
Tranche B notes payable	20.5	35.5
Subtotal	79.7	80.5
Less: debt discount	(2.6)	(3.0)
Subtotal	77.1	77.5
Less current portion		
Total long-term debt, net of current portion	$ 77.1	$ 77.5
Letters of credit outstanding	$ 52.2	$ 61.2

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On October 13, 2005 we entered into the 2005 Credit Agreement, repaid all debt and replaced or cash collateralized all letters of credit outstanding under the Prior Revolving Credit Facility and the Tranche B Note Agreement, and terminated the Prior Revolving Credit Facility and the Tranche B Note Agreement. As required under the Tranche B Note Agreement, we paid a prepayment fee of $1.5 million for the termination of the Tranche B Note Agreement.

Contractual Obligations and Commitments

Contractual Obligations. The following table presents information regarding our contractual obligations that exist as of December 31, 2004:

(in millions)	Total	2005	2006	2007	2008	2009	2010 and Thereafter
Long-term debt(1)	$ 80.5	$	$	$ 45.0	$	$ 35.5	$
Operating leases	72.9	16.2	14.4	11.5	8.1	6.2	16.5
Total contractual obligations	$ 153.4	$ 16.2	$ 14.4	$ 56.5	$ 8.1	$ 41.7	$ 16.5

(1) As of June 30, 2005, the Company had made payments totaling $15.0 million reducing the $35.5 million long-term debt obligation due in 2009 to $20.5 million. In addition, on August 15, 2005 we pre-paid an additional $15.0 million of long-term debt due in 2009 with the proceeds from borrowing under our Prior Revolving Credit Facility. On September 28, 2005, we prepaid the remaining $5.5 million in funded notes outstanding under the term loan agreement. As required by that agreement, we also paid a 6% prepayment premium of $0.3 million.

Purchase orders for the purchase of inventory and other services are not included in the table above because purchase orders represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions, and the approximate timing of the transaction. Our purchase orders are based on our current inventory needs and are fulfilled by our suppliers within short time periods. We also enter into contracts for outsourced services; however, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

Off-Balance Sheet Arrangements

Letter of Credit Commitments. As of December 31, 2004, our standby letters of credit issued under our Prior Revolving Credit Facility and the Tranche B Note Agreement were $61.2 million of which $54.7 million relates to workers compensation and casualty insurance. All of the standby letters of credit expire in 2005. However, in the ordinary course of our business, we will continue to renew or modify the terms of the letters of the credit as required by business needs. As of June 30, 2005, our standby letters of credit issued under our Prior Revolving Credit Facility and the Tranche B Note Agreement were $52.2 million and of this amount, standby letters of credit relating to workers compensation and casualty insurance totaled $46.3 million.

Trust Guarantees. Pursuant to the Plan, two special purpose trusts were established, the Post-Confirmation Trust, or PCT, and the Reclamation Creditors Trust, or RCT, collectively, the Trusts *(See Note 1 Summary Company Information and Emergence from Bankruptcy to the consolidated financial statements)*. The Trusts were established in order to administer post-confirmation responsibilities ordered under the Plan including, but not limited to, the pursuit of assets and reconciliation and subsequent settlement of pre-petition and post-petition claims, including specific administrative claims. Under the terms of the Plan, we guarantee the payment of all 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 amounts of the RCT TLV and non-TLV claims to not greater than $137 million. FIN 45 requires that an entity issuing a guarantee must recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. Based on the estimates provided by the Trusts, we believe that (i) the PCT administrative claims are substantially

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below the guarantee threshold and (ii) the assets of the RCT will be sufficient to satisfy the TLV claims and non- TLV claims against it. Therefore, we have not accrued any liability with respect to these guarantees. However, if the assets of either Trust are insufficient to cover the liabilities of such Trust we could be required to satisfy the guarantees. We have reviewed the Trusts and guarantees pursuant to FIN 46 and found that they are not subject to consolidation.

Operating Leases. The majority of our sales offices, warehouse facilities, and trucks are subject to lease agreements which expire at various dates through 2016 (excluding renewal options). These leases generally require us to maintain, insure, and pay any related taxes. In most instances, we expect the leases that expire will be renewed or replaced in the normal course of our business.

Third Party Distribution Centers. We currently manage two regional distribution centers for third party convenience store operators who engage in self-distribution. Under the agreements relating to these facilities, the third parties have a put right under which they may require us to acquire the facilities. If the put right is exercised, we will be required to (1) purchase the inventory in the facilities at cost, (2) purchase the physical assets of the facilities at fully depreciated cost, and (3) assume the obligations of the third parties as lessees under the leases related to those facilities. While we believe the likelihood that these put options will be exercised is remote, if they are exercised, we could be required to make aggregate capital expenditures of approximately $10 million, based on current estimates. The amount of capital expenditure would vary depending on the timing of any exercise of such puts.

Litigation

In the ordinary course of our business, we are subject to certain legal proceedings, claims, investigations and administrative proceedings. In accordance with SFAS No. 5 *Accounting for Contingencies*, we record a provision for a liability when it is both probable that the liability has been incurred and the amount of the liability can be reasonably estimated. When applicable, these provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. At both June 30, 2005 and December 31, 2004, we were not involved in any material litigation.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS No. 154 supercedes Accounting Principles Bulletin (APB) Opinion 2, *Accounting for Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, though it carries forward the guidance of those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity, and error corrections. This statement is effective for accounting changes and error corrections made in years beginning after December 15, 2005, with early adoption permitted for changes and corrections made in years beginning after May 2005. We do not expect adoption of SFAS No. 154 to have a material impact on our financial statements.

In March 2005, the SEC issued SAB No. 107 which offers guidance on SFAS No. 123(R). SAB No. 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB No. 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB No. 107 include valuation models, expected volatility and expected term. We expect to apply the principles of SAB No. 107 in conjunction with our adoption of SFAS No. 123(R).

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In December, 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS No. 123R), *Share-Based Payment*. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123 for fair value. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and prohibits pro forma disclosure as an alternative to financial statement recognition. SFAS No. 123(R) is effective for interim or annual reporting periods beginning after December 15, 2005. We are evaluating the impact of SFAS No. 123(R).

In December 2004, FASB issued Staff Position No. 109-2 (FSP No. 109-2), *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (the Act). The Act, which was signed into law on October 22, 2004, provides for a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated (as defined in the Act) in either a company s last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. Accordingly, the position provides guidance on accounting for income taxes that related to the accounting treatment for unremitted earnings in a foreign investment (a consolidated subsidiary or corporate joint venture that is essentially permanent in nature). Further, the position permits a company time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109, *Accounting for Income Taxes.* Accordingly, an enterprise that has not yet completed its evaluation of the repatriation provision for purposes of applying SFAS No. 109 is required to disclose certain information, for each period for which financial statements covering periods affected by the Act are presented. Subsequently, the total effect on income tax expense (or benefit) for amounts that have been recognized under the repatriation provision must be provided in a company s financial statements for the period in which it completes its evaluation of the repatriation provision. The provisions of FSP No. 109-2 are effective immediately. As of and for the year ended December 31, 2004, we have not yet completed our evaluation; consequently, the required information is disclosed in *Note 16 Income Taxes to the consolidated financial statements.*

In December 2004, the FASB issued SFAS No. 153 *Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29*. The provisions of this statement are effective for non monetary asset exchanges occurring in periods beginning after June 15, 2005. This statement eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. We do not believe that the adoption of SFAS No. 153 will have a significant impact on our consolidated financial statements.

In November 2004, FASB issued SFAS No. 151, *Inventory Costs* that amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*, (ARB No. 43) to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). In addition, this statement requires that an allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during years beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 151 will have a significant impact on our consolidated financial statements.

In May 2004, the FASB issued FSP No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, which supercedes FSP No. 106-1 *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, and provides guidance on accounting for the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the MMA) for employers that sponsor postretirement health care plans that provide prescription drug coverage that is at least actuarially equivalent to that offered by Medicare Part B. The MMA provides a prescription drug benefit for Medicare eligible employees starting in 2006. This statement is effective for interim and annual periods beginning after June 15, 2004. The adoption of FSP No. 106-2 did not have a material impact on the consolidated financial statements.

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In December 2003, the FASB issued SFAS No. 132 (Revised) (SFAS No. 132R) *Employer s Disclosure about Pensions and Other Post retirement Benefits*. SFAS No. 132R retains disclosure requirements of the original SFAS No. 132 and requires additional disclosures relating to assets, obligations, cash flows, and net periodic benefit cost for defined benefit pension plans and defined benefit post retirement plans. SFAS No. 132R is effective for years ending after December 15, 2003, except that certain disclosures are effective for years ending after June 15, 2004. Interim period disclosures are effective for interim periods beginning after December 15, 2003. The adoption of SFAS No. 132R did not have a material impact on our consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46), and a revised interpretation of FIN No. 46 (FIN No. 46R) in December 2003, in an effort to expand upon existing accounting guidance that addresses when a company should consolidate the financial results of another entity. FIN No. 46 requires variable interest entities, as defined, to be consolidated by a company if that company is subject to a majority of expected losses of the entity or is entitled to receive a majority of expected residual returns of the entity, or both. A company that is required to consolidate a variable interest entity is referred to as the entity s primary beneficiary. The interpretation also requires certain disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The consolidation and disclosure requirements apply immediately to variable interest entities created after January 31, 2003. The adoption of FIN 46R did not have a material impact on our consolidated financial statements.

In July 2002, *The Public Company Accounting Reform and Investor Protection Act of 2002* (the Sarbanes Oxley Act) was enacted. Section 404 of the Sarbanes-Oxley Act stipulates that public companies must take responsibility for maintaining an effective system of internal control. The Sarbanes-Oxley Act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attestation report from their independent registered public accounting firm about management s report. The act requires most public companies (accelerated filers) to report on the company s internal control over financial reporting for years ended on or after November 15, 2004. Other public companies (non-accelerated filers) must begin to comply with the new requirements related to internal control over financial reporting for their first year ending on or after July 15, 2006 under the latest extension granted by the SEC. Our company is a non-accelerated filer and therefore expects to comply with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2006.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our major exposure to market risk comes from changes in short-term interest rates on our variable rate debt. At December 31, 2004, variable rate debt represented 100% of our total debt. Depending upon the borrowing option chosen, the variable rate debt is based upon LIBOR or the prime rate plus an applicable margin. If interest rates on existing variable rate debt increased 26 basis points (which approximates 10% of the LIBOR component of our variable rate debt), our results from operations and cash flows would not be materially affected.

We conduct business in Canada. However, changes in the U.S./Canadian exchange rate had no material impact on the overall results of the Canadian operations, as virtually all revenues and expenses of such operations are Canadian dollar based. To the extent that funds are moved to or from Canada, we would be exposed to fluctuations in the U.S./Canadian exchange rate. The U.S./Canadian exchange rate based on the noon rate used for balance sheet translation was 1.2062, 1.2977, and 1.2924 as of December 31, 2004, August 23, 2004, and December 31, 2003, and was 1.2256 and 1.3404 as of June 30, 2005 and June 30, 2004.

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ITEM 3. PROPERTIES

Our headquarters are located in South San Francisco, California, and consist of 22,000 square feet of leased office space. We also lease 13,000 square feet for use by our information technology and tax personnel in Richmond, British Columbia. The following table sets forth for each distribution center: the location of the distribution center and the approximate aggregate square footage of each distribution center. We lease all of our distribution centers other than our distribution center located in Leitchfield, Kentucky, which we own.

City and State of Location	Square Footage[1]
Albuquerque, New Mexico	115,447
Atlanta, Georgia	100,266
Bakersfield, California	69,904
Corona, California	194,400
Corona, California[2]	57,040
Denver, Colorado	140,000
Fort Worth, Texas	138,500
Grants Pass, Oregon	43,050
Hayward, California	130,080
Las Vegas, Nevada	100,000
Los Angeles, California	193,679
Leitchfield, Kentucky	121,192
Minneapolis, Minnesota	197,685
Portland, Oregon	111,740
Reno, Nevada[3]	24,800
Sacramento, California	108,450
Sacramento, California[4]	100,000
Salt Lake City, Utah	95,500
Spokane, Washington	51,384
Spokane, Washington	27,000
Calgary, Alberta	75,512
Vancouver, British Columbia	65,100
Victoria, British Columbia	47,575
Winnipeg, Manitoba	55,296
Total Square Footage	2,363,600

(1) All square footage excludes mezzanine space.
(2) This facility is our Allied Merchandising Industry consolidating warehouse.
(3) This facility is a depot.
(4) Includes 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 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information as of September 21, 2005 regarding the beneficial ownership of shares of our common stock by: (i) each person or entity known to us to be the beneficial owner of more than 5% of our common stock; (ii) each of our named executive officers; (iii) each member of our board of directors; and (iv) all members of our board of directors and executive officers as a group.

Except as otherwise noted below, each of the following individual s address of record is c/o Core-Mark Holding Company, Inc., 395 Oyster Point Boulevard, Suite #415, South San Francisco, California 94080.

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Beneficial ownership is determined in accordance with the rules of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock issuable upon the exercise of stock options or warrants or the conversion of other securities held by that person that are currently exercisable or convertible, or are exercisable or convertible within 60 days of September 21, 2005, are deemed to be issued and outstanding. These shares, however, are not deemed outstanding for the purposes of computing percentage ownership of each other stockholder.

	Securities Beneficially Owned	
Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage of Common Stock Outstanding
Principal Securityholders:		
Fleming Companies, Inc(1)	4,432,956	45.2%
Third Point LLC(2)	924,043	9.42%
River Run Capital Management(3)	609,967	6.2%
Sankaty Advisors LLC(4)	602,352	6.1%
Directors and Executive Officers:		
J. Michael Walsh(5)	45,889	*
Basil P. Prokop(5)	42,069	*
Chris Walsh(5)	36,329	*
Scott McPherson(5)	28,043	*
Thomas B. Perkins(5)	28,043	*
Robert A. Allen(6)	2,500	*
Stuart W. Booth(7)		*
Gary F. Colter(6)	2,500	*
L. William Krause(7)		*
Harvey L. Tepner(6)	2,500	*
Randolph I. Thornton(6)	2,500	*
All directors and executive officers as a group (14 persons)	249,009	2.5%

* Represents beneficial ownership of less than 1%.

(1) The address of Fleming Companies, Inc. is 15150 Preston Road, Suite 240, Dallas, Texas 75248. Pursuant to the Plan, 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. Fleming has distributed 5,367,044 shares of our common stock to certain of its creditors and continues to hold 4,432,956 shares that are subject to future distribution to Fleming s creditors as claims are resolved. Fleming will also transfer certain shares of our common stock to our subsidiary, Core-Mark Holding Company III, Inc. and Core-Mark Holding Company III will hold such stock, not for its own account, but rather in trust for the benefit of holders of certain disputed claims.

(2) The address of Third Point LLC is 9520 N. May Avenue, Suite 300, Oklahoma City, Oklahoma 73120. Third Point LLC is the Investment Manager for Third Point Partners L.P., Third Point Partners Qualified L.P., Third Point Offshore Fund Ltd., Third Point Ultra Ltd., Third Point Resources Ltd., Third Point Resources LP, and Lyxor/Third Point Fund Limited, which hold 116,500, 50,800, 571,800, 86,500, 27,500, 16,700, 54,243 common shares respectively. Mr. Daniel Loeb exercises voting and investment control over such shares and may be deemed to beneficially own the shares. Mr. Loeb disclaims beneficial ownership of all such shares except to the extent of his pecuniary interest therein.

(3) The address of River Run Capital Management is 152 West 57th Street 52nd Floor, New York, New York 10019. Consists of: (i) 197,169 shares of common stock and warrants exercisable for 66,109 shares of common stock held by River Run Partners, LP, (ii) 230,074 shares of common stock and warrants exercisable for 78,182 shares of common stock held by River Run Fund, Ltd, and (iii) 27,264 shares of common stock and warrants exercisable 11,169 shares of common stock held by Cold Springs, LP. The warrants are immediately exercisable and have an exercise price of $20.925 per share. Mr. Ian Wallace exercises voting and investment control over the River Run Capital Management affiliated shares and may be deemed to beneficially own the shares. Mr. Wallace disclaims beneficial ownership of all such shares except to the extent of his pecuniary interest therein.

(4) The address of Sankaty Advisors LLC is 111 Huntington Avenue, Boston, Massachusetts 02199. Consists of: (i) 44,051 shares of common stock and warrants exercisable for 4,929 shares of common stock held by Sankaty High Yield Asset Partners, L.P. (Sankaty I), whose sole general partner is Sankaty High Yield Asset Investors, LLC (SHYA), whose sole managing member is Sankaty Investors, LLC (SI), whose sole managing member is Mr. Jonathan S. Lavine, (ii) 97,950 shares of common stock and warrants exercisable for 16,686 shares of common stock held by Sankaty High Yield Partners II, L.P., whose sole general partner is Sankaty High Yield Asset Investors II, LLC (SHYAII), whose sole managing member is Sankaty Investors II, LLC (SI II), whose sole managing member is Mr. Lavine, (iii) 107,805 shares of common stock warrants exercisable representing 25,712 shares of common stock held by Sankaty High

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Yield Partners III, L.P., whose sole general partner is Sankaty High Yield Asset Investors III, LLC (SHYAIII), whose sole managing member is Sankaty Investors III, LLC (SI III), whose sole managing member is Mr. Lavine, (iv) warrants exercisable for 23,222 shares of common stock held by Prospect Harbor Credit Partners, L.P. (Prospect Harbor), whose sole general partner is Prospect Harbor Investors, LLC (PHI), whose sole managing member is Sankaty Credit Member, LLC (SCM), whose sole managing member is Mr. Lavine, (v) 206,688 shares of common stock and warrants exercisable for 61,200 shares of common stock held by Sankaty Credit Opportunities, L.P. (SCO), whose sole general partner is Sankaty Credit Opportunities Investors, LLC (SCOI), whose sole managing member is SCM, whose sole managing member is Mr. Lavine, (vi) 6,090 shares of common stock and warrants exercisable for 2,436 shares of Common Stock held by Brant Point CBO 1999-1, Ltd. (Brant Point I), whose collateral manager is Sankaty Advisors, LLC (SA), whose sole managing member is Mr. Lavine, (vii) 5,583 shares of Common Stock held by Brant Point II CBO 2000-1 Ltd. (Brant Point II), whose collateral manager is SA, whose sole managing member is Mr. Lavine. The warrants are immediately exercisable and have exercise prices of $15.50 per share or $20.925 per share, the fair values as determined pursuant to the Plan. By virtue of their relationship to Sankaty I, each of SHYA and SI may be deemed to beneficially own the shares held by Sankaty I. Each of SHYA and SI disclaims beneficial ownership of all such shares except to the extent of their pecuniary interest therein. By virtue of their relationship to Sankaty II, SHYAII and SI II may be deemed to beneficially own the shares held by Sankaty II. Each of SHYAII and SI II disclaims beneficial ownership of all such shares except to the extent of their pecuniary interest therein. By virtue of their relationship to Sankaty III, SHYAIII and SI III may be deemed to beneficially own the shares held by Sankaty III. Each of SHYAIII and SI III disclaims beneficial ownership of all such shares except to the extent of their pecuniary interest therein. By virtue of their relationship to Prospect Harbor, PHI and SCM may be deemed to beneficially own the shares held by Prospect Harbor. Each of PHI and SCM disclaims beneficial ownership of all such shares except to the extent of their pecuniary interest therein. By virtue of their relationship to SCO, SCOI and SCM may be deemed to beneficially own the shares held by SCO. Each of SCOI and SCM disclaims beneficial ownership of all such shares except to the extent of their pecuniary interest therein. SA, by virtue of its relationship to each of Brant Point I and Brant Point II, may be deemed to beneficially own the shares held by such funds. SA disclaims beneficial ownership of all such shares except to the extent of its pecuniary interest therein. By virtue of his relationship to Sankaty I, Sankaty II, Sankaty III, Prospect Harbor, SCO, Brant Point I and Brant Point II, Mr. Lavine may be deemed to beneficially own the shares held by such funds. Mr. Lavine disclaims beneficial ownership of all such shares except to the extent of its or his pecuniary interest therein. Mr. Lavine exercises voting and investment control over the Sankaty Advisors LLC affiliated shares and may be deemed to beneficially own the shares. Mr. Lavine disclaims beneficial ownership of all such shares except to the extent of his pecuniary interest therein.

(5) Represents the portion of options or restricted stock units granted to such officer under the 2004 Long Term Incentive Plan that are exercisable by such officer within 60 days of September 21, 2005. Generally, one third of the options and restricted stock units granted under the 2004 Long Term Incentive Plan vested on August 23, 2005, and the remaining options and restricted stock units vest in equal monthly installments over the two year period commencing on August 23, 2005, for each consecutive month that the grantee remains an employee.

(6) Certain of our non-employee Directors received options to purchase 7,500 shares of our common stock granted under the 2004 Directors Equity Incentive Plan on August 23, 2004 which have an exercise price of $15.50 per share, the fair value of our common stock as determined pursuant to the Plan, and vest over three years. One third of the options vested on August 23, 2005, and the remaining options vest in equal quarterly installments over the two year period commencing on August 23, 2005, for each consecutive quarter that the grantee remains a director. The 2,500 shares represent the portion of options exercisable in shares of common stock within 60 days of September 21, 2005 that are held by each of our Directors.

(7) Messrs. Booth and Krause were appointed to our board of directors in August 2005. Mr. Booth and Mr. Krause were each granted options to purchase 7,500 shares of our common stock under the 2005 Directors Equity Incentive Plan on August 12, 2005. The options have an exercise price of $27.03, the fair value of a share of our common stock as determined by the Board of Directors as provided in the plan on the basis of the average trading price of our common stock over the twenty trading days ending two trading days prior to the date of grant. One third of the options vest on August 12, 2006, and the remaining options vest in equal quarterly installments over the two year period commencing on August 12, 2006, for each consecutive quarter that the grantee remains a director.

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ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS.

Our Directors and Executive Officers

The following table sets forth names, ages and positions of the persons who are our directors and executive officers as of August 30, 2005:

Name	Age	Position
J. Michael Walsh	57	President, Chief Executive Officer and Director
James E. Wall	57	Senior Vice President and Chief Financial Officer
Basil P. Prokop	61	President Canada Distribution
Chris L. Walsh	40	Senior Vice President Sales and Marketing
Gregory P. Antholzner	45	Vice President Finance and Control
Henry Hautau	63	Vice President Employee and Corporate Services
Scott E. McPherson	35	Vice President U.S. Divisions
Thomas B. Perkins	46	Vice President U.S. Divisions
Robert A. Allen(2)(3)	56	Director
Stuart W. Booth(1)	54	Director
Gary F. Colter(1)(2)(3)	59	Director
L. William Krause(2)(3)	63	Director
Harvey L. Tepner	48	Director
Randolph I. Thornton(1)(2)(3)	59	Director, Chairman of the Board of Directors

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Corporate Governance Committee.

J. Michael Walsh has served as our President and Chief Executive Officer since March 2003 and as a Director since August 2004. From October 1999 to March 2003, Mr. Walsh served as our Executive Vice President Sales. From April 1991 to January 1996, Mr. Walsh was a Senior Vice President Operations and was Senior Vice President U.S. Distribution from January 1996 to October 1999. Before joining Core-Mark, Mr. Walsh served as the Senior Vice President Operations of Food Services of America. Mr. Walsh received a Bachelor of Science degree in industrial engineering from Texas Tech University and a Master of Business Administration from Texas A&M at West Texas.

James E. Wall has served as our Senior Vice President and Chief Financial Officer since September 2004. Prior to joining us, Mr. Wall served as the Chief Financial Officer of Memec PLC from August 2002 to April 2003. From August 1999 to April 2001, Mr. Wall served as the Chief Financial Officer of Metricom, Inc (which subsequently filed for bankruptcy), and Treasurer and Controller of Air Touch Communications, Inc. from September 1995 to August 1999. Mr. Wall received a Bachelor of Science degree in international marketing from California State University at Los Angeles and a Master of Business Administration from the University of California at Los Angeles. Mr. Wall also did doctoral work in accounting, finance and management at Pace University and is a certified public accountant licensed in California.

Basil P. Prokop has served as President of Canada Distribution since 1992. From 1987 to 1992, Mr. Prokop served as the Vice President and Director of Core-Mark Canada, and from 1986 to 1987 he served as Senior Vice President of Sales of Core-Mark Canada. Mr. Prokop joined Core-Mark in 1984 as a result of our acquisition of Western Smallwares, where he had been employed in various positions, including as a partner and senior officer, from 1960 to 1984.

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Chris L. Walsh has served as our Senior Vice President Sales and Marketing since 2003. Mr. Walsh is responsible for major new business development, relationships and income generation with our key vendors and development and execution of marketing programs throughout Core-Mark. Mr. Walsh joined Core-Mark in 1995 as Director of Foodservice. He was promoted to Vice President Merchandising in 1997 and Vice President Marketing in 1999. Prior to joining Core-Mark, Mr. Walsh served in marketing management positions at Nestle, Tyson Foods and Taco Bell. Mr. Walsh received a Bachelor of Arts Degree, *cum laude*, in economics and English from the University of Puget Sound and a Master of Business Administration from the Kellogg Graduate School of Management at Northwestern University.

Gregory P. Antholzner has served as our Vice President Finance and Control since January 2003. Mr. Antholzner joined Core-Mark in November 1988 as an Accounting Manager. Mr. Antholzner was promoted to Director of Accounting in March 1992. In January 1996, Mr. Antholzner was promoted to Assistant Controller and in July 1998 he became Corporate Controller. Mr. Antholzner received a Bachelor of Science degree in the registered accounting program from the University of New York at Buffalo.

Henry Hautau has served as our Vice President Employee and Corporate Services since 1992. Prior to joining Core-Mark, Mr. Hautau served in human resource management positions with SOHIO Petroleum Company (British Petroleum North America), Alesa Alusuisse, and Schlumberger Limited. Mr. Hautau received a Bachelor of Arts degree from Saint Francis College in Loretto, Pennsylvania.

Scott E. McPherson has served as our Vice President U.S. Divisions since January 2003. From June 2001 to January 2003, Mr. McPherson served as President of our Fort Worth distribution center. From June 2000 to June 2001, Mr. McPherson served as our Director of Corporate Marketing and from September 1992 to June 2000 he served as General Sales Manager of our Portland distribution center. Mr. McPherson received a Bachelor of Science Degree in business administration from Lewis & Clark College and a Master of Business of Administration from the University of Portland.

Thomas B. Perkins has served as our Vice President U.S. Divisions since September 2003. From January 2001 to August 2003, Mr. Perkins served as the President of our Arizona distribution center. From September 1996 to December 2000, Mr. Perkins served as the President of our Spokane distribution center and from August 1993 to August 1996 served as Controller of our Los Angeles distribution center. Prior to joining Core-Mark, Mr. Perkins was a controller with Pepsi Cola Company. Mr. Perkins received a Bachelor of Science degree from Northern Arizona University. Mr. Perkins is a certified public accountant licensed in California (inactive).

Robert A. Allen has served as a Director of Core-Mark since August 2004. Mr. Allen was Acting Chief Operating Officer of the Fleming Companies, Inc. from March 2003 to April 2003. From 1998 to 2003, Mr. Allen served as the President and Chief Executive Officer of Core-Mark International, Inc. and President and Chief Operating Officer of Core-Mark International, Inc. from 1996 to 1998. Mr. Allen received a Bachelor of Arts degree from the University of California at Berkeley.

Gary F. Colter has served as a Director of Core-Mark since August 2004. Mr. Colter has been employed principally by CRS Inc., a corporate restructuring and strategy management consulting company since 2002 and currently serves as its President. Prior to that time, Mr. Colter was employed by KPMG, serving as: Vice Chairman of KPMG Canada from 2001 to 2002; Managing Partner Global Financial Advisory Services and Member International Executive Team of KPMG International from 1998 to 2000; Vice Chairman Financial Advisory Services, Chairman and Chief Executive Officer of KPMG Inc. and on the Management Committee of KPMG Canada from 1989 to 1998; and Partner of KPMG Canada and its predecessor, Peat Marwick, from 1975 to 2002. Mr. Colter is a member of the board of directors of Canadian Imperial Bank of Commerce, Owens- Illinois, Inc. and Saskatchewan Wheat Pool, and serves as the chair of the audit committee of all three companies. Mr. Colter received a Bachelor of Arts degree in business administration from the Ivey Business School of the University of Western Ontario. Mr. Colter is a fellow chartered accountant (FCA).

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Harvey L. Tepner has served as a Director of Core-Mark since August 2004 and also serves as a member of the board of directors of the Post Confirmation Trust of the Fleming Companies. Since December 2002, Mr. Tepner has been a Partner of Compass Advisers, LLP in charge of its investment banking restructuring practice. Prior to that time Mr. Tepner was a Managing Director of Loeb Partners Corporation from 1995 to 2002. Prior to Loeb, Mr. Tepner worked as an officer in the corporate finance departments of Dillon, Read & Co. Inc. and Rothschild Inc. Mr. Tepner is a Chartered Accountant (Canada) and previously worked for Price Waterhouse in Canada. Mr. Tepner received a Bachelor of Arts degree from Carleton University and a Masters of Business Administration degree from Cornell University.

Randolph I. Thornton has served as a Director and Chairman of the Board of Directors of Core-Mark since August 2004 and also serves as a member of the board of directors of the Post Confirmation Trust of the Fleming Companies. Mr. Thornton has served as the President and Chief Executive Officer of Comdisco Holding Company, Inc. since August 2004. From May 1970 to February 2004, Mr. Thornton was employed by Citigroup, Inc., most recently serving as a managing director until Mr. Thornton retired from Citigroup, Inc. in February 2004. Mr. Thornton is a member of the board of directors of Comdisco Holding Company, Inc. In addition, Mr. Thornton was a member of the board of directors of Edison Brothers Stores, Inc. from 1997 to 2000 and served as the chair of its audit committee during that time. Mr. Thornton received a Bachelor of Arts degree in history from Lafayette College and a Master of Business Administration from Columbia Business School.

Stuart W. Booth has served as a Director of Core-Mark since August 2005. Mr. Booth has been employed by Central Garden & Pet Company, a publicly-traded marketer and producer of pet and lawn and garden supplies, since 2002, and is currently its Executive Vice President, Chief Financial Officer and Secretary. During 2001, Mr. Booth served as the Chief Financial Officer of RespondTV, Inc., an interactive television infrastructure and services company. From 1998 to 2000, Mr. Booth was Principal Vice President and Treasurer of Bechtel Group, Inc., an engineering, construction and project management firm. From 1975 to 1998, Mr. Booth served in various financial positions at Pacific Gas & Electric Company and related entities, including as principal financial officer for financial operations, acquisitions and divestitures at PG&E Enterprises. Mr. Booth received a Bachelor of Arts degree in economics from California State University, Chico, and a Masters of Business Administration from California State University, San Francisco.

L. William Krause has served as a Director of Core-Mark since August 2005. Mr. Krause presently serves as President of LWK Ventures, a private investment firm, a position he has held since 1991. Mr. Krause has been Chairman of the Board of Caspian Networks, Inc., a high performance networking systems provider, since April 2002 and was CEO from April 2002 until June 2004. From September 2001 to February 2002, Mr. Krause was Chairman and Chief Executive Officer of Exodus Communications, Inc., which he guided through Chapter 11 Bankruptcy to a sale of assets. He also served as President and Chief Executive Officer of 3Com Corporation, a global data networking company, from 1981 to 1990, and as its Chairman from 1987 to 1993 when he retired. Presently, Mr. Krause serves on the board of directors of Brocade Communications Systems, Inc., Packeteer, Inc., Sybase, Inc., and TriZetto Group. Mr. Krause received a Bachelor of Science degree in electrical engineering from The Citadel.

Family Relationships

The only family relationship between any of the executive officers or directors is between J. Michael Walsh and Chris L. Walsh. J. Michael Walsh is Chris L. Walsh s uncle.

Board of Directors

Our bylaws provide that the size of the board of directors shall be determined from time to time by our board of directors. Our board of directors currently consists of seven members. Each of our executive officers and directors, other than non-employee directors, devotes his or her full time to our affairs. Our non-employee directors devote the amount of time to our affairs as necessary to discharge their duties. Stuart Booth, Gary F.

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Colter, L. William Krause and Randolph I. Thornton are each independent within the meaning of the rules of the NASDAQ National Market and collectively constitute a majority of our board of directors. In addition, effective as of the end of April 2006, we expect that Robert A. Allen will be independent within the meaning of the rules of the NASDAQ National Market.

Committees of the Board of Directors

Pursuant to our bylaws, our board of directors is permitted to establish committees from time to time as it deems appropriate. To facilitate independent director review and to make the most effective use of our directors time and capabilities, our board of directors has established the following committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The charter of each of the committees discussed below is available on our website. The membership and function of each committee are described below.

Audit Committee

The audit committee provides assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions. It approves the services performed by our independent accountants and reviews their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. The audit committee currently consists of Stuart W. Booth, Gary F. Colter and Randolph I. Thornton, each of whom is a non-employee member of our board of directors and is independent within the meaning of the rules of the NASDAQ National Market and relevant federal securities laws and regulations. Mr. Booth is the Chairman of the audit committee, and he and Mr. Colter qualify as audit committee financial experts as defined under Securities and Exchange Commission rules. We believe that the composition of our audit committee meets the criteria for independence under, and the functioning of our audit committee complies with the applicable requirements of, the Sarbanes-Oxley Act of 2002 and the current rules of the NASDAQ National Market.

Compensation Committee

The compensation committee reviews and approves our general compensation policies and recommends to our board of directors the compensation provided to our directors and executive officers. The compensation committee also reviews and determines bonuses for our officers and other employees. In addition, the compensation committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option plans. The current members of the compensation committee are Gary F. Colter, L. William Krause, Robert A. Allen, and Randolph I. Thornton, each of whom is a non-employee member of our board of directors. Messrs. Colter, Krause and Thornton are each independent within the meaning of the rules of the NASDAQ National Market. Effective as of the end of April 2006, we expect that Mr. Allen will be independent within the meaning of such rules. Mr. Colter is the Chairman of the compensation committee. We believe that the composition of our compensation committee meets the criteria for independence under, and the functioning of our compensation committee complies with the applicable requirements of, the rules of the NASDAQ National Market.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board of directors. In addition, the nominating and corporate governance committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board of directors concerning corporate governance matters. The members of the nominating and governance committee are Robert A. Allen, Gary F.

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Colter, L. William Krause and Randolph I. Thornton. Messrs. Colter, Krause and Thornton are each independent within the meaning of the rules of the NASDAQ National Market. Effective as of the end of April 2006, we expect that Mr. Allen will be independent within the meaning of such rules. Mr. Allen is the Chairman of the nominating and corporate governance committee. We believe that the composition of our nominating and governance committee meets the criteria for independence under, and the functioning of our nominating and corporate governance committee complies with the applicable requirements of, the rules of the NASDAQ National Market.

Compensation Committee Interlocks and Insider Participation

The members of our compensation committee are Robert A. Allen, Gary F. Colter, L. William Krause and Randolph I. Thornton. Randolph I. Thornton is a member of the board of directors of the Post Confirmation Trust of the Fleming Companies and advised the creditors committee on the compensation of our executive officers and members of our Board of Directors.

Harvey L. Tepner, a member of our board of directors (and a member of our compensation committee and chairman of our audit committee from August 2004 through September 2, 2005), is a Partner of Compass Advisers, LLP. Mr. Tepner is also a Managing Director of Compass SRP Associates LLP, a special purpose joint venture that provided financial advisory and investment banking services to the Official Committee of Unsecured Creditors of Fleming in connection with Fleming s bankruptcy. Compass Advisers, LLP owns a 50% interest in Compass SRP Associates LLP. Pursuant to the Plan, Compass SRP Associates LLP has received total fees and expenses of approximately $4,781,000, of which $2,269,930 was distributed to Compass Advisers, LLP. All fees and expenses paid to Compass SRP Associates LLP were approved by the United States Bankruptcy Court for the District of Delaware after submission of applications by Compass SRP Associates LLP. Harvey L. Tepner is a member of the board of directors of the Post Confirmation Trust of the Fleming Companies but recused himself from any discussions regarding the compensation of Compass SRP Associates LLP.

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ITEM 6. EXECUTIVE COMPENSATION

The following table summarizes all compensation paid to our Chief Executive Officer and to our four other most highly compensated executive officers whose total annual salary and bonus exceeded $100,000 for services rendered in all capacities to us during the year ended December 31, 2004. We will refer to these executive officers as the named executive officers. The information included in this table for 2002, 2003 and for the period of January 1, 2004 to August 23, 2004, the effective date of Fleming s reorganization, reflects compensation earned by the named executive officer for services rendered to Core-Mark as a subsidiary of Fleming and such amounts do not necessarily reflect the compensation these individuals will earn as our executive officers.

Summary Compensation

		Annual Compensation		Long-Term Compensation		
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Restricted Stock Units(1)**	**Securities Underlying Options (#)**	**All Other Compensation (2)(3)(4)**
J. Michael Walsh	2004	$ 451,731	$ 225,000	$ 279,000	100,000	$ 7,679
	2003	$ 401,250	$ 200,000	$		$ 1,053
President and Chief Executive Officer	2002	$ 242,062	$ 102,500	$		$ 31,661
Basil P. Prokop	2004	$ 256,954	$ 135,258	$ 255,750	91,667	$ 14,458
	2003	$ 214,625	$ 123,810	$		$ 13,406
President Canada Distribution	2002	$ 172,122	$ 101,266	$		$ 11,065
Chris L. Walsh	2004	$ 213,462	$ 151,000	$ 220,875	79,167	$ 6,872
	2003	$ 196,000	$ 120,000	$		$ 539
Senior Vice President Sales and Marketing	2002	$ 170,992	$ 66,186	$		$ 337,200
Scott E. McPherson	2004	$ 182,539	$ 58,992	$ 170,500	61,111	$ 6,552
	2003	$ 149,808	$ 105,000	$		$ 7,335
Vice President U.S. Divisions	2002	$ 107,885	$ 39,600	$		$ 185,763
Thomas B. Perkins	2004	$ 183,548	$ 113,238	$ 170,500	61,111	$ 6,011
	2003	$ 142,727	$ 105,000	$		$ 5,931
Vice President U.S. Divisions	2002	$ 125,769	$ 61,583	$		$ 216,344

(1) Reflects a value of $15.50 per share, the fair value of our common stock as determined pursuant to the Plan, the value of the shares of common stock underlying the restricted stock units on the date of grant. The per share value is based on valuations of Core-Mark common stock conducted in connection with Fleming s plan of reorganization. The restricted stock units were issued pursuant to our 2004 Long Term Incentive Plan. The aggregate holdings and value of the shares of restricted stock units held on December 31, 2004, by the individuals reported in this column are: Mr. J. Michael Walsh, 18,000 shares/$279,000; Mr. Prokop, 16,500 shares/$255,750; Mr. Chris L. Walsh, 14,250 shares/$220,875; Mr. McPherson, 11,000 shares/$170,500; and Mr. Perkins, 11,000 shares/$170,500. The shares of restricted stock were issued pursuant to our 2004 Long Term Incentive Plan. Pursuant to the terms of the plan, the restricted stock units vested with respect to one-third of the shares on August 23, 2005, and the remaining two-thirds of the restricted stock units vest ratably over the 24 month period after August 23, 2005, for each consecutive month of service that the individual provides to the Company.

(2) The figures for 2004 consist of: (i) matching contributions to our 401(k) Plan in the following amounts: $6,500 for Mr. J. Michael Walsh, $4,293 for Mr. Prokop, $6,288 for Mr. Chris Walsh, $5,493 for Mr. McPherson and $5,506 for Mr. Perkins; (ii) the payment of long term disability and accidental death and dismemberment insurance premiums in the following amounts: $1,179 for Mr. J. Michael Walsh, $692 for Mr. Prokop, $584 for Mr. Chris Walsh, $502 for Mr. McPherson and $505 for Mr. Perkins; and (iii) payment of a car allowance in the following amounts: $9,473 for Mr. Prokop and $557 for Mr.

McPherson.

(3) The figures for 2003 consist of: (i) matching contributions to our 401(k) Plan in the following amounts: $3,998 for Mr. Prokop, (ii) the payment of long term disability and accidental death and dismemberment insurance premiums in the following amounts: $1,053 for Mr. J. Michael Walsh, $587 for Mr. Prokop, $539 for Mr. Chris Walsh, $412 for Mr. McPherson and $393 for Mr. Perkins; and (iii) payment of a car allowance in the following amounts: $8,821 for Mr. Prokop, $6,923 for Mr. McPherson and $5,538 for Mr. Perkins.

(4) The figures for 2002 consist of: (i) matching contributions to our 401(k) Plan in the following amounts: $5,500 for Mr. J. Michael Walsh, $3,414 for Mr. Prokop, $5,322 for Mr. Chris Walsh, $3,452 for Mr. McPherson and $3,989 for Mr. Perkins; (ii) the payment of long term disability and accidental death and dismemberment insurance premiums in the following amounts: $597 for Mr. J. Michael Walsh, $436

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for Mr. Prokop, $427 for Mr. Chris Walsh, $270 for Mr. McPherson and $314 for Mr. Perkins; (iii) the payment of a car allowance in the following amounts: $25,564 for Mr. J. Michael Walsh, $7,215 for Mr. Prokop, $24,189 for Mr. Chris Walsh, $7,200 for Mr. McPherson and $7,200 for Mr. Perkins; and (iv) and payment of the following amounts by Fleming for outstanding options in connection with the acquisition of Core-Mark International by Fleming: $307,262 for Mr. Chris Walsh, $174,841 for Mr. McPherson and $204,841 for Mr. Perkins.

(5) Mr. Prokop receives his cash compensation in Canadian dollars. We report these amounts in the summary compensation table above in U.S. dollars based on the US/Canadian year-end exchange rate for each of 2004, 2003 and 2002 of $1.2034, $1.2923 and $1.58.

Stock Options

The following table sets forth information relating to the stock options granted under our 2004 Long-Term Incentive Plan in 2004 to our named executive officers as well as information on their stock options holdings at the end of 2004.

Option Grants in 2004 Year

Name	No. of Shares Underlying Securities Granted	Percent of Total Securities Granted to Employees (%)	Exercise Price ($/sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Option Price Appreciation for Option Term(1) 5%	10%
J. Michael Walsh	100,000	8.0%	$ 15.50	8/23/11	$ 631,006	$ 1,470,512
Basil P. Prokop	91,667	7.3%	$ 15.50	8/23/11	$ 578,424	$ 1,347,974
Chris L. Walsh	79,167	6.3%	$ 15.50	8/23/11	$ 499,548	$ 1,164,160
Scott E. McPherson	61,111	4.9%	$ 15.50	8/23/11	$ 385,614	$ 898,644
Thomas B. Perkins	61,111	4.9%	$ 15.50	8/23/11	$ 385,614	$ 898,644

(1) The dollar amounts represented are based on calculations assuming annual rates of stock price appreciation over the option term at 5 percent and 10 percent rates set by the Securities and Exchange Commission and are not intended to forecast possible future appreciation, if any, of our common stock. On the grant date there was no public trading market for our common stock. For the purposes of calculating the potential realizable value we used $15.50 per share, the fair value of our common stock as determined pursuant to the Plan, as the value of our common stock on the date of grant. The price of $15.50 per share was also the basis used to calculate our option expense in our consolidated financial statements. The actual stock price appreciation over the 7-year option term may not be at the above 5 percent and 10 percent assumed rates of compounded stock price appreciation or at any other defined level. Unless the market price of our common stock appreciates over the option term, no value will be realized from the option grant made to the named executive officer.

Aggregate Option Exercises in Last Year and Year End Option Values

None of our named executive officers exercised any options to purchase our common stock in 2004. The following table provides information on the amount and value of unexercised in the money options at December 31, 2004. The following table assumes a per-share fair value equal to $15.50 as of December 31, 2004, the fair value of a share of our common stock as determined pursuant to the Plan:

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2004		Value of Unexercised In-The-Money Options at December 31, 2004(2)	
			Exercisable(1)	Unexercisable	Exercisable	Unexercisable
J. Michael Walsh		$		100,000	$	$
Basil P. Prokop		$		91,667	$	$
Chris L. Walsh		$		79,167	$	$
Scott E. McPherson		$		61,111	$	$
Thomas B. Perkins		$		61,111	$	$

(1) No options were exercisable until August 23, 2005. The options vested with respect to one third of the shares of common stock underlying the option on August 23, 2005, and the options vest with respect to the remaining shares of common stock in equal monthly

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installments over the two year period commencing on August 23, 2005, for each consecutive month of service that individual provides to the Company.

(2) The exercise price for the unexercisable options is $15.50 per share, the fair value of our common stock as determined pursuant to the Plan. As of December 31, 2004 there was no trading market for shares of our common stock. Therefore, we have assumed that the fair market value for a share of our common stock remained equal to the exercise price as of December 31, 2004 and, accordingly, that none of the unexercisable options were in-the-money.

Restricted Stock and Restricted Stock Units