Core-Mark Holding Company, Inc.
Form 10-Q
May 10, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number: 000-51515

CORE-MARK HOLDING COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

(650) 589-9445

(Registrant s telephone number, including area code)

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

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

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

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

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

As of April 30, 2007, 10,347,773 shares of the registrant s common stock, $0.01 par value per share, were outstanding.

Table of Contents

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2007

TABLE OF CONTENTS

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and other materials we file with the Securities and Exchange Commission (the SEC) 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, should, forecast, believe, will, expect, project, estimate, anticipat 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 discussed in such forward looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this report under the section Risk Factors and elsewhere, and in other reports Core-Mark files with the SEC.

These forward-looking statements speak only as of the date of this Form 10-Q. 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 Form 10-Q entitled Factors that May Affect Future Operating Results.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 16.6	$ 19.9
Restricted cash	11.3	9.3
Accounts receivable, net of allowance for doubtful accounts of $3.9 and $4.0, respectively	142.7	149.4
Other receivables, net	32.7	35.7
Inventories, net	181.6	219.4
Deposits and prepayments	27.0	17.0
Deferred Income Taxes	6.0	
Total current assets	417.9	450.7
Property and equipment, net	54.7	55.0
Goodwill	2.9	2.9
Other non-current assets, net	52.1	47.0
Total assets	$ 527.6	$ 555.6
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 65.6	$ 51.6
Book overdrafts	17.4	15.5
Cigarette and tobacco taxes payable	82.1	67.2
Accrued liabilities	53.2	56.0
Income taxes payable	3.7	6.9
Deferred income taxes		14.4
Total current liabilities	222.0	211.6
Long-term debt, net	6.1	78.0
Other tax liabilities	13.2	3.6
Claims liabilities, net of current portion	37.7	37.5
Pension liabilities	9.2	9.2
Total liabilities	288.2	339.9
Stockholders equity:		
Common stock; $0.01 par value (50,000,000 shares authorized; 10,332,391 and 10,208,292 shares issued and outstanding at March 31, 2007 and December 31, 2006 respectively)	0.1	0.1
Additional paid-in capital	196.9	175.5
Retained earnings	42.4	40.2
Accumulated other comprehensive loss		(0.1)

Total stockholders equity		239.4		215.7
Total liabilities and stockholders equity	$	527.6	$	555.6

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net sales	$ 1,276.1	$ 1,178.9
Cost of goods sold	1,200.6	1,114.4
Gross profit	75.5	64.5
Warehousing and distribution expenses	40.1	33.1
Selling, general and administrative expenses	31.2	27.2
Amortization of intangible assets	0.4	0.3
Total operating expenses	71.7	60.6
Income from operations	3.8	3.9
Interest expense	0.9	1.0
Interest income	(0.2)	(0.2)
Foreign currency transaction losses, net	0.1	0.1
Income before income taxes	3.0	3.0
Provision for income taxes	0.9	1.3
Net income	$ 2.1	$ 1.7
Basic income per common share	$ 0.20	$ 0.18
Diluted income per common share	$ 0.19	$ 0.16
Basic weighted average shares	10.3	9.8
Diluted weighted average shares	11.1	10.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 2.1	$ 1.7
Adjustments to reconcile net income to net cash provided by operating activities:		
LIFO and inventory provisions	2.1	1.6
Amortization of stock-based compensation expense	1.2	1.1
Bad debt reserves, net	(0.2)	(0.8)
Depreciation and amortization	3.6	2.9
Foreign currency transaction losses, net	0.1	0.1
Deferred income taxes		(0.1)
Changes in operating assets and liabilities:		
Accounts receivable	6.8	(2.1)
Other receivables	3.3	3.0
Inventories	35.9	41.3
Deposits, prepayments and other non-current assets	(9.7)	(5.8)
Accounts payable	13.8	0.7
Cigarette and tobacco taxes payable	14.7	(10.3)
Income taxes payable	(0.4)	0.1
Pension, claims and other accrued liabilities	(4.4)	(4.2)
Net cash provided by operating activities	68.9	29.2
Cash flows from investing activities:		
Restricted cash	(1.9)	(2.3)
Additions to property and equipment, net	(2.0)	(1.5)
Net cash used in investing activities	(3.9)	(3.8)
Cash flows from financing activities:		
Payments made under 2005 revolving credit facility, net	(71.9)	(22.6)
Cash proceeds from exercise of common stock options and warrants	1.1	0.4
Excess tax deductions associated with stock-based compensation	0.5	0.2
Increase (decrease) in book overdrafts	1.9	(13.4)
Net cash used in financing activities	(68.4)	(35.4)
Effects of changes in foreign exchange rates	0.1	(0.2)
Decrease in cash and cash equivalents	(3.3)	(10.2)
Cash and cash equivalents, beginning period	19.9	30.0
Cash and cash equivalents, end of period	$ 16.6	$ 19.8

Supplemental disclosures:				
Cash paid during the period for:				
Income taxes, net of refunds	$	1.6	$	1.0
Interest paid	$	1.2	$	1.1

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary Company Information

Business

Core-Mark Holding Company, Inc. and subsidiaries (collectively, the Company or Core-Mark) is one of the leading wholesale distributors to the convenience store industry in North America, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. The Company operates 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 21,000 customer locations. The products the Company distributes include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. Core-Mark services a variety of store formats including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Core-Mark Holding Company, Inc. and subsidiaries for the three months ended March 31, 2007 and 2006 have been prepared on the same basis as the Company s audited consolidated financial statements and include all adjustments (consisting of only normally recurring adjustments) necessary for the fair presentation of its consolidated results of operations, financial position and cash flows. Results for the interim periods are not necessarily indicative of results to be expected for the full year or any other future period.

The significant accounting policies and certain financial information that are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, but which are not required for interim reporting purposes, have been omitted. The unaudited consolidated interim financial statements should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2006 which are included in the Company s Annual Report for 2006 on Form 10-K.

Reclassifications

Amortization of debt issuance cost for the three months ended March 31, 2006 of $0.1 million has been reclassified to the interest expense line item on the income statement to conform to the current period presentation.

2. Inventories

Net income reflects the application of the last-in, first-out (LIFO) method of valuing inventories in the United States based upon estimated annual producer price indices (PPI s). The Company recorded LIFO expense of $1.8 million for the three months ended March 31, 2007 compared with $1.4 million for the three months ended March 31, 2006.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Asset Acquisition of Klein Candy Co. L.P.

On June 19, 2006, the Company completed the purchase of substantially all the assets and certain liabilities of Klein Candy Co. L.P. (the Pennsylvania division or Klein), a full service distributor of tobacco and grocery items to convenience stores and other retail store formats in nine Eastern and mid-Western states, for approximately $58.3 million. The Company acquired Klein to help build a national distribution capacity by expanding its presence into the Eastern United States and funded the transaction under its existing $250 million Revolving Credit Facility.

Operating results for the Pennsylvania division are included in the consolidated statements of operations from the date of acquisition. The following pro forma consolidated results of operations for the quarter ended March 31, 2006 assume that the Klein acquisition was completed as of January 1, 2006.

	Pro Forma March 31, 2006
Net sales	$ 1,370.7
Net income	$ 1.4
Basic earnings per common share	$ 0.14
Diluted earnings per common share	$ 0.13

The pro forma net sales for the three months ended March 31, 2006 include the historical results of the Company and Klein combined. However, on the acquisition date, the Company acquired only certain assets and certain liabilities of Klein. Additionally, the combined Company does not service all of Klein s former customers. As a result, the net sales and corresponding expenses of the Pennsylvania division under the Company s management are lower than those reflected in the March 31, 2006 pro forma consolidated results.

4. Comprehensive Income

Comprehensive income for the three months ended March 31, 2007 and March 31, 2006 was as follows (in millions):

	For the three months ended March 31, 2007	March 31, 2006
Net income, as reported	$ 2.1	$ 1.7
Foreign currency translation adjustment	0.1	
Total comprehensive income	$ 2.2	$ 1.7

5. Long-term Debt

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

For the three months ended March 31, 2007 and March 31, 2006, the weighted average interest rate on our revolving credit facility was 6.6% and 5.9%, respectively. In the first quarter of 2007 and 2006, the Company paid total unused facility fees of $0.1 million.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In 2005, the Company paid approximately $2.1 million in financing costs in connection with the 2005 Credit Facility, which were deferred and are amortized over the life of the facility. These costs are included in other non-current assets on the consolidated balance sheets. Unamortized debt issuance costs were $1.5 million and $1.9 million at March 31, 2007 and March 31, 2006, respectively.

At March 31, 2007 and March 31, 2006, net available capacity under the 2005 Credit Agreement was $168.2 million and $83.6 million, respectively, and the Company was in compliance with all of the covenants. During the first three months of 2007 and 2006, the maximum amount of borrowing was $78.0 million and $59.6 million under the revolving credit facility and the maximum amount outstanding under letters of credit facilities was $42.5 and $55.0 million, respectively.

6. Income Taxes

In June 2006, the FASB issued Financial Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The company adopted FIN 48 as of January 1, 2007, as required. The impact of adopting FIN 48 on the company s consolidated financial statements is summarized below (in millions).

	Balance at December 31, 2006	FIN 48 Adjustment	Balance at January 1, 2007
Deferred income taxes (current)	$ (14.4)	$ 20.4	$ 6.0
Other non-current assets, net	$ 47.0	$ 5.8	$ 52.8
Income taxes payable	$ 6.9	$ (1.7)	$ 5.2
Other tax liabilities	$ 3.6	$ 9.3	$ 12.9
Additional paid-in capital	$ 175.5	$ 18.5	$ 194.0
Retained earnings	$ 40.2	$ 0.1	$ 40.3

At January 1, 2007, the total amount for unrecognized tax benefits which is included in other tax liabilities related to federal, state and foreign taxes was approximately $11 million all of which would impact the Company s effective tax rate if recognized. The amount of unrecognized tax benefits did not change as of March 31, 2007 and the Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to March 31, 2008.

The Company recognizes interest accrued related to unrecognized tax benefits in the provision for income taxes and penalties in selling, general and administrative expenses. As of January 1, 2007, the Company had recorded a liability of $2.4 million for the payment of interest and penalties, consisting of $2.1 million for interest and $0.3 million related to penalties. As of March 31, 2007, the liability for interest and penalties related to unrecognized tax benefits increased to $2.7 million, consisting of $2.4 million of interest and $0.3 million of penalties.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2003 through December 31, 2006. The Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2002 through 2006. In addition, the Company is subject to Canadian federal and provincial income tax examinations for the tax years 1999 through 2006.

The provision for income taxes was impacted by $0.4 million in the first quarter of 2007 due primarily to corrections related to tax positions adopted in 2003 and 2004, offset by additional interest expense. The correction of tax positions includes a $1.1 million reduction in expense, inclusive of $0.4 million of after tax interest, primarily related to corrections to tax liability reserves associated with unitary taxes and other bankruptcy related costs. This correction was offset by approximately $0.5 million of interest expense, net of tax, related to the underpayment of approximately $7.4 million of income taxes in 2004 and 2005 arising from the misapplication of a tax position the Company adopted upon emergence from bankruptcy in 2004. Both of these corrections were not material to any prior periods. In addition, as a result of the change in unrecognized tax positions under FIN 48 the Company recorded $0.2 million of interest expense for the first quarter of 2007. Our effective tax rate was 29.2% in the first quarter of 2007 compared to 43.1% in the first quarter of 2006. Excluding the impact of the corrections and interest expense of approximately $0.4 million described above, our effective tax rate would have been 43.9% in the first quarter of 2007.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Earnings Per Share

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

	For the three months ended March 31, 2007			For the three months ended March 31, 2006		
	Net Income	Weighted Average Shares Outstanding	Net Income Per Common Share	Net Income	Weighted Average Shares Outstanding	Net Income Per Common Share
Basic EPS	$ 2.1	10.3	$ 0.20	$ 1.7	9.8	$ 0.18
Effect of dilutive common share equivalents:						
Unvested restricted stock units		0.1			0.1	
Stock options		0.3			0.4	(0.01)
Warrants		0.4	(0.01)		0.6	(0.01)
Diluted EPS	$ 2.1	11.1	$ 0.19	$ 1.7	10.9	$ 0.16

8. Stock-Based Compensation Plans

Total stock-based compensation cost recognized in the accompanying consolidated statements of operations for the three months ended March 31, 2007 and 2006 was $1.2 million and $1.1 million, respectively. Total unrecognized compensation cost related to non-vested share-based compensation arrangements was $4.1 million at March 31, 2007. This balance is expected to be recognized over a weighted average period of 1.5 years.

Employee stock-based compensation expense recognized in the three months ended March 31, 2007 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. The Company s forfeiture experience since inception of its plans has been approximately 2.1% of the total grants. The Company issues new shares to satisfy stock option exercises.

The Company maintains four stock-based compensation plans: the 2004 Long-Term Incentive Plan, the 2004 Directors Equity Incentive Plan, the 2005 Long-Term Incentive Plan and the 2005 Directors Equity Incentive Plan which were established on and after the date of emergence from the Fleming bankruptcy.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column 1)
2004 Long Term Incentive Plan Restricted Stock Units and Options	918,792(1)	4,412
2005 Long Term Incentive Plan Restricted Stock Units	115,846	455
2004 Directors Equity Incentive Plan	30,000	
2005 Directors Equity Incentive Plan	15,000	

(1) Includes non-qualified stock options and shares of restricted stock units.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company uses the Black-Scholes multiple option-pricing model to determine the grant date fair value for each stock option and restricted stock unit grant. Option pricing models require the input of assumptions that are estimated at the date of grant. The fair values of stock options and restricted stock awards granted in 2006-2007 were based upon the following assumptions:

	March 31, 2007	March 31, 2006
Expected life (years)	3.0-4.0	4.0
Risk-free interest rate	4.50-4.71%	4.44%
Volatility	30%	30%
Dividend yield		
Weighted-average fair value of grants:		
Stock options	$ 11.07	
Restricted stock units	$ 32.13	$ 34.09

There is limited historical information available to support the estimate of certain assumptions required to value the stock options and restricted stock units as the Company s shares began trading on the over-the-counter market in April 2005 and on the NASDAQ national market in December 2005. The expected volatility of the Company s stock is based on a variety of factors including the volatility measures of other companies in relatively similar industries and the measures of companies which recently emerged from bankruptcy. The risk free rate for periods within the contractual life of the option is based on the United States Treasury yield curve in effect at the time of grant. The expected term of options granted represents the period of time we estimate that options granted are expected to be outstanding.

The following table summarizes activity for all stock option and restricted stock plans for the three months ended March 31, 2007:

	2004 LTIP		2004 LTIP/ Directors Plan		2005 LTIP		2005 Directors Plan	
	Number of Restricted Stock Units	Weighted Average Exercise Price	Number of Option Shares	Weighted Average Exercise Price	Number of Restricted Stock Units	Weighted Average Exercise Price	Number of Option Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	116,928	$ 0.01	870,372	$ 15.50	126,467	$ 0.01	15,000	$ 27.03
Granted	15,000	0.01	54,637	36.03	8,900	0.01		
Exercised	(29,510)	0.01	(72,739)	15.50	(21,800)	0.01		
Canceled	(442)	0.01	(2,454)	15.50	(721)	0.01		
Reclass	(3,000)	0.01			3,000	0.01		
Outstanding at March 31, 2007	98,976	0.01	849,816	16.82	115,846	0.01	15,000	27.03
Exercisable at March 31, 2007	63,790	0.01	652,738	15.50	47,593	0.01	7,500	27.03

The aggregate intrinsic value of stock options and restricted stock units exercised during the three months ended March 31, 2007 and 2006 was approximately $2.9 million and $0.8 million, respectively.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables summarize stock options and restricted stock units that have vested and are expected to vest as of March 31, 2007:

	2004 LTIP/Directors Plan			2005 Directors Plan		
	Outstanding Options	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000) (1)	Outstanding Options	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000) (1)
Vested	652,738	4.4	$ 12,311	7,500	5.4	$ 65
Expected to vest(2)	195,985	5.1	2,874	7,500	5.4	65
Total	848,723	4.6	$ 15,185	15,000	5.4	$ 130

	2004 LTIP			2005 LTIP		
	Outstanding Restricted Stock Units	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000) (1)	Outstanding Restricted Stock Units	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (000) (1)
Vested	63,790	No term limit	$ 2,275	47,593	No term limit	$ 1,698
Expected to vest(2)	34,886	No term limit	1,245	68,127	No term limit	2,430
Total	98,676		$ 3,520	115,720		$ 4,128

(1) Aggregate intrinsic value is calculated based upon the difference between the exercise prices of options or restricted stock units and the Company s closing stock price on March 31, 2007 of $35.68, multiplied by the number of instruments that are vested or expected to vest. Options and restricted stock units having exercise prices greater than the closing stock price noted above are excluded from this calculation.

(2) Options and restricted stock units that are expected to vest are net of estimated future forfeitures.

The aggregate fair value of options vested in the three months ended March 31, 2007 and 2006 was approximately $3.2 million and $3.4 million, respectively. The aggregate fair value of restricted stock units vested in the three months ended March 31, 2007 and 2006 was approximately $1.0 million and $2.6 million, respectively.

9. Employee Benefit Plans

The Company sponsors a qualified defined benefit pension plan and a post-retirement benefit plan for employees hired before September 1986. There have been no new entrants to the pension or non-pension post retirement benefit plans after those benefit plans were frozen on September 30, 1989. Pursuant to the Plan, on the Effective Date, the Company was assigned the obligations for three former Fleming defined-benefit pension plans. The Predecessor Company s frozen pension benefit plans and post-retirement benefit plan and the three former Fleming pension plans are collectively referred to as the Pension Plans. Pension costs and other post-retirement benefit costs charged to operations are estimated on the basis of annual valuations with the assistance of an independent actuary. Adjustments arising from plan amendments, changes in assumptions and experience gains and losses are amortized over the expected average remaining service life of the employee group.

The Company maintains defined contribution plans in the United States, subject to Section 401(k) of the Internal Revenue Code, and in Canada, subject to the Department of National Revenue Taxation Income Tax Act.

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following tables provide the components of the net periodic pension and other post-retirement benefit costs for the three months ended March 31, 2007 and 2006 (in millions):

PENSION BENEFITS	For the three months ended March 31, 2007		For the three months ended March 31, 2006	
Interest cost	$	0.5	$	0.5
Expected return on plan assets		(0.6)		(0.5)
Net periodic benefit cost (income)	$	(0.1)	$	

OTHER POST-RETIREMENT BENEFITS	For the three months ended March 31, 2007		For the three months ended March 31, 2006	
Interest cost	$	0.1	$	0.1
Amortization of net actuarial loss				
Net periodic benefit cost	$	0.1	$	0.1

The Company did not make a contribution during the three months ended March 31, 2007 to its pension and other post-retirement benefit plans. In the first quarter of 2006, the Company made a contribution of $0.3 million to its pension and other post-retirement benefit plans.

During the second quarter of 2007, the Company expects to contribute approximately $0.1 million to its pension and other post-retirement benefit plans, and the Company does not expect to make a contribution to its defined contribution plan during this period.

10. Segment and Geographic Information

The Company has identified two reportable segments, United States and Canada, based on the differing economic characteristics of each and based on the level at which the Company s chief operating decision maker reviews the results of operations to make decisions regarding performance assessment and resource allocation. For management reporting purposes, the chief operating decision maker evaluates business segment performance based on income before income taxes. Inter-segment revenues are not significant and no single customer accounted for 10% or more of the Company s total revenues for the three months ended March 31, 2007.

13

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information about the Company s operations by business segment (which are defined by geographic area) is as follows (in millions):

	For the three months ended March 31, 2007		For the three months ended March 31, 2006	
Net sales:				
United States	$	1,114.3	$	942.4
Canada		156.9		231.6
Corporate adjustments and eliminations		4.9		4.9
Total	$	1,276.1	$	1,178.9
Income (loss) before income taxes:				
United States	$	3.2	$	0.6
Canada		0.6		0.2
Corporate adjustments and eliminations		(0.8)		2.2
Total	$	3.0	$	3.0
Interest expense:				
United States	$	5.4	$	4.9
Canada				
Corporate adjustments and eliminations		(4.5)		(3.9)
Total	$	0.9	$	1.0
Interest income:				
United States	$		$	
Canada				
Corporate adjustments and eliminations		(0.2)		(0.2)
Total	$	(0.2)	$	(0.2)
Depreciation and amortization:				
United States	$	2.9	$	2.4
Canada		0.2		0.2
Corporate adjustments and eliminations		0.5		0.3
Total	$	3.6	$	2.9

Information about the Company s operations by major product category, by geographic segment is as follows (in millions):

	For the three months ended March 31, 2007		For the three months ended March 31, 2006	
Net sales cigarettes :				
United States	$	789.4	$	665.2
Canada		102.4		178.1
Corporate adjustments and eliminations				
Total	$	891.8	$	843.3
Net sales food/non-food :				
United States	$	324.9	$	277.2
Canada		54.5		53.5
Corporate adjustments and eliminations		4.9		4.9
Total	$	384.3	$	335.6

Table of Contents

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Identifiable assets by geographic area (in millions):

	March 31, 2007	December 31, 2006
Identifiable assets:		
United States	$ 475.3	$ 509.4
Canada	52.3	46.2
Total	$ 527.6	$ 555.6

The corporate adjustments and eliminations identified above include amounts not reflected in our United States and Canada operating segment information such as differences between allocated and incurred costs for interest, corporate expense, depreciation and amortization and net sales relating to corporate activities unallocated to the operating segments.

11. Subsequent Event

In April 2007, we entered into a settlement agreement with the State of Washington Department of Revenue related to a technical interpretation of the State of Washington s Other Tobacco Tax Law which specifies a refund of OTP tax of approximately $13.3 million, which represents 25% of the State of Washington OTP tax we paid for the periods of December 1991 through December 1996 and May 1998 through June 2005. The refund, which we expect to receive and record in the second quarter of 2007, will be recognized as a reduction to cost of sales.

Table of Contents

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

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with the accompanying consolidated financial statements and notes thereto that are included elsewhere in this Form 10-Q.

Overview

Core-Mark is one of the leading wholesale distributors to the convenience store industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the United States and Canada. We operate a network of 24 distribution centers in the United States and Canada, distributing a diverse line of national and private label convenience store products to approximately 21,000 customer locations. The products we distribute include cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, non-alcoholic beverages, general merchandise, and health and beauty care products. We service a variety of store formats including traditional convenience stores, grocery stores, drug stores, liquor stores and other stores that carry convenience products.

We derive our net sales primarily from sales to convenience store customers. Our gross profit is derived primarily by applying a markup to the cost of the product at the time of the sale and from cost reductions derived from vendor credit term discounts received and other vendor incentive 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.

Background

Core-Mark Holding Company, Inc. was incorporated on August 20, 2004 as the ultimate parent company for Core-Mark International, Inc., and Core-Mark International s wholly owned subsidiaries pursuant to a Plan of Reorganization, the Plan, following a bankruptcy petition by Core-Mark s then corporate parent, Fleming Companies, Inc. or Fleming. 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, the PCT and the RCT.

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).

Recent Developments

Other Tobacco Products (OTP) Tax Refund Settlement Agreement

In April 2007, we entered into a settlement agreement with the State of Washington Department of Revenue related to a technical interpretation of the State of Washington s Other Tobacco Tax Law which specifies a refund of OTP tax of approximately $13.3 million, which represents 25% of the State of Washington OTP tax we paid for the periods of December 1991 through December 1996 and May 1998 through June 2005. The refund, which we expect to receive and record in the second quarter of 2007, will be recognized as a reduction to cost of sales.

Expansion to Eastern Canada

In April 2007, we announced our plan to open a new distribution facility near Toronto, Ontario on February 1, 2008. This new facility will expand our existing geography in Canada. We signed a long-term supply agreement with Couche-Tard, a Canadian retailer that operates over 600 stores in the province of Ontario. We estimate the total cost of the facility to be approximately $9.0 million, including $1.5 million of start-up costs, most of which will be expensed in 2007.

Release of Guaranty Obligations for the Benefit of the PCT and RCT

We guaranteed certain obligations of the PCT and RCT set up pursuant to the Plan for the benefit of Fleming s former creditors. On September 11, 2006 we were released without cost from our obligations under the RCT guarantee. On January 25, 2007 we were released without cost from our obligations under the PCT guarantee. There was no accounting impact as a result of these changes.

Critical Accounting Policies and Estimates

There have been no changes to the Company s critical accounting policies as discussed in our annual report on Form 10-K for the year ended December 31, 2006 and filed with the SEC on March 15, 2007.

Forward-Looking Trend and Other Information

Cigarette Industry Trends

Cigarette Consumption

Aggregate United States cigarette consumption has declined since 1980. 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 sales through convenience stores will start to decline more in line with the overall decline in cigarette consumption.

Excise Taxes

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

Cigarette Inventory Holding Profits

Distributors such as Core-Mark, from time to time, may earn higher gross profits on cigarette inventory and excise tax stamp quantities on hand either at the time cigarette manufacturers increase their prices or when states, localities or provinces increase their excise taxes and allow us to recognize cigarette inventory holding profits. These profits are recorded as an offset to cost of goods sold as the inventory is sold. Over the past several years we have earned significant cigarette inventory holding profits. For example, for the three months ended March 31, 2007 and 2006, cigarette inventory holding profits were $3.3 million or 4.4% and $0.6 million or 0.9% of our gross profit for the period, respectively. It is difficult to predict whether cigarette inventory holding profits will occur in the future since they are dependent on the actions of cigarette manufacturers and taxing authorities.

Food and Non-Food Product Trends

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

Results of Operations

Comparison of the three months ended March 31, 2007 and 2006

The following table sets forth the results of operations for the three months ended March 31, 2007 and compares those results to the same period in 2006. The comparative table is presented to complement management s discussion and analysis of our results of operations. We evaluate our results based on net sales inclusive of excise taxes. However, excise taxes, which have been increasing at a rapid rate, represent a significant portion of net sales. The following table includes columns for both percentage of net sales and percentage of net sales less excise taxes, in order to illustrate the impact such excise taxes have on our results of operations.

Table of Contents

(in millions)	*2007 compared to 2006*	2007 Three months ended March 31,	2007 % of Net sales	2007 % of Net sales, less excise taxes	2006 Three months ended March 31,	2006 % of Net sales	2006 % of Net sales, less excise taxes
Net sales	*$ 97.2*	$ 1,276.1	100.0%		$ 1,178.9	100.0%	
Net sales Cigarettes	*48.5*	891.8	69.9	63.0	843.3	71.5	65.2
Net sales Food/Non-food	*48.7*	384.3	30.1	37.0	335.6	28.5	34.8
Net sales, less excise taxes (1)	*74.3*	972.9	76.2	100.0	898.6	76.2	100.0
Gross profit	*11.0*	75.5	5.9	7.8	64.5	5.5	7.2
Warehousing and distribution expenses (2)	*7.0*	40.1	3.1	4.1	33.1	2.8	3.7
Selling, general and administrative expenses	*4.0*	31.2	2.4	3.2	27.2	2.3	3.0
Income from operations	*(0.1)*	3.8	0.3	0.4	3.9	0.3	0.4
Interest expense	*(0.1)*	0.9	0.1	0.1	1.0	0.1	0.1
Interest income		(0.2)			(0.2)		
Foreign currency transaction losses, net		0.1			0.1	0.0	0.0
Income before income taxes		3.0	0.2	0.3	3.0	0.3	0.3
Net income	*0.4*	2.1	0.2	0.2	1.7	0.1	0.2

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

(2) Warehouse and distribution expenses are not included as a component of the Company s cost of goods sold which presentation may differ from that of other registrants.

*Net sale*s. Net sales increased by $97.2 million or 8.2% to $1,276.1 million for the three months ended March 31, 2007 from $1,178.9 million for the three months ended March 31, 2006. The Pennsylvania division, which we acquired in June 2006, contributed $131.3 million of incremental sales compared with the first quarter of 2006. This was offset by lost sales of $86.6 million due to the move by a large Canadian supplier, Imperial Tobacco, to direct-to-store delivery of its products in Canada. The remaining increase of $52.5 million was due to net sales increases to existing customers and to sales to new customers. Included in net sales above are increases in excise taxes of $22.9 million for the three months ended March 31, 2007 compared to the three months ended March 31, 2006, related primarily to cigarettes.

Net sales of cigarettes for the three months ended March 31, 2007 increased $48.5 million, or 5.8% to $891.8 million compared to $843.3 million for the three months ended March 31, 2006. The increase in net cigarette sales was driven primarily by a 4.1% increase in cigarette carton sales combined with an increase in excise taxes. The increase in cigarette carton sales was due primarily to the addition of the Pennsylvania division and increases from existing and other new customers offset by decreases from customer losses and the loss of Imperial Tobacco volume described above. Net cigarette sales as a percentage of total net sales were 69.9% and 71.5% for the three months ended March 31, 2007 and 2006, respectively.

Net sales of food and non-food products for the three months ended March 31, 2007 increased $48.7 million or 14.5% to $384.3 million compared to $335.6 for the three months ended March 31, 2006. The increase is due primarily to higher sales to existing and new customers, including the new Pennsylvania division, partially offset by decreased sales from customer losses. Total net sales of food and non-food products as a percentage of total net sales were 30.1% and 28.5% in the first quarter of 2007 and 2006, respectively.

Gross profit. Gross profit represents the portion of sales remaining after deducting the cost of goods sold during the period. Vendor incentives, cigarette holding profits and changes in LIFO reserves are classified as elements of cost of goods sold. Gross profit for the three months ended March 31, 2007 increased by $11.0 million or 17.1%, to $75.5 million compared to $64.5 million for the three months ended March 31, 2006. The increase in gross profit dollars in the first quarter of 2007 was due primarily to an overall increase in sales volume, an increase in cigarette inventory holding profits of $2.7 million and a higher percentage of sales from higher-margin food/non-food products compared to the same period in 2006.

As a percentage of net sales, gross profit increased to 5.9% for the three months ended March 31, 2007, from 5.5% for the three months ended March 31, 2006. For the three months ended March 31, 2007, approximately 65.6% of gross profit was derived from food/non-food products compared to 67.8% for the three months ended March 31, 2006. The decline in the percentage of gross profit derived from food/non-food products compared with last year is due to incremental cigarette holding profit which we earned in the first quarter of 2007.

Table of Contents

The following table sets forth the components comprising the change in gross profit as a percentage of net sales for the three months ended March 31, 2007 and 2006.

(in millions)	2007 Three months ended March 31,	Three months ended March 31, % of Net sales	Three months ended March 31, % of Net sales, less excise taxes	2006 Three months ended March 31,	Three months ended March 31, % of Net sales	Three months ended March 31, % of Net sales, less excise taxes
Net sales	$ 1,276.1	100.0%		$ 1,178.9	100.0%	
Net sales, less excise taxes (1)	972.9	76.2	100.0%	898.6	76.2	100.0%
LIFO expense	(1.8)	(0.14)	(0.19)	(1.4)	(0.12)	(0.16)
Cigarette inventory holding profits	3.3	0.26	0.34	0.6	0.05	0.07
Remaining gross profit	74.0	5.80	7.61	65.3	5.54	7.27
Gross profit	$ 75.5	**5.92%**	**7.76%**	$ 64.5	**5.47%**	**7.18%**

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

Operating expenses. Our operating expenses include costs related to warehousing, distribution, and selling, general and administrative activities. For the three months ended March 31, 2007, operating expenses increased $11.1 million or 18.3% to $71.7 million from $60.6 million for the three months ended March 31, 2006. Overall, costs related to labor and benefits comprised approximately 64% of warehousing, distribution and selling, general and administrative expenses for the three months ended March 31, 2007 and 2006. A significant percentage of our labor costs are variable in nature and fluctuate relative to our sales volume.

Warehousing and distribution expenses. Warehousing and distribution expenses for the three months ended March 31, 2007 increased by $7.0 million or 21.1%, to $40.1 million from $33.1 million for the three months ended March 31, 2006. The increase in warehouse and distribution expenses was due primarily to the addition of the Pennsylvania division, an increase in sales volume and higher salaries and benefits. In addition to the impact attributable to an increase in sales volume for the quarter, salaries and benefits also increased due to higher demand for quality drivers in certain locations. As a percentage of net sales, these expenses were 3.1% for the three months ended March 31, 2007 compared to 2.8% for the three months ended March 31, 2006. The reduction in sales related to the loss of Imperial Tobacco volume resulted in an increase of approximately 20 basis points in warehouse and distribution expenses as a percentage of net sales. The remaining increase as a percentage of net sales is due to the items discussed above.

Selling, General and Administrative (SG&A) expenses. SG&A expenses increased $4.0 million, or 14.7%, to $31.2 million for the three months ended March 31, 2007 compared to $27.2 million for the three months ended March 31, 2006. The increase in SG&A expenses was due primarily to the addition of the Pennsylvania division and an increase in professional fees of $1.6 million largely related to the completion of our first year Sarbanes-Oxley compliance efforts. In the three months ended March 31, 2006, we benefited from the reversal of a vendor payable determined not due totaling $0.7 million and the favorable settlement of previously written-off vendor and customer receivables of $0.4 million. As a percentage of net sales, SG&A expenses were 2.4% for the three months ended March 31, 2007 compared to 2.3% for the three months ended March 31, 2006. The increase in SG&A as a percentage of net sales compared with last year is due primarily to the reduction in sales related to the loss of Imperial Tobacco volume and the items discussed above.

Interest expense. Interest expense includes both debt interest and amortization of fees related to borrowings. For the three months ended March 31, 2007, interest expense decreased by $0.1 million, or 10.0% to $0.9 million from $1.0 million for the three months ended March 31, 2006. The decrease in interest expense is due primarily to lower average borrowings in the first quarter of 2007 compared with the first quarter of 2006, offset by a higher average interest rate. The average borrowings for the three months ended March 31, 2007 was $32.6 million compared to $40.2 million for the three months ended March 31, 2006. During the first quarter of 2007, the weighted average interest rate on the revolving credit facility was 6.6% compared to 5.9% in the first quarter of 2006.

Interest income. Interest income was $0.2 million for the three months ended March 31, 2007 and 2006.

Table of Contents

Foreign currency transaction losses, net. We incurred foreign currency transaction losses of $0.1 million for the three months ended March 31, 2007 and 2006.

Income Taxes. Provision for income taxes for the first quarter of 2007 was impacted by $0.4 million due primarily to corrections related to tax positions adopted in 2003 and 2004, offset by additional interest expense. The correction of tax positions includes a $1.1 million benefit, inclusive of $0.4 million of after tax interest, related to reductions to our tax liability reserves and interest expense of $0.5 million, net of tax, related to the underpayment of approximately $7.4 million of income taxes in 2004 and 2005 arising from tax positions taken when we emerged from bankruptcy in 2004. See Note 6, Income Taxes, for additional information. In addition, as a result of the change in unrecognized tax positions under FIN 48 we recorded $0.2 million of interest expense for the first quarter of 2007. Our effective tax rate was 29.2% in the first quarter of 2007 compared to 43.1% in the first quarter of 2006. Excluding the impact of the corrections and interest expense of approximately $0.4 million described above, our effective tax rate would have been 43.9% in the first quarter of 2007.

Summary of Sales and Profit by Product Line The following table summarizes our cigarette and other product sales and gross profit for the three-month periods ended March 31, 2007 and 2006 as a percentage of our net sales and gross profit (in millions):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cigarettes		
Net sales	$ 891.8	$ 843.3
Excise Taxes in sales	$ 278.9	$ 257.0
Net sales, less excise taxes(2)	$ 612.9	$ 586.3
Gross Profit(1)	$ 26.0	$ 20.8
% of Total Sales	70%	72%
% of Total Sales, less excise taxes(2)	63%	65%
% of Gross Profit	34%	32%
Food/Non-Food		
Net sales	$ 384.3	$ 335.6
Excise Taxes in sales	$ 24.3	$ 23.3
Net sales, less excise taxes(2)	$ 360.0	$ 312.3
Gross Profit(1)	$ 49.5	$ 43.7
% of Total Sales	30%	28%
% of Total Sales, less excise taxes (2)	37%	35%
% of Gross Profit	66%	68%
Total Net Sales	$ 1,276.1	$ 1,178.9
Total Excise Taxes in Sales	$ 303.2	$ 280.3
Total Net Sales, less excise taxes (2)	$ 972.9	$ 898.6
% of Total Sales, less excise taxes (2)	76%	76%
Gross Profit	$ 75.5	$ 64.5

(1) Includes (i) cigarette holding profits related to manufacturer price increases and increases in excise taxes and (ii) LIFO effects. Cigarette holding profit for the three months ended March 31, 2007 and March 31, 2006 were $3.3 million and $0.6 million, respectively.

(2) Net sales, less excise taxes is a non-GAAP financial measure which we provide to separate the increase in sales due to actual sales growth and increases in excise taxes.

Liquidity and Capital Resources

Our cash as of March 31, 2007 and 2006 was $16.6 million and $19.8 million, respectively. Our restricted cash as of March 31, 2007 and 2006 was $11.3 million and $13.1 million, respectively. Restricted cash primarily represents funds that have been set aside in trust as required by one of the Canadian provincial taxing authorities to secure amounts payable for cigarette and tobacco excise taxes.

Our liquidity requirements arise primarily from the funding of our working capital, capital expenditures and debt service requirements of our credit facilities. We have historically funded our liquidity requirements through our current operations and external borrowings. We believe that the combination of our cash, cash flows from operations and available borrowings will be sufficient to finance our working capital, capital spending and other cash needs for at least the next 12 months.

Cash flows from operating activities

Net cash provided by operating activities was $68.9 million for the first quarter of 2007 compared with $29.2 million for the first quarter of 2006, an increase of $39.7 million. The increase in net cash provided by operations was due primarily to an increase in cigarette and tobacco taxes payable combined with higher accounts payable and a reduction in accounts receivable. The increase in cigarette and tobacco taxes payable is due to the re-establishment of credit terms in several states with the largest impact coming from the State of California. Accounts payable increased due primarily to incremental purchases made towards the end of the quarter related to promotional vendor programs. The decrease in accounts receivable is due primarily to better credit and collection procedures in several divisions.

Cash flows relating to investing activities

Net cash used in investing activities was $3.9 million for the first quarter of 2007 compared with $3.8 million for the first quarter of 2006. The marginal increase relates primarily to higher capital spending on delivery and warehouse equipment in the first quarter of this year.

The Company estimates that fiscal 2007 capital expenditures will approximate $24 million including approximately $7.5 million for the new distribution center in Toronto.

Cash flows from financing activities

Net cash used in financing activities increased by $33.0 million to $68.4 million for the first quarter of 2007 compared with $35.4 million in the first quarter of 2006. The increase was due primarily to an increase in payments on our revolving credit line in the first quarter of this year funded primarily by the improved tobacco tax credit terms partially offset by a decrease in book overdrafts due to the timing of payments for inventory.

2005 Revolving Credit Facility

In October 2005, we entered into a $250 million five-year revolving credit facility (the 2005 Credit Facility). 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 breakage costs with respect to LIBOR or CDOR-based loans prepaid prior to the end of an interest period).

For the three months ended March 31, 2007 and 2006, the weighted average interest rate on our revolving credit facility was 6.6% and 5.9%, respectively. In the first quarter of 2007 and 2006, the Company paid total unused facility fees of $0.1 million.

In fiscal year 2005, we paid approximately $2.1 million in financing costs in connection with the 2005 Credit Facility, which were deferred and are amortized over the life of the facility. These costs are included in other non-current assets on the consolidated balance sheets. Unamortized debt issuance costs were $1.5 million and $1.9 million at March 31, 2007 and 2006, respectively. At March 31, 2007 and 2006, net available capacity under the 2005 Credit Agreement was $168.2 million and $83.6 million, respectively, and we were in compliance with all of the covenants under the 2005 Credit Agreement. During the first three months of 2007 and 2006, the maximum amount of borrowing was $78.0 million and $59.6 million under the revolving credit facility and the maximum amount outstanding under letters of credit facilities were $42.5 and $55.0 million, respectively.

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 March 31, 2007, we were not involved in any material litigation.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Risks Relating to Our Business

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

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

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

Our distribution centers operate in highly competitive markets. We face competition from local, regional and national tobacco and consumable products distributors on the basis of service, price and variety of products offered, schedules and reliability of deliveries, and the range and quality of services provided. Some of our competitors, including a subsidiary of Berkshire Hathaway Inc., McLane Company, Inc., the largest convenience wholesale distributor in the United States 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 we are not able to retain existing customers and attract new customers, our results of operations could suffer.

Increasing the growth and profitability of our distribution business is particularly dependent upon our ability to retain existing customers and capture additional distribution customers. The ability to capture additional customers through our existing network of distribution centers is especially important because it enables us to leverage our distribution centers and other fixed assets. Our ability to retain existing customers and attract new customers is dependent upon our ability to provide industry-leading customer service, offer competitive products at low prices, maintain high levels of productivity and efficiency in distributing products to our customers while integrating new customers into our distribution system, and offer marketing, merchandising and ancillary services that provide value to our customers. If we are unable to execute these tasks effectively, we may not be able to attract a significant number of new customers and our existing customer base could decrease, either or both of which could have an adverse impact on our results of operations.

We may lose business if cigarette or other manufacturers decide to engage in direct distribution

In the past certain large manufacturers have elected to engage in direct distribution of their products and eliminate distributors such as Core-Mark. If other manufacturers make similar decisions in the future our revenues and profits would be adversely affected, and there can be no assurance that we will be able to take action to compensate for such losses.

If the costs to us of the products we distribute increase and we cannot pass the increase 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 increase prices or reduce or eliminate discounts and incentive programs, our profit margins could erode. Our industry is characterized by a high volume of sales with relatively low profit margins. If we cannot pass along cost increases to our customers due to resistance to higher prices, our relatively narrow profit margins and earnings could be negatively affected.

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

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

Table of Contents

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, 2006, we had approximately 3,900 vendors, and during 2006 we purchased approximately 62% of our products from our top 20 suppliers, with our top two suppliers, Philip Morris and R. J. Reynolds, representing approximately 25% and 15% of our purchases, respectively. We do not have any long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the products we distribute in the quantities we request or on favorable terms. Since 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.

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, groceries, fresh products, dairy, 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 food/non-food 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.

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. 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.

Our business is sensitive to general economic conditions and, in particular, to gasoline prices and the labor market.

The consumable goods distribution industry is sensitive to national and regional economic conditions. Inflation, fuel costs and other factors affecting consumer confidence generally may negatively impact our sales. Our operating results are also sensitive to, and may be adversely affected by, other factors, including difficulties with the collectability of accounts receivable, competitive price pressures, severe weather conditions and unexpected increases in fuel or other transportation-related costs. Due to the low margins on the products we distribute, changes in general economic conditions could materially adversely affect our operating results.

Two particular economic factors may have a significant impact on our sales, margins and costs. First, our retailers have reported to us that when gasoline prices increased they have in the past experienced a decrease in the proportion of their customers expenditures on food/non-food products compared to customers expenditures on cigarettes. If gasoline prices were to undergo a sustained increase and a similar shift in expenditures were to result, we could experience pressure on our sales and gross margins since sales of food/non-food products result in higher margins than sales of cigarettes do. Historically, we have been able to pass on a substantial portion of increases in our own fuel costs to our customers in the form of fuel surcharges, but our 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.

Second, our results are sensitive to the labor market. For example, the strength of the employment market in the transportation sector has led to a shortage of qualified drivers in some areas, increasing our costs as we are required to use more temporary drivers and increase wages for permanent drivers in the affected areas. Shortages of qualified warehouse and other employees could similarly increase our costs.

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

Our continued success will partly depend on our ability to attract and retain qualified personnel. We compete with other businesses in each of our markets with respect to attracting and retaining qualified employees. A shortage of qualified employees could require us to enhance our wage and benefits packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees. In addition, at December 31, 2006 approximately 5%, or approximately 200, of our employees were covered by collective bargaining agreements with labor organizations, which expire at various times over the course of the next two years.

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

We may be subject to product liability claims which could materially adversely affect our business, and our operations could be subject to disruptions as a result of manufacturer recalls of products.

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 may be required to manage a recall of products on behalf of a manufacturer. Managing a recall could disrupt our operations as we might be required to devote substantial resources toward implementing the recall, which could materially adversely affect our ability to provide quality service to our customers.

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. We do not maintain key person life insurance policies on these individuals, 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.

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 18% in 2006. 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. Generally Accepted Accounting Principles (GAAP) require that such foreign currency transaction gains or losses on intercompany transactions be recorded as a gain or loss within the income statement. To the extent we incur losses on such transactions, our net income and earnings per share will be reduced.

We 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.

Table of Contents

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

Our 2005 Credit Facility imposes restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions limit our ability, among other things, to: incur additional indebtedness, pay dividends and make distributions, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets. In addition, under our 2005 Credit Facility, under certain circumstances we are required to meet a fixed charge coverage ratio. Our ability to comply with this covenant may be affected by factors beyond our control and a breach of the covenant could result in an event of default under our 2005 Credit Facility, which would permit the lenders to declare all amounts incurred thereunder to be immediately due and payable and terminate their commitments to make further extensions of credit.

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 United States 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 has 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, one of our data centers is located in Richmond, British Columbia, Canada which location is susceptible to earthquakes, and one of our data centers is located in Plano, Texas which is susceptible to wind storms. We believe that we maintain adequate insurance to indemnify us for losses. However, significant earthquake and natural disaster damage could result in losses in excess of our insurance coverage which would materially adversely affect our results of operations. We also have operations in areas that have been affected by natural disasters such as hurricanes, tornados, flooding, ice and snow storms. While we maintain insurance to indemnify us for losses due to such occurrences, our insurance may not be sufficient or payments under our policies may not be received timely enough to prevent adverse impacts on our business. Our customers could also be affected by like events, adversely impacting our sales.

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

Our business is highly dependent on our Distribution Center Management System, or DCMS. The convenience store industry does not have a standard information technology or IT platform. Therefore, actively integrating our customers into our IT platform is a priority, and our DCMS platform provides our distribution centers with the flexibility to adapt to our customers IT requirements. We also rely on 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.

We have identified one material weakness in our internal controls over financial reporting existing as of March 31, 2007. If we fail to remedy this material weaknesses in our internal controls over financial reporting, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

A material weakness is defined in standards established by the Public Company Accounting Oversight Board as a deficiency in internal control over financial reporting that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As discussed below in Item 4. Controls and Procedures, we have concluded that a material weakness in our internal controls over financial reporting existed as of March 31, 2007.

Table of Contents

Risks Relating to the Distribution of Cigarettes

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 first quarter ended March 31, 2007, approximately 70% of our revenues came from the distribution of cigarettes. During the same period, approximately 34% 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 United States and Canadian cigarette and tobacco market has generally been declining, and is expected to continue to decline. Notwithstanding the general decline in consumption, we have benefited from a shift of cigarette and tobacco sales to convenience stores. However, this favorable trend may not continue and may reverse.

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

The tobacco industry is subject to a wide range of laws and regulations regarding the advertising, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. Various state and provincial governments have adopted or are considering legislation and regulations restricting displays and advertising of tobacco products, establishing fire safety standards for cigarettes, raising the minimum age to possess or purchase tobacco products, requiring the disclosure of ingredients used in the manufacture of tobacco products, imposing restrictions on public smoking, restricting the sale of tobacco products directly to consumers or other unlicensed recipients over the Internet, and other tobacco product regulation. For example, in British Columbia, Canada, legislation was adopted authorizing the provincial government to seek recovery of tobacco-related health care costs from the tobacco industry and a lawsuit under such legislation is underway. The Supreme Court of Canada unanimously upheld the Province s right to sue the tobacco industry and concluded the Tobacco Damages and Health Care Costs Recovery Act is constitutional. Other states and provinces may adopt similar legislation and initiate similar lawsuits. In addition, cigarettes are subject to substantial excise taxes in the United States and Canada. Significant increases in cigarette-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted within the United States and Canada. These tax increases are likely to continue to have an adverse impact on sales of cigarettes due to lower consumption levels or sales outside of legitimate channels.

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

In June 1994, the Mississippi attorney general brought an action against various tobacco industry members on behalf of the state to recover state funds paid for health-care costs related to tobacco use. Most other states sued the major United States cigarette manufacturers based on similar theories. The cigarette manufacturer defendants settled the first four of these cases with Mississippi, Florida, Texas and Minnesota by separate agreements. These states are referred to as non-MSA states. In November 1998, the major United States tobacco product manufacturers entered into the MSA with the other 46 states, the District of Columbia, and certain United States territories. The MSA and the other state settlement agreements settled health-care cost recovery actions and monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products, imposed a stream of future payment obligations on major United States cigarette manufacturers and placed significant restrictions on the 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 try to limit our purchases of cigarettes from non-MSA manufacturers for sale in MSA states. The benefits of liability limitations and indemnities we are entitled to under the MSA do not apply to sales of cigarettes manufactured by non-MSA manufacturers. From time to time we purchase a limited amount of cigarettes from non-MSA manufacturers when circumstances limit our ability to avoid doing so. For example, during a transition period while integrating distribution operations from an acquisition we may need to purchase and distribute cigarettes manufactured by non-MSA manufacturers to satisfy the demands of customers of the acquired business. With respect to sales of such non-MSA cigarettes, we could be subject to litigation that could expose us to liabilities for which we would not be indemnified.

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

Table of Contents

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.

We face competition from sales of deep-discount brands and illicit and other low priced sales of cigarettes.

As a result of purchasing cigarettes for sale in MSA states primarily from manufacturers that are parties to the MSA, we are adversely impacted by sales of brands from non-MSA manufacturers and deep-discount brands manufactured by small manufacturers that are not original participants to the MSA. The cigarettes subject to the MSA that we sell have been negatively impacted by widening price gaps between those brands and deep-discount brands for the past several years. Growth in market share of deep-discount brands since the MSA was signed in 1998 has had an adverse impact on the volume of the cigarettes that we sell.

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.

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

Cigarettes and tobacco products are subject to substantial excise taxes in the United States and Canada. Significant increases in cigarette-related taxes and/or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States and Canada. For example, several states passed propositions or ballot measures during 2006 which will have the effect of increasing excise taxes on cigarettes and other tobacco products. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company s market risk disclosures set forth in Item 7A of the Annual Report on Form 10-K, for the year ended December 31, 2006, filed on March 15, 2007 did not change materially during the three months ended March 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company carried out, under the supervision and with the participation of the Company s management, including the Company s chief executive officer and chief financial officer, an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on their evaluation, the Company s chief executive officer and its chief financial officer concluded that, as of March 31, 2007, the Company s disclosure controls and procedures were not effective because of the material weakness identified as of such date discussed below. Notwithstanding the existence of the material weakness described below, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Material Weaknesses in Internal Control Over Financial Reporting

Material Weakness Existing as of March 31, 2007

Management has concluded that the following material weakness in our internal control over financial reporting remained as of March 31, 2007:

The Company did not maintain effective controls over the financial reporting process due to an insufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with its financial reporting requirements and the complexity of the Company s operations and transactions.

Table of Contents

Status of Material Weakness Remediation

The Company believes it has made substantial progress in the remediation of the material weakness described above through the design and implementation of an enhanced financial organizational structure and other steps which are discussed in our annual report on Form 10-K for the year ended December 31, 2006. However, the identified material weakness in our internal control over financial reporting will not be considered remediated until the organizational changes and procedures are in operation for a sufficient period of time for our management to conclude that the control environment is operating effectively.

Based on this evaluation, our management has concluded that the Company s internal control over financial reporting was ineffective as of March 31, 2007.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company s internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the Company s Legal Proceedings as discussed in our Form 10-K for the year ended December 31, 2006 and filed with the SEC on March 15, 2007.

ITEM 1A. RISK FACTORS

The Company has updated the following risk factors included in its Form 10-K for the year ended December 31, 2006:

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 first quarter ended March 31, 2007, approximately 70% of our revenues came from the distribution of cigarettes. During the same period, approximately 34% 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 United States 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.

We have identified one material weakness in our internal controls over financial reporting existing as of March 31, 2007. If we fail to remedy this material weaknesses in our internal controls over financial reporting, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

A material weakness is defined in standards established by the Public Company Accounting Oversight Board as a deficiency in internal control over financial reporting that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As discussed below in Item 4. Controls and Procedures, we have concluded that a material weakness in our internal controls over financial reporting existed as of March 31, 2007.

We may lose business if cigarette or other manufacturers decide to engage in direct distribution

In the past certain large manufacturers have elected to engage in direct distribution of their products and eliminate distributors such as Core-Mark. If other manufacturers make similar decisions in the future our revenues and profits would be adversely affected, and there can be no assurance that we will be able to take action to compensate for such losses.

The Company has deleted the following risk factors included in its Form 10-K for the year ended December 31, 2006:

Approximately 1.3 million of our outstanding shares held by Fleming have yet to be distributed pursuant to the Plan.

Pursuant to the Plan, we issued an aggregate of 9.8 million shares of our common stock to Fleming. As of December 31, 2006, 8.5 million shares of our common stock and warrants to purchase 1.2 million shares of our common stock have been distributed by Fleming pursuant to the Plan. An aggregate of 1.3 million shares of our common stock are subject to future distribution pursuant to the Plan by Fleming. Future distributions of the remaining 1.3 million shares of common stock pursuant to the Plan by Fleming are at the discretion of the PCT and the bankruptcy court and are not in our control. In addition, as of December 31, 2006, 10.2 million shares of our common stock were outstanding.

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 be unable to recover lost profits that resulted from the decision of the largest tobacco manufacturer in Canada, Imperial Tobacco Canada, to engage in direct-to-store delivery. Other manufacturers may also decide to engage in direct-to-store delivery.

Imperial Tobacco implemented plans to bypass wholesale distributors such as ourselves and began making direct-to-store delivery of its products in September 2006. We applied a surcharge or mark up on other products we distribute to our Canadian customers in an attempt to recover our lost profits that resulted from the Imperial Tobacco decision. We are unable

Table of Contents

to predict with certainty the sustainability of such actions and our results of operations could be adversely affected. Competition could impact the sustainability of our actions to recover our lost profits. It is possible that other cigarette and food/non-food manufacturers could chose to move to direct-to-store delivery which could adversely impact our results of operations.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	**Description**
2.1	Third Amended and Revised Joint Plan of Reorganization of Fleming Companies, Inc. and its Subsidiaries Under Chapter 11 of the Bankruptcy Code, dated May 25, 2004. (incorporated by reference to Exhibit 2.1 of the registrant s Registration Statement on Form 10 filed on September 6, 2005).
3.1	Certificate of Incorporation of Core-Mark Holding Company, Inc. (incorporated by reference to Exhibit 3.1 of the registrant s Registration Statement on Form 10 filed on September 6, 2005).
3.2	Amended and Restated Bylaws of Core-Mark Holding Company, Inc. (incorporated by reference to Exhibit 3.2 of the registrant s Registration Statement on Form 10 filed on September 6, 2005).
10.16	Agreement Terminating Administrative Claims Guaranty, between the Post-Confirmation Trust and Core-Mark Holding Company, Inc. dated January 25, 2007, (incorporated by reference to Exhibit 10.1 of the Company s Current Report filed on Form 8-K on February 8, 2007).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

Table of Contents

SIGNATURES

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

	CORE-MARK HOLDING COMPANY, INC.	
Date: May 10, 2007	By:	/s/ J. MICHAEL WALSH
	Name:	**J. Michael Walsh**
	Title:	**President and Chief Executive Officer**
	CORE-MARK HOLDING COMPANY, INC.	
Date: May 10, 2007	By:	/s/ STACY LORETZ-CONGDON
	Name:	**Stacy Loretz-Congdon**
	Title:	**Chief Financial Officer**

32