Core-Mark Holding Company, Inc.
Form 10-K
March 15, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
x Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2010
o 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	20-1489747
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
395 Oyster Point Boulevard, Suite 415 South San Francisco, California 94080	(650) 589-9445
(Address of Principal Executive Offices, including Zip Code)	(Registrant's Telephone Number, including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter: $289,526,950.

As of February 28, 2011, the Registrant had 11,282,056 shares of its common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

See Parts III and IV. Registrant's Proxy Statement for the 2011 Annual Meeting of Stockholders is incorporated by reference to Part III in this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results and performance could differ materially from those set forth in the forward-looking statements. Forward-looking statements in some cases can be identified by the use of words such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “believe,” “could,” “would,” “project,” “predict,” “continue,” other similar words or expressions. These forward-looking statements are based on the current plans and expectations of our management and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those discussed in such forward-looking statements.

Factors that might cause or contribute to such differences include, but are not limited to, our dependence on the convenience retail industry for our revenues; uncertain economic conditions; competition; price increases; our dependence on relatively few suppliers; the low-margin nature of cigarette and consumable goods distribution; certain distribution centers' dependence on a few relatively large customers; competition in the labor market; product liability claims and manufacturer recalls of products; fuel price increases; our dependence on our senior management; our ability to successfully integrate acquired businesses; currency exchange rate fluctuations; our ability to borrow additional capital; governmental regulations and changes thereto, including the Family Smoking Prevention and Tobacco Control Act which was signed into law in June 2009 and granted the U.S. Food & Drug Administration the authority to regulate the production and marketing of tobacco products in the U.S.; earthquake and natural disaster damage; failure or disruptions to our information systems; a greater decline than anticipated in cigarette sales volume; our ability to implement marketing strategies; our reliance on manufacturer discount and incentive programs; tobacco and other product liability claims; and competition from sales of deep-discount cigarette brands and illicit and other low priced sales of cigarettes. Refer to Part I, Item 1A, “Risk Factors” of this Form 10-K. 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.

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PART I

ITEM 1. BUSINESS

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

Company Overview

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America in terms of annual sales, providing sales and marketing, distribution and logistics services to customer locations across the U.S. and Canada. Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco, California.

Core-Mark offers retailers the ability to participate in manufacturer and Company-sponsored sales and marketing programs, merchandising and product category management services, as well as the use of information systems that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales. In addition, our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management and efficient processing of small orders. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory management and accessing trade credit.

We operate in an industry where, in 2009, based on the NACS Association for Convenience and Petroleum Retailing 2010 State of the Industry (“SOI”) Report, total in-store sales at convenience retail locations increased 4.9% to approximately $182.4 billion and were generated through an estimated 145,000 stores across the U.S. We estimate that approximately 50% of the products that these stores sell are supplied by wholesale distributors such as Core-Mark. The convenience retail industry gross profit for in-store sales was approximately $58.6 billion in 2009 and $55.6 billion in 2008. Over the ten years from 1999 through 2009, convenience in-store sales increased by a compounded annual growth rate of 6.2%.

We distribute a diverse line of national and private label convenience store products to approximately 26,000 customer locations in all 50 states of the U.S. and five Canadian provinces. The products we distribute include cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, bread, non-alcoholic beverages, general merchandise and health and beauty care products. We service traditional convenience stores as well as alternative outlets selling convenience products. Our traditional convenience store customers include many of the major national and super-regional convenience store operators, as well as thousands of multi- and single-store customers. Our alternative outlet customers comprise a variety of store formats, including drug stores, grocery stores, liquor stores, cigarette and tobacco shops, hotel gift shops, military exchanges, college bookstores, casinos, movie theaters, hardware stores and airport concessions.

We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada. We distribute approximately 43,000 Stock Keeping Units ("SKUs") of packaged consumable goods to our customers and also provide an array of information and data services that enable our customers to better manage retail product sales and marketing functions.

In 2010, our consolidated net sales increased 11.3% to $7,266.8 million from $6,531.6 million in 2009. Cigarettes comprised approximately 70.5% of total net sales in 2010, while approximately 69.0% of our gross profit was generated from food/non-food products.

Competitive Strengths

We believe we have the following fundamental competitive strengths which are the foundation of our business strategy:

Experience in the Industry. Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco, California. The executive management team, comprised of our CEO and 14 senior managers, has an average tenure of over 15 years and applies their expertise to critical functional areas including logistics, sales and marketing, purchasing, information technology, finance, human resources and retail store support.

Innovation & Flexibility. Wholesale distributors typically provide convenience retailers access to a broad product line, the ability to place small quantity orders, inventory management and access to trade credit. As a large, full-service wholesale distributor we offer retailers the ability to participate in manufacturer and Company-sponsored sales and marketing programs, merchandising and product category management services, as well as the use of information systems that are focused on minimizing retailers' investment in inventory, while seeking to maximize their sales.

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

Business Strategy

Our objective is to increase overall return to shareholders by growing market share, revenues and profitability. To achieve that objective, we have become one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. In order to further enhance our value to the retailer, we plan to:

Drive our Vendor Consolidation Initiative (“VCI”). We expect our VCI program will allow us to grow by capitalizing on the highly fragmented nature of the distribution channel that services the convenience retail industry. A convenience retailer generally receives store merchandise through a large number of unique deliveries. This represents a highly inefficient and costly process for the individual stores. Our VCI program offers convenience retailers the ability to receive one delivery for the bulk of their products, including dairy and other perishable items, thus simplifying the supply chain and eliminating operational costs.

Deliver Fresh Products. We believe there is an increasing trend among consumers to purchase fresh food and dairy products from convenience stores. To meet this expected demand, we have modified and upgraded our refrigerated capacity, including investing in chill docks, state-of-the-art ordering devices and tri-temperature trailers, which enables us to deliver a significant range of chilled items including milk, produce and other fresh foods to retail outlets. We have also established partnerships with strategically located bakeries and commissaries to further enable us to deliver the freshest product possible. We continue to expand the delivery of fresh products through the development of unique and comprehensive marketing programs, and we have rebranded the Company to properly reflect the role this fresh product line will play in our and the industry's future. We believe our investments in infrastructure and branding, combined with our strategically located suppliers and in-house expertise, position us as the leader in providing fresh products and programs to convenience stores.

Expand our Presence Eastward. We believe there is significant opportunity for us to increase our market share by continuing to expand our presence east of the Mississippi. According to The Association for Convenience & Petroleum Retailing 2010 SOI Report, during 2009, aggregate U.S. traditional convenience retail in-store sales were approximately $182.4 billion through approximately 145,000 stores with the majority of those stores located east of the Mississippi. We believe our expansion eastward will be accomplished by acquiring new customers, both national and regional, through a combination of exemplary service, VCI programs, fresh product deliveries, innovative marketing strategies and competitive pricing.

In January 2008, we opened a distribution facility near Toronto, Ontario. This facility expanded our existing market geography in Canada. In addition to organic growth, we intend to explore select acquisitions of other wholesale distributors which complement our business. In June 2008, we acquired Auburn Merchandise Distributors, Inc. (“AMD” or “New England”) to further expand our presence and infrastructure in the Northeastern region of the U.S. In August 2010, we acquired Finkle Distributors, Inc. (“FDI”), a convenience wholesaler servicing customers in New York, Pennsylvania and the surrounding states, to continue to expand our market share in the Northeastern region of the U.S. (see Note 3 -- Acquisitions to our consolidated financial statements).

Continue Building Sustainable Competitive Advantage. We believe our ability to increase sales and profitability with existing and new customers is highly dependent upon our ability to deliver consistently high levels of service, innovative marketing programs and information technology and logistics support. To that fundamental end, we are committed to further improving operational efficiencies in our distribution centers while containing our costs in order to enhance profitability. To further enhance our competitive advantage, we have been the first to recognize emerging trends and to offer retailers our unique marketing programs such as VCI and Fresh. We believe this innovation has established us as the market leader in providing valuable marketing and supply chain solutions in the industry.

Customers, Products and Suppliers

We service approximately 26,000 customer locations in all 50 states of the U.S. and five Canadian provinces. Our customers represent many of the large national and regional convenience retailers in the U.S. and Canada and leading alternative outlet customers. Our top ten customers accounted for approximately 32.6% of our sales in 2010, and no single customer accounted for 10% or more of our total sales in 2010.

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Below is a comparison of our net sales mix by primary product category for the last three years (in millions):

	Year ended December 31,								
	2010			2009			2008		
	Net Sales	% of Net Sales		Net Sales	% of Net Sales		Net Sales	% of Net Sales	
Cigarettes	$5,119.7	70.5	%	$4,589.1	70.3	%	$4,124.8	68.2	%
Food	840.9	11.6	%	738.0	11.3	%	710.1	11.7	%
Candy	426.0	5.8	%	405.0	6.2	%	401.3	6.7	%
Other tobacco products	503.6	6.9	%	434.0	6.6	%	402.7	6.7	%
Health, beauty & general	220.6	3.0	%	209.5	3.2	%	220.1	3.6	%
Non-alcoholic beverages	152.0	2.1	%	151.7	2.3	%	180.9	3.0	%
Equipment/other	4.0	0.1	%	4.3	0.1	%	5.0	0.1	%
Total food/non-food products	2,147.1	29.5	%	1,942.5	29.7	%	1,920.1	31.8	%
Total net sales	$7,266.8	100.0	%	$6,531.6	100.0	%	$6,044.9	100.0	%

Cigarette Products. We purchase cigarette products from major U.S. and Canadian manufacturers. With cigarettes accounting for approximately $5,119.7 million or 70.5% of our total net sales and 31.0% of our total gross profit in 2010, we control major purchases of cigarettes centrally in order to optimize inventory levels and purchasing opportunities. The daily replenishment of inventory and brand selection is controlled by our distribution centers.

In the U.S., legislation was introduced in 2008 to fund the State Children's Health Insurance Program (“SCHIP”) by raising the federal cigarette excise tax from 39¢ to $1.01 per pack. Federal excise tax is included as a component of our product cost charged by the manufacturer. The legislation, which was signed into law in February 2009, became effective April 1, 2009. As a result, our net cigarette sales were inflated in 2009, due primarily to the significant price increases from manufacturers in response to the SCHIP legislation.

U.S. cigarette consumption has generally declined over the last ten years. Based on 2010 statistics provided by the Tobacco Merchants Association (“TMA”) published in early 2011 and compiled from the U.S. Department of Agriculture-Economic Research Service, total cigarette consumption in the U.S. declined from 456 billion cigarettes in 2000 to 299 billion cigarettes in 2010, or 34%. Prior to 2007, we had benefited from a shift in cigarette and tobacco sales to the convenience retail segment based on statistics reported by NACS. In 2010, convenience retailers were the largest trade class for cigarette sales accounting for approximately 70% of total industry volume according to the R.J. Reynolds' 2010 Industry Report. The shift in cigarette carton sales from other channels to the convenience retail segment may no longer be adequate to compensate for consumption declines. However, we expect to offset the majority of the impact from these declines through market share expansion, growth in our non-cigarette categories and incremental gross profit that results from cigarette manufacturer price increases. We expect cigarette manufacturers will raise prices as carton sales decline in order to maintain or enhance their overall profitability.

Total cigarette consumption also declined in Canada from 43 billion cigarettes in 2000 to 25 billion cigarettes in 2010, or a 42% reduction in consumption, based on the 2010 statistics provided by TMA.

In 2010, our carton sales in the U.S. increased 1.1%, excluding the impact resulting from the acquisition of Finkle Distributors, Inc., in August 2010. Our carton sales in Canada increased 7.5% primarily through market share gains driven by our expansion in the Toronto market.

We have no long-term cigarette purchase agreements and buy substantially all of our products on an as needed basis. Cigarette manufacturers historically have offered structured incentive programs to wholesalers based on maintaining market share and executing promotional programs. These programs are subject to change by the manufacturers without notice.

In addition to excise taxes levied by the federal government, excise taxes on cigarettes and other tobacco products are also imposed by the various states, localities and provinces. We collect state, local and provincial excise taxes from our customers and remit these amounts to the appropriate authorities. Excise taxes are a significant component of our revenue and cost of sales. During 2010, we included in net sales approximately $1,756.5 million of state, local and provincial excise taxes. As of December 31, 2010, state cigarette excise taxes in the U.S. jurisdictions we serve ranged from $0.17 per pack of 20 cigarettes in the state of Missouri to $4.35 per pack of 20 cigarettes in the state of New York. In the Canadian jurisdictions we serve, provincial excise taxes ranged from C$2.47 per pack of 20 cigarettes in Ontario to C$5.48 per pack of 20 cigarettes in the Northwest Territories.

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Federal excise taxes are levied on the manufacturers who pass the tax on to us as part of the product cost and thus are not a component of our excise taxes.

Food/Non-food Products. Our food products include fast food, candy, snacks, groceries, non-alcoholic beverages, fresh products such as sandwiches, juices, salads, produce, dairy and bread. Our non-food products include cigars, tobacco, health and beauty products, general merchandise and equipment. Sales of the combined food/non-food product categories grew 10.5% in 2010 to $2,147.1 million, which was 29.5% of our total net sales. Gross profits for food/non-food categories grew $6.7 million, or 2.6%, to $265.9 million, which was 69.0% of our total gross profit. Food/non-food products generated gross margins of 13.40% excluding excise taxes in 2010, while the cigarette category generated gross margins of 3.39% excluding excise taxes. Gross margin growth in our food/non-food categories was negatively impacted by a $5.3 million reduction in floor stock income due to lower manufacturers' price inflation.

Due to the significantly higher margins earned by food/non-food products, two of our key business strategies, VCI and our fresh initiative, focus primarily on the higher margin categories in the food group. These categories include milk, fresh bread, fresh sandwiches, fresh fruit, fresh produce, fresh baked goods, healthy snacks and home replacement meals. This drive toward more healthy and fresh foods being sold in the convenience markets is a recognized major trend in the industry. We have invested a significant amount of capital to position our Company to have the proper infrastructure to deliver these highly perishable items. Our objective is to consolidate the current fragmented nature of convenience store vendor distribution by consolidating such items as dairy and bread and to grow “fresh food” market share for the customers we service as they fight for consumer “share of stomach” for fresh foods with other retailers. Ultimately the defragmentation of vendor deliveries coupled with market share gains in fresh foods for the stores we service will increase our customers' sales and profits and in turn improve our sales and profits.

Our Suppliers. We purchase products for resale from approximately 4,400 trade suppliers and manufacturers located across the U.S. and Canada. In 2010, 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 28% and 13% of our purchases, respectively. We coordinate our purchasing from suppliers by negotiating, on a corporate-wide basis, special arrangements to obtain volume discounts and additional incentives, while also taking advantage of promotional and marketing incentives offered to us as a wholesale distributor. In addition, buyers in each of our distribution facilities purchase products, particularly food, directly from the manufacturers, improving product mix and availability for individual markets.

Seasonality

We typically generate slightly higher revenues and gross profits during the warm weather months (May through September) than in other times throughout the year. We believe this occurs because the convenience store industry which we serve tends to be busier during this period due to vacation and travel. During the second and third quarters of 2010, 2009 and 2008, we generated approximately 53% of our net sales for each fiscal year.

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Operations

We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider). Twenty of our distribution centers are located in the U.S. and four are located in Canada. The map below depicts the scope of our operations and distribution centers.

Map of Operations

Two of the facilities we operate in the U.S., Artic Cascade and Allied Merchandising Industry, are consolidating warehouses which buy products from our suppliers in bulk quantities and then distribute the products to many of our other distribution centers. By using Artic Cascade, located in Sacramento, California, to obtain products at lower cost from frozen product vendors, we are able to offer a broader selection of quality products to retailers at more competitive prices. Allied Merchandising Industry, located in Corona, California, purchases the majority of our non-food products, other than cigarettes and tobacco products, for our distribution centers, enabling us to reduce our overall general merchandise and health and beauty care product inventory. We operate two additional facilities as a third party logistics provider. One distribution facility located in Phoenix, Arizona, referred to as the Arizona Distribution Center (“ADC”), is dedicated solely to supporting the logistics and management requirements of one of our major customers, Alimentation Couche-Tard Inc. The second distribution facility located in San Antonio, Texas, referred to as the Retail Distribution Center (“RDC”), is dedicated solely to supporting another major customer, Valero Energy Corporation.

We purchase a variety of brand name and private label products, totaling approximately 43,000 SKUs, including approximately 1,700 cigarette products, from our suppliers and manufacturers. We offer customers a variety of food and non-food products, including fast food, candy, snacks, groceries, fresh products, dairy, bread, non-alcoholic beverages, other tobacco products, general merchandise and health and beauty care products.

A typical convenience store order consists of a mix of dry, frozen and chilled products. Our receivers, stockers, order selectors, stampers, forklift drivers and loaders received, stored and picked approximately 454 million, 426 million and 435 million items (a carton of 10 packs of cigarettes is one item) or 71 million, 65 million and 66 million cubic feet of product, during the years ended December 31, 2010, 2009 and 2008, respectively, while limiting the service error rate to approximately two errors per thousand items shipped in 2010.

Our proprietary Distribution Center Management System ("DCMS") platform provides our distribution centers with the flexibility to adapt to our customers' information technology requirements in an industry that does not have a standard information technology platform. Actively integrating our customers onto our platform is a priority which enables fast, efficient and reliable service.

Distribution
At December 31, 2010, we had approximately 991 transportation department personnel, including delivery drivers, shuttle drivers, routers, training supervisors and managers who focus on achieving safe, on-time deliveries. Our daily orders are picked and loaded nightly in reverse order of scheduled delivery. At December 31, 2010, our trucking fleet consisted of approximately 700 tractors, trucks and vans, of which nearly all were leased. We have made a significant investment over the past few years in upgrading our trailer fleet to tri-temperature ("tri-temp") which gives us the capability to deliver frozen, chilled and non-refrigerated goods in one delivery. As of December 31, 2010, approximately 70% of our trailers were tri-temp, with the remainder capable of delivering refrigerated and non-refrigerated foods. This provides us the multiple temperature zone capability needed to support our focus on delivering fresh products to our customers. Our fuel consumption costs for 2010 totaled approximately $9.5 million, net of fuel surcharges passed on to customers, which represented an increase of approximately $4.6 million, from $4.9 million in 2009, due to higher fuel prices, a 6.9% increase in miles driven excluding FDI, and the acquisition of FDI.

Competition
We estimate that, as of December 31, 2010, there were over 300 wholesale distributors serving traditional convenience retailers in the U.S. We believe that McLane Company, Inc., a subsidiary of Berkshire Hathaway, Inc., and Core-Mark are the two largest convenience wholesale distributors, measured by annual sales, in North America. There are also companies that provide products to specific regions of the country, such as The H.T. Hackney Company in the Southeast, Eby-Brown Company in the Midwest, Mid-Atlantic and Southeast and GSC Enterprises, Inc. in Texas and surrounding states, and several hundred local distributors serving small regional chains and independent convenience retailers. In Canada, there are fewer wholesale distributors compared to the U.S. In addition, certain manufacturers such as The Coca Cola Company, Hostess Brands, Inc., Frito- Lay North America, Inc. and PepsiCo, Inc. deliver their products directly to convenience retailers.
Competition within the industry is based primarily on the range and quality of the services provided, price, variety of products offered and the reliability of deliveries. We operate from a perspective that focuses heavily on flexibility and providing outstanding customer service through our distribution centers, order fulfillment rates, on-time delivery performance using delivery equipment sized for the small format store, innovative marketing solutions and merchandising support, as well as competitive pricing. We believe this represents a contrast to some large competitors who offer a standardized logistics approach, with emphasis on uniformity of product lines, and company determined delivery schedules using large delivery equipment designed for large format stores, while also providing competitive order fulfillment rates and pricing. The emphasis on the logistics approach, while responsive to competitive pricing, is not in our opinion best suited for retailers looking for more customized solutions and support from their supply partners in addition to competitive pricing. Some small competitors focus on customer service and long standing customer relationships but often times lack the range of offerings of the larger distributor. We believe that our unique combination of service, marketing solutions and price is a compelling combination that is highly attractive to customers and may enhance their growth and profitability.
We purchase cigarettes primarily from manufacturers covered by the tobacco industry's Master Settlement Agreement ("MSA"), which was signed in November 1998. Competition amongst cigarette wholesalers is based primarily on service, price and variety, whereas competition amongst manufacturers for cigarette sales is based primarily on brand positioning, price, product attributes, consumer loyalty, promotions, marketing and retail presence. Cigarette brands produced by the major tobacco product manufacturers generally require competitive pricing, substantial marketing support, retail programs and other financial incentives to maintain or improve a brand's market position. Historically, major tobacco product manufacturers have had a competitive advantage in the U.S. because significant cigarette marketing restrictions and the scale of investment required to compete made gaining consumer awareness and trial of new brands difficult.
We also face competition from the sale of cigarettes by third parties over the internet and by other means designed to avoid collection of applicable taxes, including the sale of cigarettes in non-taxable jurisdictions, imports of foreign, low-priced brands and the diversion into the U.S. market of cigarettes intended for sale outside the U.S. We believe

the competitive environment has been impacted by alternative smoking products, such as snus and snuff, higher prices due to higher federal and state excise taxes and list price increases for cigarettes manufactured by parties to the MSA, and the impact of restrictions on marketing imposed by the U.S. Food and Drug Administration ("FDA"). As a result, the lowest priced products of numerous small share brands manufactured by companies that are not parties to the MSA have held their market share, putting pressure on the profitability of premium cigarettes.

Working Capital Practices

We sell products on credit terms to our customers that averaged, as measured by days sales outstanding, about nine days for 2010, 2009 and 2008. Credit terms may impact pricing and are competitive within our industry. An increasing number of our

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customers remit payment electronically, which facilitates efficient and timely monitoring of payment risk. Canadian days sales outstanding in receivables tend to be lower as Canadian industry practice is for shorter credit terms than in the U.S.

We maintain our inventory of products based on the level of sales of the particular product and manufacturer replenishment cycles. The number of days a particular item of inventory remains in our distribution centers varies by product and is principally driven by the turnover of that product and economic order quantities. We typically order and carry in inventory additional amounts of certain critical products to assure high order fulfillment levels for these items. The number of days of cost of sales in inventory averaged about 15 days during 2010, 2009 and 2008.

We obtain terms from our vendors and certain taxing jurisdictions based on industry practices and consistent with our credit standing. We take advantage of the full complement of term offerings, which may include enhanced cash discounts for earlier payment. Terms for our accounts payable and cigarette and tobacco taxes payable range anywhere from three days prepaid to 60 days credit. Days payable outstanding for both categories, excluding the impact of prepayments, during 2010 and 2009 averaged 11 days, compared to 12 days in 2008.

Employees

The following chart provides a breakdown of our employees by function and geographic region as of December 31, 2010:

TOTAL EMPLOYEES BY BUSINESS FUNCTIONS

	U.S.	Canada	Total
Sales and Marketing	1,091	83	1,174
Warehousing and Distribution	2,376	267	2,643
Management, Administration, Finance and Purchasing	478	104	582
Total Categories	3,945	454	4,399

Three of our distribution centers, Hayward, Las Vegas and Calgary, have employees who are covered by collective bargaining agreements with local affiliates of The International Brotherhood of Teamsters (Hayward and Las Vegas) and United Food and Commercial Workers (Calgary). Approximately 213 employees, or 4.8% of our workforce, are unionized. There have been no disruptions in customer service, strikes, work stoppages or slowdowns as a result of union activities, and we believe we have satisfactory relations with our employees.

Regulation

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

We are also subject to regulation by numerous other federal, state, provincial and local regulatory agencies including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers, the U.S. and Canadian Departments of Transportation, which regulate transportation of perishable goods, and similar state, provincial and local agencies. Non-compliance with, or significant changes to, these laws or the implementation of new laws, could have a material effect on our results of operations.

We voluntarily participate in random quality inspections of all of our distribution centers, conducted by the American Institute of Baking ("AIB"). The AIB publishes standards as a tool to permit operators of distribution centers to evaluate the food safety risks within their operations and determine the levels of compliance with the standards. AIB conducts an inspection which is composed of food safety and quality criteria. AIB conducts its inspections based on five categories: adequacy of the company's

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food safety program, pest control, operational methods and personnel practices, maintenance of food safety and cleaning practices. Within these five categories, the AIB evaluates over 100 criteria items. AIB's independent evaluation is summarized and posted on its website for our customers' review. In 2010, nearly 97% of our distribution centers received the highest rating from the AIB with the remaining 3% receiving the second highest rating.

Registered Trademarks

We have registered trademarks including the following: Arcadia Bay®, Arcadia Bay Coffee Company®, Cable Car®, Core-Mark®, Core-Mark International®, EMERALD®, Java Street®, QUICKEATS®, Richland Valley™, SmartStock® and Tastefully Yours®.

Segment and Geographic Information

We operate in two reportable geographic segments -- the U.S. and Canada. See Note 15 -- Segment Information to our consolidated financial statements.

Corporate and Available Information

The office of our corporate headquarters is located at 395 Oyster Point Boulevard, Suite 415, South San Francisco, California, 94080 and the telephone number is (650) 589-9445.

Our internet website address is www.core-mark.com. We provide free access to various reports that we file with or furnish to the U.S. Securities and Exchange Commission (“SEC”) through our website, as soon as reasonably practicable after they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q and any amendments to those reports. Our SEC reports can be accessed through the “Investor Relations” section of our website, or through www.sec.gov. Also available on our website are printable versions of Core-Mark's Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Business Conduct and Ethics, and Corporate Governance Guidelines and Principles. Copies of these documents may also be requested from:

Core-Mark International
395 Oyster Point Blvd, Suite 415
South San Francisco, CA 94080
Attention: Investor Relations

Corporate Governance--Code of Business Conduct and Ethics and Whistle Blower Policy:

Our Code of Business Conduct and Ethics is designed to promote honest, ethical and lawful conduct by all employees, officers and directors and is posted on the “Investor Relations” section of our website at www.core-mark.com under “Corporate Governance.”

Additionally, the Audit Committee (“Audit Committee”) of the Board of Directors of Core-Mark has established procedures to receive, retain, investigate and act on complaints and concerns of employees, shareholders and others regarding accounting, internal accounting controls and auditing matters, including complaints regarding attempted or actual circumvention of internal accounting controls or complaints regarding violations of the Company's accounting policies. The procedures are also described in our website address at www.core-mark.com under Corporate Governance in the “Investor Relations” section.

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ITEM 1. A. RISK FACTORS

You should carefully consider the following risks together with all of the other information contained in this Annual Report on Form 10-K. Additional risks and uncertainties not currently known to us may also materially adversely affect our business, financial condition or results of operations.

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, the risk factors set forth below (see Special Note Regarding Forward-Looking Statements prior to Item 1. Business).

Risks Related to the Economy and Market Conditions

Current difficult economic conditions may reduce demand for our products and increase credit risks.

Continuing difficult economic conditions, including increased unemployment and underemployment rates, significant declines in real estate values, large losses to consumer retirement and investment accounts and increases in food prices, have resulted in reduced consumer confidence and curtailed consumer spending. If these economic conditions persist or deteriorate further, we expect that convenience retail operators will experience continued weakness and further reductions in same store sales, which will adversely affect demand for our products and lead to reduced sales and increased pressures on margins. In addition, ongoing uncertainty in the financial markets and the resulting pressures on liquidity may place a number of our convenience retail customers under financial stress, which could increase our credit risk and potential bad debt exposure. These economic and market conditions may have a material adverse effect on our business and operating results.

Our business is sensitive to gasoline prices and related transportation costs, which could adversely affect business.

Our operating results are sensitive to, and may be adversely affected by, unexpected increases in fuel or other transportation-related costs, including costs from the use of third party carriers, temporary staff and overtime. Our retailers have reported to us that when gasoline prices increased they have experienced a decrease in the proportion of their customers' expenditures on food/non-food products compared to customers' expenditures on cigarettes. The shift in expenditures may place 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 or other transportation 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 fuel costs, is not assured. If we are unable to continue to pass on fuel and transportation-related cost increases to our customers, our operating results could be materially and adversely affected.

As a result of recent recessionary economic conditions, our pension plan is currently underfunded and we will be required to make cash payments to the plan, reducing the cash available for our business.

We record a liability associated with the underfunded status of our pension plans when the benefit obligation exceeds the fair value of the plan assets. Included in claims liabilities on our balance sheet as of December 31, 2010 is $8.5 million related to the underfunded pension obligation compared with $11.6 million as of December 31, 2009. The decrease in the underfunded status of our pension plans from 2009 to 2010 is due primarily to an increase in Company contributions and a higher return than expected on invested plan assets for 2010. If the performance of the assets in the plan does not meet our expectations, or if other actuarial assumptions are modified, our future cash payments to the plan could be substantially higher than we expect. We contributed $3.4 million to our plan in 2010, compared to $0.2 million and $0.4 million in 2009 and 2008, respectively. The pension plan is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Under ERISA, the Pension Benefit Guaranty Corporation ("PBGC") has the authority to terminate an underfunded pension plan under limited circumstances. In the event our pension plan is terminated for any reason while it is underfunded, we will incur a liability to the PBGC that may be equal to the entire amount of the underfunding in the pension plan.

Risks Related to Our Business and Industry

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

The majority of our sales are made under purchase orders and short-term contracts with convenience retail stores which inherently involve significant risks. These risks include declining sales in the convenience retail industry due to general economic conditions, credit exposure from our customers, 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 our results of operations.

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

Our distribution centers operate in highly competitive markets. We face competition from local, regional and national tobacco and consumable products distributors on the basis of service, price and variety of products offered, schedules and reliability of deliveries and the range and quality of services provided. Some of our competitors, including a subsidiary of Berkshire Hathaway Inc., McLane Company, Inc., the largest convenience wholesale distributor in the U.S., have substantial financial resources and long standing customer relationships. In addition, heightened competition among our existing competitors, or by new entrants into the distribution market, could create additional competitive pressures that may reduce our margins and 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.

Increasing the growth and profitability of our distribution business is particularly dependent upon our ability to retain existing customers and attract additional customers. The ability to attract 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 of their products.

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.

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. Alternatively, 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 increases due to manufacturer price increases, reduced or eliminated manufacturer discounts and incentive programs or increases in applicable excise tax rates, our inventory costs and accounts receivable could rise. To the extent that we are unable to pass on product cost increases to our customers, our profit margins and earnings could be negatively impacted.

We rely on funding from manufacturer discount and incentive programs and cigarette excise stamping allowances; any 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. 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, 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 change the timing of payments, or if we are unable to maintain the volume of our sales, our results of operations could be negatively affected.

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, 2010, we had approximately 4,400 vendors, and during 2010 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 28% and 13% of our purchases, respectively. We do not have any long-term contracts with our suppliers committing them to provide products to us. Our suppliers may not provide the products we distribute in the quantities we request on favorable terms, or at all. We are also subject to delays caused by interruption in production due to conditions outside our control, such as job actions or strikes by employees of suppliers, inclement weather, transportation

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interruptions, regulatory requirements and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of the products we distribute could cause us to fail to meet our obligations to our customers and reduce the volume of our sales and profitability.

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 to suffer.

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. Some of our local suppliers are relatively small companies with limited financial resources. If we do not have adequate insurance, if contractual indemnification is not available or if a party cannot fulfill its indemnification obligation, product liability relating to defective products could materially adversely impact our results of operations.

In addition, 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.

Adverse publicity or lack of confidence in our products could adversely affect reputation and reduce earnings.

Our business could be adversely affected if consumers lose confidence in the safety and quality of certain food products and services we distribute. Adverse publicity may discourage consumers from buying our products or using our services. In addition, such adverse publicity may result in product liability claims, a loss of reputation, and product recalls which would have a material adverse effect on our sales and operations.

Unexpected outcome in legal proceedings may result in adverse effect on results of operations.

On occasion, we are a party to legal proceedings, including matters involving personnel and employment issues, personal injury, antitrust claims and other proceedings arising in the ordinary course of business. Furthermore, there are an increasing number of cases being filed against companies generally, which include class-action allegations under federal and state wage and hour laws. We estimate our exposure to these legal proceedings and establish reserves for the estimated liabilities. Assessing and predicting the outcome of these matters involves substantial uncertainties. Although not currently anticipated by management, unexpected outcomes in these legal proceedings, or changes in our evaluation of the proceedings, could have a material adverse impact on our finances and results of operations.

Our ability to operate effectively could be impaired by the risks and costs associated with the efforts to grow our business through acquisitions.

Efforts to grow our distribution business may include acquisitions. Acquisitions entail various risks such as identifying suitable candidates, effecting acquisitions at acceptable rates of return, obtaining adequate financing and acceptable terms and conditions. Successful integration of new operations will depend on our ability to manage those operations, fully assimilate the operations into our distribution network, realize opportunities for revenue growth presented by strengthened product offerings and expanded geographic market coverage, maintain the customer base and eliminate redundant and excess costs. We may not realize the anticipated benefits or savings from an acquisition to the extent or in the time frame anticipated, if at all, or such benefits and savings may include higher costs than anticipated.

We may not be able to achieve the expected benefits from the implementation of new marketing initiatives.

We are taking action to improve our competitive performance through a series of strategic marketing initiatives. The goal of this effort is to develop and implement a comprehensive and competitive business strategy, addressing the special needs of the

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convenience industry environment, increase our market position within the industry and ultimately create increased shareholder value.

We may not be able to successfully execute our new marketing initiatives to realize the intended synergies, business opportunities and growth prospects. Many of the risk factors previously mentioned, such as increased competition, may limit our ability to capitalize on business opportunities and expand our business. Our efforts to capitalize on business opportunities may not bring the intended result. Assumptions underlying estimates of expected revenue growth or overall cost savings may not be met or economic conditions may deteriorate. Customer acceptance of new distribution formats developed may not be as anticipated, hampering our ability to attract new customers or maintain our existing customer base. Additionally, our management may have its attention diverted from other important activities while trying to execute new marketing initiatives. If these or other factors limit our ability to execute our strategic initiatives, our expectations of future results of operations, including expected revenue growth and cost savings, may not be met.

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

Our business is highly dependent on DCMS. The convenience retail industry does not have a standard information technology ("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 to provide our customers with fast, efficient and reliable deliveries. We have taken steps to increase redundancy in our IT systems and have disaster recovery plans in place to mitigate unforeseen events that could disrupt our systems' service. However, if our DCMS fails or is not reliable, we may suffer disruptions in service to our customers and our results of operations could suffer.

We depend on our senior management.

We substantially depend on the continued services and performance of our senior executive officers as named in our Proxy Statement. We do not maintain key person life insurance policies on these individuals, and we do not have employment agreements with any of them. The loss of the services of any of our senior executive officers could harm our business.

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

Our continued success will depend partly 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. While current market conditions have provided us with a surplus of qualified employee candidates, in the future, a shortage of qualified employees could require us to enhance our wage and benefit 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, 2010, 213, or 4.8%, of our employees were covered by collective bargaining agreements with labor organizations, which expire at various times.

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.

Risks Related 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. In 2010, approximately 70.5% of our revenues came from the distribution of cigarettes and 31.0% of our gross profit was generated from cigarettes. Due to increases in the prices of cigarettes and other tobacco products, restrictions on marketing and promotions by cigarette manufacturers, increases in cigarette regulation and excise taxes, health concerns, increased pressure from anti-tobacco groups and other factors, the U.S. and Canadian cigarette and tobacco market has generally been declining since 1980 and is expected to continue to decline.

Prior to 2007 our cigarette sales had benefited from a shift in sales to the convenience retail segment, and as a result of this shift, convenience store cigarette sales had not declined in proportion to the decline in overall consumption. However, our cigarette carton sales began to decline in 2007, experienced further declines in 2008 and 2009 and increased modestly in 2010. We expect consumption trends of legal cigarette and tobacco products will continue to be negatively impacted by rising prices, diminishing social acceptance and legislative and regulatory actions that create limitations on where a consumer can smoke, and how products can be promoted and produced. In addition, we expect rising prices will stimulate a higher percentage of consumers to purchase from illicit markets to fulfill consumer demand. We believe this may adversely impact our cigarette carton volume, primarily in

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the U.S., in future periods.

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 marketing, 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 marketing 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 recipients over the internet and other tobacco product regulation. For example, the U.S. Supreme Court has recently determined that lawsuits may proceed against tobacco manufacturers based on alleged deceptive advertising in the marketing of so-called “light” cigarettes. In June 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law, which granted the FDA the authority to regulate the production and marketing of tobacco products in the U.S. The new legislation establishes a new FDA office that will regulate changes to nicotine yields and the chemicals and flavors used in tobacco products, require ingredient listings be displayed on tobacco products, prohibit the use of certain terms which may attract youth or mislead users as to the risks involved with using tobacco products, as well as limit or otherwise impact the marketing of tobacco products by requiring additional labels or warnings as well as pre-approval of the FDA. This new FDA office is to be financed through user fees paid by tobacco companies prorated based on market share. This new legislation and related regulation could adversely impact the market for tobacco products and, accordingly, our sales of such products. In Canada, many provincial legislatures have enacted legislation authorizing and facilitating the recovery of tobacco-related health care costs from the tobacco industry by way of lawsuit. The Supreme Court of Canada has upheld the constitutionality of such legislation and a province's right to sue the tobacco industry pursuant to such legislation. British Columbia, Ontario, Quebec, Alberta, New Brunswick, and Newfoundland and Labrador have all enacted similar statutes in this regard. British Columbia, New Brunswick, Quebec and Ontario have also initiated lawsuits to recover health care costs and in Alberta, the government has promised that a lawsuit is being prepared for filing. All Canadian provinces have legislation that controls the usage and sale of tobacco products and typically these restrict or prevent the sale of cigarette and tobacco products from health care facilities, public post-secondary campuses and certain public use facilities. Some of these laws also prohibit sales from pharmacies and stores containing a pharmacy.

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 U.S. 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 U.S. and Canada. States continue to pass ballot measures that may result in increasing excise taxes on cigarettes and other tobacco products. In February 2009, U.S. legislation was signed into law which funds the SCHIP program by raising the federal cigarette excise tax from 39¢ to $1.01 per pack. This legislation was effective April 1, 2009.

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.

In the U.S. we purchase cigarettes primarily from manufacturers covered by the tobacco industry's Master Settlement Agreement (“MSA”), which results in our facing certain potential liabilities and 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

U.S. 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 U.S. tobacco product manufacturers entered into the MSA with 46 states, the District of Columbia and certain U.S. 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 U.S. 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

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not apply to sales of cigarettes manufactured by non-MSA manufacturers. From time to time, however, we find it necessary to purchase a limited amount of cigarettes from non-MSA manufacturers. 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 MSA 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 most of the tobacco product manufacturers from which we purchase cigarettes and other tobacco products for liabilities arising from our sale of the tobacco products that they supply to us. To date, litigation challenging the validity of the MSA, including claims that the MSA violates antitrust laws, has not been successful. However, if such litigation were to be successful and the MSA is invalidated, we could be subject to substantial litigation due to our sales of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we continue to be indemnified by cigarette manufacturers that are parties to the MSA, future litigation awards against such cigarette manufacturers and our Company could be so large as to eliminate the ability of the manufacturers to satisfy their indemnification obligations.

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

In the U.S., we purchase cigarettes for sale in MSA states primarily from manufacturers that are parties to the MSA. As a result, we are adversely impacted by sales of brands from non-MSA manufacturers and discount brands manufactured by small manufacturers that are not participants to the MSA. The cigarettes subject to the MSA that we sell have been burdened by MSA related payments and are thus negatively impacted by widening price gaps between those brands and discount brands for the past several years. Growth in market share of 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 U.S. market of cigarettes intended for sale outside the U.S., 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. In Canada, we face competitive pressures as well, primarily from discount brands and the sale of counterfeit cigarettes by third parties. 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 total results of operations.

Risks Related to Foreign Exchange and Financing

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 16% in 2010 and 15% in 2009. 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. Conversely, during times of a weakening U.S. dollar, our reported sales and earnings from our Canadian operations will be increased because the Canadian currency will be translated into more U.S. dollars. Accounting principles generally accepted in the United States of America (“U.S. GAAP”) require that foreign currency transaction gains or losses on short-term intercompany transactions be recorded currently as gains or losses 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 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 $200 million Credit Facility. While we believe our sources of liquidity are adequate, we cannot assure you that these sources will be available or continue to provide us with sufficient liquidity and capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs. As such, additional equity or debt financing may be necessary, but we may not be able to expand our existing Credit Facility or obtain new financing on terms satisfactory to us, or at all.

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

Risks Related to Government Regulation and Environment
If we are unable to comply with governmental 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 regulation by the FDA, Health Canada and similar regulatory authorities at the state, provincial and local levels. In addition, our employees operate tractor trailers, trucks, forklifts and various other powered material handling equipment and we are therefore subject to regulation by the U.S. and Canadian Departments of Transportation.

Our operations are also subject to regulation by the Occupational Safety and Health Administration, the Drug Enforcement Agency and other federal, state, provincial 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 effect on our business.
Our headquarters and operations in California, as well as one of our data centers located in Richmond, British Columbia, Canada, are located in or near high hazard earthquake zones. In addition, one of our data centers is located in Plano, Texas, which is susceptible to wind storms. 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 cover us for such potential losses, our insurance may not be sufficient in the event of a significant natural disaster 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, which could adversely impact our sales.
Tax legislation could impact future cash flows.
The 2012 U.S. budget proposal that was released in February 2011includes potential changes to current tax law, including the repeal of the LIFO (Last-In, First-Out) method of inventory accounting. As currently drafted, LIFO would be repealed for tax years beginning after 2012 and LIFO reserves existing at that time would be taxed ratably over a ten year period. Should LIFO be repealed, the payment of income taxes, and any future tax deferral prior to the date of repeal, over the ten year period, would reduce the amount of money that we have for our operations, working capital, capital expenditures, expansions, acquisitions or general corporate or other business activities, which could materially and adversely affect our business, financial condition and results of operations.
New accounting standards could result in changes to our methods of quantifying and recording accounting transactions, and could affect our financial results and financial position.
Changes to U.S. GAAP arise from new and revised standards, interpretations and other guidance issued by the Financial Accounting Standards Board, the SEC and others. In addition, the SEC is considering a potential requirement for U.S. issuers to report future financial results in accordance with International Financial Reporting Standards ("IFRS") rather than U.S. GAAP. The U.S. Government may also issue new or revised Cost Accounting Standards or Cost Principles. The effects of such changes may include prescribing an accounting method where none

had been previously specified, prescribing a single acceptable method of accounting from among several acceptable methods that currently exist or revoking the acceptability of a current method and replacing it with an entirely different method, among others. Such changes could result in unanticipated effects on our results of operations, financial position and other financial measures, including significant additional costs to implement and maintain the new accounting standards.

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ITEM 1. B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in South San Francisco, California, and consist of approximately 26,000 square feet of leased office space. We also lease approximately 13,000 square feet for use by our information technology and tax personnel in Richmond, British Columbia and approximately 6,000 square feet for use by our information technology personnel in Plano, Texas. We lease approximately 2.8 million square feet and own approximately 0.4 million square feet of distribution space.

Distribution Center Facilities by City and State of Location[1]

Albuquerque, New Mexico	Las Vegas, Nevada	Whitinsville, Massachusetts
Atlanta, Georgia	Los Angeles, California	Wilkes-Barre, Pennsylvania
Bakersfield, California	Leitchfield, Kentucky	Calgary, Alberta
Corona, California[2]	Minneapolis, Minnesota	Toronto, Ontario
Denver, Colorado	Portland, Oregon	Vancouver, British Columbia
Fort Worth, Texas	Sacramento, California[3]	Winnipeg, Manitoba
Grants Pass, Oregon	Salt Lake City, Utah	
Hayward, California	Spokane, Washington	

(1) Excluding outside storage facilities or depots and two facilities that we operate as third party logistics provider. Depots are defined as a secondary location for a division which may include any combination of sales offices, operational departments and/or storage. We own distribution center facilities located in Leitchfield, Kentucky and Wilkes-Barre, Pennsylvania. All other facilities listed are leased. The facilities we own are subject to encumbrances under our principal credit facility.

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

(3) This facility includes a distribution center and our Artic Cascade consolidating warehouse.

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

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2010, we were not involved in any material legal proceedings.

ITEM 4. (REMOVED AND RESERVED)

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PART II

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

Our common stock trades on the NASDAQ Global Market under the symbol "CORE." According to the records of our transfer agent, we had 3,019 stockholders of record as of February 28, 2011.

The following table provides the range of high and low sales prices of our common stock as reported by the NASDAQ Global Market for the periods indicated:

	Low Price	High Price
Fiscal 2010		
4th Quarter	$30.14	$37.19
3rd Quarter	25.61	31.85
2nd Quarter	26.25	31.88
1st Quarter	29.21	34.51

	Low Price	High Price
Fiscal 2009		
4th Quarter	$25.93	$33.20
3rd Quarter	24.73	30.12
2nd Quarter	17.55	27.35
1st Quarter	15.60	22.01

We have not declared or paid any cash dividends on our common stock. The credit agreement for our Credit Facility places limitations on our ability to pay cash dividends on our common stock. The payment of any future dividends will be determined by our board of directors in light of then existing conditions, including our earnings, financial condition and capital requirements, strategic alternatives, restrictions in financing agreements, business conditions and other factors.

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PERFORMANCE COMPARISON

The graph below presents a comparison of cumulative total return to stockholders for the period Core-Mark had securities trading on the NASDAQ Global Market, as well as the cumulative total returns of the NASDAQ Non-Financial Stock Index, the Russell 2000 Index and a peer group of companies (“the Performance Peer Group”). Cumulative total return to stockholders is measured by the change in the share price for the period, plus any dividends, divided by the share price at the beginning of the measurement period. Core-Mark's cumulative stockholder return is based on an investment of $100 on December 30, 2005, and is compared to the total return of the NASDAQ Non-Financial Stock Index, the Russell 2000 Index, and the weighted-average performance of the Performance Peer Group over the same period with a like amount invested, including the assumption that any dividends have been reinvested. We regularly compare our performance to the Russell 2000 Index since it includes primarily companies with relatively small market capitalization similar to us.

The companies composing the Performance Peer Group are Sysco Corp. (SYY), Nash Finch Company (NAFC), United Natural Foods, Inc. (UNFI) and AMCON Distributing Co. (DIT).

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG CORE-MARK, NASDAQ NON-FINANCIAL STOCK AND RUSSELL 2000 INDEXES,
AND THE PERFORMANCE PEER GROUP

	Investment Value at									
	12/30/05	03/31/06	06/30/06	09/29/06	12/29/06	03/30/07	06/29/07	09/28/07	12/31/07	03/31/08	06/30/08
CORE	$100.00	$119.94	$112.23	$98.24	$104.86	$111.85	$112.79	$110.44	$90.03	$90.09	$82.13
NASDAQ Index	$100.00	$106.25	$98.14	$102.11	$109.66	$110.66	$120.05	$125.84	$124.39	$106.45	$108.77
Russell 2000	$100.00	$113.94	$108.21	$108.69	$118.37	$120.67	$126.00	$122.10	$116.51	$104.98	$105.59
Performance Peer Group	$100.00	$105.72	$100.69	$109.74	$121.70	$112.81	$111.16	$119.19	$106.87	$97.84	$93.99

	09/30/08	12/31/08	03/31/09	06/30/09	09/30/09	12/31/09	03/31/10	06/30/10	09/30/10	12/31/10
CORE	$78.34	$67.46	$57.12	$81.69	$89.75	$103.32	$95.96	$85.89	$97.05	$111.57
NASDAQ Index	$97.16	$56.94	$56.42	$68.45	$79.67	$85.86	$90.74	$80.06	$90.83	$101.80
Russell 2000	$104.42	$77.15	$65.61	$79.18	$94.45	$98.11	$106.79	$96.20	$107.06	$124.46
Performance Peer Group	$107.15	$81.34	$80.50	$81.81	$90.01	$102.54	$108.65	$106.72	$108.81	$113.52

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Sales of Unregistered Securities

Common Stock and Warrants Issued Pursuant to the Plan of Reorganization in 2004

Pursuant to the plan of reorganization (May 2004) described in Exhibit 2.1 and incorporated by reference (see Part IV, Item 15, Exhibit Index of this Form 10-K), herein referred to as “Fleming's bankruptcy” or “plan of reorganization,” on August 23, 2004 we issued an aggregate of 9,800,000 shares of our common stock and warrants to purchase an aggregate of 990,616 shares of our common stock to the Class 6(B) creditors of Fleming (our former parent company). We refer to the warrants we issued to the Class 6(B) creditors as the Class 6(B) warrants. We received no cash consideration at the time we issued the Class 6(B) warrants. The Class 6(B) warrants have an exercise price of $20.93 per share. The shares of common stock and the Class 6(B) warrants were issued pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. We also issued warrants to purchase an aggregate of 247,654 shares of our common stock to the holders of our Tranche B Notes, which we refer to as the Tranche B warrants. The Tranche B warrants have an exercise price of $15.50 per share. Shares of our common stock issued upon exercise of the Tranche B warrants are issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Both the Class 6(B) and Tranche B warrants may be exercised at the election of the holder at any time prior to August 23, 2011, at which time any outstanding warrants will be net issued. Instructions for exercising warrants can be found in the “Investor Relations” section of our website at www.core-mark.com.

During 2010, 246,912 of the Class 6(B) warrants were exercised in cash and cashless transactions, and a total of 233,380 shares of common stock have been issued since inception pursuant to exercises of Class 6(B) warrants. The exercise of such warrants was also done pursuant to an exemption from registration under Section 1145(a) of the Bankruptcy Code. During 2010, there were no Tranche B warrants exercised in cash or cashless transactions, and the total number of shares of common stock issued since inception pursuant to Tranche B warrants as of December 31, 2010 remained at 73,507 shares.

Issuer Purchases of Equity Securities

There were no repurchases of our common stock during the three months ended December 31, 2010.

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ITEM 6. SELECTED FINANCIAL DATA

Core-Mark Holding Company, Inc., or Core-Mark, is the ultimate parent holding company for Core-Mark International, Inc. and our wholly-owned subsidiaries.

Basis of Presentation

The selected consolidated financial data for the years 2010, 2009, 2008, 2007 and 2006 are derived from Core-Mark's audited consolidated financial statements included in our Annual Reports on Form 10-K. The following financial data should be read in conjunction with the consolidated financial statements and notes thereto and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

SELECTED CONSOLIDATED FINANCIAL DATA

	Core-Mark Holding Company, Inc. and Subsidiaries Year Ended December 31,				
(in millions except per share amounts)	2010[(a)]	2009[(b)]	2008[(c)]	2007	2006[(d)]
Statement of Operations Data:					
Net sales	$7,266.8	$6,531.6	$6,044.9	$5,560.9	$5,314.4
Gross profit [(e)]	385.3	401.6	359.1	332.6	297.7
Warehousing and distribution expenses [(e)]	211.8	197.3	197.6	174.1	151.1
Selling, general and administrative expenses	142.5	137.3	129.4	119.0	106.6
Income from operations	28.9	65.0	30.1	37.7	38.5
Interest expense, net [(f)]	2.2	1.4	1.2	1.0	4.2
Net income	17.7	47.3	17.9	24.1	20.6
Per share data:					
Basic net income per common share	$1.64	$4.53	$1.71	$2.30	$2.05
Diluted net income per common share	$1.55	$4.35	$1.64	$2.15	$1.87
Shares used to compute net income per share:					
Basic	10.8	10.5	10.5	10.5	10.0
Diluted	11.4	10.9	10.9	11.2	11.0
Other Financial Data:					
Excise taxes [(g)]	$1,756.5	$1,516.0	$1,474.4	$1,349.4	$1,313.3
Cigarette inventory holding profits/FET [(h)]	6.1	25.2	3.1	7.3	4.1
OTP tax items [(i)]	0.6	0.6	1.4	13.3	—
LIFO expense	16.6	6.7	11.0	13.1	2.9
Depreciation and amortization [(j)]	19.7	18.7	17.4	14.9	13.2
Stock-based compensation	4.8	5.1	3.9	5.3	4.4
Capital expenditures	13.9	21.1	19.9	20.8	12.8

	December 31,				
	2010	2009	2008	2007	2006
Balance Sheet Data:					
Total assets	$708.8	$677.9	$612.6	$577.1	$555.6
Total debt, including current maturities	1.0	20.0	30.8	29.7	78.0

(a) The selected consolidated financial data for 2010 includes approximately $105.9 million of incremental sales related to increased cigarette prices by manufacturers in response to the increase in federal excise taxes mandated by the SCHIP legislation. The 2010 data also includes the results of operations of FDI, which was acquired in August 2010.

(b) The selected consolidated financial data for 2009 includes approximately $534.0 million of incremental sales related to increased cigarette prices by manufacturers in response to the increase in federal excise taxes mandated by the SCHIP

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legislation and $36.7 million of related cigarette inventory holding profits, offset by $11.5 million of net floor stock tax.

(c) The selected consolidated financial data for 2008 includes the results of operations of the Toronto division, which started operations in late January 2008, and also the New England division following its acquisition in June 2008.

(d) The selected consolidated financial data for 2006 includes the results of operations of the Pennsylvania division following its acquisition in June 2006.

(e) Gross margins may not be comparable to those of other entities because warehousing and distribution expenses are not included as a component of our cost of goods sold.

(f) Interest expense, net, is reported net of interest income and includes amortization of debt issuance costs.

(g) State, local and provincial excise taxes (predominantly cigarettes and tobacco) paid by the Company are included in net sales and cost of goods sold.

(h) Cigarette inventory holding profits represent income related to cigarette and excise tax stamp inventories on hand at the time either cigarette manufacturers increase their prices or states increase their excise taxes, for which the Company is able to pass such increases on to its customers. This income is recorded as an offset to cost of goods sold and recognized as the inventory is sold. This income is not predictable and is dependent on inventory levels and the timing of manufacturer price increases or state excise tax increases. In 2009, we realized significant cigarette inventory holding profits due to the price increases in response to the federal excise taxes ("FET") levied on manufacturers by the SCHIP legislation.

(i) We received an OTP (Other Tobacco Products) tax gain resulting from a state tax method change in the amount of $0.6 million in 2010. We received OTP tax refunds of $0.6 million in 2009, $1.4 million in 2008 and $13.3 million in 2007.

(j) Depreciation and amortization includes depreciation on property and equipment and amortization of purchased intangibles.

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ITEM 7. 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 audited consolidated financial statements and notes thereto that are included under Part II, Item 8, of this Form 10-K. Also refer to "Special Note Regarding Forward-Looking Statements," which is included after Table of Contents in this Form 10-K.

Our Business

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. We offer a full range of products, marketing programs and technology solutions to approximately 26,000 customer locations in the U.S. and Canada. Our customers include traditional convenience stores, grocery stores, drug stores, liquor stores and other specialty and small format stores that carry convenience products. Our product offering includes cigarettes, tobacco, candy, snacks, fast food, groceries, fresh products, dairy, bread, non-alcoholic beverages, general merchandise and health and beauty care products. We operate a network of 24 distribution centers (excluding two distribution facilities we operate as a third party logistics provider) in the U.S. and Canada.

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.

Overview of 2010 Results

Net sales for 2010 increased 11.3% to $7.27 billion compared to $6.53 billion in 2009, driven by an 11.6% increase in our cigarette sales and a 10.5% increase in our food/non-food sales. Sales in both categories benefited from favorable foreign exchange rates and the acquisition of Finkle Distributors, Inc. ("FDI"), which we acquired in the third quarter of 2010.

The increase in food/non-food net sales was led by our food and other tobacco products ("OTP") categories. This increase was a result of deeper sales to existing customers driven by the success of our marketing initiatives that focus on fresh foods and vendor consolidation ("VCI"). We added over 2,000 stores to our "Fresh and Local" food program during 2010, which drove a 38% increase in our fresh product, dairy and bread line items within our food category. In addition, we benefited from new customers, favorable foreign exchange rates and the FDI acquisition previously mentioned.

Cigarette net sales for 2010 increased due to price and excise tax inflation and a 3.0% increase in carton volume including FDI, or a 1.8% increase without. During 2010, carton sales in the U.S. increased 1.1% excluding FDI, driven primarily by market share gains. Carton sales in Canada increased 7.5%, led by customer growth in our Toronto division. Longer term, we continue to expect that overall cigarette consumption may be negatively impacted by rising prices, legislative actions, diminishing social acceptance and sales through illicit markets. However, we expect to offset the majority of the impact from these declines through market share expansion, growth in our non-cigarette categories and incremental gross profit that results from cigarette manufacturer price increases. We expect cigarette manufacturers will raise prices as carton sales decline in order to maintain or enhance their overall profitability.

Despite the growth in our sales during 2010, we continue to monitor current macroeconomic conditions, including consumer confidence, spending, employment, fuel costs, and inflation/deflation levels. We believe these macroeconomic factors may have put pressure on other wholesalers and influenced the competitive landscape which ultimately impacted our margins. A significant change in macroeconomic conditions could materially impact our operating results.

Our remaining gross profit[1] increased $12.7 million, or 3.3%, to $395.2 million during 2010 from $382.5 million last year. Remaining gross profit margin[1] decreased 42 basis points from 5.86% last year to 5.44% this year. The net decline was due primarily to competitive pricing pressures which were most severe earlier this year. Remaining gross profit margins did improve somewhat in the second half of the year, and we expect to make continued progress toward growing margins over time. We believe the margins in the fresh food line items will continue to improve and were not significantly impacted by the competitive pricing pressures affecting the more traditional categories. A return of meaningful product inflation and/or manufacturer promotions, coupled with market share expansion and deeper selling into existing accounts, is expected to help improve margins in the future. The convenience retail industry continues to move towards fresh foods, a more efficient supply chain and flexibility of service. We believe we are in a strong position to capitalize on these market trends.

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1 Remaining gross profit and remaining gross profit margin are non-GAAP financial measures which we provide to segregate the effects of LIFO expense, cigarette inventory holding profits and other major non-recurring items that significantly affect the comparability of gross profit and related margins.

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Operating income for 2010 was $28.9 million compared to $65.0 million last year. The decline was due primarily to a $19.1 million reduction in cigarette holding gains, net of federal excise taxes ("FET"), a $9.9 million increase in LIFO expense, a $5.3 million reduction in income earned primarily from manufacturer price increases, and approximately $5.5 million of additional operating expenses which are more fully discussed in our MD&A. In addition, competitive pressures on margins previously discussed were offset in part by operating expense leverage of approximately 25 basis points. Improved health care and workers' compensation costs helped to offset a $4.6 million increase in net fuel costs during the year, along with improved productivity and leverage in our other labor costs. Increases or decreases in future fuel costs or in the fuel surcharges we pass on to our customers may materially impact our financial results depending on the extent and timing of these changes.

Business and Supply Expansion

We continue to expand our presence eastward, expand our fresh product delivery and drive our vendor consolidation initiative. Some of our expansion activities include:

- In 2010, as part of our selling strategy of providing “fresh” product to our retailers to meet consumer demand, we grew the number of stores participating in our proprietary “Fresh and Local” program by over 2,000 locations, increasing total participation to approximately 4,100 stores. A main component of the program is to assist independent convenience store operators in obtaining equipment solutions to properly implement a “fresh” program. Once the equipment solution is in place, we turn our focus to providing fresh product solutions to the convenience retailer, and we also add additional deliveries in order for them to stock the freshest possible product including fresh sandwiches, fresh bakery items, fruits, salads, vegetables and dairy products. We have partnered with local bakeries and commissaries to further enable us to deliver the freshest product possible aligned with geographical preferences. This program was in addition to our other sales and marketing initiatives focused on increasing sales for fresh products.

- On August 2, 2010, we acquired substantially all of the assets of FDI, located in Johnstown, New York, for approximately $36.0 million. FDI is a regional, convenience wholesaler servicing customers in New York, Pennsylvania and the surrounding states. The acquired assets consist primarily of accounts receivable, inventory and fixed assets. Results of operations have been included in our consolidated statements of operations since the date of acquisition. Upon completion of the acquisition, we transitioned warehouse operations to our New England and Pennsylvania divisions. As a result of the acquisition, we expect to bring our industry leading Vendor Consolidation and Fresh initiatives to a larger population of convenience retailers primarily in the Northeast (see Note 3 -- Acquisitions to our consolidated financial statements).

- We entered into a five-year contract with BP Products North America in February 2010 to provide all of the ampm® proprietary products to its 1,200 stores nationwide. This agreement expands our existing relationship with BP Products North America from a focus in western states to a national basis. In addition, Core-Mark is now designated as the approved supplier for traditional nonproprietary products, in a move designed to further advance ampm®'s ongoing progress in supply chain efficiencies, marketing program effectiveness and consistency of offerings.

- During the latter part of 2010, Core-Mark began marketing and distributing Jamba Juice's proprietary line of fresh deli wraps, salads and sandwiches. This "Grab 'n Go" line placed a face on fresh items which typically are marketed and sold without the benefit of brand recognition from the consumer within the convenience store channel. Over 150 convenience stores accepted this Core-Mark exclusive marketing opportunity and began merchandising and selling the product. In 2011 Core-Mark expects to expand the number of stores participating in the fresh Jamba Juice "Grab 'n Go" offering and also expects to considerably expand on the breadth of the Jamba Juice labeled product in areas such as fruit cups, yogurts, trail mix, nuts and others. The co-developed items will provide health-oriented food items for the convenience channel.

- In June 2008, we acquired substantially all of the assets of Auburn Merchandise Distributors, Inc. (“AMD”), located in Whitinsville, Massachusetts, a wholly-owned subsidiary of Warren Equities, Inc., for approximately $28.7 million. The assets purchased included primarily accounts receivable, inventory and fixed assets. The AMD acquisition expanded our presence and infrastructure in the Northeastern region of the U.S., as its facility and the majority of its customers are located there (see Note 3 -- Acquisitions to our consolidated financial statements).

- We opened a distribution facility near Toronto, Ontario, in January 2008, to expand our existing market geography in Canada, and we signed a long-term supply agreement with Couche-Tard, a Canadian retailer that operates over 600 stores in the province of Ontario.

Other Business Developments

Impact of the Passage of Family Smoking Prevention and Tobacco Control Act

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In June 2009, the Family Smoking Prevention and Tobacco Control Act was signed into law, which granted the FDA the authority to regulate the production and marketing of tobacco products in the U.S. The new legislation established a new FDA office that has the authority to regulate changes to nicotine yields and the chemicals and flavors used in tobacco products, require ingredient listings be displayed on tobacco products, prohibit the use of certain terms which may attract youth or mislead users as to the risks involved with using tobacco products, and limit or otherwise impact the advertising and marketing of tobacco products by requiring additional labels or warnings, as well as pre-approval by the FDA. This new FDA office is to be financed through user fees paid by tobacco companies prorated based on market share. To date, this legislation and its associated regulations have not had a material impact on our business.

Federal Excise Tax Liability Impact for the State Children's Health Insurance Program

In February 2009, the State Children's Health Insurance Program ("SCHIP") was signed into law, which increased federal cigarette excise taxes levied on manufacturers of cigarettes from 39¢ to $1.01 per pack effective April 1, 2009. In March 2009, most U.S. manufacturers increased their list prices which resulted in an increase of approximately 28% on Core-Mark's product purchases in response to the passage of the SCHIP legislation. Net cigarette sales for 2010 and 2009 include approximately $105.9 million and $534.0 million, respectively, of increased sales from these price increases. Cigarette inventory holding profits were $6.1 million for 2010 compared to cigarette inventory holding profits of $36.7 million, partially offset by a net federal floor stock tax of $11.5 million, for the same period in 2009. The significant cigarette inventory holding profits in 2009 were due primarily to increases in cigarette prices by manufacturers in response to the anticipated increase in federal excise taxes mandated by the SCHIP legislation. We paid approximately $12.7 million of federal excise floor taxes and received $1.2 million in reimbursements from cigarette and tobacco manufacturers for a net floor stock tax amount of $11.5 million, which was reflected as an increase to our cost of goods sold in 2009.

Share Repurchase Program

During the year ended December 31, 2010, no shares of common stock were repurchased under our share repurchase program. During the year ended December 31, 2009, we repurchased 98,646 shares of common stock at an average price of $22.77 per share for a total cost of $2.2 million. During the year ended December 31, 2008, we repurchased 396,716 shares of common stock at an average price of $27.66 per share for a total cost of $11.0 million.

As of December 31, 2010 there was $16.8 million available for future share repurchases under our share repurchase program. Our available funds for future share repurchases were re-established at $30 million under the February 2010 amendment to our Credit Facility (see Note 7 -- Long-Term Debt to our consolidated financial statements).

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Results of Operations
Comparison of 2010 and 2009 (1)

	2010 Increase (Decrease) (in millions)	2010 Amounts (in millions)	2010 % of Net sales	2010 % of Net sales, less excise taxes	2009 Amounts (in millions)	2009 % of Net sales	2009 % of Net sales, less excise taxes
Net sales	$735.2	$7,266.8	100.0 %	— %	$6,531.6	100.0 %	— %
Net sales — Cigarettes	530.6	5,119.7	70.5	64.0	4,589.1	70.3	64.0
Net sales — Food/non-food	204.6	2,147.1	29.5	36.0	1,942.5	29.7	36.0
Net sales, less excise taxes (2)	494.7	5,510.3	75.8	100.0	5,015.6	76.8	100.0
Gross profit (3)	(16.3)	385.3	5.3	7.0	401.6	6.1	8.0
Warehousing and distribution expenses	14.5	211.8	2.9	3.8	197.3	3.0	3.9
Selling, general and administrative expenses	5.2	142.5	2.0	2.6	137.3	2.1	2.7
Income from operations	(36.1)	28.9	0.4	0.5	65.0	1.0	1.3
Interest expense	0.9	(2.6)	—	—	(1.7)	—	—
Interest income	0.1	0.4	—	—	0.3	—	—
Foreign currency transaction gains (losses), net	(1.7)	0.5	—	—	2.2	—	—
Income before taxes	(38.6)	27.2	0.4	0.5	65.8	1.0	1.3
Net income (4)	(29.6)	17.7	0.2	0.3	47.3	0.7	0.9

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.
(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 state, local and provincial excise taxes which we are responsible for collecting and remitting. Federal excise taxes are levied on the manufacturers who pass the taxes on to us as part of the product cost and thus are not a component of our excise taxes. Although increases in cigarette excise taxes result in higher net sales, our overall gross profit percentage may decrease as a result of increases in excise taxes since gross profit dollars generally remain the same (see Comparison of Sales and Gross Profit by Product Category, page 32).
(3) Gross margins may not be comparable to those of other entities because warehousing and distribution expenses are not included as a component of our cost of goods sold.
(4) The decrease in net income compared to 2009 was due primarily to a $19.1 million reduction in cigarette holding gains, a $5.3 million reduction in income earned primarily from manufacturer price increases, an increase in LIFO expense of $9.9 million and $5.5 million of additional expenses in 2010.

Consolidated Net Sales. Net sales for 2010 increased by $735.2 million, or 11.3%, to $7,266.8 million from $6,531.6 million in 2009. Excluding the effects of foreign currency fluctuations, sales from the FDI acquisition and approximately $105.9 million of incremental sales resulting from manufacturers' cigarette price increases in response to the SCHIP legislation, net sales increased by 6.1% in 2010 compared to 2009. This increase was the result of sales gains from new and existing customers and inflation of cigarette prices and excise taxes.

Net Sales of Cigarettes. Net sales of cigarettes for 2010 increased by $530.6 million, or 11.6%, to $5,119.7 million from $4,589.1 million in 2009. Net cigarette sales for 2010 increased 10.0%, excluding the effects of foreign currency fluctuations. The increase in net cigarette sales in 2010 was driven by an 8.3% increase in the average sales price per carton, due primarily to manufacturer price and excise tax increases, and an overall increase in carton sales of 3.0%, or 1.8% excluding sales from the FDI acquisition. Our carton sales in 2010 increased 1.1% in the U.S., excluding FDI, and increased 7.5% in Canada, attributable primarily to market share gains in our Toronto division. Total net cigarette sales as a percentage of total net sales were 70.5% in 2010 compared to 70.3% in 2009.

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Net Sales of Food/Non-food Products. Net sales of food and non-food products for 2010 increased $204.6 million, or 10.5%, to $2,147.1 million from $1,942.5 million in 2009. The following table provides net sales by product category for our food/non-food products (in millions)[(1)]:

Product Category	2010 Net Sales	2009 Net Sales	Increase / (Decrease) Dollars	Increase / (Decrease) Percentage
Food	$840.9	$738.0	$102.9	13.9%
Candy	426.0	405.0	21.0	5.2%
Other tobacco products	503.6	434.0	69.6	16.0%
Health, beauty & general	220.6	209.5	11.1	5.3%
Non-alcoholic beverages	152.0	151.7	0.3	0.1%
Equipment/other	4.0	4.3	(0.3)	(5.5)%
Total Food/Non-food Products	$2,147.1	$1,942.5	$204.6	10.5%

(1) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results.

Excluding the effects of foreign currency fluctuations, net sales of food/non-food products increased 9.0% in 2010 compared to 2009. The increase, primarily in our food and other tobacco products categories, was driven by our sales and marketing initiatives, sales gains from new customers and sales from the FDI acquisition. Total net sales of food and non-food products as a percentage of total net sales was 29.5% for 2010 compared to 29.7% for 2009.

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, federal floor stock taxes and changes in LIFO reserves are classified as elements of cost of goods sold. Gross profit for 2010 decreased by $16.3 million, or 4.1%, to $385.3 million from $401.6 million in 2009. This decrease in gross profit was due primarily to realizing $19.1 million more of cigarette inventory holding profits, net of floor stock tax, during 2009 largely related to the increase in federal excise tax mandated by the SCHIP legislation. In addition, LIFO expense increased by $9.9 million compared to the prior year, due primarily to the cigarette category, which reflected multiple price increases during the year.

The following table provides the components comprising the change in gross profit as a percentage of net sales for 2010 and 2009[(1)]:

	2010			2009		
	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes	Amounts (in millions)	% of Net sales	% of Net sales, less excise taxes
Net sales	$7,266.8	100.0%	—	$6,531.6	100.0%	—
Net sales, less excise taxes [(2)]	5,510.3	75.8	100.0%			