December 15, 2010

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Technical Director:

Core-Mark Holding Company, Inc. appreciates the opportunity to respond to the Proposed Accounting Standards Update – Leases (Topic 840).

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 (approximately $6.5 billion in 2009), providing sales and marketing, distribution and logistics services to customer locations across the U.S and Canada. A key component of our logistics and distribution business is use of leased warehouse facilities as well as tractors, trucks, vans and other equipment, which we have arranged through approximately 1,000 operating leases.

In general, we support the lease accounting objectives of providing users of financial statements with a complete and understandable picture of an entity’s leasing activities. However, we strongly believe that the objectives of the proposed lease accounting changes can be met through enhanced disclosure within footnotes to financial statements and in Management’s Discussion and Analysis, rather than by creating potentially volatile assets and liabilities which can in turn create significant volatility in the income statement. The proposed changes will create a significant burden to preparers of financial statements, requiring investments in additional staffing and software, while providing minimal benefit and introducing confusion to readers of the financial statements.

Below are our responses to some of the specific questions presented in the Exposure Draft.

**Question 1: Lessees**

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

**Answer for 1(a):** We do not believe that a lessee should record an asset and liability for leases that are currently characterized as operating leases. If we look at the nature of an “asset” as an item of economic value owned by an individual or corporation, especially that which could be converted to cash, a rental contract for equipment or property doesn’t fit well into that category. While securing use of an asset through signing a rental contract does represent a potential resource, that resource is only available as long as the individual or corporation continues to pay for it. It is not a prepaid asset that should be presented on the balance sheet as an owned resource. On the liability side, the lessee has a potential liability, but the true liability is really the termination fee that may be incurred if the lease payments were not delivered to the lessor. In addition, recording liabilities for possible future option exercises, further overstates an entity’s true commitments. By artificially inflating the assets and liabilities
on the lessee’s balance sheet, true ownership rights and obligations are no longer clear to the user of the financial statements.

A direct negative effect of inflating the reported debt of the lessee is the potential for higher borrowing costs, restricted credit availability for the lessee and confusion for the lender. Existing debt covenants of many entities typically restrict borrowings or increase interest rates depending on the level of debt carried by the entity, including capital leases. In the event that a lender is willing to revise a debt covenant to reflect material changes in GAAP, the lessee will also incur costs to obtain said amendment. For our Company, our amendments generally run 20–25 basis points on the face value of the credit facility.

Another unintended negative side effect is poor economic decisions. The proposal may sway some companies to make an economic trade-off between potentially costlier, shorter lease terms with simpler accounting treatment compared to more favorable, longer lease terms with multiple options, that will be more difficult to account for. Excluding these renewal options, may create a healthier-looking, but in fact riskier, balance sheet.

A better alternative would be to enhance footnote disclosure to meet the desired outcome of educating the reader of the financial statements about the leasing practices and significant changes to those practices that may have occurred on an annual basis. Specifically, we believe this can be achieved merely by increasing disclosure around the existence and terms of renewal options.

**Answer for 1(b):** We do not believe that front-end loading of interest expense is appropriate, even if the leases are capitalized. The concept does not “match” the economics of use of the leased item, which is being depreciated on a straight-line basis. In addition, since the “debt” balance that is being reduced includes possible, but not certain, option exercises, the declining interest expense on a debt balance could swing wildly downward or upward, depending on whether options are, or are not, exercised or where extended terms are created, thus creating significant volatility in earnings.

**Question 8: Lease term**
*Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?*

**Answer:** We disagree that the longest possible term that is more likely than not to occur should be used. In our business, the base terms for our building leases is generally ten years, with ten or more years in option periods. In the current economic environment, deciding on what is likely that far out into the future is purely conjecture. As leases come up for renewal, wild fluctuations could occur as options expire unused, or additional longer terms are renegotiated. In addition, circumstances can change over such a long period of time. In the case of our warehouse leases, market expansion may cause relocation decisions, at which time, under the proposed rules, our balance sheet would be significantly impacted. Such volatility could convey economic distress, rather than the reality of taking advantage of market opportunities to renegotiate terms or to relocate to a more economically, geographically or logistically favorable location.

Again, we recommend additional footnote disclosure to address this type of uncertainty, rather than recording potentially volatile and unrealistic assets and liabilities on the balance sheet.

**Question 10: Reassessment**
*Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including*
expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

**Answer:** Currently “significant” is not a defined term, so it creates a wide range for interpretation. Does it carry the same meaning as “material”? And for a wholesaler with small margins, will this end up requiring us to capitalize and account for every upgrade we make to postage meters and copy machines? In addition, frequent revisions to estimated assets and liabilities, recognized as option terms expire or renew, and resulting changes in the income statement create variability that will be confusing rather than helpful. An example would be building leases: with uncertainty in the real estate markets, fluctuations in market value may distort certain business’s financial position, especially if they are not in the “business” of real estate investment.

Further, it will be extremely burdensome to evaluate all leases each reporting period. In our case, we have approximately 1,000 operating leases that would need to be reviewed every quarter, requiring additional staff and software for an accounting requirement that is not part of our core business and will not add meaningful value to readers of the financial statements. In our low-margin industry, complying with the re-measuring requirements would have a significant negative impact on our net income since the cost of obtaining and reporting the information would significantly outweigh the benefit. In addition, our investors are primarily focused on our ability to generate operating cash flow. They typically evaluate our cash flow performance through our cash flow statement and by analyzing measures such as free cash flow and EBITDA. Since changes arising from re-measuring assets and liabilities will result in non-cash impacts, our investors will most likely exclude them from their assessment of cash flow performance. Thus we do not see the point in making these adjustments, especially not on a quarterly basis.

We do support communicating material changes in certain material circumstances, which could be provided in the footnotes in sufficient detail for users of the financial statements.

**Question 12: Statement of financial position**

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

**Answer:** No. As discussed in 1(a), we do not believe that a lessee should record an asset and a corresponding liability for leases that are currently characterized as operating leases. Although we do not support this proposal, if this change is enacted, we do think it would be helpful to isolate the resulting components on the balance sheet, to allow readers to include or exclude these items in their analyses. Both the asset and the liability are subject to significant fluctuations, and separate disclosure would assist the user of the financial statements to isolate those fluctuations caused by the proposed lease accounting, segregating the paper entries from those changes resulting from core business operations.

**Question 13: Income statement**

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

**Answer:** Although we do not support the approach of recording the right-of-use asset and liability, if this change is enacted, we do think it would be helpful to isolate lease income and expense on the income statement,
especially if this is not the core business of the reporting entity. Since these items are subject to significant fluctuations, it would assist our investors and other users of the financial statements to be able to isolate fluctuations caused by these items and eliminate confusion with changes resulting from the core business operations.

**Question 14:** Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

**Answer:** As mentioned previously, our investors are very focused on our cash flow performance in addition to assessing our “core” operating results. Since the proposal would result in the generation of potentially large fluctuations in the newly created assets and liabilities to account for lease options, we strongly endorse disclosure in the statement of cash flows of the various non-cash impacts resulting from the proposed guidance, if it is enacted. Additionally, we think it would be helpful to disclose actual lease payments in the footnotes if not clearly identified in the statement of cash flows. This would assist the user of the financial statements in understanding and isolating the true cash flow fluctuations caused by actual payments of leases and eliminate confusion with the non-cash changes resulting from modifying the newly created and accrued lease assets and liabilities.

**Question 15**

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity’s future cash flows? (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

**Answer:** We agree with a balanced but not excessive approach to enhanced disclosure, and we believe that it can provide the desired results without requiring capitalization of operating leases.

**Question 16**

(a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

**Answer:** To present all capitalized leases in a consistent manner, retrospective treatment of some type would be required. However, this will be extremely burdensome and would take significant time, cost and support to analyze and implement. In our case, we have approximately 1,000 operating leases that would need to be converted to capital leases, requiring investments in additional staff and software. As a wholesaler, our net income is not sufficient to support the niche industry that would be created by this requirement and subsequent compliance. We believe some businesses may be put at risk by the costs of this accounting proposal. In addition, it may put timely filing of SEC reports at risk.

**Question 17**

Paragraphs BC200–BC205 set out the boards’ assessment of the costs and benefits of the proposed requirements. Do you agree with the boards’ assessment that the benefits of the proposals would outweigh the costs? Why or why not?
Answer: We do not believe that the benefits of the proposals would outweigh the costs. Further, we do not believe that the capitalization of all leases presents a truer picture of lease obligations. We believe enhanced disclosures in the footnotes would provide the necessary information to interested readers of the financial statements. By enhancing disclosure, the balance sheet would retain only true assets and liabilities on the balance sheet, and this approach would prevent burdening companies with complex and time-consuming calculations every quarter. The costs to companies should not be underestimated. Our company would incur significant incremental costs solely to perform the initial analysis for this proposal, and we would be required to outsource or hire a small department of accountants to manage the voluminous number of leases and related reports. As a wholesaler, these are costs that would not add value to our operations. The proposed changes would actually create more confusion for readers, more variability in earnings, and less comparability between companies. Enhanced disclosure would allow the reader to make their own assessments and comparisons, for significantly less cost.

Question 18
Do you have any other comments on the proposals?

Lease Incentives: The proposal is silent about how lessees are to account for lease incentives received from a lessor. Do we assume that such incentives be treated as a reduction in the lease payments over the lease term, consistent with current rules, or should they be ignored for accounting purposes? Are they netted for the implied interest calculation?

Capitalizing Direct Costs: The proposal (paragraph 12) requires capitalizing initial direct costs incurred to negotiate the lease, such as legal fees, valuations, closing costs, etc. We note that this approach is inconsistent with the guidance in Topic 840 – Business Combinations, where the same types of direct costs must be expensed.

We appreciate the willingness of the FASB Board members and staff to exchange views with the industries during the comment period.

Please contact us at (650) 589-9445 with any follow up questions you may have on our comment letter.

Sincerely,

CORE-MARK HOLDING COMPANY, INC.
by:

[Signatures]

Stacy Loretz-Congdon
Chief Financial Officer

Chris Miller
Chief Accounting Officer