

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

CLARK REFINING & MARKETING INC

CIK: **20762** | IRS No.: **431491230** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-28146** | Film No.: **94528398**
SIC: **2911** Petroleum refining

Mailing Address
8182 MARYLAND AVE
ST LOUIS MO 63105

Business Address
8182 MARYLAND AVE
C/O MILTON BURMASTER
ST LOUIS MO 63105-3721
3148549696

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994

OR

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 1-11392

CLARK REFINING & MARKETING, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE (State or other jurisdiction of incorporation or organization) | 43-1491230 (I.R.S. Employer Identification No.) |
|---|---|

| | |
|---|--------------------------|
| 8182 MARYLAND AVENUE ST. LOUIS, MISSOURI (Address of principal executive offices) | 63105-3721 (Zip Code) |
|---|--------------------------|

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (314) 854-9696

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 ().

Number of shares of registrant's common stock, \$.01 par value, outstanding as of May 12, 1994: 100, all of which are indirectly owned by The Horsham Corporation.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Clark Refining & Marketing, Inc.:

We have reviewed the accompanying balance sheet of Clark Refining & Marketing, Inc. (a Delaware corporation and wholly-owned subsidiary of Clark R & M Holdings, Inc.) as of March 31, 1994, and the related statements of earnings and cash flows for the three-month periods ended March 31, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of obtaining an understanding of the

system for the preparation of interim financial information, applying analytical review procedures to the financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Clark Refining & Marketing, Inc. as of December 31, 1993, and the related statements of earnings, stockholder's equity, and cash flows for the year then ended (not presented herein); and in our report dated January 28, 1994, we expressed an unqualified opinion on those statements.

In our opinion, the information set forth in the accompanying balance sheet as of December 31, 1993 is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

Coopers & Lybrand

St. Louis, Missouri,
May 10, 1994

CLARK REFINING & MARKETING, INC.
BALANCE SHEETS
(Dollars in thousands except per share data)

<TABLE>
<CAPTION>

| ASSETS | REFERENCE NOTE ----- | MARCH 31, 1994 ----- (Unaudited) | DECEMBER 31, 1993 ----- |
|--------------------------------------|----------------------------|---|-------------------------------|
| | <C> | <C> | <C> |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | | \$ 42,051 | \$ 60,771 |
| Short-term investments | 2 | 141,632 | 133,752 |
| Accounts receivable | | 68,177 | 58,103 |
| Inventories | 3 | 142,377 | 147,961 |
| Prepaid expenses and other | | 14,227 | 15,573 |
| | | ----- | ----- |
| Total current assets | | 408,464 | 416,160 |
| PROPERTY, PLANT AND EQUIPMENT | | 363,580 | 360,945 |
| OTHER ASSETS | 4 | 30,700 | 34,349 |
| | | ----- | ----- |
| | | \$802,744 | \$811,454 |
| | | ===== | ===== |

LIABILITIES AND STOCKHOLDER'S EQUITY

| | | | |
|---------------------------------|---|-----------|-----------|
| CURRENT LIABILITIES: | | | |
| Accounts payable | | \$109,301 | \$138,321 |
| Accrued expenses and other | 5 | 44,070 | 43,151 |
| Accrued taxes other than income | | 39,044 | 30,860 |
| | | ----- | ----- |
| Total current liabilities | | 192,415 | 212,332 |
| LONG-TERM DEBT | | 400,885 | 401,038 |
| DEFERRED TAXES | | 34,554 | 35,248 |

| | | | |
|---|---|-----------|-----------|
| LIABILITY FOR POSTRETIREMENT BENEFITS | | 17,176 | 16,858 |
| CONTINGENCIES | 6 | -- | -- |
| STOCKHOLDER'S EQUITY: | | | |
| Common stock (\$.01 par value per share; 1,000 shares authorized and 100 shares issued and outstanding) | | | |
| Paid-in capital | | 30,000 | 30,000 |
| Retained earnings | 2 | 127,714 | 115,978 |
| | | ----- | ----- |
| Total stockholder's equity | | 157,714 | 145,978 |
| | | ----- | ----- |
| | | \$802,744 | \$811,454 |
| | | ===== | ===== |

</TABLE>

The accompanying notes are an integral part of these statements.

3

CLARK REFINING & MARKETING, INC.
STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in thousands)

<TABLE>
<CAPTION>

| | Reference Note | For the three months ended March 31, | |
|---|-------------------|---|------------|
| | | 1994 | 1993 |
| | | ---- | ---- |
| <S> | <C> | <C> | <C> |
| NET SALES AND OPERATING REVENUES | | \$567,253 | \$589,230 |
| EXPENSES: | | | |
| Cost of sales | | (477,007) | (525,154) |
| Operating expenses | | (57,674) | (53,813) |
| General and administrative expenses | | (7,452) | (5,995) |
| Depreciation | | (6,561) | (5,548) |
| Amortization | 4 | (3,318) | (2,865) |
| Reversal of inventory write-down to market | 3 | 15,000 | -- |
| | | ----- | ----- |
| | | (537,012) | (593,375) |
| | | ----- | ----- |
| OPERATING INCOME (LOSS) | | 30,241 | (4,145) |
| Interest and financing costs, net | 4, 5 | (8,334) | (6,597) |
| Other income | | -- | 8,468 |
| | | ----- | ----- |
| EARNINGS (LOSS) BEFORE TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | | 21,907 | (2,274) |
| Income tax (provision) benefit | | (8,171) | 658 |
| | | ----- | ----- |
| EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | | 13,736 | (1,616) |
| Cumulative effect of change in accounting principle (net of taxes of \$5,995) | | -- | (9,595) |
| | | ----- | ----- |
| NET EARNINGS (LOSS) | | \$13,736 | \$(11,211) |
| | | ===== | ===== |

</TABLE>

The accompanying notes are an integral part of these statements.

CLARK REFINING & MARKETING, INC.
 STATEMENTS OF CASH FLOWS
 (Unaudited)
 (Dollars in thousands)

<TABLE>
 <CAPTION>

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|---------------------|
| | 1994 | 1993 |
| | ---- | ---- |
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings (loss) | \$ 13,736 | \$ (11,211) |
| Cumulative effect of change in accounting principle | - | 9,595 |
| Adjustments: | | |
| Depreciation | 6,561 | 5,548 |
| Amortization | 3,612 | 3,152 |
| Share of earnings of affiliates, net of dividends | (64) | (130) |
| Deferred taxes | 5,049 | 204 |
| Reversal of inventory write-down to market | (15,000) | - |
| Other | 318 | 318 |
| | | |
| Cash provided by (reinvested in) working capital- Accounts receivable, prepaid expenses and other Inventories | (15,157) 20,584 | (16,842) (5,635) |
| Accounts payable, accrued expenses, taxes other than income, and other | (17,760) | (18,754) |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | 1,879 | (33,755) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of short-term investments | (21,668) | (24,344) |
| Sales of short-term investments | 10,588 | 80,164 |
| Expenditures for property, plant and equipment | (10,023) | (14,100) |
| Expenditures for refinery turnaround | 72 | (5,520) |
| Proceeds from disposals of property, plant and equipment | 585 | 97 |
| Payment received on note receivable | - | 5,000 |
| Other investing activity | - | (11,602) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (20,446) | 29,695 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Long-term debt payments | (153) | (62) |
| Deferred financing costs | 0 | (507) |
| Other | 0 | 201 |
| | ----- | ----- |
| Net cash used in financing activities | (153) | (368) |
| | ----- | ----- |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (18,720) | (4,428) |
| CASH AND CASH EQUIVALENTS, beginning of period | 60,771 | 18,643 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$42,051 | \$14,215 |
| | ===== | ===== |

</TABLE>

The accompanying notes are an integral part of these statements.

FORM 10-Q - PART I
 ITEM 1 FINANCIAL STATEMENTS (CONTINUED)

CLARK REFINING & MARKETING, INC.

1. BASIS OF PREPARATION

The unaudited balance sheet of Clark Refining & Marketing, Inc. (the "Company" or "Clark"), a Delaware corporation, as of March 31, 1994, and the related statements of earnings and cash flows for the three month periods ended March 31, 1994 and 1993, have been reviewed by independent accountants. In the opinion of the management of the Company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included therein. The results of this interim period are not necessarily indicative of results for the entire year.

The financial statements have been prepared in accordance with the instructions to Form 10-Q. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1993.

2. SHORT-TERM INVESTMENTS

On January 1, 1994, Clark adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). This standard requires the classification of short-term investments into three categories and many debt securities to be shown at fair value on the balance sheet. Clark's short-term investments are all considered "Available-for-Sale" and are carried at fair value with the resulting unrealized gain or loss shown as a component of retained earnings.

Short-term investments consisted of the following:

<TABLE>
 <CAPTION>

| MAJOR SECURITY TYPE | MARCH 31, 1994 | | | DECEMBER 31, 1993 | | |
|---------------------------------|----------------|----------------------|----------------------|-------------------|----------------------|----------------------|
| | AMORTIZED COST | UNREALIZED GAIN/LOSS | AGGREGATE FAIR VALUE | AMORTIZED COST | UNREALIZED GAIN/LOSS | AGGREGATE FAIR VALUE |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| U.S. Debt Securities | \$ 60,452 | \$(1,478) | \$ 58,974 | \$ 52,646 | \$ 43 | \$ 52,689 |
| Variable Rate Govt. Funds | 58,595 | (1,152) | 57,443 | 55,506 | (423) | 55,083 |
| Corporate Debt Securities | 13,714 | (248) | 13,466 | 12,651 | 146 | 12,797 |
| Mortgage Backed Debt Securities | 12,071 | (322) | 11,749 | 12,949 | (173) | 12,776 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | \$144,832 | \$(3,200) | \$141,632 | \$133,752 | \$(407) | \$133,345 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

The contractual maturities of the short-term investments at March 31, 1994 were:

<TABLE>
 <CAPTION>

| | AMORTIZED COST | AGGREGATE FAIR VALUE |
|---------------------------------------|----------------|----------------------|
| <S> | <C> | <C> |
| Due in one year or less* | \$ 69,629 | \$ 68,472 |
| Due after one year through five years | 56,634 | 55,258 |
| Due after five years | 18,569 | 17,902 |
| | ----- | ----- |
| | \$144,832 | \$141,632 |
| | ===== | ===== |

</TABLE>

*Includes the Variable Rate Govt. Funds for which the underlying investments may have contractual maturities greater than one year.

Although some of the contractual maturities of these short-term investments are over one year, management's intent is to use the funds for current operations and not hold the investments to maturity.

For the three months ended March 31, 1994 the proceeds from sales of Available-for-Sale securities was \$10.6 million with an immaterial realized gain. For the same period in 1993, the proceeds from the sale of Available-for-Sale securities was \$80.2 million with an immaterial realized gain. Realized gains and losses are computed using the specific identification method.

The change in the unrealized holding gains or losses on Available-for-Sale securities was \$3.2 million, \$2.0 million after taxes. This net unrealized loss is included as a component of retained earnings. The unrealized loss was not recognized in 1993 as SFAS 115 had not yet been adopted by Clark, therefore the carrying value at December 31, 1993 was the adjusted cost of the short-term investments.

3. INVENTORIES

The carrying value of inventories consisted of the following:

<TABLE>
<CAPTION>

| | MARCH 31, 1994 | DECEMBER 31, 1993 |
|----------------------------------|-------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Crude oil..... | \$ 61,863 | \$ 53,860 |
| Refined and blendstocks..... | 74,725 | 102,604 |
| Convenience products..... | 11,754 | 12,044 |
| Warehouse stock and other..... | 5,535 | 5,953 |
| Inventory write-down to market.. | (11,500) | (26,500) |
| | ----- | ----- |
| | \$142,377 | \$147,961 |
| | ===== | ===== |

</TABLE>

The market value of these inventories at March 31, 1994, was approximately \$11.5 million below the LIFO carrying value (December 31, 1993 - \$26.5 million below LIFO carrying value).

4. OTHER ASSETS

Amortization of deferred financing costs for the three month period ended March 31, 1994, was \$0.3 million (1993 - \$0.3 million) and was included in "Interest and Financing Costs, Net".

Amortization of turnaround costs for the three month period ended March 31, 1994, was \$3.3 million (1993 - \$2.9 million).

5. INTEREST AND FINANCING COSTS, NET

Interest and financing costs, net, consisted of the following:

<TABLE>
<CAPTION>

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|-----------------------|---|----------|
| | ----- | ----- |
| | 1994 | 1993 |
| | ----- | ----- |
| <S> | <C> | <C> |
| Interest expense..... | \$10,237 | \$10,081 |

| | | |
|------------------------|----------|----------|
| Financing costs..... | 348 | 384 |
| Interest income..... | (1,930) | (2,771) |
| | ----- | ----- |
| | 8,655 | 7,694 |
| Capitalized interest.. | (321) | (1,097) |
| | ----- | ----- |
| | \$ 8,334 | \$ 6,597 |
| | ===== | ===== |

</TABLE>

Accrued interest payable at March 31, 1994, of \$8.7 million (December 31, 1993 - \$6.9 million) is included in "Accrued Expenses and Other".

6. CONTINGENCIES

Forty-one civil suits by residents of Hartford, Illinois have been filed against Clark in Madison County Illinois, alleging damage from ground water contamination. The relief sought in each of these cases is an unspecified dollar amount. The litigation proceedings are in the initial stages. Discovery, which could be lengthy and complex, is still in the early stages. Clark moved to dismiss thirty-four cases filed in December 1991 on the ground that Clark is not liable for alleged activity of Old Clark. On September 4, 1992, the trial court granted Clark's motions to dismiss. The plaintiffs were given leave to re-file their complaints but based only on alleged activity of Clark occurring since November 8, 1988, the date on which the bankruptcy court with jurisdiction over Old Clark's bankruptcy proceedings issued its "free and clear" order. In November 1992, the plaintiffs filed thirty-three amended complaints. In addition, one new complaint involving nine plaintiffs was filed. It is too early to predict whether any of these cases will go to trial on the merits and if so, what the risk of exposure to Clark would be at trial. It is also not possible to determine whether or to what extent Clark will have any liability to other individuals arising from the ground water contamination.

Clark is subject to various legal proceedings related to governmental regulations and other actions arising out of the normal course of business, including legal proceedings related to environmental matters. While it is not possible at this time to establish the ultimate amount of liability with respect to such contingent liabilities, Clark is of the opinion that the aggregate amount of any such liabilities, for which provision has not been made, will not have a material adverse effect on its financial position.

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

Financial Highlights

RESULTS OF OPERATIONS

The following tables reflect Clark's financial and operating highlights for the three month periods ended March 31, 1994 and 1993. All dollars listed are in millions except per barrel or gallon information.

FINANCIAL RESULTS:

<TABLE>

<CAPTION>

| | FOR THE THREE MONTHS ENDED | |
|----------------------------------|----------------------------|---------|
| | MARCH 31, | |
| | 1994 | 1993 |
| | ----- | ----- |
| <S> | <C> | <C> |
| Net sales and operating revenues | \$567.3 | \$589.3 |
| Cost of sales | 477.0 | 525.2 |
| Operating expenses | 57.7 | 53.8 |
| | ----- | ----- |
| | 32.6 | 10.3 |
| General and administrative | 7.5 | 6.0 |

| | | |
|-----------------------------------|---------|----------|
| Depreciation and amortization | 9.9 | 8.6 |
| Interest and financing costs, net | 8.3 | 6.6 |
| ----- | | |
| Earnings before income taxes* | 6.9 | (10.9) |
| Tax provision | 2.5 | (3.9) |
| ----- | | |
| Earnings before unusual items* | 4.4 | (7.0) |
| Unusual items, after taxes* | 9.3 | (4.2) |
| ----- | | |
| Reported net earnings (loss) | \$ 13.7 | \$(11.2) |
| ===== | | |

</TABLE>

* Management considers certain items in 1994 and 1993 at Clark to be "unusual". Detail on these items is presented below.

Net earnings for the 1994 first quarter, excluding unusual items, improved versus the year-ago period. Improved refining and retail productivity and improved refining market conditions all contributed to the increase. In addition, refining production was reduced in the prior year when Clark's Blue Island, IL refinery underwent a scheduled maintenance turnaround. A maintenance turnaround is scheduled for Clark's Hartford, IL refinery later in 1994. Net sales and operating revenues in the first quarter of 1994 declined approximately 4% from the year-earlier period to \$567.3 million due principally to the fall in industry crude oil and refined product prices which impacted both selling prices and costs of goods sold.

UNUSUAL ITEMS:

<TABLE>

<CAPTION>

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|--|---|----------|
| | 1994 | 1993 |
| | ----- | |
| <S> | <C> | <C> |
| Reversal of inventory write-down to market | \$15.0 | \$ -- |
| | ----- | ----- |
| Impact on Operating Income | 15.0 | -- |
| Litigation settlements | -- | 8.5 |
| Change in accounting principle | -- | (15.6) |
| | ----- | ----- |
| Total | \$15.0 | \$ (7.1) |
| | ===== | ===== |
| Net of Taxes | \$ 9.3 | \$ (4.2) |
| | ===== | ===== |

</TABLE>

Several items which are considered by management to be "unusual" are excluded throughout this discussion of Clark's results of operations. A partial recovery of an inventory write-down to market was recorded in the first quarter of 1994. A non-cash write-down of \$26.5 million was taken in the fourth quarter of 1993 to reflect the decline in the value of petroleum inventories below carrying value caused by a substantial drop in petroleum prices. If prices were to recover further, earnings would benefit up to the extent of the original charge. Deterioration in prices could result in additional charges. Effective January 1, 1993, Clark adopted the provisions of Statement of Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions", reflected as a change in accounting principle, and No. 109 "Accounting for Income Taxes", which was accounted for by restating prior periods. An unusual credit was recorded in the first quarter of 1993 related to the favorable settlement of litigation.

Refining

Refining Division Operating Statistics:

<TABLE>

<CAPTION>

 FOR THE THREE MONTHS
 ENDED MARCH 31,
 1994 1993

| <S> | <C> | <C> |
|---|----------|----------|
| Crude oil throughput (thousand barrels per day) | 135.5 | 113.5 |
| Production (thousand barrels per day) | 140.9 | 126.9 |
| Utilization (production/rated capacity) | 108.4% | 97.6% |
| Gross margin per barrel | \$ 4.09 | \$ 2.63 |
| Gross margin (millions) | \$ 51.8 | \$ 30.0 |
| Operating expenses (millions) | \$(29.1) | \$(27.1) |
| Divisional general & administrative expenses (millions) | \$ (2.8) | \$ (2.0) |
| Contribution to operating income (millions) | \$ 19.9 | \$ 0.9 |

</TABLE>

The refining division contributed \$19.9 million (1993 - \$0.9 million) to Clark's operating income during the first quarter of 1994. In addition to the 1993 maintenance turnaround mentioned above, earnings improved due to increased refining productivity, notably the processing of sour crude oil and an increased crude oil processing rate at the Blue Island refinery and near record wholesale marketing volumes. Market factors also contributed as industry margins improved versus the prior year. These market improvements were tempered, however, due to a narrowing price benefit for using sour crude oil (the predominant input at the Hartford refinery) versus sweet crude oil and a declining availability of Canadian light sweet crude oil (the predominant input at the Blue Island refinery). Clark does not currently view these factors as long-term trends. First quarter 1994 divisional operating and general and administrative expenses were up versus the year-ago period. Costs increased due to increased labor hours to meet operating needs related to colder than normal weather along with new labor and sulfur processing contracts and enhanced refinery planning and operations support services.

Retail

Retail Division Operating Statistics:

<TABLE>
 <CAPTION>

| <S> | <C> | <C> |
|---|---|-----------|
| | ----- FOR THE THREE MONTHS ENDED MARCH 31, 1994 1993 ----- | |
| Gasoline volume (million of gallons) | 244.4 | 256.9 |
| Gasoline volume (thousand gallons per month per store) | 96.5 | 98.7 |
| Gasoline gross margin per gallon | 10.7c | 8.3c |
| Gasoline gross margin (millions) | \$ 26.3 | \$ 21.4 |
| Company-operated stores (end of quarter) | 834 | 862 |
| Dealer-operated stores (end of quarter) | 10 | 11 |
| Convenience product sales (millions) | \$ 52.3 | \$ 51.3 |
| Convenience product sales (per month per store) | \$20,659 | \$19,685 |
| Convenience product gross margin | 23.2% | 24.8% |
| Convenience product gross margin (millions) | \$ 12.1 | \$ 12.7 |
| Convenience product gross margin (per month per store) | \$ 4,803 | \$ 4,872 |
| Operating expenses (millions) | \$ (28.5) | \$ (26.7) |
| Divisional general & administrative expenses (millions) | \$ (1.5) | \$ (1.1) |
| Contribution to operating income (millions) | \$ 8.4 | \$ 6.3 |

</TABLE>

The retail division contributed \$8.4 million (1993 - \$6.3 million) to Clark's operating income during the first quarter of 1994. Gross margins from gasoline sales improved despite decreased volumes. Productivity gains such as increased sales of higher margin premium unleaded gasolines along with improved pricing relative to competitors combined to increase per gallon margins. As in 1993, Clark ran a four week promotion to attract new customers which offered all grades of gasoline for the same price as regular unleaded gasoline. While

convenience product sales per store increased versus the prior year, margins were adversely affected by industry cigarette pricing competition. Retail division operating and general and administrative expenses in the first quarter of 1994 have increased principally due to increased store operating hours, marketing support for training, merchandising, advertising and information services.

Other Financial Highlights

First quarter 1994 depreciation and amortization expenses increased compared to a year ago, principally due to inclusion of the amortization of the Blue Island refinery maintenance turnaround completed in the second quarter of 1993.

Net interest and financing costs increased due to decreased capitalization of interest costs related to capital projects and lower returns on funds invested.

LIQUIDITY AND CAPITAL RESOURCES

Net cash generated from operating activities in the first quarter, excluding working capital changes, improved to \$14.2 million in 1994 from \$7.5 million in the year-earlier period on the strength of earnings growth. Working capital at March 31, 1994 was \$216.1 million, a 2.12 to 1 current ratio, versus \$203.8 million at December 31, 1993, a 1.96 to 1 current ratio. Decreased inventory levels, which fluctuate with market opportunities and operational needs, and decreased accounts payable levels combined to increase working capital.

In general, Clark's short-term working capital requirements fluctuate with the price of crude oil. Clark expects internally generated cash flows will be sufficient to meet its needs. Clark has in place a \$100 million committed revolving line of credit expiring December 31, 1994, for cash borrowings and for the issuance of letters of credit primarily for purchases of crude oil, other feedstocks and refined products. At

March 31, 1994, \$69.6 million of the line of credit was utilized for letters of credit. There were no direct borrowings under Clark's line of credit at March 31, 1994.

Cash flows used in investing activities in the first quarter, excluding short-term investment activities to which management's intent is similar to cash and cash equivalents, decreased to \$9.4 million in 1994 from \$14.5 million in the year-earlier period. The decline was due to lower capital expenditures and the lack of major maintenance turnaround expenditures to date in 1994. Capital expenditures totaled \$10.0 million (1993 - \$14.1 million) during the first quarter of 1994. Refinery capital expenditures totaled \$7.1 million (1993 - \$10.3 million), two-thirds directed towards discretionary productivity improvement projects and the balance regulatory related. Retail capital expenditures of \$2.5 million (1993 - \$3.3 million) related to store reimaging and upgrades, installation of store security packages and regulatory work.

Funds generated from operating activities together with Clark's existing cash, cash equivalents and short-term investments, are expected to be adequate to fund requirements for working capital and capital expenditure programs for the next year. Clark's future discretionary or environmentally-mandated spending or acquisitions may require additional debt or equity capital. In late March 1994, Clark entered into exclusive negotiations with Chevron USA Products Co. regarding the sale of Chevron's 177,000 barrel per day refinery in Port Arthur, Texas. If negotiations are successful, a Fall closing date would be expected.

PART II - OTHER INFORMATION

ITEM 1 - Legal Proceedings

On May 4, 1994, the United States Equal Employment Opportunity Commission ("EEOC") filed a class action lawsuit against Clark in the United States

District Court for the Northern District of Illinois alleging that Clark had engaged in a pattern of practice of unlawful discrimination against certain employees over the age of forty. The relief sought by the EEOC includes reinstatement or reassignment of the individuals allegedly affected, payment of back wages, an injunction prohibiting employment practices which discriminate on the basis of age, and institution of policies to eradicate the effects of any past discriminatory practices. Clark believes the allegations to be without merit. It is too early to predict whether this case will go to trial and, if so, what the risk of exposure to Clark would be at trial.

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURE

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

CLARK REFINING & MARKETING, INC.
(Registrant)

/s/ James A. Zweifel

James A. Zweifel
Vice President - Controller

May 12, 1994